Unlock your potential

2021

Annual Report and Accounts

Empowering
Communities to Progress.

UniCredit

Chairman’s message

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Each new challenge is a new opportunity. And to believe in new opportunities is to believe in change. This is the reason we have adopted a long-term strategy which is already delivering results above expectations.

PIETRO CARLO PADOAN
CHAIRMAN
UNICREDIT S.P.A.

Dear Stakeholders,

it is my pleasure to write to you as Chairman of the UniCredit Board. It is a privilege to be part of this great Bank, a group that is truly diverse in terms of skills, nationalities and gender, as shown by our recent first place award in the 2021 Best Practice Leaders Italy ranking by the European Women on Boards network. I would like to extend my thanks to you all for the welcome you have given both me and our new CEO, Andrea Orcel, since our arrival in April.

There is an adage that every challenge is an opportunity, but since March 2020 and the onset of the pandemic, this has taken on new resonance. Covid-19 has driven change at an unprecedented pace. It has accelerated the digitalisation process within public and private sectors, further strengthened a customer-centric approach, and prompted a renewed focus on ESG issues as part of a path to a sustainable future.

Our industry plays a decisive role in each of these areas. The pandemic has reminded us in many ways what the banking system can and should do when challenged. First, to help manage the aftermath of economic shock, and then, to return to its fundamental role, filling the gap between savings and investments.

This has not been – and will continue not to be – easy or straightforward. But each new challenge is a new opportunity. And to believe in new opportunities is to believe in change: to believe that what is coming can be better than what has come before.

It is a privilege of those in the banking industry to know that we can help create a better future. And we must.

We must do so by returning to our fundamental roles of helping manage the allocation of resources and providing expertise to those in need – whether individuals, households, or companies. In doing so, we will support society through the post Covid-19 transition and help rebuild better than before.

This means providing the best expertise possible, whilst always acting in the interests of our clients. It means supporting the allocation of resources in a way that is sustainable and in the interests of society for the long-term. Practically speaking, this equates to a focus on ESG – and an equal focus on each of the Environmental, Social, and Governance priorities.

We, as banks are uniquely positioned to speed up this shift to a more sustainable way of living and working. Our knowledge of and proximity to our clients mean we can identify the most sustainable sectors and players to support growth over the long-term. And our role in providing financial and advisory support means we can channel resources to the most sustainable investments and strategies.

Supporting our clients and communities is our reason for existing, but we should not underestimate the impact of fostering a positive and responsible culture within our own business. UniCredit's choice to be guided by ESG frameworks and targets, setting appropriate policies to deliver on these, will ultimately be fundamental in building a better Europe.

Finally, more generally, the financial sector plays a crucial role in allocating national and public resources, such as the EU Recovery Fund, to trigger environmental and social transformation.

Our industry can drive swift change and sustainable recovery across Europe. This is a great challenge, but also an even greater opportunity.

UniCredit has been no stranger to change this year. We have a new leadership, and a new strategic plan to deliver growth for all our stakeholders.

The plan, to unlock the strength within UniCredit, enacts in a small way what we hope to see in Europe. It will identify the potential embedded in our bank and give us the necessary framework to excel in the long-term. I have confidence that the UniCredit leadership team will deliver on this mission. We have already made a strong start, exceeding 2021 key financial guidance, which allows us to offer substantial shareholder returns.

As we continue on this path, the Board is committed to providing the requisite oversight and controls to ensure that we are both holding ourselves accountable for all our actions and acting in line with the ECB's requirements at all times.

We have taken significant steps to strengthen our governance in line with the current environment. This includes creating a new ESG Board Committee to ensure this topic remains central to our overall corporate strategy and strengthening our Internal Controls & Risks Committee in line with industry best practices.

These are examples of actions taken willingly and proactively because we are invested in success not just for UniCredit, but for all our stakeholders. We know that the successful execution of this plan will impact each of our clients, investors, and regulators.

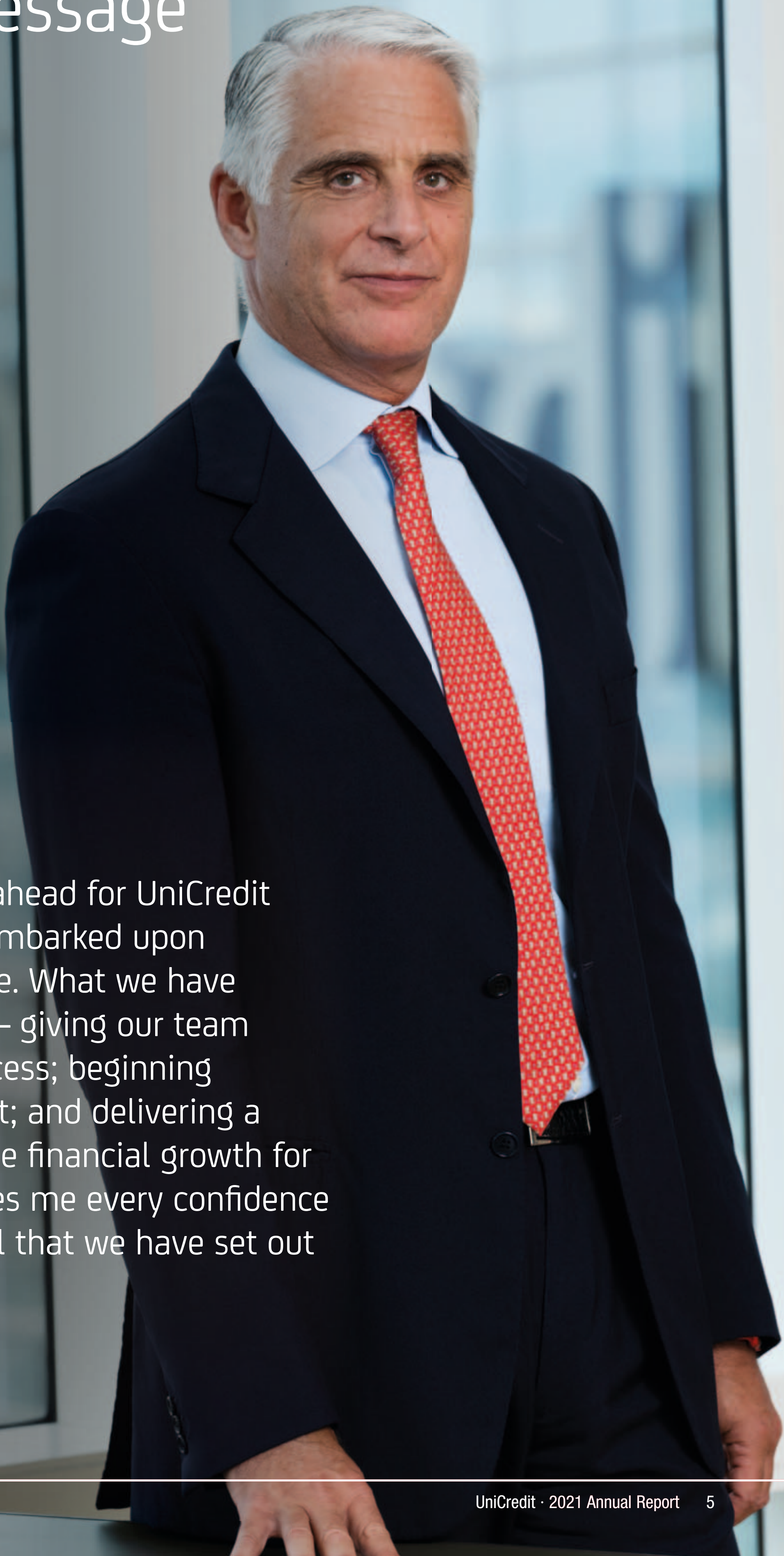
The challenge is to take each of these different perspectives into account and deliver something that enables them all to succeed.

The opportunity is for us all.

Yours sincerely,

PIETRO CARLO PADOAN
CHAIRMAN UNICREDIT S.P.A.

Chief Executive Officer’s message



“There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; beginning the unlocking UniCredit; and delivering a pathway for sustainable financial growth for our stakeholders – gives me every confidence that we will achieve all that we have set out to do.

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

Dear Stakeholders,

When I joined UniCredit early in 2021, I said it felt like coming home. This is true, but it was a home that was relatively unfamiliar.

Although I have worked closely with the bank throughout my career, nothing replaces what you discover about a business when you are on the inside.

So much of my first few months here was spent taking to our people, our investors, and our regulators, gathering an understanding of the bank and the needs and opinions of our stakeholders.

What I found was remarkable and deeply heartening, especially as we began to craft our long-term vision for UniCredit. Our bank is not an institution that needs to be fundamentally changed or rebuilt. We have all the raw ingredients for success: 13 banks across Europe; 87,000 people with a truly international mindset, and 15m clients. We are a truly local bank with a pan-European reach.

It would be an honour to be at the helm of such an institution at any time, but it is particular honour at this point in our collective history. As Europe emerges from the Covid-19 pandemic, we have a significant opportunity to rebuild: not only to recapture the strength and success we had before, but to go further and do better.

Banks have a critical role to play as we do so. Operating correctly, they act as the engines for financial progress – the plumbing which facilitates this recovery and regrowth. They are the key transmission mechanism for our financial system; the deployers of monetary policy; the financers of state projects designed to increase growth, and so much more.

As a continent, we need our banks to function well because at the moment Europe is underperforming. Our capital markets are less developed than those of other blocs and our real GDP growth is falling behind others. We as a society should not accept this, and we as UniCredit will not, because we have the ability to create change for the better.

UniCredit is the only pan-European bank. Our true and deep presence across the continent means we are well-positioned to provide this financial plumbing which will help local communities to progress and Europe to succeed.

My role is to ensure that we are utilizing our bank's ingredients properly to achieve the above, as well as our financial objectives: growth, profitability, strength, returns to shareholders, and long-term, sustainable success.

When we deliver this, we deliver for our people, giving them a bank to be proud of, and pride in the work they do every day. A team of passionate people, building true partnerships with clients and serving the communities they know well, will be at the heart of our success.

These things together will put UniCredit back in the top tier of European banks. Looking beyond our bank, I believe this combination of financial success and empowered people is what will form the basis of Europe's reestablishment as a leading economic bloc.

We have already made significant progress in 2021, working tirelessly with these goals in mind, and we have begun to see the results of such a strategy.

2021

Although we formally announced our strategic plan in December, our action to unlock UniCredit and build the bank for Europe's future began the moment we stepped through the door in April.

We were firmly in execution mode throughout 2021 and much of what we articulated in December was already in flight.

This year we have made significant changes to the way UniCredit operates, moving from five siloed business divisions to four coverage regions. We established Italy as a stand-alone territory. We removed unnecessary layers of decision making and empowered the people who really know their clients best to make decisions that concern them, within a clear risk framework.

We unified our view of our clients, ensuring that they are grouped in the same way across all regions. We developed two new, best-in-class product factories to serve these clients: corporate solutions and individual solutions. And we started rationalizing and transforming our technology.

In 2021 we saw the first signs of success from this strategy. Our Q4 results announced underlying net profit more than tripled compared to 2020 and net revenues were up 34% year on year.

Win. The right way. Together.

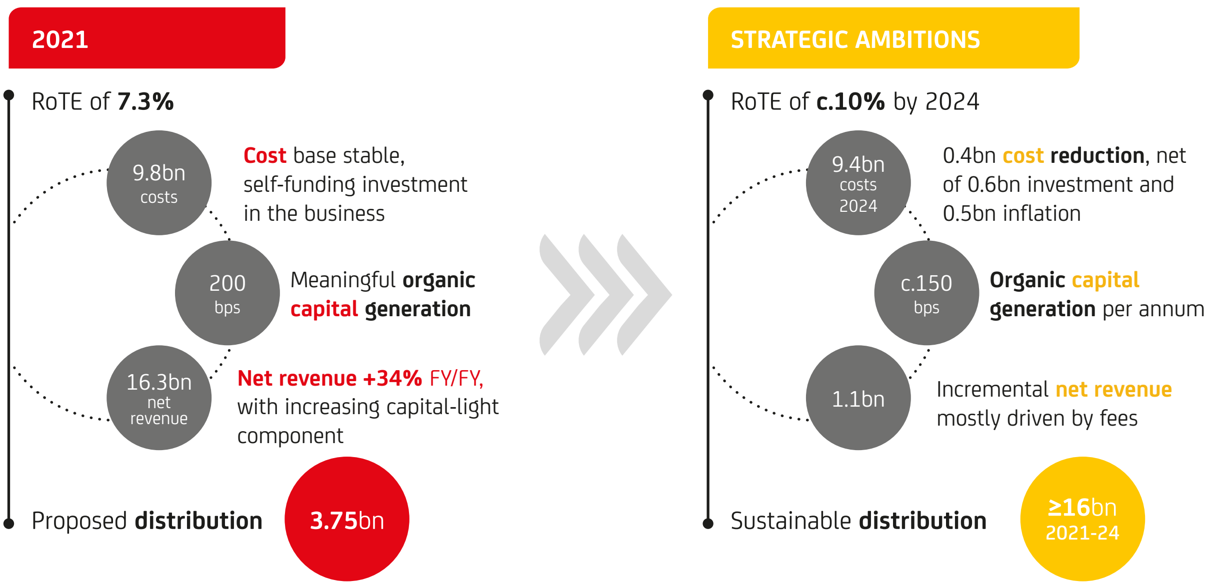
We should not underestimate the potential impact of us delivering on this strategy. Doing so will have repercussions – both financial and social – across the continent. This is what we mean when we say empowering communities to progress, and it is this that equates to helping Europe recover and rebuild post-pandemic.

The most important factor that will determine whether we deliver on our ambitions is the presence of an engaged, empowered and driven team around us. It is their unique understanding of our clients that will enable us to deliver for them and, in turn, deliver on all of our ambitions. We are committed to giving them the inspiration, passion, and ambition to do their very best and go above and beyond for our clients.

We have taken measures to do so this year, defining our collective mindset as Win. The Right Way. Together. We want our people to be driven to succeed for our clients and for themselves: ambition is not something we shy away from. We want them to do so in the right way, in a way that adheres to our values of Integrity, Caring and Ownership, and we want them to do so in partnership with one another and with our clients. This mindset will drive all the decisions we take and provide the requisite attitude for long-term, sustainable success.

We have started a Courageous Voices campaign, to encourage our team to speak up, in all different settings. Our team are our most important asset and we must listen to their ideas and different perspectives to ensure we are working as a united group, moving in the same direction with shared goals. Our success will be a direct reflection of theirs.

There is an inextricable connection between a businesses' financial success and an engaged team working to deliver a clear purpose. This is explicit in our plan, which sets out our dual goals of providing such a purpose and delivering a return on tangible equity of around 10%, annual net revenue growth of 2%, and a distribution of at least €16bn over 2021-2024, in spite of significant investment in our future – in our people as well as in our technology.



UniCredit Unlocked

UniCredit Unlocked is a plan designed to deliver for all our stakeholders: investors, employees, and clients. It is a long-term plan for our business. For obvious reasons, key metrics are based on 2021-2024, but this is just one milestone. True success will be measured by how well the plan sets us up for success beyond this date.

It is a plan designed to ensure we are ready for the future and, more importantly, ready to serve our clients of the future. We have bold ambitions to make UniCredit a truly digital bank, powered by data in all we do, investing 2.8bn in this area and making 3,600 new hires to help us on this journey.

Any plan for the long-term must have ESG at heart. Our commitment to sustainability and positive action across all three pillars of ESG will be a guiding force in each and every one of our actions and decisions.

ESG is about actions, not words, for both our own business and in the support of our clients and communities as they embark on their own transitions. We are committed to maintaining the highest standards within UniCredit across each of Environmental, Social and Governance, and to expecting and asking nothing less from our clients too. Balancing these objectives will not always be straightforward. This is a journey, one which will not be complete overnight, but we will embody these principles every single day, working to do better and be better, until we get there.

We have committed to target net-zero by 2030 for our own emissions and have reduced our greenhouse gas emissions by 32% since 2017 (market based). We have contributed 36m to corporate citizenship and philanthropic initiatives, and to the education of 123,000 young people; and are investing 100m to ensuring equal gender pay, which means equal pay for equal jobs. The UniCredit Foundation continued its excellent work, donating €2.4m in Covid-19 relief to tackle hunger, providing over €1m to social solidarity projects and over €1m to support research, study and scholarship grants, whilst also providing €650,000 in match gifting to support our own employees' charitable contributions.

ENVIRONMENT

Greenhouse gas emissions

32% reduction vs. 2017, market-based

Net Zero by 2030

Renewable energy

80% use on our premises

100% ITA
100% GER
98% AUT

Plastic-free

No single-use plastic items in UniCredit buildings by end of 2022

SOCIAL

Corporate citizenship and philanthropic initiatives

36m contribution to communities

Education and impact

123k young people educated

3.7m direct and indirect beneficiaries of social financing

GOVERNANCE

Global policies

- **ESG** policies, statements and commitments
- **Human capital** policies and joint declarations
- **Compliance** key policies

Strong diversity and inclusion framework

46% female BoD

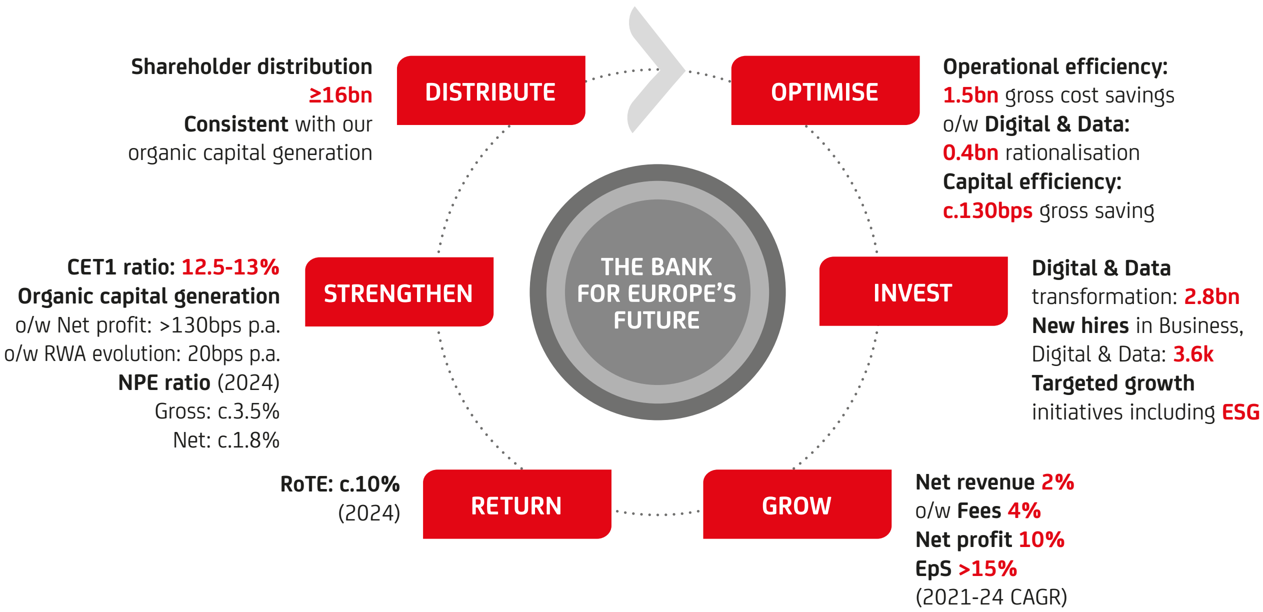
40% female GEC

33% female Leadership team

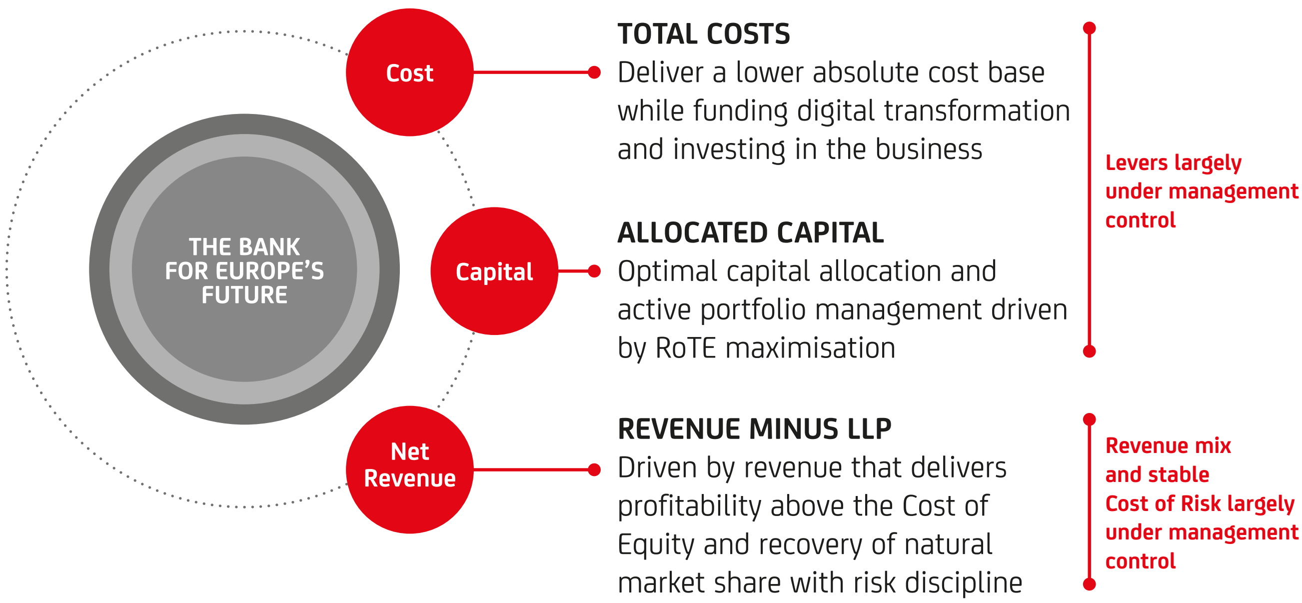
Actions on gender pay gap

Our financial ambition to unlock UniCredit is based on six pillars, designed to deliver sustainable performance and profitable growth through the cycle.

We **optimise** UniCredit by improving both our operational and our capital efficiency, enabling us to **invest** these resources into our business, with a key focus on digital and data. The focus of our plan is **delivering** growth, at an accelerated rate from 2022, reaching a **return** on tangible equity of around 10% in 2024 and aiming to surpass it thereafter. This **strengthened** business will **distribute** at least €16bn over the next four years in a sustainable fashion.

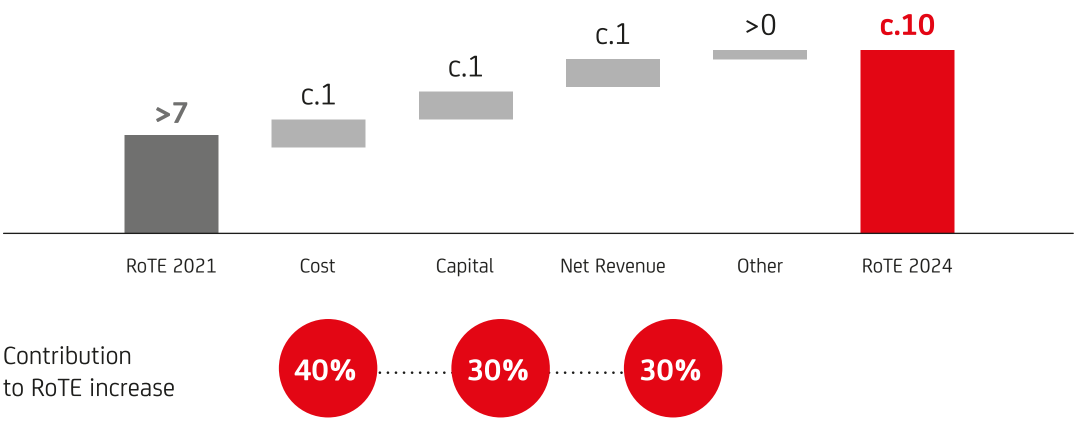


We have three interconnected levers that will drive returns over the coming years.



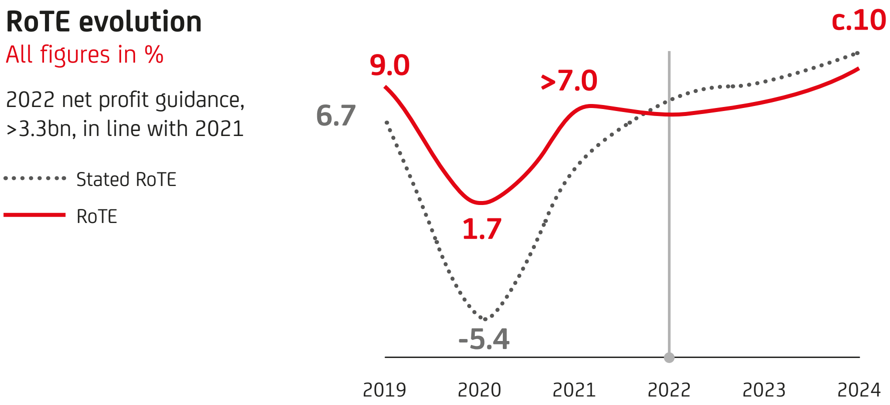
By managing the interaction of these three levers, we can optimally balance growth, strength and profitability.

RoTE walk
All figures in %



RoTE evolution
All figures in %

2022 net profit guidance, >3.3bn, in line with 2021



Future Focus

I do not want to underestimate the incline of the path ahead, but I also want to stress the scale of what I believe is possible if UniCredit unlocks its potential and operates in the right way.

When our bank's clearly defined ambition, purpose and values work in synergy, we will deliver for all stakeholders while not losing sight of the very fundamental reason for our existence: to empower communities to progress.

I truly believe that when these things operate in partnership, and when people work hard to win – the right way – together, this is when companies will excel. Furthermore, this is not limited to companies. It should not only be mantra for our bank, but for the communities and societies in which we operate.

If we get this right, I believe the convergence of a shared ambition, purpose and values is the principle that European recovery and growth will be founded on.

We will start with our bank: a bank that is united in this way, with the right measures in place to meet the needs of the clients of the future, so that we can better serve not only our clients but the societies in which we operate.

It is this that will enable us to be the engine of our continent's recovery, the bank for Europe's future.

This is a powerful purpose and one I hope that the UniCredit team can feel proud to be a part of.

I extend my sincere thanks to all those colleagues who have welcomed me so warmly and been open to the change that I know can be both exciting and challenging in equal measure.

There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; successfully beginning to unlock UniCredit; and delivering financial success for our stakeholders – gives me every confidence that we will achieve all that we set out to do.

I ask for the support of our investors and stakeholders as we do so; as we continue to deliver on our promise to build a better bank for Europe's future.

Thank you,

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER UNICREDIT S.P.A.

Content

Financial highlights

UniCredit Group Hungary – IFRS consolidated

Profit figures

(HUF million)

	2021	2020
Operating result	50,973	33,794
Profit before taxes	50,949	34,520
Profit after taxes	**46,339**	**31,268**

Balance Sheet figures

(HUF million)

	2021	2020
Balance Sheet Total	**4,596,614**	**4,076,248**
Loans and Advances to customers (net)	1,731,712	1,696,812
Deposits from customers	2,792,420	2,641,238
Shareholder Funds	395,361	384,736

Indicators

(HUF million)

	2021	2020
Return on Equity before taxes	13.06%	8.93%
Return on Equity after taxes	11.88%	8.09%
Return on Average Assets (ROA) before taxes	1.17%	0.93%
Return on Average Assets (ROA) after taxes	1.07%	0.84%
Cost Income Ratio*	55.90%	55.10%
Net fee income in percentage of Total Operating Income	32.99%	33.83%

Indicators prescribed by CBH (Central Bank of Hungary)

(HUF million)

	2021	2020
Regulatory Capital	351,762	364,916
Risk Weighted Assets	1,700,847	1,566,838
Total Capital Ratios	**20.68%**	**23.29%**

Other figures

(HUF million)

	2021	2020
Headcount (FTE)	**1,770**	**1,770**
Number of locations	56	56
Number of branches	54	54

* Based on standard of Consolidated Financial Statement

Management report

Macroeconomic environment and the banking sector in 2021

The international economic and financial environment

Similarly to 2020, the focus in 2021 was primarily on the fight against the pandemic and on adapting to the changing circumstances worldwide. Thanks to the increasing availability of vaccines against the coronavirus, the priority of the Hungarian government was to vaccinate the population as quickly as possible to achieve herd immunity and contain the pandemic. As it became clear during the year, the task was more challenging than expected, partly due to the rapid mutation of the virus and partly because of widespread hostile attitudes towards vaccination. Thus, many countries around the world have faced new severe waves of the pandemic since the autumn.

Unlike the global healthcare systems, the overall economic picture changed a lot in a year. Since the last quarter of 2020, the official restrictions imposed in the wake of the recent pandemic waves have not inflicted as much economic damage as before. This was partly because economic participants adapted to the changing environment as much as possible. On the other hand, the global economy could benefit from spectacularly stronger demand in Asia and the huge fiscal stimulus package in the US. The global economic recovery continued last year. Its main driver was the explosion of pent-up consumer demand in most countries as a consequence of the reopening. However, supply could not catch up quickly with surging demand. In addition, the continuity of production was hampered by restrictions and lockdowns throughout the year, particularly in Asia. This led to unprecedented anomalies in global supply chains, resulting in major disruptions to production in developed countries as well. In many cases, the shortage of raw materials led to temporary shutdowns, mainly in industry and construction.

As the combined result of the shortage of goods triggered by the rapid growth of aggregate demand and bottlenecks in supply, inflation accelerated globally in 2021. The rise of the consumer price index was further boosted by a dramatic surge in transport costs and energy prices lifting consumer prices to record high levels in both developed and emerging markets. Consequently, the major central banks were facing the following dilemma: they respond to the acceleration of inflation by tightening monetary policy or continue to support fragile economic recovery in an uncertain environment by maintaining loose monetary conditions. Initially, central banks opted for the latter. Since the second half of the year, however, it has become increasingly clear that the high inflationary environment proved to be more persistent than expected. Thus, at the global level, monetary policies shifted towards tightening last year, although its size differed significantly between developed and emerging economies.

Hungarian macroeconomic developments

Due to the early start of vaccination, the end of the winter pandemic wave, and the reopening of the country in May, the Hungarian economy started to recover strongly in the second quarter of 2021. The economic recovery proved to be so strong that by the summer the volume of GDP reached and even slightly exceeded pre-pandemic levels. Although the momentum slowed down in the second half of the year, despite the negative effects of the fourth wave of the pandemic, the energy crisis, and global supply disruptions, Hungary's GDP still expanded strongly by 7.1 per cent in 2021. Private consumption was the main engine of growth, while exports and the performance of industry were negatively affected by global raw material shortages.

The economy continued to be supported by fiscal means last year, while central bank policy took a sharp turn and monetary tightening was gradually introduced to combat inflation. Fiscal and monetary policy moved in opposite directions.

Across the Central and Eastern European region, including Hungary, households increased their savings significantly in 2020, followed by a rapid increase in spending in 2021 as a response to suppressed demand during the pandemic. Thus, when the spring lockdown was lifted, domestic tourism in Hungary recovered very quickly. Consumer optimism was also fuelled by the government since the fiscal stimuli included mainly elevated targeted transfers to specific groups of voters. Higher general government spending was partly covered by higher tax revenues as the economy recovered faster than expected, but the budget deficit remained high at 7–8 per cent of GDP.

As Hungary's GDP is heavily dependent on vehicle manufacturing, anomalies in global supply chains hampered economic growth seriously. Despite strong demand, the shortage of spare parts became a major constraint to car production. Meanwhile, the electronics industry boomed due to the green transition. In addition to supply bottlenecks, the surge in energy prices also posed a heavy challenge to manufacturing companies, especially in energy-intensive segments.

After the contraction in 2020, investment activity improved a lot last year, but its dynamics were below expectations. While the growth potential is good, with several investment projects in manufacturing underway, companies have tended to take a back seat in an uncertain macroeconomic environment. The capacity expansion is expected to start once the supply problems and the pandemic slacken significantly. Just like globally, consumer price increases accelerated strongly in Hungary last year as well, in line with the inflationary impact of strong demand, supply anomalies, and the expansion of fiscal expenditures, which could not be offset

Management report (Continued)

by the impact of the cuts in retail energy prices and the official fuel price caps imposed in November. Thus, the average consumer price index (CPI) increased by 5.1 per cent in 2021, with an acceleration of 7.4 per cent in the last month of the year. No major easing of the price pressure is expected in the short term.

With the acceleration of Hungarian consumer price increases, the inflation rate far exceeded both the central bank's target of 3 per cent and the upper end of the tolerance band of 4 per cent, to which the Hungarian National Bank responded with monetary tightening in June 2021. The initially small-scale and intentionally gradual tightening cycle was followed by more decisive central bank measures in the second half of the year because the effectiveness of monetary tightening was permanently undermined by a series of upward revisions of inflationary expectations, previous and expected tightening measures by central banks in the Central and Eastern European region and the Federal Reserve's (Fed) tightening rhetoric, which further intensified the pressure on the exchange rate of the forint to the euro.

Accordingly, the following main monetary policy decisions were taken last autumn. The one-week deposit, which made its debut in 2020 as an instrument to combat the crisis, became the benchmark instrument again, the central bank decides its interest rate weekly. Its rate had been rising steadily since November last year and reached 4 per cent by the end of the year. In the meantime, the Monetary Council raised the base rate, which temporarily lost its guiding role, to 2.4 per cent. Further important tightening measures can be mentioned: the central bank announced that it intends to finish the use of most of its unconventional measures such as interest rate swaps supporting the forint liquidity of the banking system, the Funding for Growth Go! Scheme (FGS) and the Bond Funding for Growth Scheme.

The performance of the Hungarian banking industry

The Hungarian banking system performed successfully in 2021, with domestic credit institutions posting a total profit after tax of nearly HUF 500 billion in the first three quarters of the year, two and a half times more than in the challenging year of 2020. Thus, the average ROE ratio rose to over 12 per cent. The main contributors to profitability were the significantly improved revenue generation capacity and the reduction of risk costs.

With improving macroeconomic prospects and rapid recovery in the economy including the labour market, banks' impairment and provisioning declined sharply last year, inducing a huge rise in profitability. Net interest income, which mounted by more than 20 per cent in a year, also made a significant contribution to the improvement in profitability, although in the latter case there were also temporary effects linked to the pandemic and central bank measures at work. Commission and fee revenue, which is highly dependent on real economic activity, lending, and payment transactions, also grew strongly last year after a contraction in 2020 related to economic lockdowns. As in previous years, operating expenditure in 2021 increased dynamically in line with inflationary developments.

The growth of the loan portfolio continued to be dynamic in 2021, driven by subsidised loan programmes and the payment moratorium, as well as below-average amortisation. The recovery in the demand in the housing market and rising prices also boosted the provision of home loans: the Green Home Programme, announced in June, which is particularly attractive in a rising interest rate environment, and the continuing popularity of existing government subsidies helped sustain demand for loans. The growth of corporate lending in Hungary was also outstanding by international standards. This was due to the FGS Go! Scheme, which was finished at the end of last year. Thanks to dynamic lending and the payment moratorium, there was no major deterioration in portfolio quality, with the ratio of non-performing loans remaining at a record low in 2021.

UniCredit Bank Hungary Zrt.'s performance and consolidated profits in 2021

Despite the protracted negative economic impacts caused by the coronavirus pandemic, UniCredit Bank Hungary Zrt. ended a successful business year in 2021.

At the end of 2021, the consolidated balance sheet of UniCredit Bank Hungary Zrt. group amounted to HUF 4,597 billion, HUF 520 billion higher than at the end of 2020, and HUF 644 billion higher than planned (HUF 3,953 billion).

Net trade receivables from customers totalled HUF 1,732 billion, which was HUF 35 billion more than the planned amount. Net claims on credit institutions were equal to HUF 1,564 billion, HUF 588 billion higher than planned. The group's liabilities to customers at the end of 2021 represented HUF 2,792 billion. This was an increase of HUF 401 billion compared to the plan, which resulted from dynamic growth in both corporate and retail stocks. As a result of the changes in the volume of customer holdings, the bank's net loan to deposit ratio was 62 per cent at the end of 2021.

The banking group's profit after tax reached HUF 46.3 billion in 2021, which is 16 per cent higher than planned. Revenues were

Management report (Continued)

above expectations mainly due to higher interest rates, while commissions and trading profits were below expectations. Costs were above the planned level, but there were savings in the provision for net impairment compared to the plan.

The indicators of the Bank's performance (in terms of profit after tax) are as follows:

ROA2021 = 1.07%	ROE2021 = 11.88%
ROA2020 = 0.84%	ROE2020 = 8.09%

Return on assets and return on equity increased in 2021 due to higher after-tax profits. The negative impact of the coronavirus pandemic reduced profitability to a lesser extent in 2021 than in 2020.

In 2021, UniCredit Group presented its new strategic plan, focusing on a new business model comprising digitalisation and sustainable growth.

CSR Report 2021

In 2021, social responsibility continued to play a prominent role in the activities of UniCredit Bank Hungary Zrt. We remained committed to promoting sustainable development and our ESG (Environmental, Social, Governance) commitments were integrated into our business strategy. We held up sustainable development with green credit products, green bond issuance, and green measures that cover the entire organisation, while implementing several initiatives in accordance with the values of inclusion and diversity, and with the interests of our employees, business partners, and suppliers in mind.

Our goal is to contribute to the **practical implementation of sustainability goals** also through our p**roducts. Our Green Personal Loan** is a general-purpose personal loan for retail customers to finance home-related investments. For the installation of solar panel systems, we offer a loan with a low interest rate. To environmentally conscious investors we recommend the **Amundi Climate-Aware ESG Mixed Fund of Funds.** When devising the portfolio of the fund, we put special emphasis on environment and climate protection, while 80 per cent of its assets are made up of investments compatible with ESG criteria. As part of our **renewable energy financing** for corporate customers, we funded the building and retrofit programmes of various solar, geothermal, and biomass power plants for small and medium-sized enterprises.

In the spirit of corporate social responsibility, we have long been concentrating on **enterprise development** because we believe that, in addition to the financial return of investments, **social return** is also important. That is why we launched the Social Impact Banking (SIB) programme at the end of 2019 to finance and promote business projects of for-profit and non-profit organisations (social enterprises) that contribute to **social improvement** and **measurable value** in society. In addition to this, we also develop the economic and entrepreneurial knowledge of undertakings and the financial literacy of the population through education and mentoring.

The significance of our programme was also confirmed during the pandemic that presented difficulties and liquidity problems for enterprises. This was alleviated by our SIB programme, in which we developed a new product in 2021 to **start, restart and develop micro-enterprises.** We enabled the launch of **7** large-scale **public benefit projects** with a financing loan of EUR 1.3 million, participated in **14 educational programmes** and assisted **1,432 beneficiaries** with **financial education,** lectures, **business development** forums in the capacity of **business mentors,** and were involved in educational programmes of schools, universities, chambers, involving several **professional partners.**

In 2021, our Social Impact Banking programme won the **Effekt 2030 – Community Investment** award in the category of "Business Creating Opportunity". This award is presented to corporate social responsibility and sustainability programmes that bring about positive change for the environment and society.

Several measures were made to **green our banking operations:** we banished plastic bottles from our offices, expanded bicycle storage facilities in our headquarters, introduced electric cars in our fleet, and installed solar panels on several of our branches. Reducing paper usage is aided by biometric signatures for customer contracts and transaction documents.

As a major company in the financial sector, we believe it is important to improve financial culture and increase the financial literacy of young generations and businesses. **Our Bank's volunteers participated for the seventh time in Pénz7,** Hungary's largest school financial education programme, and again this time, they reinforced the work of teachers with real-life examples.

Our banking course continued at the Faculty of Finance and Accountancy of Budapest Business School, in the **Fintelligence** financial education centre established with our Bank's assistance. In the course, young people interested in the banking profession could get a glimpse into the work of different banking fields with the help of our colleagues.

To improve the business knowledge of companies, members of the UniCredit Group located in 9 countries joined the European Union-funded international business development programme, the **Finance4Social Change.** The programme, which runs in 10 countries in the Danube region, was supported by UniCredit Group, and our colleagues contributed to the development of the business skills of social enterprises involved in the programme.

Our corporate governance is permeated by the goal of building a diverse and inclusive workplace. The proportion of female executives in our Bank reached 54 per cent. In 2021, we continued to focus on bolstering women's career paths and equal pay for equal work. We encouraged the return of mothers to work through atypical employment forms and part-time work. In our graduate program, we offered internships to students interested in finance. In 2021, our measures aimed at increasing the well-being of our employees continued to be diverse, ranging from discounted e-car sharing through psychological counselling to healthcare services.

The coronavirus pandemic continued to challenge our society in 2021, as well. In the second year of the pandemic, UniCredit Bank Hungary Zrt. also helped its subcontractors pay bills faster and provided tangible assistance to the most vulnerable social groups. Our Bank's donations focused primarily on initiatives that support the well-being, health, and education of children and help vulnerable social groups. Throughout the year, we provided financial or material grants to **17 non-profit organisations** and helped homeless care organisations with disinfectants during the pandemic. We kept our established tradition and used our Christmas **gift budget to underpin children's health causes, this time** by assisting the children's ambulance cars of **Szent Márton Paediatric Emergency Medical Service.** In UniCredit Foundation's **Call for Europe** programme, we subsidized 4 domestic foundations with EUR 40,000, and as part of our Employee Donation Programme, our colleagues raised donations to fund a non-profit organisation.

It is important for our Bank that sustainability is a shared value in the organisation, which is why we emphasized shaping the attitude of our employees as well. Our internal Sustainability page, which reunites our initiatives, has been operating for the second year in a row through the work of our volunteer team. The flow of information is facilitated by sustainability newsletters and quarterly sustainability events, but we also organised a 21-day sustainability challenge and a plastic-free autumn campaign to raise awareness. Two of our management board members back our internal efforts as sustainability ambassadors. In 2021, together with three of our corporate customers—Alteo Group, Mirelite Mirsa Zrt. and UTB Envirotec Zrt.—we demonstrated in a video campaign and on the page "The Future Matters" the goals that are driving us, as well as our exemplary customers creating a sustainable future.

Our stories

This year **UniCredit announced our purpose of empowering communities to progress**. This may be a new articulation of our role, but it's what we've always done and what we will continue to do. **We pride ourselves on always putting our clients and their communities at the center of everything that we do, going above and beyond to support their needs**. This is because we are more than just a financial institution; we are UniCredit: a bank for our clients and communities, **a bank for Europe's future**. Although these **stories, that capture some of our clients and our people**, come from many different countries, they are united by a common theme: how **UniCredit's existence is predicated upon our mission to serve and to empower people of all ages and backgrounds to unlock their potential and to progress**. They not only reflect UniCredit's active role in the functioning of today's society, but also our work with and **financing of organisations that are striving to protect our planet for future generations**.

We are proud of our team's dedication to supporting and financing initiatives that will have a positive and enduring impact, and as ever, **we look to the future with the determination to do more; to do better for our clients and communities**.

COUNTRY
HUNGARY

OUR COMMUNITIES

MAGYARI NON-PROFIT KFT (VIOLA RETIREMENT HOME)

SECTOR: HEALTHCARE
ESG FOCUS

Nyékládháza's **Magyari Nonprofit Kft**, also referred to as **Viola Retirement Home**, is known in the region of Northern Hungary for its model of community-centric care and its high standard of **round-the-clock emotional and physical support**. From taking care of retrieving prescription medicines, to running an extensive recreational activities programme that aims to elicit a **sense of wellbeing and togetherness**, there is no stone left unturned when it comes to Viola's treatment of its guests. The design of the home is modern, with Viola's designers bringing to life a vision of comfort against a canvas of bright living spaces.

Not only is the home aesthetically pleasing but it is also highly functional. Accessibility features such as handrails, ramps, and lifts are to be found in both individual rooms and public areas, both of which have been built with a barrier-free approach. Ultimately, Viola prides itself on enhancing the lives of those in their elderly years who wish to maintain a sense of independence and community, whilst also requiring on-site care and support.

However, due to their stellar reputation, Viola faced a problem: **the demand for spaces outstripped available space**, which previously sat at just shy of a hundred permanent residents. With each passing day, the waitlist grew and grew. Knowing that they could do more in terms of service delivery and determined that no-one would be denied residency at their care home, Viola decided to seek help from **UniCredit Bank Hungary**.

Social Impact Banking is UniCredit's commitment to building a **fairer and more inclusive society** by identifying, financing, and promoting initiatives that will have a lasting **positive impact on society.**

Recognizing the exceptional standard of care that Viola delivers and their admirable mission to provide an idyllically harmonious home for their residents as they advance towards their sunset years, UniCredit was keen to support the institution's cause of serving more of the region's elderly community. The UniCredit team provided Viola with a long-term investment credit, which enabled them to finance the construction of a brand-new home called **Building C**. Their new building, which **opened in the first quarter of 2022, increased the home's capacity** by an additional 99 residents, whilst also meeting the **highest energy efficiency standards** for a project of its type and **creating 20 new jobs**.

UniCredit's support not only enabled Viola to accommodate more elderly guests, but it also meant that the care home was able to provide their residents who suffer from dementia with the physical and emotional assistance they require and deserve. Building C's provision of dementia care makes it a unique facility in the region and, importantly, it serves to ease the caregiving burden placed on local families, with **Vivien Magyari, Co-owner** commenting "What do we think is good about the cooperation between UniCredit Bank Hungary and us? As a well-known television personality once said: You can only do well if you're on good terms with the person you're doing it with. The great thing about our collaboration with the bank is that we are not only pursuing short-term goals, but we can also be partners in long-term thinking".

Report on the divisions

Corporate and Investment Banking Division

The operating conditions of 2021 for the Corporate and Investment Banking Division, too, were determined by the coronavirus pandemic and the response of the government and the corporate sector. Nevertheless, 2021 was another outstandingly successful year, similar to the previous one. The general decline of customer interest rates in the corporate markets continued, resulting in a significant increase in market size, which was driven by the Hungarian National Bank's crisis management measures in general and the introduction of the Funding for Growth Go! Scheme, and the EXIM Compensation Loan and crisis guarantee instruments in particular. The size of the market was also enhanced by a government-introduced credit moratorium, which provided sectors affected by the coronavirus pandemic with notable assistance. Accordingly, UniCredit Hungary Zrt. achieved substantial growth in 2021 with special attention to risk awareness and profitability. Revenues increased by 21 per cent and the loan portfolio by 6.8 per cent, the loan market share stood at 10.9 per cent at the end of the year. In terms of both revenues and profits, the Division continues to be the most significant segment of the Bank.

However, it is not only our profit indicators that make UniCredit Bank Hungary Zrt. one of the most successful Hungarian corporate banks. Awards received from prestigious forums and, even more importantly, the feedback from our corporate customers confirm our excellent reputation. Based on an objective satisfaction survey conducted among our customers (NPS, CFI indices), the high standard of services offered by UniCredit Hungary Zrt. was recognised again by the outstanding result it achieved among the corporate and investment banking institutions active in the Hungarian market in 2021. Based on Euromoney's annual cash management survey, UniCredit Bank Hungary Zrt. won the "Euromoney Market Leader" and the "Best Service Provider" awards. Euromoney's annual trade finance survey also recognised UniCredit Bank Hungary Zrt. as the market leader and the best trade finance provider in 2021. In addition, our Bank received the title of "Top Employer 2021" and our Social Impact Banking area also won an award.

The key to our success is the expertise and experience of our colleagues and our comprehensive range of sophisticated services. As in the previous years, we continued to pay special attention to the quality of services we provide our customers with in 2021 as well, and managed to carry out several system developments to meet individual customer needs such as UC Trader and Global Pricing Tool.

In 2021, structured financing closed another successful year. We continuously sought to serve our customers by offering them customised structured finance solutions that were ideally matched to their needs and often had an international dimension. We closed several important new project funding transactions in the renewable energy sector, including the financing of the solar power plant project with the largest installed capacity in Hungary to date. We were also active in the field of structured corporate finance, assuming banking coordinating, organising, and lending agency functions in several new transactions that were significant even by international standards. Thus, we could strengthen our leading market position again. Although direct in-person contacts were still not allowed, our positive and flexible approach allowed us to further strengthen our relationship with our customers even during these extraordinary times. In the meantime, we could also maintain the excellent quality and profitability of our loan portfolio.

In 2021, the loan portfolio managed by the Real Estate Finance Department continued to expand with preserving its high quality.

In 2021, we engaged additional transactions under the EIF InnovFin portfolio guarantee agreement with the European Investment Fund (EIF). The Fund provides 80 per cent guarantees for working capital loans contracted by small and medium-sized enterprises until 31 December 2021 and 50 per cent guarantees for their investment loans. In addition, our customers benefited much from the government's non-refundable grants designed to offset the consequences of the pandemic, for which we provided additional financing.

Agribusiness financing in the broader sense continued to be one of our focus areas in 2021. The expansion of the investment loan portfolio for agricultural and food producers was also stimulated by the development subsidies received under the Rural Development Programme. At the same time, the significant increase in world market prices in 2021 posed challenges for some sectors. During this period, our customers continued to see our Bank as a reliable partner.

The changing HUF interest rate environment and the management of the coronavirus pandemic required heightened flexibility and adaptability from the GTB (Global Transaction Banking) Cash Management Department in 2021, as well. Some of the forint-denominated demand deposits moved to term deposits, which required more active portfolio management from the Bank.

As a result of our reliable service level and high-quality customer service, we extended the coverage of our card acceptance services. Our market share also continued to increase: by the end of the year, the number of our POS terminals exceeded seven thousand. In December 2021, we introduced the UniCredit SoftPOS application, which allows the acceptance of contactless cards or payment devices – phones, smartwatches – at an unprecedented level of convenience anywhere and anytime. With the new application, small businesses can replace the physical POS terminals with their own mobile devices, offering a simple, convenient payment option to their customers. In response to customer feedback, we continuously improve the quality of our services and enrich our

Report on the divisions (Continued)

product range. Thus, in 2022, we continue to work on developing our card acceptance service.

The Trade Finance division of UniCredit Bank Hungary Zrt. accomplished another successful year in 2021. Within the trade finance portfolio, the guarantee portfolio increased further in 2021 after a record level reached in 2020, thus its value exceeded HUF 435 billion. In addition, the division displayed dynamic development in structured working capital optimisation and financing solutions tailored to customer needs, as well as in products refinanced by EXIM. The awards received from Euromoney's Trade Finance survey serve as prominent acknowledgements of UniCredit Bank Hungary Zrt.'s trade finance performance.

Our committed colleagues in the Documentary and guarantee business division ensured the continuous service and support of our customers even in the conditions of the pandemic, which contributed to the strengthening of our customer relationships.

As a member of Factors Chain International (FCI) and the Hungarian Factoring Association, UniCredit Bank Hungary Zrt. sought to increase its factoring, debt purchase, and Supply Chain Finance services and to flexibly serve customer needs in 2021, as well.

2021 was a challenging, yet successful year for the Global Securities Services (GSS) business division of UniCredit Bank Hungary Zrt. The business division reinforced its position, retained its role as the market leader, and enhanced its customer base. As in 2019 and 2020, the GSS division of UniCredit Bank Hungary Zrt. won the award of Global Finance magazine for the best sub-custodian in 2021, as well, which is given to financial institutions that reliably provide the best service, based on, among others, customer feedback. The division develops its services to meet the unique needs of its institutional customers, comply with the continually tightened legal requirements, and respond to changes in the capital market. Digitalisation and automation play a key role in daily operations and in shaping the future strategy of the business division. GSS pays attention to keeping customers satisfied, operating with a focus on customers, and to complying with legal requirements.

In 2021, the Bank's transactional sales unit (GTB Transactional Sales) strengthened its already outstanding market leader position in the forint loro (correspondent banking), and the special forint CLS account management service introduced in the Hungarian market in 2015.

The Capital Market Consulting division performed in 2021 successfully despite the fact that a government decision postponed the termination of one of our major transactions to 2022. As organiser and distributor, we participated in the HUF 9.2 billion bond issue of Tranzit Food Kft., which was one of the fastest transactions in the Bond Funding for Growth Scheme of the National Bank of Hungary. We participated as a joint book-runner in the EUR 500 million bond issue of Hungarian Development Bank and as a global coordinator and joint book-runner in the EUR 500 million Eurobond issue of MVM Energetika Zrt.

With more than 50 per cent revenue growth, Corporate Treasury Sales terminated 2021 as the most outstanding year in its history. The backbone of our revenues continued to be provided by foreign currency transactions, and the share of foreign currency hedging transactions in this segment increased significantly (30 per cent year-on-year). Closely catching up, interest rate hedging transactions accounted for the second-largest revenue, following the exceptionally high growth of more than three times in the reporting year. Sales of commodity hedging products, the third pillar of Corporate Treasury Sales' revenues, declined last year from a very strong basis in 2020, largely owing to the extreme rise in commodity prices in the second half of the year.

There were already several in-person meetings in 2021, but given the coronavirus situation, we communicated with our customers predominantly by phone and via video. We launched several product-specific campaigns in response to market needs and changes and raised the popularity of online contracting among our customers. In addition, we continued to strive for proactive customer service, including value-added solutions for hedging FX rate, interest rate, and commodity market risks.

The trading area of our Bank achieved the expected result in 2021, which was full of highly volatile market movements. The main goal of our trading area continues to be taking over the market risks of our customers by best transfer price quoting in the given market conditions. We consider a definite success that our risk indicators typically remained well below the possibilities set by the risk limits during the year, while our profitability indicators did not deteriorate either. In 2021, interest rate and foreign currency products continued to dominate our risk-taking activities. Our department, with the participation of the international UniCredit Group sales team, successfully served large international funds at Hungarian institutional government securities auctions, thus ensuring a favourable market share.

In 2021, UniCredit Leasing Group, owned by UniCredit Bank Hungary Zrt., maintained its fourth place in the market with a share of 7.2 per cent. Despite the challenges posed by the pandemic, the Group's revenues increased by almost 1 per cent, while the portfolio financed remained at the previous year's level, with the volume of new placements expanding by 6.1 per cent. In 2021, the impact of the coronavirus pandemic was already evident in all segments, leading to unpredictable and long delivery times undertaken by manufacturers in almost all asset categories, with

specific shortages in several products in the market. At the end of the year, only 0.73 per cent of the portfolio was under the payment moratorium, which reflects the high quality of the portfolio.
The leasing business line performed well in the sale of the FGS Go! product and HUF 12.9 billion new placements were made in 2021 until its out-phasing. The launch of the Széchenyi Leasing Go programme was also successful in the second half of the year.
As a member of UniCredit Group, UniCredit Biztosításközvetítő Kft. sells insurance services primarily in relation to leased assets also to the banking clientele.

Fine-tuning the skills of tomorrow: through RenewAcad, UniCredit Bank Romania helped over a thousand miners to retrain as specialists in wind energy and electricity distribution – thereby supporting the transition.

Our Clients
Wind Power Energy
Romania

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Report on the divisions (Continued)

Retail and Small Business Division

In 2021, UniCredit Bank Hungary Zrt.'s Retail and Small Business Division continued to place great emphasis on flexibly adapting to market changes and on customer satisfaction in an economic environment of permanent challenges.

Our business policy continues to be centred on the establishment and development of long-term cooperation with customers, and on offering products and services built on customer needs. In addition to customer acquisition, our Bank paid particular attention to customer retention and increasing customer activity in digital channels in 2021, as well. By continuously updating our product range, we strive to satisfy customer needs as fully as possible in the fields of daily banking transactions, savings, investments, and lending. The success of our efforts is confirmed by a steady annual increase in the number of retail customers whose income is regularly transferred to their UniCredit Bank accounts, while a large number of small business customers also consider UniCredit Bank Hungary Zrt. their primary bank.

In 2021, we sought to improve the online account opening process and also made it possible to apply for the so-called Partner account packages available only to key partners on the online interface. Using the online account opening process, customers can open retail bank accounts with our Bank from their homes.

In 2021, we implemented the simplification and rationalisation of the debit bank card portfolio so that our customers could choose the right product from a clear and transparent range of options. As a first step, we discontinue several cards, and VISA and Maestro cards have been replaced with Mastercard bank cards.

An important step towards digitalisation in our Bank was the introduction of Apple Pay on 19 October 2021 and of the Google Pay mobile payment service on 30 November 2021. These fast, easy, and secure new payment solutions are available to our retail and corporate, debit, and credit card customers.

Following its internal guidelines, the Division sought to improve service quality, provide the branch network personnel with professional training and support for the development of sales, thereby promoting a high degree of customer satisfaction. Customer satisfaction with UniCredit Bank Hungary Zrt. has been strong for years, and in this respect, the Bank is on the same level as its competitors. According to surveys on services provided at our branch offices, our customers are satisfied with service quality, the advisors of UniCredit Bank Hungary Zrt., the financial advice tailored to their financial needs, and the consultations on the next steps to be taken. New customers expressed great satisfaction with the helpfulness of our advisors and the atmosphere in our branch offices. Satisfaction with digital channels, particularly mobile applications, improved significantly in 2021. Based on surveys carried out among customers, their willingness to recommend our Bank is strong and they are happy to recommend the Bank to their acquaintances, family members, and business partners.

As a result, the Division currently serves around 300,000 customers, including 39,000 small businesses.

The Division held a loan portfolio of HUF 401 billion in 2021, representing a 4.1 per cent share of the retail lending market at the end of the year.

Concerning lending, one of the most important events in 2021 was again the implementation of the tasks related to the payment moratorium that was extended several times. The automatic payment moratorium lasted until 31 October 2021 for our customers who requested it. Since 1 November, however, this option has applied only to customers belonging to certain key social groups. As of the end of the year, only roughly 5 per cent of our retail customers requested the deferment of their repayments. During the moratorium, in line with the requirements of the National Bank of Hungary and UniCredit Group, several restrictions were introduced in lending, which we managed to ease in multiple stages in 2021. During the moratorium, we were able to provide customers with several automated solutions in everyday administration that supported remote administration. Most of them were, of course, maintained even after the emergency. Despite the adverse effects of the pandemic and the lockdowns, 2021 has already brought a significant recovery in lending. In line with the government's new family support decisions, we introduced several new products: the interest subsidised home renovation loan and the green loan for the construction and purchase of a new home under the Funding for Growth Scheme Green Home Programme, with a zero per cent housing interest subsidy, are available to our customers. Despite the permanently changing environment, we successfully performed in 2021 by maintaining a stable and prudent business. Due to the continuously competitive interest rates and administrative processes, the retail loan portfolio increased by more than 27 per cent.

We launched our online personal loan facility, which allows us to manage the applications of our existing and new customers without requesting their visit to a branch office of the Bank. As a result of this and several other measures, our market share in personal loans grew steadily during the year.

The payment moratorium was used by 3.5 per cent of small business customers by the end of the year. This ratio is also lower than the market average. The small business loan portfolio grew by 7 per cent, induced primarily by the increasing demand for working capital loans. In 2021, our Bank introduced the products of the new Széchenyi Card Restart Programme (Széchenyi Card Overdraft

Go!, Széchenyi Investment Loan Go!, Széchenyi Liquidity Loan Go!, Széchenyi Tourist Card Go!, Széchenyi Agricultural Loan Go!). There was significant demand for them last year. Simultaneously with the introduction of the new products, we also relaunched the sale of the former Széchenyi Classic overdraft facility product.

To support transparency, the review of the small business account products and the simplification of the range of products continued as well. In light of this, we discontinued the sale of some of our account packages and replaced them with new account packages that enable micro and small enterprises to manage banking at affordable rates.

In 2021, the savings portfolio of the Retail and Small Businesses Division increased by roughly HUF 119 billion, with a stock of HUF 1,240 billion at year-end. As a result of the protracted economic effects of the pandemic, households continued to increase their liquid assets substantially, and, as a result of this, the demand for deposits grew by 13.7 per cent during the year. Concerning savings, retail government securities continued to be the most popular investments: the Division sold these products valued at more than HUF 75 billion during the year.

The Bank had a 4.2 per cent market share in deposits and securities held by private individuals.

Considering the significant changes in customer needs and habits, we pay special attention to the development of customer-focused digital solutions, thereby we create value for our customers. This was particularly important for communication with the customers due to the challenges triggered by the pandemic. The switch to the digital banking channels requiring sign-in continued in 2021.

In 2021, 1.88 million unique visitors visited the website unicreditbank.hu, and the number of submitted inquiries increased by 10.4 per cent. The reasons for this were manyfold: customers had access to the eBanking Internet Banking service, online account opening, and online application for personal loans, on the Bank's website.

Over 90 per cent of the clientele of the Retail and Small Business Division can still accomplish financial transactions via the Telephone Banking channel. Improvements in the level of our services to customers played a significant role in achieving a customer call response ratio of over 79 per cent.

Until the end of 2021, it was possible to submit the statement on the payment moratorium in the eBanking system and to carry out the mandatory customer due diligence without visiting a branch office of the Bank. More than 265,000 customers had contracts for the eBanking system.

The Bank further developed its mobile banking application according to the Mobile 2.0 Strategy, treating customer focus and the development of the customers' financial awareness as priorities, and continued to popularise and communicate extensively the functions of this digital channel.

The Bank phased out the previous version of the application so that customers can use the full functionality provided by the latest version.

After they log in, even via biometric identification, customers can still use the application to activate their new or renewed debit cards, set up new standing transfer orders, and manage existing ones. They can make convenient credit card repayments, check their reserved debit and credit card transactions, view the PIN code of their cards, create new orders from payment orders already placed and booked, and authenticate their transactions using biometric identification on their mobile phones capable of fingerprint scanning.

Customers using an activated mBanking application can still receive push notifications about their debit and credit card transactions, incoming transactions, expiring deposits, or declined and cancelled account transactions and orders.

The application allows the Bank's customers to categorise their expenses with just a few taps and replan their expenditures using the cost analysis function. As a result of the developments in PSD2 regulations, the Bank's mToken service allows customers to authenticate their transactions initiated on the eBanking Internet banking interface, even after receiving a push message, as well as to approve their online purchases with the help of a push notification.

The cardless cash withdrawal service (mCash) continues to be available in the mobile application, allowing for cash withdrawals from any Hungarian UniCredit ATM without the use of a bank card. The number of customers using the Mobile Banking service at least once a month exceeded 132 thousand.

To ensure that its customers can deposit cash at any time of the day regardless of the opening hours of the branch offices, the Bank maintained the number of ATMs suitable for cash deposits. At the end of 2021, this convenience function was available at 83 ATMs. Environmental protection is a priority for our Bank, and an increasing number of customers are choosing e-statements instead of printed bank account statements. At the end of 2021, more than 70 per cent of our retail customers used this service.

Climate neutrality: we stood alongside family-run Steinecke, a leading manufacturer of dried herbs and vegetables, when it decided to build one of Germany's first agrophotovoltaic plants.

Our Clients
Steinicke
Germany

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

Report on the divisions (Continued)

People and Culture

Strategy and values

The pillars of our People and Culture (P&C) strategy include being a great and inclusive place to work, driving people development, improving the way of working, and creating a respectful and harmonious work environment.

The P&C department supports the bank with solutions that are innovative, sustainable over the long-term and focused on effective recruitment and selection processes. Improving our employee experience is a key priority with strong focus on encouraging equal opportunities, providing flexible ways of working, building a strong succession pipeline and outstanding talent management, as well as providing competitive compensation packages and excellent HR services for employees.

UniCredit believes that a diversified workforce encourages sustainable growth, fosters innovation, and contributes to an engaging working environment. UniCredit is therefore committed to building an organization that makes full use of its talents, skills, experiences, and different cultural perspectives in which individuals feel they are respected and valued and can fulfill their potential. In addressing the need for diversity, UniCredit takes a multi-stakeholder approach that accounts for the differing needs of our customers, employees, and communities.

Supporting business processes

The P&C strategic partner model focuses on the understanding and the client-centered support of specific business areas and activities in the bank in terms of attraction, acquisition, onboarding, assessment and development, engagement, and retention, and offboarding.

The P&C strategic partners are our relationship managers who are end-to-end responsible for achieving a good understanding of business needs (business acumen), for supporting the organization in change management activities, and for partnering with the business leaders in taking decisions with a data-driven approach.

The flexible approach of the P&C department also supports the allocation of resources, consistent with short-term priorities and different market challenges.

Recruitment and selection

Since UniCredit Bank Hungary Art. continues to pay special attention to employees' mobility in the organization and to the utilization of their expertise on both national and international levels, the management considers first the internal applications by colleagues for any vacancies or newly opened positions, prior to evaluating any external applications.

The selection of our employees is assisted by a wide range of tools supporting in-depth assessment; examples include competence-based and behavioral interviews, professional assignments, as well as personality, motivation, and work attitude tests.

To ensure the highest protection of our candidates and employees, most selection processes has been managed with online interviews in 2021.

We are applying tailor-made sourcing and selection strategy depending on the needs of business areas, to provide the most effective way of attracting and hiring the best candidates.

In 2021, the Bank hired 278 new FTEs (Full-time Equivalents) without leased workforce and colleagues from abroad; the annual bank turnover was 16 percent vs 20 percent in the Hungarian market.

Apart from improving our recruiting process, several initiatives were launched to boost sourcing activities: we have started an employee referral program, strengthened cooperation with universities, and launched a graduates' program.

Relationships with universities and investments in young students allowed us to provide over 150 trainees with the opportunity to get experience in our bank during the year.

Onboarding

We believe that nurturing the engagement of our employees starts from the first moments, therefore in 2021, we reviewed the onboarding process, aiming to provide a simple process, easy-to-access information, and regular check-up points for the newcomers. The first 3–6 months of the new joiners is supported by P&C generalists.

Employee satisfaction and retention

Employee satisfaction surveys and the implementation of subsequent action plans are of key importance not only for the Group but for UniCredit Bank Hungary Zrt. as well.

Employee surveys

The bank is constantly looking for 'listening moments' with all the colleagues, as UniCredit cares about employee's engagement and satisfaction. One way of doing this was to take regular Pulse Checks in 2021. A representative sample of the bank's employees were invited to complete a short questionnaire in 2021. The Pulse Checks were sent out four times in 2021, always targeting a different representative sample of the bank's employees.

This initiative aims at assessing and tracking the employee's satisfaction and engagement levels while the bank took steps to simplify the structure and empower employees. The goal of the questionnaire was to build a practical, flexible and, most importantly, frequent "temperature/mood indicator".

The engagement index for Hungary based on the four waves of the Pulse Check was 69 on average.

By completing a much deeper dive, an employee bi-annual survey enabled us to gain a richer and more time sensitive understanding of employee sentiment.

Participation in the survey was strictly anonymous and non-mandatory. Overall findings and employee satisfaction trends were published in the Group Intranet.

It is of paramount importance for the bank to build an environment that fosters open and honest conversations. The bank also launched a cultural survey in 2021 to gain deeper understanding of the company culture. The completion of the questionnaire was anonymous and non-mandatory. The research consisted of two parts: an online questionnaire for representative sample of the bank's employees and focus group conversations with managers and non-managers.

In 2020, the bank launched a new joiner survey and repeated it twice in 2021 to follow-up the trends of new joiners' engagement and satisfaction. The new joiners' employee experience survey covers the following topics: attraction (employer branding), recruitment & selection process, onboarding, development (training, performance), and engagement (mentoring). The survey takes the form of an anonymous, voluntary online questionnaire, some questions could be skipped during completion. The iinvitation criteria comprise maximum 6 months working experience at the bank and active employment status at the beginning of the survey period.

Based on the opinion of the bank's new employees, the quality of the recruitment and selection process is very high. It is fast, and it shows that 62,3 percent of the new joiners complete this initial phase within a period of 3 weeks. New joiners have up to date information about the selection process and comprehensive information about the job.

The bank restructured the exit survey for the leaving employees in 2021. To improve our organization and its processes, it is important for us to understand the reasons why our colleagues decide to leave the company. It is a comprehensive questionnaire to understand the most important factors for the employees at a workplace in terms of satisfaction and engagement. It covers company culture (feedback, speak-up culture, colleagues' involvement in decision-making); IT support; working environment (office space, furniture); compensation; work-life balance; career opportunities; trainings, education, professional improvement; colleagues, team-spirit; line manager; top management, company strategy; moderated stress-level; flexible working; meaningful job/job content.

72 percent of the bank's ex-employees would consider returning to UniCredit Bank Hungary Zrt. Most of the bank's ex-employees were satisfied with line managers, colleagues, and team spirit; flexible working and working environment.

In 2021, we also launched different employee retention programs for specific groups of employees.

Training and development, succession management

The HR department continuously strives to achieve learning and development excellence with learning embedded in the company culture. On top of the regular focus on keeping the knowledge in the organization up to date, a Learning and Development (L&D) team was organized to support permanent high business demand. In 2021, extra efforts were put into crafting digital and online development opportunities as well as introducing several initiatives with the aim to help employees and leaders cope with and stay effective in the "new normal" environment.

With regular measuring of the learning impact and communication, the L&D team managed to ensure high level of learning engagement and better utilization of investments.

The group and local talent management remained in the focus of UniCredit Group's human resource strategy. Its objective is to identify in the organization people with outstanding potential, skills, and professional knowledge, and ensure that their career plans will be implemented on both national and international level. In 2021, additional focus was laid on improving the identification and development of high potentials, developing effective succession action plans and creating new opportunities to boost their capabilities and readiness.

Investing in leadership capabilities and boosting the skillset of managers remained one of the key pillars of the P&C. In the market where even in the pandemic situation the turnover rate has not flattened, one of the key strengths of a company is having strong managerial community. 2021 was the second year of our Conscious Leadership Program which blends online and in-person learning with innovative digital solutions (app act2manage & online coaching).

In addition to talent management and succession planning, knowledge sharing is one of the key values of UniCredit Bank Hungary Zrt. An increasing number of employees are given the chance of participating in international and national development programs, ranging from project works of a few months to assignments spanning several years. In this respect, during 2021, fourteen of our talents got the opportunity to work on five real banking assignments with a respective sponsorship of B-1 leaders.

Equal opportunity

With Hungary having joined the international Gender Balance Initiative, we adapted our Gender Balance Policy in 2013. The Policy aims at enforcing the principle of equal treatment in employee selection and promotion as well as work-life balance. Changes implemented on local level under the Policy continue to be monitored internationally. Reports of these indicators that are defined on Group level, are regularly presented to the senior management as well. This policy was revised in 2021 and was approved again without changes. In terms of equal pay, the bank managed to achieve a significant result, decreasing the same role pay-gap close to zero (1 percent).

Diversity, Equality, and Inclusion initiatives:

The bank is continuously monitoring the level of salaries in the same jobs/positions to eliminate the same role pay-gap and ensure equal pay between genders.

Succession planning and promotion is monitored to make available a gender-balanced and diverse pool of candidates and talents when developing our leadership pipeline.

The recruiting process enables diverse candidates to successfully apply regardless of gender identity.

Female Career Support

Management boards including the Heads of Divisions/Competence lines are balanced very much from the gender point of view. (54 percent female presence)

The bank accomplished a female career path research in 2020. The primary target was to identify the different types of obstacles that women might face in their career development (national, individual, company cultural root causes) to allow enablers to boost female presence in management.

In 2021, the bank defined and implemented many next steps based on the findings and conclusions of the research. A series of female career workshops, individual career coaching and interactive presentations were started to help our female team leaders improve their skills and boost their career.

Based on the research feedback, personal career stories of our female leaders inspire others, a series of panel discussions were launched involving our top female managers in 202. Thus, our employees can get an insight into their lives in a new, different perspective.

Mommies back

The bank introduced a new, atypical employment form for colleagues in maternity leave in 2019. This flexible employment ensures that moms could join us again and take part-time, remote working positions. The benefits of this program are multiple. On the one hand, the program helps our female colleagues to keep connected to their professional life during the maternity leave in a way that matches their work-life balance, and on the other hand, it provides the business with extra workforce. This program was initially implemented in the Retail and Corporate & Investment Banking Divisions.

In 2021, we expanded this employment form to other divisions of the bank (GBS and P&C).

Wisdom program

The bank's Wisdom program is tackling age-diversity, as it is for the 55+ colleagues. Our senior colleagues are mentoring others and the bank provides them with different types of learning opportunities based on their needs.

Ecological sustainability: Identifying a problem is the first step in solving it. Bank Austria has provided a home to more than a million bees over the past two years.

Our People
Bee Centre
Austria

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

Report on UniCredit Jelzálogbank Zrt.

A mortgage bank operating as a specialised credit institution, UniCredit Jelzálogbank Zrt. was established by Bayerische Vereinsbank AG on 8 June 1998, with a registered capital of HUF 3 billion. Since 22 December 2006, the sole shareholder of UniCredit Jelzálogbank Zrt. has been UniCredit Bank Hungary Zrt.

The main activity of UniCredit Jelzálogbank Zrt. is the issue of mortgage bonds and refinancing of commercial banks. Mortgage loans are primarily secured by first-ranked mortgages, independent liens, or seceded liens registered on the financed property located in the territory of Hungary.

To improve efficiency, UniCredit Jelzálogbank Zrt. has gradually outsourced some of its support activities to UniCredit Bank Hungary Zrt. since 2008.

Since 1 April 2009, the tasks of specific business areas of UniCredit Jelzálogbank Zrt. have also been performed by UniCredit Bank Hungary Zrt. as outsourced activities, under agency contracts. Accordingly, all administration related to the financing of home buyer individuals as well as to estate development and land financing is performed by UniCredit Bank Hungary Zrt. The issuing of mortgage bonds and unsecured bonds serving as the basis for the lending activity as well as the refinancing activity have remained the responsibility of UniCredit Jelzálogbank Zrt.

In line with its past practices, UniCredit Jelzálogbank Zrt. obtains typically medium- and long-term funding for its own and refinanced loan portfolios by issuing mortgage bonds and by money-market and long-term borrowing. The issuing of mortgage bonds and unsecured bonds typically takes place as part of an offering programme. In this context, UniCredit Jelzálogbank Zrt. raises long-term HUF and foreign currency funds from the capital market.

In the current business and market environment, the frequency and volume of mortgage bond issues depend primarily on the structure of the Bank's assets and liabilities, the composition of the collateral book, the maturity structure of mortgage bonds, and the developments in the market yield environment and the regulatory environment. Mortgage bonds and unsecured bonds can be issued in several ways. The form of the issuance and the instruments to be issued are specified in the prevailing base prospectus. In the case of a private offering, mortgage bonds and unsecured bonds are sold to a specific group of investors. In a public offering, the terms of the mortgage bond and unsecured bond issue are laid down in the programme's prospectus and the final terms and conditions of each series.

In November 2017, UniCredit Jelzálogbank Zrt. signed a joint and several guarantee agreements with UniCredit Bank Hungary Zrt. regarding the payment obligations relating to the securities of the former.

In 2018, UniCredit Jelzálogbank Zrt. commissioned the rating of its mortgage bonds from international credit rating agency Moody's Investors Service. Since 29 September 2021, the mortgage bonds issued by UniCredit Jelzálogbank Zrt. have had a long-term credit rating of A1, which is in the investment category according to the rating agency's methodology.

UniCredit Jelzálogbank Zrt. joined the international UniCredit Banking Group's ESG and Green Framework in 2021. Green mortgage bonds issued under the framework will support the implementation of the green strategy of the bank and its parent company. Low-cost funding will allow customers to take out green loans at more favourable rates.

Under the Green Mortgage Bond Purchase Programme announced by the Hungarian National Bank in July 2021, which involves primary and secondary market purchases of green mortgage bonds issued in Hungary, UniCredit Jelzálogbank Zrt. issued a 10-year series of green-rated mortgage bonds with a nominal value of HUF 23.2 billion for the first time in October.

Based on its balance sheet drawn up according to the International Financial Reporting Standards (IFRS), UniCredit Jelzálogbank Zrt. finished the fiscal year 2021 with a balance sheet total of HUF 261.2 billion and profits after tax of HUF 2,444 million.

Independent Auditor's report

Deloitte.

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder of UniCredit Bank Hungary Zrt.

Opinion

The summary consolidated financial statements included on pages from 32 to 96 in the annual report for 2021 of UniCredit Bank Hungary Zrt. (the "Bank"), which comprise the summary consolidated statement of financial position as at December 31, 2021, the summary consolidated income statement, the summary consolidated statement of comprehensive income, the summary consolidated statement of changes in Shareholder's equity and summary consolidated statement of cash flows for the year then ended, and related notes ("summary consolidated financial statements") are derived from the consolidated financial statements of UniCredit Bank Hungary Zrt. 2021.

In our opinion the accompanying summary consolidated financial statements of UniCredit Bank Hungary Zrt. are consistent, in all material respects, with the underlying consolidated financial statements for 2021.

Summary consolidated financial statement

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards as adopted by the European Union. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank and the auditor's report thereon for 2021. The summary consolidated financial statements and the audited consolidated financial statements for 2021 do not reflect the effect of the events occurred subsequent to the date of our report on the consolidated financial statements.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated February 11, 2022. The auditor's report on the audited consolidated financial statements also contains the key audit matters identified during the audit of consolidated financial statements for 2021.

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

Management is responsible for the preparation of the summary consolidated financial statements in the annual report for 2021 in accordance with relevant information included in the audited consolidated financial statements.

The Auditor's Responsibility for the Audit of the Summary Consolidated Financial Statements

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements for 2021 based on our procedures, which were conducted in accordance with National Standard on Auditing 810 "Engagements to Report on Summary Financial Statements".

Budapest, May 24, 2021

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

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

Registration number of statutory registered auditor: 007239

Financial statements

Consolidated statement of financial position (Balance Sheet) – 31 December 2021

Assets

	NOTE	2021 HUF MILLION	2020 HUF MILLION
Cash and unrestricted nostros with Central Bank	16	23,026	29,794
Financial assets held for trading	17	1,324	6,465
Trading derivative assets	17	235,186	70,819
Hedging derivative assets	18	75,073	49,585
Placements with, and loans and advances to banks	19	1,564,087	1,190,926
Loans and advances to customers	20	1,731,851	1,696,812
Investment securities	21	879,051	944,892
Equity investments	22	1,277	1,188
Investment properties	23	8,864	8,892
Property, plant and equipment	24	25,127	22,454
Intangible assets	25	19,526	17,475
Deferred tax assets	15	1,632	85
Other assets	26	30,590	32,936
Assets held for sale	27	–	3,925
Total assets		**4,596,614**	**4,076,248**

Liabilities

	NOTE	2021 HUF MILLION	2020 HUF MILLION
Deposits and loans from banks	28	812,278	670,354
Deposits from customers	29	2,792,420	2,641,238
Issued bonds	30	183,330	209,508
Financial liabilities held for trading	17	238,942	76,688
Trading derivative liabilities	18	115,647	24,636
Hedging derivative liabilites	35	3,600	3,142
Other provisions	15	277	2,333
Deferred tax liability	31	52,569	63,439
Other liabilities		**4,201,171**	**3,691,338**

Equity

	NOTE	2021 HUF MILLION	2020 HUF MILLION
Share capital	33	24,118	24,118
Capital reserve		3,900	3,900
Retained earnings		275,402	248,634
Statutory reserves	34	57,638	53,128
Other reserves		–	–
Valuation reserves		(12,034)	23,693
Net profit for the year		**46,337**	**31,263**
Total Equity attributable to the equity holder of the Bank		**395,361**	**384,736**
Minority interest		82	174
Total Equity		**395,443**	**384,910**

Total Liabilities and Equity		**4,596,614**	**4,076,248**

The accompanying notes (1–52) form an integral part of these financial statements.

Financial statements (Continued)

Consolidated Income Statement – 31 December 2021

	NOTE	2021 HUF MILLION	2020 HUF MILLION
Interest and similar income	7	113,511	93,791
Interest expense and similar charges	7	(34,059)	(25,943)
Net interest income	**7**	**79,452**	**67,848**
Fee and commission income	8	54,862	51,760
Fee and commission expense	8	(9,879)	(9,005)
Net fee and commission income	**8**	**44,983**	**42,755**
Dividend income	9	191	5
Net trading income	10	(268)	(774)
Net gain and loss on foreign exchange	10	13,503	15,084
Net gain and loss on other financial intruments	11	(2,631)	1,595
Operating income		**135,230**	**126,513**
Impairment and losses on credit products	46	(7,781)	(23,329)
Net financial activity result		**127,449**	**103,184**
Personnel expenses	12	(22,271)	(20,349)
General operating expenses	13	(48,525)	(44,635)
Other provision	35	(1,369)	374
Depreciation on property, plant and equipments	24	(2,028)	(2,008)
Amortization and impairment on intangible assets	25	(3,395)	(2,652)
Operating costs		**(77,588)**	**(69,270)**
Other expense / income	14	1,112	(120)
Other results		**1,112**	**(120)**
Gain / (losses) on disposal of fixed assets and other assets		4	220
Gain / (losses) on investment properties		(28)	506
Profit before tax		**50,949**	**34,520**
Income tax expense	15	(4,610)	(3,252)
Net profit for the year		**46,339**	**31,268**
Attributable to:			
Shareholder of the Group		46,337	31,263
Minority interests		2	5

The accompanying notes (1–52) form an integral part of these financial statements.

Consolidated statement of comprehensive income – 31 December 2021

(HUF million)

	NOTE	2021	2020
Net profit for the year		**46,339**	**31,268**
Other comprehensive results that will be subsequently reclassified to profit or loss:			
IFRS 9 transition		–	–
Movement in fair value reserve of financial instruments measured at fair value through other comprehensive income		(1,282)	(12,966)
Deferred income tax on movement of fair value reserve of financial instruments measured at fair value through other comprehensive income	15	115	1,167
Net movement in fair value reserves		**(1,167)**	**(11,800)**
Movement in cash-flow hedge reserves		(37,737)	(4,733)
Deferred income tax on movement in cash-flow hedge reserves	15	3,396	426
Net change in cash-flow hedge reserves		**(34,341)**	**(4,307)**
Other comprehensive results that will not be subsequently reclassified to profit or loss:			
Asset revaluation surplus		(241)	(459)
Deferred income tax on asset revaluation surplus	15	22	41
Net movement in asset revaluation surplus		(219)	(418)
Other comprehensive income for the year, net of tax		**(35,727)**	**(16,525)**
Total comprehensive income for the year		**10,612**	**14,743**
Attributable to:			
Shareholder of the Group		22	41
Minority interests		10,612	14,743

The accompanying notes (1–52) form an integral part of these financial statements.

Consolidated statement of changes in Shareholder's equity – 31 December 2021

(HUF million)

	ORDINARY SHARES	CAPITAL RESERVE	RETAINED EARNINGS	STATUTORY RESERVES	VALUATION RESERVES			NET PROFIT	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
					Fair value Reserve	Hedging Reserve	Asset revaluation surplus				
Balance as at 1 January 2020	**24,118**	**3,900**	**218,758**	**49,798**	**19,600**	**19,084**	**1,533**	**51,275**	**388,066**	**210**	**388,276**
Net profit for the previous year	–	–	51,275	–	–	–	–	(51,275)	–	–	–
Total comprehensive income for the year	**–**	**–**	**-69**	**–**	**(11,800)**	**(4,307)**	**-418**	**31,263**	**14,670,**	**5,**	**14,675**
Dividend to equity holder	–	–	(18,000)	–	–	–	–	–	(18,000)	–	(18,000)
Change of non-controlling interest	–	–	–	–	–	–	–	–	–	-41	-41
Business combination	–	–	–	–	–	–	–	–	–	–	–
Appropriations Transfer to retained earnings	–	–	(3,330)	3,330	–	–	–	–	–	–	–
Balance as at 31 December 2020	**24,118**	**3,900**	**248,634**	**53,128**	**7,800**	**14,777**	**1,116**	**31,263**	**384,736**	**174,**	**384,910**
Balance as at 1 January 2021	**24,118**	**3,900**	**248,634**	**53,128**	**7,800**	**14,777**	**1,116**	**31,263**	**384,736**	**174**	**384,910**
Net profit for the previous year	–	–	31,263	–	–	–	–	(31,263)	–	–	–
Total comprehensive income for the year	–	–	15	–	(1,167)	(34,341)	(219)	46,337	10,625	2	10,627
Dividend to equity holder	–	–	–	–	–	–	–	–	–	–	–
Change of non-controlling interest	–	–	–	–	–	–	–	–	–	(94)	(94)
Business combination	–	–	–	–	–	–	–	–	–	–	–
Appropriations Transfer to retained earnings	–	–	(4,510)	4,510	–	–	–	–	–	–	–
Balance as at 31 December 2021	**24,118**	**3,900**	**275,402**	**57,638**	**6,633**	**(19,564)**	**897**	**46,337**	**395,361**	**82**	**395,443**

The accompanying notes (1–52) form an integral part of these financial statements.

Consolidated statement of cash-flows – 31 December 2021

Cash-flows from operating activities

(HUF million)

	NOTE	2021	2020
Profit before tax		**50,949**	**34,520**
Items not involving movement of cash:			
Depreciation and amortisation	24, 25	5,423	4,659
Scrapped and transferred fixed assets		–	(73)
Profit on disposal of property, plant and equipment		(50)	(9)
Net loss/gain from cashflow hedging assets		27,786	(2,002)
Net impairment and losses in credit products		5,134	19,704
Unrealised changes in fair value of financial assets held for trading and investment securities		–	–
Foreign exchange loss on subordinated loans		–	–
Foreign exchange loss/(gain) on investment properties		–	–
Fair value change of fixed assets (real estates)		243	20
Fair value change of investment properties		28	–
Business combination		(5,603)	(5)
Tax expense	15	(4,610)	(3,252)
Cash-flows from operating profits before changes in operating assets and liabilities		**79,300**	**53,562**
Change in financial assets held for trading		(159,226)	7,904
Change in current tax assets		(1,532)	11
Change in other assets		6,132	(14,424)
Change in asset held for sale		–	–
Change in current tax liabilities		414	3,666
Change in deferred tax liabilities		3,533	1,634
Change in other liabilities		(13,898)	2,035
Change in loans and advances to customers		(39,054)	(212,277)
Change in deposits with other banks		(371,520)	(392,048)
Change in deposits from customers		151,182	541,962
Change in deposits from other banks		141,924	71,010
Change in subordinated loans		–,	–
Change in financial liabilities held for trading		164,362	5,677
Income tax paid		2,098	4,892
Net cash-flow from operating activities		**(119,781)**	**10,258**

Cash-flows from investing activities

(HUF million)

	NOTE	2021	2020
Proceeds on sale of property, plant and equipment		76	18
Addition of property, plant and equipment		(5,211)	1,028
Addition of intangible assets		155	(6,558)
Change in equity investments		(89)	(182)
Change in investment securities at fair value through other comprehensive income		109,594	258,900
Change in investment securities at amortized cost		(44,542)	(374,473)
Change in investment properties		–	2,216
Change in minority interest		(92)	(36)
Net cash-flow used in investing activities		**59,891,**	**(119,087)**

Cash-flows from financing activities

(HUF million)

	NOTE	2021	2020
Change in issued bonds		(26,178)	61,227
Dividend paid		–	–
Net cash-flow from financing activities		**(26,178)**	**61,227**
Net Increase in cash		**(6,768)**	**5,960**
Cash and cash equivalents at the beginning of the year	16	29,794	23,834
Cash and cash equivalents at the end of the year	**16**	**23,026**	**29,794**

The accompanying notes (1–52) form an integral part of these financial statements.

Notes to the financial statements

1. General

UniCredit Bank Hungary Zrt. ("UniCredit" or "Bank") is registered as a joint-stock company under Hungarian law and is licensed to conduct universal banking activities in Hungary. The address of the registered head office is H-1054 Budapest, Szabadság tér 5-6. The Bank is a wholly owned subsidiary of UniCredit S.p.A.

Transactions with members of the UniCredit Group include credit relationships, where the related parties are borrowers, guarantors or depositors. Such transactions are conducted under substantially the same terms and conditions as applied to third parties, unless otherwise stated.

The statutory auditor of UniCredit is Deloitte Auditing and Consulting Ltd ("Deloitte"), the responsible registered auditor is Gábor Molnar (registration number: 007239).

The responsible chief accountant is András Tornay-Csomor, IFRS chartered accountant.

The consolidated financial statements were approved by the Supervisory Board on the 11th of February 2022.

2. Basis of preparation

a.) Statement of compliance

The consolidated financial statements have been prepared with taking advantage of the opportunity provided by the Hungarian Accounting act in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), as adopted by the EU.

b.) Basis of measurement

The consolidated financial statements are presented in Hungarian Forints ("HUF"), the currency of the primary economic environment in which the Group operates ("functional currency"). The accounting records of the Group are also maintained in this currency. Except as indicated, financial information presented in Hungarian Forints has been rounded to the nearest million.

The consolidated financial statements consolidate the accounts of the following entities: UniCredit Bank Hungary Zrt., UniCredit Jelzálogbank Zrt. ("Mortgage Bank"), UniCredit Leasing Hungary Zrt., UniCredit Biztosításközvetítő Kft., UniCredit Operatív Lízing Kft. as subsidiaries and Europa Investment Fund as a special purpose vehicle (together the "Group").

3. Significant accounting policies

The consolidated financial statements have been prepared on a fair value basis for derivative financial instruments, trading financial assets and liabilities and financial assets at fair value through other comprehensive income, except those for which a reliable measurement of fair value is not available. The latter items are stated at either amortised or historical cost. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a.) Consolidation principles

All entities directly or indirectly controlled by the Bank have been consolidated into the consolidated financial statements. These consolidated financial statements are based on the stand-alone reporting packages of the consolidated subsidiaries, which have also been prepared in accordance with IFRS.

Investments in associated companies, which are neither indirectly nor directly controlled by the Bank, but over which it can exercise significant influence, are accounted for using the equity method.

Investments in shares in companies, which are not consolidated are classified as available for sale investments and recognised at their fair values, when that fair value is reliably measurable. Changes in fair values are thus directly recognised in consolidated other comprehensive income.

Notes to the financial statements (Continued)

In cases where the fair value cannot be reliably determined, shares are carried at cost. When there is objective evidence that a financial asset is impaired, a loss is recorded in the consolidated statement of profit or loss. As soon as the circumstances which led to the impairment cease to exist, the recovery in the fair value of the impaired available-for-sale equity security is recognised directly in equity.

b.) Consolidation procedures

When a subsidiary or associated company is acquired, the acquirer determines the related goodwill, which is recognised in the statement of financial position. Subsequently, goodwill is measured at cost less accumulated impairment losses.

Intra-group balances, income and expenses arising from intra-group transactions are eliminated in the consolidated financial statements.

c.) Comparatives

Changes in classification and valuation policy for certain types of subsidised loans, own securities and issued bonds

During the year, the Bank changed its accounting policy for the classification and valuation of certain subsidised retail loans. The transaction interest rate for the loans concerned is determined based on the average government bond yield plus a specified multiplier. According to the Bank's accounting policy, these transactions were previously recorded in the amortised cost category, whereas in the current year they have been reclassified to the fair value through profit or loss category. The change in accounting policy is in line with the classification and valuation practices of several participants in the banking sector. The change will therefore increase transparency and comparability at the level of the banking sector and thereby contribute to a more relevant presentation of the financial position and performance.

In 2021, for own securities and issued bonds, the Bank changed its valuation policy from average cost to FIFO (First In, First Out) inventory valuation principle, as the change between the credit quality at initial recognition and the valuation credit quality at the time of valuation requires the determination of the separate cost gross carrying amount. In this way, the change in accounting policy helps to present the financial position and financial performance more consistently.

The Bank applies the new accounting policies retrospectively as if the changed accounting policies had always been applied in preparing the financial statements. The change did not result in a material difference in the value of loans, securities or equity between the beginning and the end of the comparative period and therefore the Bank's current period financial statements include only end of period and comparative period end figures without any change. Given that the changes in accounting policies also did not cause any material change in the comparative period and in the value of the relevant income statement line items, the income statement for the comparative period is also presented without change.

In accordance with the change in accounting policies, the comparative disclosures in the supplementary notes related to the relevant loans measured at amortised cost, own securities and issued bonds have been amended.

The changes also had an impact on the previously disclosed amortised cost, gross carrying amount, impairment and, in the case of loans, fair value of loans, securities and issued bonds, as well as on the related income statement items, which are summarised in the table below and in the supplementary information. In the comparative information in the supplementary information, the adjustments are marked as 'revised presentation'.

Notes affected by the change in accounting policy:

Number of note	Description of note
7	Net interest income
11	Net gain and loss on non-trading financial assets
20	Loans and advances to customers
30	Issued mortgage bonds and bonds
37	Currency structure of assets and liabilities
38	Residual contractual maturities of financial assets and liabilities
39	Exposure to interest rate risk – non-trading portfolios
42	Fair valuation hierarchy
44	Fair value information
46	Exposure to credit risk

Notes to the financial statements (Continued)

(HUF million)

FINANCIAL STATEMENT LINE ITEM	2021	2020 REVISED PRESENTATION	IMPACT OF CHANGE IN CLASSIFICATION AND VALUATION POLICY FOR LOANS INVOLVED	IMPACT OF CHANGE IN VALUATION POLICY FOR OWN SECURITIES AND ISSUED BONDS	2020 ORIGINALLY DISCLOSED
Loans and advances to customers	1,731,851	1,696,708	(104)	–	1,696,812
Investment securities	879,051	944,892	–	–	944,892
Total Assets	**4,596,614**	**4,076,144**	**(104)**	**–**	**4,076,248**
Issued bonds	183,330	208,748	–	(760)	209,508
Total Liabilities	**4,596,614**	**4,075,488**	**–,**	**(760)**	**4,076,248**
Interest and similar income	113,511	93,580	(279)	68	93,791
Interest expense and similar charges	(34,059)	(24,431)	–,	1,512	(25,943)
Net gain and loss on other financial instruments	(2,631)	191	(1,902)	498	1,595
Operating income	**135,230**	**126,410**	**(2,181)**	**2,078**	**126,513**
Impairment and losses on credit products	(7,781)	(21,253)	2,077	(1)	(23,329)
Net financial activity result	**127,449**	**105,157**	**(104)**	**2,077**	**103,184**
Movement in fair value reserve of financial instruments measured at fair value through other comprehensive income	(1,282)	(14,283)	–	(1,317)	(12,966)
Total comprehensive income for the year	**10,612**	**15,399**	**(104)**	**760**	**14,743**

d.) Cash and cash equivalents

Cash and cash equivalents include nostros with the Central Bank ("MNB") and are carried at cost in the statement of financial position.

The amount of cash in the statement of cash-flows is equal to the cash on hand from statement of financial position item Cash and unrestricted nostros with the Central Bank (see Note 15).

e.) Financial instruments

I.) Classification

Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash-flow characteristics.

The Group has determined the business model on a level that reflects how classes of financial assets are managed to achieve a particular business objective. However, the determination is not dependent on management's intentions for an individual instrument, this condition is therefore not an instrument-by-instrument approach and assessment is made on a higher level of aggregation. However, the Group has more than one business model for managing its financial instruments.

The following business models were identified for IFRS 9 classification and measurement purposes:

- Held to Collect ("HTC"): Financial instrument is held within a business model whose objective is to hold financial assets in order to collect contractual cash-flows and are managed to realise cash-flows by collecting contractual payments over the life of the instrument. There is no need to hold all of those instruments until maturity. Sale is permitted if the Group sells financial assets when there is an increase in the assets' credit risk, because the credit quality of financial assets is relevant to the Group's ability to collect contractual cash-flows. In addition, sales may be consistent with the objective of this business model if the sales are made due to an increase in the credit risk of the concentration or close to the maturity of the financial assets.
- Both Held to Collect and for Sale ("HTCS"): the objective is achieved by both collecting contractual cash-flows and selling financial assets. The objective of the business model beside of the collecting for the contractual cash-flows is to realise profit from the growth of the fair value of the instruments, and to minimise the losses arising from the increase of the fair value changes of the instruments in mid- or long-term. Compared to a HTC business model, this business model will typically involve greater frequency and value of sales.
- Held to Benefit from Changes in Fair Value ("OTHER"): mainly trading securities, with the objective of realising cash-flows through the sale of the assets. This business model is a residual category.

The business model assessment reflects the expectations of the Group, not just its intension but its ability to manage its financial assets. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called

Notes to the financial statements (Continued)

'worst case' or 'stress case' scenarios. Therefore if the Group plans to sell a certain portfolio or financial assets in a 'stress case' scenario, it does not affect the business model assessment, if the Group does not reasonably expect it to occur.

In the assessment of the SPPI criteria's the Group analyses whether the contractual cash-flows of loan commitments and other debt assets contain solely payments of principal and interest, so the principal based on contract and the related interest payments are consistent with the base contract. In the base contracts the time value of money and credit risk are the most important elements of interest.

Accordingly, the three principal classification categories for financial assets are the following:

Financial assets at amortised cost:
The Group measures at amortised cost those financial assets which were classified under HTC business model, furthermore the contractual terms give rise to cash-flows that are solely payment of principal and interest on the principal amount outstanding.
Such assets comprise mainly loans and advances to customers and other banks, furthermore debt securities and accounts receivables.

Financial assets at fair value through other comprehensive income ("FVOCI"):
The Group measures at fair value through other comprehensive income those financial assets which were classified under HTCS business model, furthermore the contractual terms give rise to cash-flows that are solely payment of principal and interest on the principal amount outstanding.

The Group classifies those securities which comply with the above terms, furthermore those equity instruments under IFRS 9 which have been designated irrevocably as FVOCI at transition by the Group. There are such investments in Fundamenta Lakáskassza and Garantiqa. As the reliable measurement of fair value is not available for these investments, the historical cost is the best estimate for fair value.

Financial assets at fair value through profit and loss ("FVTPL")
The Group measures those financial assets under this category which were classified under OTHER business model, or those financial assets which are under HTC or HTCS, however they do not meet the SPPI condition that contractual terms give rise to cash-flows that are solely payment of principal and interest on the principal amount outstanding.
Furthermore the Group measures those equity instruments under IFRS 9 as OTHER category which were not designated by the Group as FVOCI.

Based on OTHER business model the Group principally holds shares, bonds, certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All non-hedge derivatives in a net receivable position (positive fair value), are classified as financial assets, held for trading. All trading derivatives in a net payable position (negative fair value), are classified as financial liabilities, held for trading. The Group decided not to use the possibility of the optional, irrevocable classification of its financial instruments as financial instruments at fair value though profit or loss.

Hedging instruments. These are financial instruments used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

There are certain derivatives that are designated as hedging instruments in cash-flow hedges. They serve as hedges against the variability of cash-flows within the framework of the Group's asset-liability management activities.

Variable-rate interest receivables, payments on variable-rate assets and liabilities are swapped for fixed-rate interest payments, primarily by means of interest rate swaps. Interest rate swaps are also used to hedge the exposure to changes in the fair values of fixed rate securities at fair value through other comprehensive income attributable to changes in market interest rates.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash-flow hedges is recognized in other comprehensive income and accumulated under the heading of cash-flow hedging reserve. The gain or loss related to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income from the period when the cash-flow hedge was effective remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

Notes to the financial statements (Continued)

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss. In a fair value hedge relationship, any adjustment to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. However, if amortizing using a recalculated effective interest rate is not practicable, the adjustment shall be amortized using the straight-line method.

Financial liabilities
The Group measures financial liabilities at amortised cost, except for those financial liabilities which are valued at fair value through profit and loss. The latter comprises financial liabilities held for trading, derivative financial liabilities.

The Group decided not to use the possibility of the optional, irrevocable classification of its financial liabilities as financial liabilities at fair value though profit or loss.

II.) Recognition and de-recognition
The Group recognises financial assets and liabilities on the trade date. A financial asset or financial liability is initially measured at fair value plus (for an item, that is not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

From this date any gains and losses arising from changes in fair value of the assets are recognised either in the statement of profit or loss or in equity in case of assets measured at fair value through profit or loss and other comprehensive income. All loans and receivables are recognised when cash is advanced to the counterparty.

Financial assets are derecognised when the rights to receive cash-flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall determine whether it has retained control of the financial asset. In this case, if the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

III.) Measurement
Initial measurement
Financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue. In most cases the fair value of financial assets agree with the consideration paid.

Subsequent measurement
Subsequent to initial recognition all trading and hedging financial assets and liabilities and all financial assets at fair value through other comprehensive income are measured at fair value, except that, where no quoted market price exists in an active market and fair value cannot be reliably measured, these are carried at amortised cost less impairment (consist of transactional costs).

The financial assets at amortised cost are measured at their amortised cost less accumulated impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and are amortised.

Financial assets, with the exception of loans which are reviewed monthly, are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indicator of increase in credit risk, the asset's recoverable amount is determined.

Fair value measurement principles
The fair value measurement principles, applied by the Group, are described in Note 5.

Gains and losses on subsequent measurement of FVTPL and FVOCI assets
Gains and losses arising from a change in the fair value of trading financial assets and financial liabilities are recognised in the statement of profit or loss. Gains and losses arising from a change in the fair value of financial assets at fair value through other comprehensive income are recognised in the Fair value reserve, except for those designated as hedged items in qualifying fair value hedge relationships, where changes in fair value attributable to the risk being hedged are recognised in statement of profit or loss. Gains and losses arising from a change in the fair value of derivatives, designated as effective hedging instruments in a cash-flow hedge relationship are recognised in the Cash-flow hedge reserve. Any impairment loss on financial assets at fair value through profit and loss is recognised in the statement of profit or loss.

Notes to the financial statements (Continued)

At derecognition the cumulated balance in the revaluation reserve needs to be transferred. In case of debt instruments the transfer needs to happen against the statement of profit or loss, and in case of the equity instruments designated as FVOCI, the cumulated revaluation is transferred to retained earnings.

f.) Transactions in foreign currency

Foreign currency transactions are translated into the functional currency using the daily MNB exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash-flow hedges.

g.) Equity investments

Equity investments that the Group holds for the purpose of short-term profit taking are classified as trading financial assets. Other equity investments are classified as financial assets designated at fair value through profit and loss and at fair value through other comprehensive income. The measurement of these equity investments is stated in Note 3. (c.) except for equity investments in associated companies that are measured based on Note 3. (c.).

h.) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, except for class of properties which are measured at fair value less accumulated depreciation and impairment losses. More information detailed in point 3.(l.).

The property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if necessary.

i.) Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment losses. Intangible assets are reviewed periodically and items which are considered to have no further value are impaired in full. The Group has no intangible assets with an indefinite useful life.

j.) Depreciation and amortisation

Depreciation is charged to write off the cost of all such assets which are to be depreciated to the statement of profit or loss over their anticipated useful lives. All of the below assets are depreciated on a straight line basis (except for Land and assets under construction). The annual rates of depreciation used are as follows:

	Depreciation Rate (%)
Buildings	2 – 6
Property rights	10
Office equipment	14.5 – 33
Hardware	25
Motor vehicles	20
Rental rights	10
Licenses	10
Software	20

k.) Impairment on non-financial assets

If there is objective evidence that a non-financial asset (Property, Plant and Equipment or Intangible asset) has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash-flow expected to originate from the asset. Any value adjustment (if recoverable value is estimated to be less than its carrying value) is recognised in the statement of profit or loss. Items which are considered to have no further value are impaired in full.

If the circumstances for impairment cease to exist, it can be reversed but the increased carrying amount of the asset cannot exceed the net carrying amount it would have had if there had been no impairment losses recognised in prior years.

Notes to the financial statements (Continued)

l.) Investment properties

The Group measures its investment properties at fair value. The fair value of these investment properties is based on a valuation carried out by Grant Thornton Valuation Kft., an independent valuator company, not related to the Group. Valuation professionals have completed the valuation as independent appraisers and possess the necessary qualifications for the valuation of the subject real estate properties.

The fair value was determined in accordance with the requirements set forth by the IFRS 13 "Fair Value Measurement". The valuation premise used to measure the fair value of the income generating properties is the highest and best use. Valuation technics applied are the market sales comparison and/or the income approach to value the real estate properties. The applied technics depends on the type of the property.
The inputs to valuation techniques are of the level 3 in the fair value hierarchy for real estate, therefore sensitivity analyses were performed during the valuation.
The capitalisation rate adopted is made by reference to the yield rates observed by the market players for similar properties or by using the build-up method based on a risk-free return, e.g. the long-term Hungarian Treasury bond, and adding risk premiums related to macro- and microeconomics, the general and specific real estate market, location and actual usage of the properties.
There has been no change to the valuation technique during the year.
In estimating the fair value of the properties, the highest and best use of the properties is their current use.

m.) Loans and advances

Loans and advances originated by the Group are classified as financial assets at amortised cost, or financial assets designated at fair value through profit and loss. Purchased loans are held to maturity based on Group's intention and ability and met SPPI criteria, are also classified as financial assets at amortised cost.

Loans and advances at amortised cost are reported net of impairment for expected credit losses ("ECL") to reflect the estimated recoverable amounts.

The purchased or originated assets become credit-impaired ("POCI") at initial recognition. The initial recognition of POCI assets is the date when the Group has the obligation based on contract terms of financial assets. The POCI assets moved to Stage 3 impairment model at initial recognition. If the credit risk changes favourably then the POCI assets are categorised as Stage 2 however this change does not impact the accounting treatment. The POCI assets cannot be categorised as Stage 1. More information about Stage categories is stated in Note 4.

Income for the period on loans and advances is determined using the effective interest method. The effective interest rate is established individually for all loans and advances. The effective interest rate is the rate by which the estimated future cash outflows or inflows during the expected life of financial instruments can be discounted to the gross book value of financial assets or amortised cost of financial liabilities.

When calculating the effective interest rate, all contracted cash-flows are taken into account including fees, commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included. The result of this calculation is charged to the statement of profit or loss.

n.) Leasing

The Group as lessor

Leases are classified as finance leases, whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant, periodic rate of return on the Group's net investment outstanding in respect of the leases.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well.

The Group as lessee

The Group applies IFRS 16 from 1 January 2019. The Group chose the modified retrospective approach. Applying the modified retrospective approach requires the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied. The application of IFRS 16 is not material from the consolidated financial statements perspective.

At the date of initial application the Group uses practical expedients and does not reassess whether an existing agreement is a lease or contains lease. The Group applied the followings instead:

- The Group applies IFRS 16 to all the contracts, which were identified as lease agreements in accordance with IAS 17 - Leases and IFRIC 4 - Determining Whether an Arrangement Contains a lease.
- The Group does not apply IFRS 16 to the contracts, which were not identified as lease or contracts, which contained a lease.

Notes to the financial statements (Continued)

The lessee can apply a practical expedient, which permits the non-lease components of a contract not to separate from the lease components, but account for the lease and non-lease components as a single lease component. The Group elects to use the practical expedient.
Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Right-use-assets are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

In the cash-flow statement cash-flows from the principal and interest payments of the lease liability are classified as cash-flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities.

The lessee applies IAS 36 – Impairment of Assets standard to determine whether the right-to-use asset is impaired, and to recognise impairment, if it is necessary.

There are practical expedients available to entities applying this approach:
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position.
- Apply a simplified method for contracts mature within 12 months for the date of initial application.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

Recognition of lease liabilities

Following the adoption of IFRS 16, the Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16.

Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:
- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset (such as office equipment, phones and other equipment which are required for Group's operation) other has a low value (less than EUR 5,000 equivalent amount in HUF 1.845 million at year-end MNB rate) and for which agreements it will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

Recognition of right-to-use assets

Right-to-use assets are initially measured at cost.

The cost of a right-of-use asset comprises:
- the initial estimate of lease liabilities,
- any lease payments paid at the commencement date or earlier, less any lease incentives receivable,
- initial costs directly incurred by the lessee as a result of entering into a lease agreement,
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

Notes to the financial statements (Continued)

Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:
- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash-flows,
- determining depreciation rates.

o.) Impairment and losses on credit products

It is the policy of the Group to review periodically its portfolio of loans and advances to make provisions for impairment, where necessary. Impairment is based on an individual assessment of the recoverability of outstanding amounts. Increases and decreases in the provisions for impairments are charged to the statement of profit or loss; in case of assets at fair value through other comprehensive income the changes are reclassified to equity. Further details on loan assessment are provided under the Risk Management Policies.

p.) Deposits from banks and customers

Deposits are cash amounts, accepted by the Group from other banks and its customers, and they serve as funds to the active side of the business. Deposits are initially measured at fair value, and subsequently at their amortised cost. The Group does not classify or designate any deposits as financial liability at fair value through profit and loss.

q.) Issued bonds

UniCredit Jelzálogbank Zrt.'s primary source of funds is generated from the issuance of mortgage bonds. Mortgage bonds are secured bonds. The Mortgage bank may issue such bonds only if it has sufficient collateral, which may include independent mortgage rights and other securities such as government bonds and treasury bills.
Issued bonds are classified as financial liabilities, initially recognised at issue price, plus directly attributable transaction costs and subsequently measured at amortised cost.

r.) Equity elements

I.) Statutory reserves

General reserve

In accordance with Section 83 of Hungarian Act No. CCXXXVII of 2013, a general reserve equal to 10% of the net post tax income is required to be made in the Hungarian statutory accounts. The general reserve is set aside to offset potential future losses according to Hungarian Accounting and Banking Rules. Increases in the general reserve are treated as appropriations from retained earnings and are not charged against income.

Tied-up reserve

This reserve is an appropriation from the retained earnings, for future purchases of tangible or intangible assets, in order to obtain tax benefits. It is released to retained earnings in line with the expenditure for such assets.

II.) Revaluation reserves

Revaluation reserves are part of Shareholder's equity. Under the IFRS principles the revaluation reserves include exclusively the cash-flow hedge reserve and fair value through other comprehensive income reserve less deferred tax as stated in Note 3. (c.) above.

s.) Derivative financial instruments

The Group uses the following derivative financial instruments: futures, interest rate swaps, options, forward rate agreements and spot and forward foreign exchange contracts to manage its exposure to foreign exchange, interest rate and market risks arising from operational, financing and investment activities.

The recognition of income/expenses relating to non-hedge derivative transactions are on a mark-to-market basis, and changes in value are immediately recognised in the statement of profit or loss.

Quantitative information on the hedging derivatives is presented under Note 39.

The Group holds certain embedded derivative instruments. Their recognition and valuation rules are identical with those of the non-embedded derivatives.

Notes to the financial statements (Continued)

t.) Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that incurs because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. The Group normally issues either short-term guarantees, with an initial payment, or long term guarantees, for which it receives regular fee income. Financial guarantees are reviewed monthly, and a provision is created in the amount of any expected payment. These provisions are included within other liabilities.

u.) Income

Net Interest income

Interest income and interest expense for the year are recognised with the application of the effective interest rate method on all instruments measured at amortised cost.

For loans and advances, the effective interest rate is established individually. When calculating the effective interest rate, all contracted cash-flows are taken into account including fees commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included.

Dividend income

Dividend income is recognised in the statement of profit or loss on the date that the Group's right to receive payment has been established.

Net fee and commission income

Net fee and commission income consists of income from services, provided on a fee and commission basis as well as expenses incurred for services provided by third parties and related to the Group's fee-earning business. Net commissions and fees are included in the statement of profit or loss as they are incurred.

Net trading results

Net trading income includes gains and losses arising from disposals and changes in the fair value of trading financial assets and liabilities.

Net gain and loss on other financial instruments

Net gain and loss on other financial instruments is related to non-trading financial assets and equity investments and includes the realized result at derecognition.

Gains and losses on other equity investments

Gains and losses on other equity investments include the net result arising from capital transactions from equity investments related to associated companies.

v.) Taxation

Income tax on the profit or loss for the year consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date. The profit for the year is adjusted according to the relevant tax regulations to calculate the taxable income.

Deferred tax is provided using the balance sheet method, in respect of which temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are recognised in full. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the difference between the carrying amounts of assets and liabilities in the IFRS statement of financial position and in the balance sheet for local tax 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 unused tax losses and credits 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 in the statement of financial position after the analysis, carried out according to IAS 12 “Income taxes”.

w.) Share-based payments

The Group is part of several incentive programmes operated by UniCredit S.p.A, applying the requirements of IFRS 2 “Share-based Payment”.
The Group provides cash-settled share-based payments to certain employees.

Notes to the financial statements (CONTINUED)

The share-based payments are measured at fair value at the grant date and accounted in the statement of profit or loss as Other employee benefits proportionately in the given year.

The share-based payments are not material in Group's accounts.

x.) Events after the reporting date

Events after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. These events fall into two categories: those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

All adjusting events after reporting date have been taken into account in the preparation of the consolidated financial statements of the Group. There were no material events that occurred after the balance sheet date that would impact the Group's consolidated financial statements.

y.) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.
The Group's format for segment reporting is based on business segments and the Group's management and internal reporting structure.

The Group separates the following main business segments:

- CIB (Corporate and Investment Banking)
  Includes the loans, deposits and other transactions and balances with corporate customers (excludes small enterprises) together with the results of trading activities and equity sales activities with customers. Includes the custody service transactions and balance.
- Retail — Includes the loans, deposits and other transactions and balances with retail customers (includes small enterprises).
- Private Banking — Includes the loans, deposits and other transactions and balances with private banking customers.
- Others — Includes Assets Liabilities Management activities that contain the Group's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.
- Leasing — Includes the leasing transactions.

The result of each segment also includes the head office costs (indirect and overhead) allocated on a reasonable basis. The business segment report is presented in Note 45.

aa.)Changes in accounting policies

There was no change in the accounting policies of the Group in 2020.

bb.) New standards and interpretations

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2021.

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),
- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

Notes to the financial statements (Continued)

New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective
- **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 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),
- **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 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.).

Standards and Interpretations 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, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):
- **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 IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current (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 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 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 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),
- **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).

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

4. Risk Management Policies

a.) Risk strategy and risk management policies

The Group elaborated risk strategy, risk management principles and policies in line with prudential requirements. As member of UniCredit group the Bank applied UniCredit group's risk management-principles and implemented into Group's processes. Based on the risk strategy Group elaborates yearly "Risk appetite" documentation for next year in line with UniCredit Group's framework, in which target figures are identified for several risk types. Group elaborated risk management processes (identification, measurements and strict monitoring of risks) based on risk strategy and principles, in order to identify, measure, monitor, manage and mitigate risk.

The most significant business risks to which the Group is exposed are credit risk, liquidity risk, market risk (includes interest rate, credit spread and foreign exchange rate risks) and operational risks.

b.) Credit risk

Credit risk is the risk of financial loss occurring as a result of a default by counterparty in their contractual obligation to the Group. Credit regulations including the approval process, portfolio limit concentration guidelines, approval of discretionary limits, formulation of standards for the measurement of credit exposures and the risk rating of clients based on the assessment of management quality and financial statements, as well as the definition of eligible collaterals and the rules of their valuation are submitted, as well as the definition of eligible collaterals and the rules of their valuation by the Credit Risk Officer and approved in general by the Management Board, in details by the Chief Executive Officer.

Notes to the financial statements (Continued)

c.) Debtor rating

Before establishing of lending relationship Group prepares a debtor rating, while Group knows client (group) credibility in a detailed way. Clients are classified at least yearly based on a rating system, which incorporates qualitative and quantitative factors, watching signs and external ratings. In case of retail clients, the classification is done at the time of loan application and afterwards on a monthly basis based on scorecards.

The Group applies a rating master-scale consisting of 26 notches within 10 rating classes, thereof three notches serve for the defaulted customers, the others for the performing ones. Ratings refer to the probability of default ("PD") according to the master-scale, which is in case of defaulted clients 100%.

d.) Collateral

Principles and methods for the valuation of collateral securing the transactions of the Group involving risk-taking, as well as certain legal stipulations affecting the collateral applied by the Group and the principles for the monitoring of collateral are set out in the collateral valuation rules.

General principle is that the collateral:
- shall be legally binding and recoverable;
- shall be directly accessible and;
- appropriate to be liquidated in time.

The Group accepts and registers in its system the following types of collateral:
- Financial collateral held at own bank;
- Financial collateral held with other institutions;
- Insurance;
- Personal collateral – direct;
- Personal collateral – indirect;
- Real estate collateral;
- Assignment of receivables, pledge on receivables;
- Movable property collateral;
- Other collateral.

According to Hpt. 99§ Group does not accept
- self-issued securities representing membership rights, including shares in cooperatives;
- securities representing membership rights that have been issued by an enterprise with close links to the credit institution, including shares in cooperatives;
- the shares of a limited company that is controlled by an enterprise – holding a qualified majority as defined in the Civil Code – with close links to a credit institution that is subject to supervision on a consolidated basis.

The Group generally does not accept securities issued by client or member of client group as collateral with value.

Collateral has to be connected to deals per contract. As general rule Group connects every collateral to every deals.

Base value for collateral valuation could be:
- market value in case of reliable active market,
- value based on independent appraisal, if there is no reliable active market for this collateral type.

Market value:
In case of real estate market value can be only market value calculated by appraisers accepted by the Group.
In case of other collateral type market value is:
- listed value (vehicles, works of art, ships, aircraft);
- stock market price in case of product listed on stock exchange;
- in case of other products value based on appraisal

The basis for the valuation of collateral is the market value adjusted by the following factors:
- Collateral haircut: a percentage showing the expected loss (in %) of the market value in case of realisation of the collateral. Haircut is separately defined for every collateral type,
- Currency haircut: in case of mismatch between the currency of the loan and that of the collateral, the Group applies currency haircut to take into account currency risk,
- Maturity haircut: maturity mismatch occurs on exceptional basis, if the term of the collateral/collateral agreement is shorter than that of the agreement for the commitment. In such cases a haircut must be applied.

Notes to the financial statements (Continued)

The correlation between collateral value and debtor rating mustn't be high. The correlation is high if it is more than 50%.

The Group is continuously monitoring existence, value and enforceability of collaterals, frequency of monitoring is based on type of the collateral. The value of real estate shall be reviewed regularly, in compliance with the legal provisions: at least once a year for non-residential real estate and once every 3 years for residential real estate. In case of residential real estate the Group applies statistical revaluation.
The price/value of financial collateral is updated daily in the collateral system.
Eligibility of guarantees and surety is subject to proper evaluation of the guarantor according to the respective internal rules.

e.) Loan classification, Impairment

Since 1 January 2018 the loan-loss provision calculation is based on the IFRS 9 standards in case of those financial instruments where credit risk could be occurred.

According to the accounting and the regulatory requirements the provision calculation is based on the expected credit loss approach. At the reporting date the financial instrument should be evaluated with the 12 months expected credit loss if significant increase in the credit risk of the unit cannot be observed since the initial recognition. If the credit risk increases significantly full lifetime expected credit loss recognized in the profit and loss calculation and in case of the purchased or originated credit impaired assets (POCI) as well. Mathematical/Statistical approach defined for the lifetime parameter estimations considering the characteristics of different sub-portfolios and the changes of the observed default rates. In line with the UniCredit Group approach the

lifetime probability of default curves is segmented based on the rating grades – the rating grade profile derived from the internal rating scales used by the UniCredit Hungary. According to the IFRS 9 standards the current and expected macroeconomic trends are taken into account as well, meaning that the first several years of the lifetime PD profiles are adjusted with the forward-looking information. This PIT rescaling factor – delivered by the UniCredit Group – is denoted the forward default rates and utilized to adjust the estimated TTC PD curves in order to reflect the short-term macroeconomic impacts. After the PIT adjustment the so-called punctual PD curves are calculated on transaction level combining with the regulatory/managerial probability of defaults.

According to the IFRS 9 standards the Group monthly evaluates whether the credit risk has significantly increased since the initial recognition or not in case of financial assets where credit risk is relevant. Based on the UniCredit Group Guidelines both quantitative and qualitative triggers could take into account during the valuation. The quantitative approach is based on the comparison of the one-year IFRS 9 probability of defaults related to the origination date and the current one: if the probability of default of the financial asset is higher than the PD threshold – estimated by a statistical model – than significant increase is assessed. The sub-portfolio characteristics are considered as well, when the statistical parameters are estimated. Not only this approach but qualitative information is taken into account as well. According to the UniCredit Group approach and the recommendations of the Central Bank of Hungary the following qualitative triggers are considered:
- 30 days past due
- Restructuring: Restructuring is to be considered distressed (and thus resulting in a default event) in case of restructuring of principal and interest which is necessary because of the client's poor financial situation, and which results in a certain degree of debt forgiveness (that of principal, interests or fees, deferred payments), i. e. if the net present value of the loan is negatively affected by the restructuring, and if without the restructuring the customer would have got defaulted with high probability. Restructuring or re-aging for business considerations (e.g., the adjustment of the repayment schedule to the cash-flow of the client) does not constitute a default signal.
- Clients on watch list. Regulation on monitoring activities cover early warning signals of increase of credit risk published by Central Bank of Hungary.
- Special treatment on performing clients
- According to the recommendation of the Central Bank of Hungary those commitments have to be considered as well where the loan to value (LTV) is higher than 95% and the loan start day is after 1st January 2015.

With the consideration of the significant increase of the credit risk the Group is classifying the performing portfolio to two sub-segments:
- Stage 1 – All financial assets where credit risk is relevant and significant increase of the risk has not been observed since the initial recognition are assigned to the stage 1 portfolio. With respect to the IFRS 9 standards 12 month expected credit loss is calculated in case of the stage 1 portfolio. At the initial recognition except the POCI assets financial instruments are assigned to the stage 1 portfolio.
- Stage 2 – All financial assets where credit risk is relevant and significant increase of the risk has been identified since the initial recognition due to the aforementioned reasons are shifted to the stage 2 portfolio. With respect to the IFRS 9 standards lifetime expected credit loss is calculated in case of the stage 2 portfolio.
- Stage 3 – The non-performing transactions and POCI assets are in the stage 3 portfolio. Similarly to the stage 2 portfolio lifetime expected credit loss is measured. After the recovery POCI assets could be shifted only to the stage 2 portfolio.

Based on the triggers above POCI deal must not be stage 1 deal.

If the origination date and PD cannot be assigned to financial instruments instead of the quantitative trigger the stage allocation is assessed by the investment grade. Qualitative triggers are taken into account as well.

Notes to the financial statements (Continued)

Non-performing exposure:
Non-performing exposures are those that satisfy either or both of the following criteria:
- a) material exposures which are more than 90 days past-due, where:
  - material exposure in case of private and micro clients is higher amount between 100 EUR and 1% of gross exposure, in case of corporate clients is higher amount between 500 EUR and 1% of gross exposure
  - counting of past due days starts when overdue amount reached these limits
- b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due

In the practice of the group non-performing, default and stage 3 definition are the same.

The IFRS 9 loss given default (LGD) parameters are derived from the managerial LGD parameters combined with the following adjustments to suit the IFRS 9 standards:
- Removing the downturn components.
- Removing the indirect costs.
- Removing the margin of conservativism add-ons.
- PIT adjustments have to be considered as well.
- Considering all the available collateral.
- The discounted value based on the effective interest rate (EIR).

With respect to the modelling of the exposure at default (EAD), a differentiation Is made between products with and without contractual cash-flows.

- The EAD for products with contractual cash-flow in based on the managerial EAD parameters with the following adjustment with respect to the IFRS 9 standards:
  - Removing the downturn components.
  - Removing the margin of conservativism.
- The EAD for products without contractual cash-flow is determined by the managerial EAD parameters extended to a multi-year horizon - Lifetime Credit Conversion Factor (LCCF) is calculated.

On the other hand, several factors affecting the cash-flow which ones are taken into account, for example the prepayment risk.
According to the IFRS 9 standards the forward-looking macroeconomic information was considered in the loan-loss provision calculation. Based on projections provided by the group a weighted expected credit loss is calculated in case of the collective impairment where the scenario weights are defined by the UniCredit Group.

f.) Write-off policy

The Group writes-off a loan or security balance (and any related impairment losses balance) when they prove to be uncollectible.

g.) Current tendencies in lending

The industrial sector analysis of loan portfolios are presented in Note 20; collateral details and exposure of credit risk are presented in Note 46.

As for new retail loans, the Group applies selectivity, meaning more focus on products and segments with lower risk profile, also in accordance with Holding Policies and Guidelines, the legal provisions about responsible lending (implemented in 2010) and the legal provisions on debt to income and loan to value ratios (implemented in 2015, modified in 2016 and 2018). Thanks to this the quality of newly disbursed portfolio is very good.

The Group lays strong emphasis on all elements of collection and – in addition to the programs prescribed by law or recommendation (e.g. recommendation of the National Bank of Hungary Nr. ½016 (11 March) for payment of past due mortgage loans restoration) – it continuously offers the possibility of renegotiation to its private individual clients in payment delay due to financial problems (e.g. termination of employment) or unfavourable economic conditions. The Group fulfilled the NBH recommendations 39/2016. (X. 11.), 2/2019 (II.13) recommendations and implemented them in the processes.

In 2017 the Group had a special one-off offer for a segment of impaired retail clients with mortgage loans: after the sale of the collateralized real estate property and payment of the purchase price into the loan the Group waives the remaining debt. In 2018 this option was further developed in order to find a solution acceptable for the Group and the customer as well. The Bank contracted a long-term agreement; according to which the Bank sales some part of the portfolio based on a defined timeline and price.

In 2019, the Bank entered into a multi-year framework agreement for the sale of future non-performing receivables at a pre-determined pace. The sale of the eleventh quarter of receivables is currently in the preparatory phase. Strategic preparations for Forward Flow's second contract are currently underway.

Notes to the financial statements (CONTINUED)

In the corporate segment in 2021 our main aim was to protect the quality of the existing portfolio focusing on the strengthened monitoring of moratoria portfolio. In case of corporate portfolio, the Group's lending policy is differentiated by sectors, and it defines a selective risk approach for new transactions in the most endangered sectors. As for the pandemic situation the industry- based risk approach gained even more importance in 2021, underwriting measures were also defined according to industry sectors. The strengthening of our monitoring activities was also based on the level of COVID-impact in the respective industry sector. In our financing activities we highly used the forward-looking approach, putting high emphasise on the analysis of the liquidity situation of our borrowers. In our financial analysis' we strived for the understanding of the impacts of the pandemic based on which we could offer proactively different crisis products - including the involvement of crisis-guarantees -, to avoid the financial difficulties of our clients. The basis of the selection in new loan origination was also the crisis-resistance of the industry sectors. Beside the strengthened monitoring activity, we prepared targeted portfolio analysis' in order to identify problematic clients and to proceed with the proper stage-classifications. In case of the analysis of moratoria portfolio we aimed to discover the potential financial difficulties in due time being prepared for the after moratoria period.

h.) Liquidity risk

Liquidity risk arises if the bank is unable to meet due obligations associated with its financial liabilities in time in any currency.

The objective of prudential liquidity management is to ensure that the Group has the ability to generate sufficient funds to meet all cash-flow obligations as these fall due. Effective liquidity management is gaining importance in recent years ensuring market confidence and protect the capital base while permitting effective growth. UniCredit Group operates internal short term and structural liquidity models in line with regulatory authorities' expectations. The Group takes into account also the local legal requirements of foreign funding adequacy and mortgage funding adequacy ratio limitations and monitors the Basel III liquidity ratios besides its own internal regulations in managing liquidity.

Limits regarding the maximum net outflow of funds in a particular period (typically short-term) and in a particular currency and all currencies are in place and are monitored daily. Long-term funding plan and structural liquidity is approved and monitored by the Banks' Financial Risk Committee ("FRC").

In line with UniCredit Group-wide standards, the Group deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and medium-term liquidity requirements. In this context the liquidity situation for the next few days and also for longer periods is analysed against a standard scenario and against scenarios of several general and bank-specific liquidity crisis. The degree of liquidity of customer positions and proprietary positions is analysed on an ongoing basis. Procedures, responsibilities and reporting lines in this area have been laid down in the liquidity policy, which includes a contingency plan in the event of a liquidity crisis.

Short-term and structural liquidity limits of the Group were observed continuously in 2021. The degree to which accumulated liquidity outflows are covered by accumulated

inflows within the following month and year are determined on an ongoing basis. It was used as a key figure in managing the Group's liquidity and funding. Beyond the limits on ratios, absolute gap limits are in place to decrease central funding and liquidity dependency.

The liquidity structure of statement of financial positions for 2020 and 2021 are represented in Note 38 and the maturity analyses of derivative financial instruments are represented in Notes 40 and 41.

i.) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the fair value of its holdings of financial instruments.

Market risk management encompasses all activities in connection with Group's Markets/Treasury and Asset Liability Management ("ALM") operations and management of the balance sheet structure. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the FRC designated by the Management Board. At the Group market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily reporting of results to the related departments.

The Group uses the risk management procedures of UniCredit Group's internal standards. These procedures provide aggregate data and make available the major risk parameters for the various trading operations daily. Besides Value at Risk ("VaR"), other factors of equal importance are stress-oriented volume and position limits. Additional elements of the limit system are loss-warning level limits and options-related limits applied to trading and positioning in non-linear products.

Internal risk model is used for computing economic capital, but the Pillar 1 capital requirement is calculated by the regulatory standard method. The economic capital model comprises all relevant risk categories. The VaR position of the Group is presented in Note 48.

Notes to the financial statements (Continued)

Regular and specific stress scenario calculations complement the information provided to FRC and the Management Board. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The Group analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the Group's results.

In addition to the risk model results, income data from market risk activities are also calculated and communicated on a daily basis. Such data are compared with current budget figures. Reporting includes marking to market of all investment positions regardless of their treatment/classification in the IFRS-based financial statements ("total return"). The results are reported directly to the Hungarian Group's trading and risk management units, and also via web application consolidated on UniCredit group level.

The Group reviews comprehensively and systematically the market conformity of its transactions.

The daily reporting also includes details of volume-oriented sensitivities which are compared with the respective limits. The most important detailed presentations include basis point values (interest rate/spread changes of 0.01%) by re-pricing band, FX sensitivities and sensitivities in equities and emerging-market/high-yield positions (by issue, issuer and market) by delta equivalents. Risk management is performed with details varying according to the risk-takers.

In the interest rate risks, for example, basis point limits per currency and re-pricing band, basis point totals per currency and/or per re-pricing segment (total of absolute Basis Point Values - BPV) are used for risk management. By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by issue and re-pricing band. The BPV and credit spread points analysis are presented in Note 47. The interest rate re-pricing analysis is presented in Note 39.

j.) Asset Liability Management

Interest rate risk and liquidity risk from customer transactions is attributed to Group's treasury operations throughout the UniCredit Group. This makes it possible to attribute credit, market and liquidity risk and contribution margins to the bank's business divisions in line with the principle of causation.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of investment period and interest rate sensitivity by means of analyses of historical time series and taken into account in the Group's overall risk position.

Interest rate sensitivities are determined and taken into account in hedging activities, which results in a positive contribution to profits from customer business.

k.) Foreign exchange rate risk

The Group has assets and liabilities (on and off-balance sheet) denominated in several foreign currencies, and it is therefore exposed to foreign exchange rate risk. Foreign exchange rate risk arises when a mismatch occurs in the spot and forward asset/liability structure within a currency.

The statement of foreign exchange exposures (currency structure of assets and liabilities) is presented in Note 37.

l.) Compliance with CRD IV/CRR (Basel III)

The successful implementation of CRDIV/CRR from 2014 was managed as a group issue and is covered mainly with group-wide solutions.

The Group started with standardised approach of the Basel II in 2008 and received the licence to apply foundation internal based approach (F-IRB) from 1st July 2011 for the large corporate, mid-corporate, and bank portfolio.

- The IRB roll-out is being carried out locally. Model development is carried out partially centrally and partially locally.
- The decentralized approach means that the development of models complying with the requirements of A-IRB is done locally by the Group with the support of UniCredit Italiano S.p.a., they give support during the implementation by providing guidelines and standards and in terms of coaching and advice.

The Group is responsible for the use and development of methods and local models, and the compliance to local regulatory requirements, while for UniCredit Group wide models it is the task of UniCredit Group.
The approval of the developed models and methods under IRB have to be confirmed (by a non-binding opinion), and the processes and data quality has to be validated by unit independent from the business and are audited by Internal Audit as well.

Notes to the financial statements (Continued)

m.) Operational risk

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems, or caused by external events.

Operational risk events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients, products and business practices, fines due to regulation breaches, damage to physical assets, business disruption and system failures, human mistake due to execution, delivery and process management.

Strategic risk, and reputational risk are different from operational risk, whereas legal, conduct, and compliance risk are included in the operational risk definition.

UniCredit Bank Hungary is permitted and has used the Advanced Measurement Approach ("AMA") since 1st July 2009, complying with all quantitative and qualitative requirements set by laws and regulations, the supervisor or even by internal Group rules.

The Group's Management Board is responsible for the effective oversight over operational risk exposure. The operational risk office (i.e. Operational and Reputational Risk Management) notifies the Management Board (partly via the Non-Financial Risks & Controls Committee, a.k.a. NFRCC) about considerable operational risks, their changes as well as relevant breaches to policies and limits. The Management Board shall have an overall understanding of the operational risk control framework and of how operational risk affects the Group.

The Group's Management Board ensures that:

- the operational risk control process is sound and fully communicated and implemented in specific policies process and procedures within the business units taking into account the appropriateness and effectiveness;
- operational risk managers in the business lines are appointed, coming in for adequate support in order to perform their duties;
- the relevant committees are informed on changes in risk profiles and exposure, supported by the Operational and Reputational Risk Management;
- major operational risk drivers are identified, also examining reports from the Operational and Reputational Risk Management unit, Compliance and Internal Audit.

The Group's Management Board is responsible for approving all the material aspects of the operational risk framework, including the appointment of the office responsible for its implementation and control.

In the Group, the Non-Financial Risks & Controls Committee and Permanent Workgroup shall act as a decision-making body for issues arising from and connected with operational and reputational risks.

The affected Committees have own deed of foundations which include roles, responsibilities, activities, members and decision-making process.

Detection, monitoring, and mitigation of operational risk, and set up of action plans are supported by the Permanent Workgroup having its sessions quarterly, as well.

Internal Audit is responsible for evaluating periodically (annually) the operational risk management system and measurement functionality and effectiveness, as well as its compliance with the regulatory requirements. Internal Audit monitors also the process of data collection and data management.
The centralized Operational and Reputational Risk Management unit has to operate the framework and to coordinate the decentralized activity of operational risk management, carried out by the nominated (divisional and administrative) operational risk managers in each business unit.

Operational and Reputational Risk Management annually prepares a self-assessment on the compliance of the local operational risk management, control and measurement system with the UniCredit Group standards and internal rules. UniCredit Group Internal Validation unit gives a non-binding opinion on the self-assessment, and local Internal Audit checks it, as well. At last, it has to be approved by the Management Board of the Group.

5. Use of estimates and judgements

These disclosures supplement the commentary on risk management policy.

a.) Impairment for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 3.(j.), (k.) and risk management policy 4.(e).

Notes to the financial statements (Continued)

b.) Determining fair value

As far as valuation prices and techniques of financial instruments are concerned, the Group follows a measurement using a three-level fair valuation hierarchy, which reflects the significance of the inputs used in measuring fair values and contains the following three levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices observed in non-active markets) or indirectly (i.e. derived from prices observed for similar assets or liabilities);
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of financial instruments is described in Note 41.

Fair Valuation is supplemented by a Fair Valuation Reserve that inter alia covers the effect of widened bid-ask spreads and the deteriorated liquidity of respective securities.

The fair value valuation techniques for loans and deposits are described in Note 42.

In accordance with IFRS requirements the Group books CVA (Credit Valuation Adjustment) as an adjustment to the fair value of its OTC derivative trades. The CVA calculation is performed centrally by UniCredit group.

c.) Fair value measurement principles

The fair value of financial instruments is based on their quoted price in an active market for that instrument at the reporting date without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available or the market is not active, the fair value of the instrument is estimated using pricing models or discounted cash-flow techniques.

Where discounted cash-flow techniques are used, the estimated future cash-flows are based on best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at reporting date.

The fair value of derivatives that are not exchange-traded are estimated at the amount that the Group would receive upon normal business conditions to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

In case of debt securities classified as debt instruments at fair value through other comprehensive income the losses deriving from the movements of market prices were realised in the HTCS Reserves in the Equity statement.

The Group applies fair value adjustments which arise from close out costs and less liquid positions. Trading assets and assets at fair value through other comprehensive income are adjusted by fair value adjustments figures.

The Group applies the fair values calculated by the central system (Fair Value Engine) in case of the performing and non-performing loans which are failed the SPPI test, while in case of the performing and non-performing loans which are passed the SPPI test the carrying amount considered as fair value.

The Group was not engaged in securitization, nor does it possess credit derivatives or structured OTC products (e.g. CDOs, SIV).

The fair values for loans and deposits are shown at an aggregated product level and are not available on individual item level.

d.) Effects of sovereign debt crisis and earlier credit crunch in valuations

a) In case of debt securities classified as debt instruments at fair value through other comprehensive income the losses deriving from the movements of market prices were realised in the AFS Reserves in the Equity statement.
b) The Group was not engaged in securitization, nor does it possess credit derivatives or structured OTC products (e.g. CDOs, SIV).
c) The Group is exposed towards the Hungarian Government, the vast majority of those exposures are liquid government bonds, and are key to operational liquidity.

e.) Impact of IBOR reform

The interest rates of Group's instruments are linked to interbank rates that have not been affected by the IBOR reform, so the reform has no material impact on the institution.

6. Impact of COVID-19 pandemic on the financial statement

2021 was a year that was still significantly affected by the pandemic caused by the novel coronavirus which started in 2020. Following country-specific guidelines on vaccination, the vaccination of the population of most countries got underway over the course of 2021 with the help of vaccines developed and made available for use at the end of 2020. A significant portion of the population of developed countries has already successfully been vaccinated with either one or two doses. Particularly, more than 60 per cent of the population of Hungary (approximately 6 million individuals) have acquired immunity provided by vaccines by the end of the year 2021. The availability of vaccines made it possible to partly or entirely lift restrictions that were previously imposed in order to slow the spread of the coronavirus and economic activity started to return to pre-pandemic levels.

The Hungarian Government maintained most of its regulations with the aim of protecting the economy throughout 2021. It also announced new measures in order to provide additional tools to counter the economic effect of the pandemic. The most relevant of these measures from the Bank's perspective were the extension of the payment moratoria on loans; the recalculation of interest with regard to credit card and overdraft facilities under the payment moratoria using a benchmark interest rate for personal loans; and the introduction of a temporary interest rate cap for specific floating-rate mortgage loans having their interest tied to a reference rate.

Payment moratoria on loans

The payment moratoria on loans announced by the Hungarian Government in Government Decree 47/2020. (III.18.) and further regulated by Government Decree 62/2020. (III.24.) (referred to as „moratoria 1", „Moratorium 1") was a targeted measure that had the greatest direct impact on the Hungarian banking sector. Based on the above mentioned two decrees, Moratoria 1 had the following important features:

- Moratoria 1 is effective from 18 March 2020.
- All loan exposures that were already drawn down by 18 March 2020 (including) are eligible for Moratoria 1. Moratoria 1 is automatically granted for such exposures.
- The borrower is granted a payment moratoria on their principal, interest and fee liabilities that would have been due based on the borrowing agreement.
- The payment moratoria expires on 31 December 2020, but may be extended by further government decrees at a later date.
- The borrower may decide at any time while Moratoria 1 is in effect that they would like to exercise their contractual right to continue repaying their obligations as prescribed by the original repayment schedule (opt-out).
- The maturity of the loan is extended by the time spent in the payment moratoria.
- The principal outstanding of the loan must not be increased by the amount of interest not paid due to the payment moratoria. This effectively precludes capitalising unpaid interest on the loan.
- Interest accumulated during the time spent in the payment moratoria should be repaid after the expiry of the payment moratoria in equal instalments over the remaining maturity of the exposure in a way that the new regular repayment amount (which includes principal and interest on the original exposure + the interest accumulated during the payment moratoria) should not exceed the regular repayment amount that would be effective had the payment moratoria not been in place.
- The modification of the terms of the borrowing agreement induced by the Moratoria 1 decree does not have to be notarized.
- Borrowers may reapply to make use of the payment moratoria at any time as long as they are eligible and Moratoria 1 is in effect.

Pursuant to the decree, the Bank made the necessary changes in the core banking systems for all eligible loans. The collection of repayments was therefore suspended. However, interest calculation on the loans was still in place. In accordance with the decree, such calculated interest did not become part of the outstanding principal amount, but rather continues to be collected on separate interest receivable accounts and presented in the Bank's reports as interest receivable. As a result, net interest income reported in the statement of profit or loss includes the interest receivable but unsettled on exposures to borrowers who have made use of the payment moratoria in the financial year 2021. In the statement of financial position, this interest receivable is included in the gross carrying amount of loans and advances to customers.

The Bank monitored the behaviour of borrowers and took into account their oral or written statements since the decree became effective. In case the Bank concluded, either based on oral or written statement by the borrower or based on suggestive behaviour of the borrower, that they intended to continue to repay their obligations according to the original repayment schedule, the Bank performed the required change in the banking systems to reset the repayment schedule of the loan to the original one and recorded that the borrower has opted out of the payment moratoria. Opt-out from the payment moratoria may have been performed either prospectively or retrospectively. If opt-out was performed retrospectively, then the opt-out did not give rise to any accumulated but unpaid interest due to the payment moratoria. Accumulated interest on exposures that have opted out was recorded and presented in the same way as interest calculated on exposures that continue to make use of the moratoria. In case of prepayments, the borrower pays first the interest accumulated during the moratoria. Only the amount that remains after deducting this accumulated interest amount from the prepaid amount is used to decrease the original outstanding principal and interest balance of the exposure.

The payment moratoria was extended by the Hungarian Government until 30 June 2021 limited to selected groups of people and enterprises by Law CVII of 2020.

Notes to the financial statements (CONTINUED)

Later in the year, the government amended Law CVII by Government Decree 637/2020. (XII.22.) on 22 December 2020. The decree suspended the application of certain sections of the law and temporarily changed the definition of some terms until 30 June 2021.

Together, Law CVII of 2020 and its amendment by Government Decree 637/2020 effectively brought about the unconditional extension of the payment moratoria of Moratoria 1 until 30 June 2021 (i.e. no limitation was place of the group of eligible borrowers). The only difference to note is that participation in the extended moratoria is not automatic in the sense that a borrower who has opted out by 31 December 2020 is not automatically placed under the moratoria from 1 January 2021 (referred to as „moratoria 2", „Moratoria 2")., but rather has to apply again to the lender to make use of it.

The payment moratoria was extended during 2021 by the Government on multiple occasions resulting in a general extension until the end of 31 October 2021. Moreover, the payment moratoria was further modified by Government Decrees 536/2021 (IX.15.) and 537/2021 (IX.15.) on 15 September 2021. The modification had the following main characteristics:
- The payment moratoria on loans was extended until 30 June 2022 (referred to as „moratoria 3", „Moratoria 3") for the selected groups of individuals and enterprises specified in Law CVII of 2020. The main difference of Moratoria 3 compared to the previously enacted moratoria is that Moratoria 3 is not automatically granted to eligible exposures. Rather, it is only available for borrowers that submit their application to the Bank by the deadline specified in the decree.
- The payment moratoria expires by 31 October 2021 for all borrowers with the exception of the selected groups of individuals and enterprises specified in Law CVII of 2020.
- With regard to exposures from credit card and overdraft facilities under the payment moratoria, Government Decree 537/2021 establishes a special obligation for lenders to recalculate the interest amount. As per the decree, lenders are obliged to recalculate the interest receivable amount on the affected exposures using the specified benchmark interest rate by the given deadline. Lenders should credit of the difference between the original and the recalculated interest amount to borrowers or should decrease the unpaid interest receivable amount by the same difference if the interest rate that was used by the lender to originally calculate the interest on the exposure exceeds the benchmark rate specified in the decree.

The Bank followed similar procedures in updating the records in case of Moratoria 2 and Moratoria 3 as the ones detailed in case of Moratoria 1 with the following distinguishing characteristics:
- The repayment schedule of the exposures of borrowers not eligible for Moratoria 3 and of borrowers eligible for Moratoria 3 but not making use of it due to the lapse of the application deadline has been recalculated in line with the requirements of the relevant laws and decrees. As a result, the average tenor of the affected exposures increased by several months. Additionally, payment dates and amounts related to the repayment of the interest accumulated, but not paid during the period spent under the payment moratoria were included in the repayment schedules. This latter element is the so-called "spreading of interest".
- The Bank carried out the recalculation of the interest amount related to credit card and overdraft facilities and performed the correction of the exposures with regard to the period until the deadline specified in the decree. The Bank also set the interest rate of the affected exposures prospectively to the benchmark rate.
- Automatic opt-in and opt-out to the payment moratoria was suspended from November 2021 in line with the requirements of the decree.

Impact of COVID-19 pandemic on the statement of financial position
In the following sections, the impact of the COVID-19 pandemic on certain items in the statement of financial positions is presented. In case of items not presented or referred to in this section, the Bank deems the effect of the COVID-19 pandemic to be immaterial.

a) Loans and advances to customers

With regard to loans and advances to customers, the Bank made available the payment moratoria introduced by the Hungarian Government to all its eligible borrowers. The Bank's proposed terms in connection with the repayment of the accumulated interest after the expiry of the moratoria are more permissive than the terms described in the moratoria law and decree.

The Bank did not introduce any further specifically targeted measures on top of the payment moratoria enacted by the Government as the Bank deemed the payment moratoria sufficiently comprehensive and effective. Nevertheless, the Bank continues to monitor the financial conditions of its borrowers within the course of its standard monitoring activity and continues to respond to possible repayment difficulties within the framework of its standard procedures.

The Bank treats the modifications of the borrowing agreements of exposures disbursed by 18 March 2020 pursuant to Moratoria 1. 2 and 3 as contract modification that do not result in derecognition of the financial instruments according to the IFRS 9 standard.

As per IFRS9, the modification loss on financial instruments where the modification of the contractual terms of the instrument does not result in derecognition of the financial instrument should be presented in its entirety in the same period when the modification of the financial instrument happened.

Notes to the financial statements (Continued)

The modification loss will be recovered during the remaining lifetime of the affected loans via increased interest income calculated in the loans according to the effective interest rate method. The Bank did not calculate the modification loss to be presented in the financial statement for the year ended 31 December 2020 using the final, post-moratoria cash-flow because these depended on parameters that could not be determined until the approval of the financial statement. Such parameters are the total amount of the interest accumulated on the loans, which is in turn directly dependent on changes in the interest rate environment up until the expiry of the moratoria and the time that an exposure actually spends in the moratoria. Another driver of the modification loss whose value could not be determined at the time of the preparation of the financial statement for the previous year was the additional required maturity extension for each loan that is required in order to comply with the requirement on the amount of regular repayments after the expiry of the moratoria (the requirement was introduced in Moratoria 1 but continues to apply to Moratoria 2 and 3). Section (3) of paragraph 2 of Government decree 62/2020. requires that after the expiry of the payment moratoria, the maturity of the loan should be further extended in a way that the regular repayment amounts after the payment moratoria (which consist of principal and interest repayments on the principal outstanding plus the accumulated interest) must not exceed the regular repayment amounts that would be effective if the moratoria has not taken place.

Based on the above, the modification loss presented in the Bank's financial statements for the year ended 31 December 2020 and for the year ended 31 December 2021 has been determined using a model which involves significant estimates. The model was developed with the aim of determining the variables that influence the amount of the modification loss. The main assumptions and characteristics of the model are as follows:

- The modeling methodology is revised on a monthly basis as new information becomes available. The model always uses the most up-to-date information available for the Bank with regard to the moratoria status of exposures among others.
- The model calculates the interest amount that will be theoretically accumulated until the expiry of the moratorium on all eligible exposures based on the following factors: principal outstanding; current interest rate and expected interest rate during the remaining duration of the moratoria; time remaining until the expiry of the moratoria.
- The model assigns a probability value expressed in percentages to each exposure based on its current status (whether it is under moratoria, or in opt-out status). This probability value encapsulates how much of the theoretical accumulated interest will an exposure most likely accumulate until the expiry of the moratorium. The probability value is determined based on experience gathered during the moratorium regarding the behaviour of borrowers and the frequency of changes in their moratoria status.
- The „practical" accumulated interest amount is determined on an exposure-by-exposure level as a product of the theoretical accumulated interest and the probability value assigned to the exposure.
- The Bank ran simulations to determine the extra maturity extension that is required to meet the moratoria decree's requirement on the post-moratoria regular repayment amounts. The Bank asserts that the required extra maturity extension is a function of the remaining lifetime of the loan, the contractual interest rate and the ratio of the accumulated interest and the outstanding principal. The output of the simulation is a parameter table matching the possible values of these factors to the extra maturity extension.
- The expected modification loss on the individual exposure level is calculated as the difference between the nominal value of the accumulated interest and the present value of a theoretical cash-flow consisting of equal amounts until the end of the extended maturity of the exposure. Simply postponing all cash-flows by the time spent in the payment moratoria does not in itself give rise to a decrease in the present value of the cash-flows because interest can still be calculated and accrued on the exposure. This accumulated interest compensates for the loss that would be realized if the payment moratoria did not have this feature. A net present value loss is instead caused by the fact that the accumulated interest of the exposure does not become due in whole at the expiry of the payment moratoria but is rather repaid in instalments.

The modification loss calculated using the model is incorporated into the statement of financial position as a reduction to the carrying amount of loans and advances to customers. In the statement of profit or loss, the same amount is presented as modification loss as part of loan loss provisions. The calculated modification loss is not accrued and amortized over accounting periods as this is not permissible under IFRS 9. The modification loss is recovered during the remaining lifetime of the loans in net interest income as a permanent increase in the interest revenue calculated based on the effective interest rate method.

The modification loss recognized in the financial statement involves uncertainty and significant judgement by management in the form of the probability values assigned to each loan. It is therefore possible that the actual amount that will be realized when the final post-moratoria repayment schedules become available is different from the loss recognized now.

The Bank took a conservative approach to determining the assigned probabilities. They were determined by relying on experience on behavioural patterns of borrowers gathered since the moratorium became effective on 18 March 2020 as well as by taking into account the fact that the continued existence of restrictive measures on economic activity may induce a negative change in the payment propensity of borrowers which would translate to a higher uptake of the payment moratorium.

The Bank does not have extensive experience about comprehensive payment moratoria from the period before the current payment moratoria. This means that the ability of the model used to estimate the modification loss to predict the true impact is limited and should be considered as such. Nevertheless, the assumptions built into the model represent that best estimate of the Bank's management.

In 2021, the Bank incorporated the extension of the payment moratoria into the model. The extension of the payment moratoria caused an increase in the modification loss calculated by the model. On the other hand, the gradual opt-out of borrowers from the payment moratoria decreased the modification loss calculated by the model at the same time. Due to the fact that Moratoria 1, 2 and 3 created a practically

Notes to the financial statements (Continued)

uninterrupted, continuous period of payment moratoria, the Bank is not able to determine the individual effect of each Moratoria on the modification loss. This is supported by the fact that the final post-moratoria repayment schedules, which would be the basis for the calculation of the modification loss, only become available when the borrowers irrevocably opts out of the payment moratoria with regard to a given exposure or when the payment moratoria expires by law for that borrower.

The modification loss presented in the statement of profit and loss for 2021 therefore includes the change in the estimation of the modification loss calculated by the model for the portfolio of loans that participate in Moratoria 3 until its expiry. Moreover, with regard to the portfolio of loans for which the payment moratoria expired on 31 October 2021 and which were eligible but did not apply for Moratoria 3, the modification loss for 2021 also includes the difference (i.e. estimation inaccuracy) between the modification loss calculated by the model and the actual modification loss calculated using the final post-moratorium repayment schedules.

The Bank considers the modification loss arising on credit card and overdraft facilities to be immaterial.

Pursuant to the recalculation obligation for credit card and overdraft facilities, the Bank presented the calculated difference related to interest receivable until 31 October 2021 as a provision for expected losses. The difference related to interest receivable from 1 November 2021 was treated as a reduction of interest income. Amounts related to interest receivable, but not yet settled by borrowers are presented as a decrease of loans and advances to customers in the statement of financial position. Amounts related to interest already settled by borrowers have been credited to the borrowers' accounts.

The Hungarian Government issued Government Decree 782/2021 (XII.24.) on 24 December 2021. The decree calls for the modified application with regard to the pandemic emergency state of Law CLXII of 2009 on loans to customers. As per the decree, the procedure for setting the reference interest rate[1] as per Section (1) paragraph 17/D of Law CLXII of 2009 for floating-rate loans whose interest rate is tied to a reference rate is temporarily modified according to the following set of rules.

The reference rate of the loan should be set in the period between 1 January 2022 and 30 June 2022 in a way that the reference rate of the loan following

- the rate setting date before and/or
- the rate setting date after

the effective date of the decree (1 January 2022) may not exceed the value of the reference rate as per the contract valid on 27 October 2021. Practically, this means that the decree sets a cap on the reference rate of floating rate contracts in a way that the reference rate throughout the period between 1 January 2022 and 30 June 2022 may not exceed the market reference rate valid on 27 October 2021.

In an environment of rising reference rates, the practical consequence of the decree is that if the reference rate of a loan is supposed to change contractually after 27 October 2021, then the reference rate of the loan for the period between 1 January 2022 and 30 June 2022 will be set to the value of the reference rate valid on 27 October 2021. If the reference rate was supposed to change contractually before 27 October 2021 and the next change is supposed to take place after 1 January 2022, then the reference rate of the contract for the period until first rate setting date after 1 January 2022 will be calculated in line with Section (1) paragraph 17/D of Law CLXII of 2009.

The Bank considers the decrease of the reference rate of the affected contracts as a change to the interest cash-flows of the contract and consequently as a modification of the contractual cash-flows of the contract under IFRS 9. The change in the present value of the contractual cash-flows is driven by the difference between the reference rate valid on 27 October 2021 and the reference rate that would have been set for the loan based on Section (1) paragraph 17/D of Law CLXII of 2009. The Bank determines the estimated net present value of the modified contractual cash-flows for the affected loan portfolio. The Bank presents the difference between the net present value of the original and the modified cash-flows as modification loss in the statement of profit and loss for the year 2021. This presentation is supported by the understanding that the modifications of the contractual cash-flows relate to the year 2021 regardless of the starting date of the interest rate cap as the impact on the cash-flows can be estimated by the end of 2021

b) Impairment of financial instruments

Please refer to section „Risk Management policies" for a detailed summary on the impact of the COVID-19 pandemic on the ECL model used for determining provisions for financial instruments under IFRS 9.

c) Fair valuation

Please refer to section „Use of estimates and judgements" for further information on the impact of the COVID-19 pandemic on fair valuation.

[1] *The reference rate is set to the value of the rate valid at the second working day preceding the last working day of the month prior to the month of the rate setting date.*

Notes to the financial statements (Continued)

d) Other assets

Other assets in the statement of financial position mainly comprise trade receivables, advances, receivables from government subsidies and current and deferred tax receivables. No information came to the attention of the Bank until the approval of the financial statement that would indicate a decrease in the recoverable amount of trade receivables due to the COVID-19 pandemic. Customer's propensity to settle trade receivables has no deteriorated significantly compared to the previous year. Neither has there been an increase in the amount of trade receivables with a past due status. The counterparty of current tax receivables and receivables from government subsidies is the state and its institutions. With regard to these receivables, the determining factor is the credit rating of Hungary which has not deteriorated significantly due to the COVID-19 pandemic. As for deferred tax receivables, the Bank considered the availability of future taxable profits against which temporary differences can be claimed as per IAS 12 and noted no circumstances that would indicate that such future taxable profits will not be available. Consequently, the Bank continues to recognize deferred tax assets in the statement of financial position.

e) Impairment of non-financial assets

The Bank considered the effect of the COVID-19 pandemic on the fair value and the value in use (the net present value of cash-flows expected to be received from the use of an asset) of non-financial assets during the impairment review detailed in Section 3/k. Based on the review, the impact on the value in use of non-financial assets is not material therefore no specific impairment needs to be recognized because of the pandemic.

f) IFRS16 Right-of-use assets

In accordance with European Commission Regulation 2020/1434, paragraph 46A is added to IFRS 16, which states that a lessee may choose not to measure rent fee reductions due to COVID19 as to whether they constitute a lease modification.

The UniCredit Group does not make use of this option, it treats all relief as a lease change during the period, regardless of whether it is caused by the viral situation or the general course of business.

g) Hedging derivatives

The payment moratorium has no significant impact on hedging relationships, because the moratorium induced an increase in the maturity of the respective loans. Simultaneously, the maturity of the instruments that the Bank has brought into fair value or cash-flow hedging derivatives also increased. Overall, this did not impact the efficiency of the hedging relationship, because it resulted in an increase (longer) in hedged (hedgeable) positions.

h) Dividend

The settlement of the dividend payable to the parent company UniCredit SpA with regard to the net result for the financial year ended 31 December 2019 was postponed due to the coronavirus pandemic, and according to the instructions of Hungarian National Bank, in order to help preserve the liquidity position of the Bank.

Conforming to the requirement communicated to banks via a circular by the Hungarian National Bank, the Bank decided to postpone, in agreement with the recipient, the payment of dividends relating to FY2019 after 30 September 2021. The dividend was settled on 9 December 2021. The parent company did not declare a dividend payment relating to the FY2020 result of the Bank.

i) Investments

The Bank considered the impact of the COVID-19 pandemic on the valuation of its investments. With regard to trading financial instruments measured at fair value through profit or loss, section c) „Fair valuation" applies. Investments in related entities continue to be measured at cost. It is not required to recognized impairment in relation to investments in related entities as their equity exceeds the cost of the investments.

j) Tangible assets

As regards tangible assets, the Group is exposed to the negative economic impact of the COVID-19 pandemic via its special purpose vehicle, Europa Investment Fund.

The Fund considered the impact of the COVID-19 pandemic and identified the following main risk factors: operational risk, negative impact on profitability and liquidity difficulties.

Operational risks that hinder the daily operation and the management of the assets of the Fund and disrupt the maintenance of the infrastructure have been appropriately and effectively addressed by measures agreed and implemented by Fund Manager. Extended work from home options were made available to maximize the number of employees working remotely. Personal protective equipment has been procured in order to make

Notes to the financial statements (Continued)

it possible to work safely on site at the office. The Fund Manager can ensure that operation is not disrupted even if available resources suffer a drastic temporary reduction compared to normal levels.

The profitability of the Fund is chiefly determined by the profitability of the assets it owns. The Fund experienced the greatest negative impact in case of the Vértes Center mall as the pandemic directly affected the retail sector. Due to missed settlement of rental fees in the covid period, the impairment recognized for trade receivables remained increased in the year ended 31 December 2021. The Fund considers this increase only temporary as payment morale has improved thanks to one-off reliefs made available to tenants (a rent-free period of two months in most cases) without deferring to the collateral system previously in place. Future government measures may impact the profitability of the Fund, but these are not yet known. The fair value of real estate held by the Fund has not moved significantly in light of the events of 2021. The impact in 2022 cannot be predicted based on currently available information. The net asset value of the Fund is mainly driven by the changes in fair value and the profitability of the assets in the real estate portfolio. The Fund did not experience a significant impact in this regard, but the impact of the pandemic in 2022 on these figures cannot be reliably predicted at the time of the preparation of the financial statement, therefore the impact on net asset value cannot be predicted either.

Another key risk factor for the Fund is liquidity. Given that the Fund has liquid assets in excess of the 15 % minimum liquidity requirement, even a long-term inability to pay on the side of the tenants does not impair the Fund's ability to settle its liabilities. Liquidity risks are further mitigated by the fact that the Fund and has loan liabilities. Furthermore, the Fund's communicated strategy is not to enter into new investments but rather sell off existing ones, further increasing the ratio of available liquid assets.

As a consequence of the above, the COVID-19 pandemic does not significantly impact the operation of the Fund.

The Fund Manager monitors the situation as events unfold and the Fund prudently tries to help the tenant mix through this critical period to the best of its ability, so that operation may return to normal as soon as possible when the emergency ceases.

7. Net interest income

(HUF million)

	2021	2020 REVISED PRESENTATION	2020
Interest and similar income			
Interest income with EIR method			
Interest income from Central Bank	16,187	2,831	2,831
Interest income from banks	1,368	1,098	1,098
Interest income from customers	40,677	40,223	41,397
Interest income on hedge derivatives	10,297	6,717	6,717
Interest income on securities at fair value through other comprehensive income	8,059	11,072	11,004
Interest income on securities at amortized cost	34,072	29,819	29,819
Other interest income with EIR method	326	445	445
Total	**110,986**	**92,205**	**93,311**
Interest income other			
Interest income on customer loans at fair value through P&L	2,392	1,010	115
Interest income on trading financial assets	133	365	365
Total other interest (not effective)	**2,525**	**1,375**	**480**
Total interest income	**113,511**	**93,580**	**93,791**
Interest expense and similar charges			
Interest expense to Central Bank	(1,813)	(817)	(817)
Interest expense to banks	412	(1,840)	(1,840)
Interest expense related to hedge derivatives	(23,862)	(17,811)	(17,811)
Interest expense to customers	(5,679)	(2,148)	(2,148)
Interest expense on issued bonds	(3,078)	(1,787)	(3,299)
Other financial fees and commissions	**(39)**	**(28)**	**(28)**
Total	**(34,059)**	**(24,431)**	**(25,943)**
Net interest income	**79,452**	**69,149**	**67,848**

Notes to the financial statements (Continued)

Other interest income contains incomes from government grants, which related to both HIRS (cross-currency IRS linked to credit activity) and those preferential deposits that meets the condition of credit activity as part of PHP Program disclosed by MNB. The total amount of it was HUF 203 million in 2021 and HUF 294 million in 2020. The Group meets all of the criteria. The Group accounts for government-related grants as income in the average periods of loans in which the criteria are met. This amount also contains unconditional grants relating to MIRS (cross-currency IRS which has monetary political aim) that is qualified as a grant from accounting point of view based on IAS 20 in the amount of HUF 70 million in the Financial Statements in 2021 (2020: HUF 70 million).

8. Net fee and commission income

(HUF million)

	2021	2020
Fees and commission income		
Payment transaction fees	41,690	39,988
Financial guarantee fees	2,463	2,280
Custody service fees	4,303	3,579
Investment service fees	4,129	3,721
Other financial services fees and commissions	2,277	2,192
Total	**54,862**	**51,760**
	2021	2020
Fees and commission expense		
Payment transaction fees	(7,031)	(6,030)
Financial guarantee fees	(154)	(204)
Custody service fees	(1,097)	(906)
Investment service fees	(119)	(253)
Other financial services fees and commissions	(1,478)	(1,612)
Total	**(9,879)**	**(9,005)**
Net fee and commission income	**44,983**	**42,755**

9. Dividend income

(HUF million)

	2021	2020
Dividends on trading securities	–	1
Dividends on investments	191	5
Total	**191**	**5**

10. Net trading results

(HUF million)

	2021	2020
Gain/(Loss) on foreign exchange	13,503	15,084
Gain/(Loss) on trading interest rate swaps, net	(278)	(314)
Gain/(Loss) on debt securities, net	(384)	(810)
Gain/(Loss) on equities, net	165	28
Gain/(Loss) on trading FRA's, net	229	322
Other trading income	322	315
Total	**13,235**	**14,310**

Notes to the financial statements (Continued)

11. Net gain and loss on non-trading financial assets

(HUF million)

	2021	2020 REVISED PRESENTATION	2020
Gain			
Debt securities at amortised cost	116	–	–
Debt securities at fair value through other comprehensive income	11,023	37,158	21,180
Equity instrument at fair value through other comprehensive income	–	4	4
Investments at fair value through profit and loss	–	162	162
Gain on repurchased issued Mortgage Bonds	286	649	116
Total	**11,425**	**37,973**	**21,462**
Loss			
Debt securities at amortised cost	(1,243)	–	–
Debt securities at fair value through other comprehensive income	(8,910)	(34,251)	(19,523)
Investments at fair value through profit and loss	(19)	–	–
Loans at fair value through profit and loss	(3,121)	(1,967)	(65)
Loss on repurchased issued Mortgage Bonds	(763)	(1,564)	(279)
Total loss	**(14,056)**	**(37,781)**	**(19,867)**
Net gain from other financial investments	**(2,631)**	**191**	**1,595**

12. Personnel expenses

(HUF million)

	2021	2020
Wages and personal payments	(18,125)	(16,393)
Employer’s social-security contributions	(2,597)	(2,447)
Other employee allocations/benefits	(1,325)	(1,288)
Other employer's contributions	(224)	(221)
Total	**(22,271)**	**(20,349)**

The average number of employees was 1,772.75 in 2021. (2020: 1,759.63).

13. General operating expenses

(HUF million)

	2021	2020
Indirect tax expense and fees to authorities	(30,379)	(28,756)
Fees to authorities	(3,935)	(2,902)
Renting costs and operating expenses of property	(1,867)	(1,689)
Advertising costs	(687)	(607)
Information technology costs	(8,648)	(7,719)
Material and office equipment costs	(273)	(364)
Other administrative costs	(2,736)	(2,598)
Total	**(48,525)**	**(44,635)**

The following services were provided by Deloitte to the Group (fees are in net amounts):
- Audit services (audit fee) of HUF 113 million in 2021 (2020: HUF 110 million),
- Other assurance services (audit related fee) of HUF 3 million in 2021 (2020: HUF 3 million),
- Permitted non-audit services (other fees) were not provided in 2021 (2020: were not).

Notes to the financial statements (Continued)

14. Other results

(HUF million)

	2021	2020
Other income		
Renting activity	636	751
Service transfer fees received	–	–
Income on non-reclaimable receivable	–	–
Gain on sale of leasing assets	–	–
Income on leasing contracts	–	–
Indemnity received	–	–
Other	1,462	1,623
Total	**2,098**	**2,374**
Other expenses		
Impairment loss related to other receivables	–	–
Expenses related to rented investment properties	(31)	(94)
Indemnity paid	–	–
Cost of Workout	–	–
Damage	–	–
Expense related to termination of leasing contract	–	–
Miscellaneous tax expense	–	–
Other	(955)	(2,400)
Total	**(986)**	**(2,494)**
Other results	**1,112**	**(120)**

15. Taxation

The tax charge for the year is based on the profit for the year according to the statutory accounts of the Group as adjusted for relevant taxation regulations. The corporate income tax rate was 9% for the year of 2021 in Hungary.

According to IAS 12, the Group is entitled to net tax assets against tax liabilities for the year.

15.1 Tax liability for the year

(HUF million)

	2021	2020
Current tax expense	4,354	2,821
Adjustments for prior years	326	8
Total	**3,680**	**2,829**
Deferred tax charge	(70)	423
Total income tax expense in statement of profit or loss	**4,610**	**3,252**

15.2 Reconciliation of effective tax rate

	2021		2020	
	%	(HUF MILLION)	%	(HUF MILLION)
Profit before tax		50,949		34,520
Income tax using the domestic corporate tax rate	9.0	4,585	9.0	3,107
Supplementary corporate tax for banks	–	–	0.0	–
Adjustments for prior years	0.1	30	0.0	8
Tax effects of income/expenses exempt from corporate tax	(0.1)	(28)	(0.5)	(169)
Changes in tax rates	–	–	0.0	–
Other	-	23	0.9	306
Total	**9.0**	**4,610**	**9.4**	**3,252**

Notes to the financial statements (Continued)

15.3 Balances associated with taxation

(HUF million)

	2021			2020		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets/(liabilities)	10	(380)	(370)	2 462	(8)	2 454
Deferred income tax						
Securities at fair value through other comprehensive income	(28)	(649)	(677)	(13)	(779)	(792)
Cash-flow hedges	1 935	–	1 935	–	(1 461)	(1 461)
Asset revaluation surplus	–	(89)	(89)	–	(111)	(111)
Property and equipment from tied up capital	79	(283)	(204)	16	(308)	(292)
IFRS 9 – Impact on equity	619	(60)	559	619	(60)	559
IFRS 9 – Impact on profit or loss	(619)	60	(559)	(619)	60	(559)
IFRS transition adjustment	–	–	–	–	–	–
Effect of items, increasing/(decreasing) the local tax base	615	(42)	573	505	(97)	408
Netting effect	(969)	786	(183)	(423)	423	-
Total deferred tax assets/(liabilities)	1 632	(277)	1 355	85	(2 333)	(2 248)
Total tax assets/(liabilities)	**1 642**	**(657)**	**985**	**2 547**	**(2 341)**	**206**

15.4 Movements in temporary differences during the year 2021

(HUF million)

	OPENING BALANCE	RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS	RECOGNISED IN OCI	CLOSING BALANCE
Securities at fair value through other comprehensive income	(792)	–	115	(677)
Cash-flow hedges	(1,461)	–	3,396	1,935
Asset revaluation surplus	(111)	–	22	(89)
Property and equipment from tied up capital	(292)	88	–	(204)
IFRS 9 – Impact on equity	559	–	–	559
IFRS 9 – Impact on profit or loss	(559)	–	–	(559)
IFRS transition adjustment	408	(408)	–	–
Effect of items, increasing/(decreasing) the local tax base	–	390	–	390
Total deferred tax assets/(liabilities)	**(2,248)**	70	**3,533**	**1,355**

15.5 Movements in temporary differences during the year 2020

(HUF million)

	OPENING BALANCE	RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS	RECOGNISED IN OCI	CLOSING BALANCE
Securities at fair value through other comprehensive income	(1,959)	–	1,167	(792)
Cash-flow hedges	(1,887)	–	426	(1,461)
Asset revaluation surplus	(152)	–	41	(111)
Property and equipment from tied up capital	(148)	(144)	–	(292)
IFRS 9 – Impact on equity	559	–	–	559
IFRS 9 – Impact on profit or loss	(559)	–	–	(559)
IFRS transition adjustment	686	(686)	–	–
Effect of items, increasing/(decreasing) the local tax base	–	407	–	408
Total deferred tax assets/(liabilities)	**(3,460)**	**(423)**	**1,634**	**(2,248)**

16. Cash and unrestricted balance with the Central Bank

(HUF million)

	2021	2020
Cash on hand	22,986	20,134
Unrestricted balance with the Central Bank	40	9,660
Total	**23,026**	**29,794**

Notes to the financial statements (Continued)

17. Financial instruments held for trading

(HUF million)

	2021	2020
Financial assets held for trading		
State treasury bills	260	41
State bonds	876	5,368
Other bonds	188	1,056
Positive fair value of derivatives		
FX derivatives	8,682	11,171
Interest rate derivatives	97,635	40,581
Commodity derivatives	128,869	19,067
Total	**236,510**	**77,284**
Financial liabilities held for trading		
State bonds	(2,108)	-
Negative fair value of derivatives		
FX derivatives	(6,640)	(10,310)
Interest rate derivatives	(103,433)	(47,314)
Commodity derivatives	(128,869)	(19,064)
Total	**(241,050)**	**(76,688)**

The Group classifies the financial instruments held for trading at fair value through profit and loss. The Group at initial recognition, or later on has not identified any financial assets or liabilities measured at fair through profit and loss according to IFRS 9 paragraph 6.7.1. value

18. Investment securities

(HUF million)

	2021	2020
Investment securities at fair value through other comprehensive income		
State treasury bills	–	2,992
State bonds	235,907	292,990
Other bonds	78,725	129,309
Other investments	323	323
Total	**49,585**	**57,189**
Investment securities at amortized cost		
Mortgage bonds	565,102	520,560
Impairment	(1,006)	(1,282)
Total	**564,096**	**519,278**
Total investment securities	**879,051**	**944,892**

The total market value of investments securities at amortized cost was HUF 569,648 million as at 31 December 2021 (HUF 532,273 million as at 31 December 2020). Sales of investment securities in 2021 were insignificant in value and frequency. In 2020 no sales of investment securities at amortized cost took place.

Notes to the financial statements (Continued)

19. Placements with, and loans and advances to banks

(HUF million)

	2021	2020
Placements with, and loans and advances to banks at amortized cost		
Placements with Central Bank	1,116,658	655,043
Nostros at other banks	19,571	17,956
Loans and advance to other banks	428,004	519,765
Impairment on loans and advance to other banks	(146)	(1,837)
Total	**1,564,087**	**1,190,926**

20. Loans and advances to customers

(HUF million)

	2021	2020 REVISED PRESENTATION	2020
Loans and advances to customers at amortized cost	1,718,591	1,693,551	1,736,478
Attributable to: effect of cumulated contract amendment	(3,315)		(2,531)
Attributable to:under payment moratorium	27,358		735,997
Provision for impairment and losses on credit products	(48,529)	(41,418)	(43,435)
Loans and advances to customers at fair value through profit and loss	61,789	44,575	3,769
Total	**1,731,851**	**1,696,708**	**1,696,812**

The Group classifies the loans and advances to customers at amortised costs.
Those loans and advances to customers are classified at fair value through profit and loss which failed the SPPI test.

A. Analysis by industrial sector:

(HUF million)

	2021		2020	
	(HUF MILLION)	%	(HUF MILLION)	%
Private clients	382,026	21.46	304,069	17.47
Real estate finance	321,545	18.06	287,034	16.49
Machine industry	159,686	8.97	194,034	11.15
Trade	206,242	11.59	160,304	9.21
Transportation	114,861	6.44	98,897	5.68
Financial activities	124,701	7.00	367,930	21.14
Food processing	56,828	3.19	56,325	3.24
Other	81,955	4.60	17,355	1.00
Metallurgy	71,945	4.04	59,824	3.44
Construction	70,419	3.96	44,463	2.56
Chemicals/Pharmaceutical	32,143	1.81	26,533	1.52
Agriculture	56,644	3.18	31,721	1.82
Electric energy industry	39,561	2.22	29,790	1.71
Community	22,345	1.26	24,964	1.43
Light industry	19,020	1.07	17,073	0.98
Catering trade	6,482	0.36	5,187	0.30
Communication	12,128	0.68	12,919	0.74
Mining	1,849	0.10	1,823	0.10
Total	**1,780,380**	**100.00**	**1,780,380**	**100.00**

The total amount is presented gross of provision for impairment losses.
Loans and advances to customers are presented in more details in Note 46.

Notes to the financial statements (Continued)

B. Amounts receivable under finance lease:

Amounts receivable under finance lease were mainly affected in 2021 by three main factors:
- the weakening of Forint against Euro,
- suspension of capital and interest obligations due to the moratorium,
- the active demand for funding in some sectors less affected by the coronavirus.

The average term of finance leases entered into is 4.8 years.
Generally, these lease contracts do not include options for renewal or termination.

(HUF million)

	2021
Less than 1 year	48,070
1-2 years	28,114
2-3 years	19,525
3-4 years	11,380
4-5 years	4,831
Onwards	1,914
Lease payments	**113,834**
Unguaranteed residual values	–
Gross investment in the lease	**113,834**
Less: unearned finance income	(5,834)
Present value of minimum lease payments receivable	**108,000**
Impairment losses	(1,851)
Net investment in the lease	**106,149**

Items in respect of finance lease presented in the Consolidated statement of profit or loss account

(HUF million)

	2021
Selling profit/loss for finance leases	69
Finance income on the net investment in finance leases	3,042
Income relating variable lease payments not included in the net investment in finance leases	–

The Group's finance lease arrangements do not include variable payments.

The average effective interest rate contracted is approximately 3.09% per annum.

21. Hedging derivative instruments

(HUF million)

	2021	2020
Derivative assets held for risk management purposes		
Interest rate swaps	75,073	49,585
Total	**75,073**	**49,585**
Derivative liabilities held for risk management purposes		
Interest rate swaps	115,647	24,636
Total	**115,647**	**24,636**

Further details on hedging derivatives are disclosed in Note 41.

The Group applies the possibilities of IFRS 9 according to paragraph 7.2.21, based on which the Group applies IAS 39 going forward in case of hedge accounting.

Notes to the financial statements (Continued)

22. Equity investments

As at 31 December 2021 investments in consolidated subsidiaries were as follows:

(HUF million)

NAME OF INVESTMENT	GROSS BOOK VALUE	SHAREHOLDER'S EQUITY
UniCredit Jelzálogbank Zrt.	3,761	22,833
UniCredit Leasing Hungary Zrt.	672	1,288
UniCredit Operatív Lízing Kft.	3	59
UniCredit Biztosításközvetítő Kft.	41	356

All above investments are in companies incorporated in Hungary. All above investments are in the sole, 100% ownership of UniCredit Bank Hungary Zrt. Apart from these investments, the Group holds majority interest in an SPV, Europa Investment Fund.
The Fund is consolidated in these financial statements, since the Group has the power to govern it, and is exposed to the volatility of its returns.

23. Investment properties

(HUF million)

	2021	2020
Investment property in usage	8,864	8,892

The Group's investment properties are held within Europa Investment Fund, of which, 99,55% (2020: 99,02%) of the units is owned by the Group. The investment properties are regularly valued by an independent real estate appraiser company, as required by the respective law. The valuation methods, applied by the appraiser company are compliant with the regulations in IFRS 13.
The investment properties, in usage are valued at fair market value.

These properties earned HUF 635 million rental income in 2021 (2020: HUF 645 million).

24. Property, plant and equipment

A. Movement in property, plant and equipment

(HUF million)

	COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	REVALUATION ADJUSTMENT (B.)	OTHER MOVEMENT	DEPRECIATION & AMORTIZATION	CARRYING AMOUNT AT THE END OF THE YEAR
2021									
Land and buildings(**)	20,128	(2,356)	–	731	–	(484)	(245)	(470)	17,304
Office equipment	7,451	(6,073)	–	151	–	–	–	(372)	1,157
Motor vehicles	941	(513)	–	110	(26)	–	–	(146)	366
Investments	605	–	–	4,180	(4,527)	–	–	–	258
Right-of-use asset (*)	5,650	(2,619)	–	3,822	(16)	–	245,	(1,040)	6,042
Total	**34,775**	(11,561)	**–**	**8,994**	(4,569)	**(484)**	–	(2,028)	**25,127**
2020									
Land and buildings	24,849	(2,925)	–	780	(3,685)	(549)	–,	(698)	17,772
Office equipment	7,879	(6,712)	–	682	(6)	–	–	(465)	1,378
Motor vehicles	829	(438)	–	174	(5)	–	–	(132)	428
Investments	452	–	–	2,287	(2,131)	–	(3)	–	605
Right-of-use asset (*)	2,719	(681)	–	957	(12)	–	–	(712)	2,271
Total	**36,728**	**(10,756)**	**–**	**4,880**	**(5,839)**	(549)	(3)	**(2,007)**	**22,454**

(*) Includes properties
(**) Impairment on land and buildings: HUF 137 million

Notes to the financial statements (Continued)

25. Intangible assets

Movement in intangible assets (HUF million)

	COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	OTHER MOVEMENT	DEPRECIATION & AMORTISATION	CARRYING AMOUNT AT THE END OF THE YEAR
2021								
Rental rights	142	(138)	–	2	–	–	(2)	4
Licenses	5,548	(597)	–	768	–	–	(1,194)	4,525
Software	18,714	(6,194)	–	4,831	(155)	–	(2,199)	14,997
Total	**24,404**	**(6,929)**	**–**	**5,601**	**(155)**	**–**	**(3,395)**	**19,526**
2020								
Rental rights	143	(138)	–	–	–	–	(1)	4
Licenses	3,642	(627)	–	6,333	–	(3,437)	(960)	4,951
Software	20,410	(9,861)	–	8,221	(15)	(4,545)	(1,691)	12,520
Total	**24,195**	**(10,626)**	**–**	**14,554**	**(15)**	**(7,982)**	**(2,652)**	**17,475**

26. Other assets

(HUF million)

	2021	2020
Trade receivables, advanced payments, other demands	5,561	7,477
Accrued income and prepaid expenses	18,440	16,435
Receivables from government grant	6,465	7,215
Current tax asset	10	2,462
Other	163	745
Total	**30,639**	**34,334**
Impairment losses	(49)	(1,398)
Total	**30,590**	**32,936**

Receivables from government grant include the amount of government grant of IRS related to lending activity and other subsidized loans within the framework of the PHP program announced by the Hungarian National Bank (2021: HUF 2,449 million, 2020: HUF 2,523 million). The grant is recognized as income on a systematic basis over the average duration of the qualifying loans. Receivables from government grant also include unconditional grants related to MIRS (cross-currency IRS which has monetary political aim) that is qualified as a grant from accounting point of view based on IAS 20. The amount of demand regarding MIRS was HUF 3,916 million (2020: HUF 4,692 million).

27. Assets held for sale

At the end of December 2020, the Group decided to sell an office building owned by Európa Ingatlanbefektetési Alap.
The property was reclassified to held-for-sale assets in accordance with the decision of the Group and the requirements of IFRS 5. The book value of the property after reclassification was HUF 3,925 million which was presented separately in the consolidated statement of financial position.
The asset was not impaired. The transaction took place during 2021. There were no circumstances at the balance sheet date that required reclassification to held-for-sale assets.

Notes to the financial statements (Continued)

28. Deposits and loans from banks

(HUF million)

	2021	2020
Loans from Central Bank	442,648	375,758
Loans and deposits from other banks	369,630	294,596
Total	**812,278**	**670,354**

The Group does not have past due debt.

29. Deposits from customers

(HUF million)

	2021	2020
Fixed-term customer sources	2,413,238	2,317,218
Ongoing cash equivalents, settlement accounts	11,067	7,280
Illiquid customer sources	368,115	316,740
Total	**2,792,420**	**2,641,238**

The above balances include customer transit accounts. Amounts included in customer transit accounts are held pending clarification and completion of transactions with customers undertaken in the ordinary course of business. The Group measures the Deposits from customers at amortised costs.

30. Issued mortgage bonds and bonds

(HUF million)

	2021	2020 REVISED PRESENTATION	2020
Issued mortgage bonds	172,246	208,748	209,508
Issued bonds	11,084	–	–

In November, 2021, the Bank issued EUR 30 million SNP (Senior Non-Preferred)bonds for MREL (Minimum requirements of own funds and eligible liabilities) compliance. The form is classical global Notes, under Italian jurisdiction, the bond is not introduced to any regulated market. The maturity is 2027, recallable 1-year prior maturity. The bond is a loss absorber from write-downs during the bail-in process of Relevant Resolution Authority, according to BRRD (Directive (EU) 2019/879 of the European Parliament as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms).

31. Other liabilities

(HUF million)

	2021	2020
Accrued expenses and prepaid income	15,668	15,272
Provision on guarantees and unutilized loans	15,057	12,490
Trade payable	7,548	7,358
Other taxes payable	3,448	2,895
Items in transit	5,094	3,856
Current tax liability	380	8
Leasing liabilities	5,336	2,725
Other	38	835
Dividend payable	–	18,000
Total	**52,569**	**63,439**

Notes to the financial statements (Continued)

32. Leases

The Group leases several assets including buildings, office equipment. The average lease term is 5 years (2020: 6 years).

Amounts recognised in profit and loss:

(HUF million)

	2021
Depreciation expense on right-of-use assets	1,040
Interest expense of lease liabilities	38
Expense relating to short-term leases	106
Expense relating to leases of low value assets	–
Expense relating to variable lease payments not included in the measurement of the lease liability	–

(Amounts recognised in the consolidated statement of cash-flow:

(HUF million)

	2021
Total cash outflow for leases	1,033

At 31 December 2021, the Group is committed to 346 million for short-term leases.

Lease liabilities

Maturity analysis:

(HUF million)

	2021
Within 1 year	1,007
1-2 years	946
2-3 years	840
3-4 years	810
4-5 years	423
Onwards	850
Total	**4,877**

33. Share capital

(HUF million)

	2021	2020
Authorised and issued share capital	24,118	24,118

Share capital consists of 4,823,644 ordinary shares with a par value of HUF 5,000 each.
100% of the issued shares are held by UniCredit S.p.A.

34. Statutory reserves

(HUF million)

	GENERAL RESERVE	TIED-UP RESERVE	TOTAL
Balance at 31 December 2020	53,128	–	**53,128**
Appropriation from retained earnings	4,510	–	**4,510**
Appropriation to retained earnings	–	–	-
Balance at 31 December 2021	57,638	–	**57,638**

Notes to the financial statements (Continued)

35. Other provision

(HUF million)

	PROVISION MOVEMENT ON NON-CREDIT RISK
Balance at 31 December 2020	**3,142,**
Amounts utilized	(404)
Amounts released	(426)
Additional provisions	1,288
Effect of FX rate	–
Balance at 31 December 2021	**3,600**
Net movement in provision/impairment	458
Amounts utilized	404
Net amount charged to the statement of profit or loss	**862**

The methods and assumptions applied in the calculation of provisions are described in points 3. (m) and 4.

Information about provision movement on credit risk items is stated in Note 46.

36. Commitments and contingent liabilities

At 31 December 2021, the Group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

	2021	2020
Loan and overdraft facilities granted not disbursed	922,693	776,608
Financial guarantees	651,205	322,605
Letters of credit	15,892	25,040
FX spot sales (notional)	96,941	230,539
Other contingent liabilities	–	–

As at 31 December 2021, the total face value of client assets held in safe custody by the Group was HUF 9,334,740 million (2020: HUF 8,785,802 million).

37. Currency structure of assets and liabilities

The currency structure of assets and liabilities as at 31 December 2021 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG / (SHORT)
Euro	1,138,254	1,061,983	(73,324)	2,947
Swiss Francs	346	4,960	4,646	32
United States Dollars	37,337	106,850	70,400	887
Japanese Yen	375	368	(11)	(4)
Polish Zloty	4,912	7,205	2,197	(96)
British Pounds	475	5,155	4,620	(60)
Czech Crowns	413	401	–	12
Other	4,750	6,122	1,538	166
Total foreign currency	**1,186,862**	**1,193,044**	**10,066**	**3,884**
Hungarian Forint	3,409,752	3,403,570	(13,925)	(7,743)
Total	**4,596,614**	**4,596,614**	**(3,859)**	**(3,859)**

Notes to the financial statements (Continued)

The currency structure of assets and liabilities revised as at 31 December 2020 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG/(SHORT)
Euro	1,251,450	920,930	(320,916)	9,604
Swiss Francs	2,538	4,818	8	(2,272)
United States Dollars	68,365	152,997	21,011	(63,621)
Japanese Yen	90	75	(19)	(4)
Polish Zloty	206	10,532	692	(9,634)
British Pounds	1,079	5,612	248	(4,285)
Czech Crowns	574	423	(195)	(44)
Other	5,837	8,160	1,763	(560)
Total foreign currency	**1,330,139**	**1,103,547**	**(297,408)**	**(70,816)**
Hungarian Forint	2,746,005	2,972,597	288,711	62,119
Total	**4,076,144**	**4,076,144**	**(8,697)**	**(8,697)**

38. Residual contractual maturities of financial assets and liabilities

31 December 2021

(HUF million)

	CARRYING AMOUNT	GROSS NOMINAL INFLOW / (OUTFLOW)	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative assets							
Cash and cash equivalents	23,026	23,026	23,026	–	–	–	–
Trading securities	1,324	1,364	28	84	697	118	437
Investment securities	879,051	1,083,885	917	4,982	129,840	484,084	464,062
Loans and advances to banks	1,564,087	1,632,114	1,527,282	1,741	6,396	59,577	37,118
Loans and advances to customers	1,731,851	1,957,065	389,824	20,675	156,479	815,919	574,168
Total	**4,199,339**	**4,697,454**	**1,941,077**	**27,482**	**293,412**	**1,359,698**	**1,075,785**
In repayment moratorium-retail		27,079	–	–	968	7,641	18,471
In repayment moratorium-corporate		12,757	1	41	6,159	4,723	1,833
Non-derivative liabilities							
Loans and advances to banks	812,278	(785,365)	(140,465)	6,050,	(8,531)	(422,234)	(220,185)
Loans and advances to customers	2,792,420	(2,792,922)	(2,736,817)	(31,938)	(22,078)	(1,967)	(122)
Issued bonds	183,330	(242,189)	–	(24)	(10,313)	(101,401)	(130,451)
Total	**3,788,028**	**(3,820,476)**	**(2,877,282)**	**(25,912)**	**(40,922)**	**(525,602)**	**(350,758)**
Cash-flows from derivative positions							
Trading	(3,756)	3,275	623,	589	(810)	2,176	697
Risk management	(40,574)	(21,953)	2,747	3,026	(8,844)	(18,120)	(762)
Total	**(44,330)**	**(18,678)**	**3,370**	**3,615**	**(9,654)**	**(15,944)**	**(65)**
Unrecognized loan commitments	**–**	**(1,188,061)**	**(5,224)**	**(53,144)**	**(209,622)**	**(253,593)**	**(666,478)**

Notes to the financial statements (Continued)

31 December 2020

(HUF million)

	CARRYING AMOUNT	GROSS NOMINAL INFLOW / (OUTFLOW)	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative assets							
Cash and cash equivalents	29,794	29,794	29,794	–	–	–	–
Trading securities	6,465	7,243	96	12	270	1,971	4,894
Investment securities	944,892	1,011,520	12,027	249	129,634	517,083	352,527
Loans and advances to banks	1,190,926	1,235,530	1,145,458	894	4,033	60,079	25,066
Loans and advances to customers	1,696,811	1,856,790	490,348	26,914	237,895	641,748	459,885
Total	**3,868,888**	**4,140,877**	**1,677,723**	**28,069**	**371,832**	**1,220,881**	**842,372**
In repayment moratorium-retail		196,454	651	1,352	13,817	60,993	119,641
In repayment moratorium-corporate		775,970	51,994	30,487	189,411	318,193	185,885
Non-derivative liabilities							
Trading liabilities	–	–	–	–	–	–	–
Loans and advances to banks	670,354	567,158	110,937	(12,282)	9,010	286,524	172,969
Loans and advances to customers	2,641,238	2,642,714	2,534,905	62,976	41,251	3,502	80
Debt securities	209,508	247,966	–	–	48,685	113,619	85,662
Total	**3,521,100**	**3,457,838**	**2,645,842**	**50,694**	**98,946**	**403,645**	**258,711**
Cash-flows from derivative positions							
Trading	(5,869)	(1,177)	(3,900)	144	2,911	(1,316)	984
Risk management	24,949	43,691	3,259	2,567	4,686	25,977	7,202
Total	**19,080**	**42,514**	**(641)**	**2,711**	**7,597**	**24,661**	**8,186**
Unrecognized loan commitments	**–**	**(1,114,357)**	**(26,975)**	**(75,319)**	**(174,556)**	**(218,689)**	**(618,819)**

39. Exposure to interest rate risk – non-trading portfolios

(HUF million)

	CARRYING AMOUNT	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	NOT INTEREST RATE SENSITIVE
31 December 2021							
Cash and cash equivalents	23,026	23,026	–	–	–	–	–
Loans and advances to banks	1,564,087	1,482,993	121,779	51,776	(1,220)	(91,241)	–
Loans and advances to customers	1,731,851	466,244	575,377	383,733,	169,291	130,263	6,943
Investment securities	879,051	789,045	57	(3,102)	77,424	69,799	(54,172)
Total	**4,198,015**	**2,761,308,**	**697,213**	**432,407**	**245,495**	**108,821**	**(47,229)**
Deposits from banks	(812,278)	(524,461)	(183,606)	(66,207)	(119,833)	81,829	–
Deposits from customers	(2,792,420)	(2,741,658)	(31,823)	(17,894)	(1,010)	(35)	–
Debt securities issued	(183,330)	(12,260)	–	(4,320)	(70,413)	(96,337)	–
Total	**(3,788,028)**	**(3,278,379)**	**(215,429)**	**(88,421)**	**(191,256)**	**(14,543)**	**–**
Effect of derivatives held for risk management	3,468,990	(39,388)	(211,395)	(327,369)	172,315	236,137	–
Total	**3,878,977**	**(556,459)**	**270,389**	**16,617**	**226,554**	**330,415**	**(47,229)**

The re-pricing techniques and principles, applied for qualification by the Group are described in details in Note 4.

Notes to the financial statements (Continued)

(HUF million)

	CARRYING AMOUNT	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	NOT INTEREST RATE SENSITIVE
31 December 2020*							
Cash and cash equivalents	29,794	29,794	–	–	–	–	–
Loans and advances to banks	1,190,926	1,132,150	52,846	59,021	30,165	(83,256)	–
Loans and advances to customers	1,696,708	557,714	577,018	343,268	130,417	80,702	7,589
Investment securities	944,892	39,963	212	84,867	496,197	303,843	19,810
Total	**3,862,320**	**1,759,621**	**630,076**	**487,156**	**656,779**	**301,289**	**27,399**
Deposits from banks	(670,354)	(320,697)	(138,793)	(3,765)	(124,451)	(82,648)	–
Deposits from customers	(2,641,238)	(2,535,359)	(63,654)	(41,574)	(635)	(16)	–
Debt securities issued	(209,508)	(10,802)	–	(42,764)	(81,929)	(74,013)	–
Total	**(3,521,100)**	**(2,866,858)**	**(202,447)**	**(88,103)**	**(207,015)**	**(156,677)**	**–**
Effect of derivatives held for risk management	2,841,989	(18,698)	31,920	(186,438)	71,344	92,837	–
Total	**3,183,209**	**(1,125,935)**	**459,549**	**212,615**	**521,108**	**237,449**	**27,399**

* revised presentation

The re-pricing techniques and principles, applied for qualification by the Group are described in details in Note 4.

40. Derivative financial instruments held for Trading

31 December 2021

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR		(NET)	
Interest rate derivatives						
Forward Rate Agreements (bought)	–	144,500	–	**144,500**	1,067	–
Forward Rate Agreements (sold)	120,000	83,000	–	**203,000**	(1,332)	–
Interest Rate Swaps (SC IRS)	54,000	545,878	2,078,386	**2,678,264**	(16,036)	(68)
Interest Rate Swaps (DC IRS)	807	801	81,239	**82,847**	(289)	–
Multicallable swap	–	–	–	**–**	–	–
Forward Exchange & Swap (*)	**679,999**	**419,507**	**451,032**	**1,550,538**	**(2,454)**	**–**
Options (sold amounts)						
Barrier (European)						
Long Call	6,688	13,878	1,003	**21,569**	729	–
Short Call	6,531	13,916	1,037	**21,484**	(729)	–
Long Put	6,738	11,571	620	**18,929**	85	–
Short Put	7,049	11,767	612	**19,428**	(85)	–
FX (European) (**)						
Long Call	387	1,144	646	**2,177**	88	–
Long Call (embedded)	3,221	–	–	**3,221**	11	–
Long Put	375	1,121	657	**2,153**	17	–
Long Put (embedded)	65	–	–	**65**	–	–
Short Call	3,653	1,146	672	**5,471**	(99)	–
Short Put	455	1,144	646	**2,245**	(17)	–
IR Options						
CAP (bought)	–	–	10,632	**10,632**	92	–
CAP (sold)	–	–	10,632	**10,632**	(92)	–
FLOOR (bought)	–	–	4,982	**4,982**	–	–
FLOOR (sold)	–	–	4,982	**4,982**	–	–
Equity Options	**–**	**–**	**–**	**–**	**–**	**–**
Commodity						
Commodity forward&swap (bought)	8,210	9,005	748	**17,963**	123,513	–
Commodity forward&swap (sold)	8,210	9,005	748	**17,963**	(123,513)	–

(*) revised presentation

(**) without HUF and delta option

Notes to the financial statements (Continued)

31 December 2020

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR		(NET)	
Interest rate derivatives						
Forward Rate Agreements (bought)	–	236,500	–	**236,500**	(17)	
Forward Rate Agreements (sold)	–	145,700	–	**145,700**	82	
Interest Rate Swaps (SC IRS)	179,000	415,617	2,102,193	**2,696,810**	(4,646)*	(35)
Interest Rate Swaps (DC IRS)	–	48	41,454	**41,502**	(461)	
Multicallable swap	–	–	–	**–**	–	
Forward Exchange & Swap (*)	**788,535**	**511,200**	**319,100**	**1,618,835**	**(8,184)**	**–**
Options (sold amounts)						
Barrier (European)						
Long Call	333	11,776	1,856	**13,965**	194	–
Short Call	355	11,945	1,868	**14,168**	(194)	–
Long Put	252	9,610	1,472	**11,334**	104	–
Short Put	243	9,649	1,491	**11,383**	(104)	–
FX (European) (**)						
Long Call	–	789	55	**844**	8	–
Long Call (embedded)	146	–	–	**146**	1	–
Long Put	–	774	55	**829**	8	–
Long Put (embedded)	171	–	–	**171**	1	–
Short Call	145	805	58	**1,008**	(9)	–
Short Put	176	789	55	**1,020**	(9)	–
IR Options						
CAP (bought)	–	48	11,159	**11,207**	(21)	–
CAP (sold)	–	48	11,160	**11,208**	21	–
FLOOR (bought)	–	–	4,929	**4,929**	–	–
FLOOR (sold)	–	–	4,929	**4,929**	–	–
Equity Options	**–**	**–**	**–**	**–**	**–**	**–**
Commodity						
Commodity forward&swap (bought)	73,443	33,284	13,798	**120,525**	8,163	–
Commodity forward&swap (sold)	73,443	33,284	13,798	**120,525**	(8,160)	–

(*) revised presentation
(**) without barrier option

41. Derivative financial instruments held for Hedging purposes

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR		(NET)	
31 December 2021						
Interest Rate Swaps (SC IRS)	211,250	364,287	2,681,476	**3,257,013**	(21,462)	(443)
Interest Rate Swaps (DC IRS)	21,474	54,951	140,252	**216,677**	1,448	–
Forward Rate Agreements (bought)	–	–	–	**–**	–	–
Forward Rate Agreements (sold)	20,000	185,000	35,000	**240,000**	(2,188)	–
31 December 2020						
Interest Rate Swaps (SC IRS)	78,150	283,223	2,218,996	**2,580,369**	31,721*	(399)
Interest Rate Swaps (DC IRS)	–	50,817	219,821	**270,638**	1,632	–
Forward Rate Agreements (bought)	–	–	–	**–**	–	–
Forward Rate Agreements (sold)	–	32,000	–	**32,000**	(17)	–

(*) revised presentation

Notes to the financial statements (Continued)

42. Fair valuation hierarchy [1]

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT 31.12.2021	31.12.2020 REVISED PRESENTATION	31.12.2020	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
Forward Rate Agreements	Trading purpose: (265) Hedging purpose: (2188)	Trading purpose: 65 Hedging purpose: (17)	Trading purpose: 65 Hedging purpose: (17)	Level 2	Discounted cash-flow method is used. The two future cash-flows are estimated based on forward interest rate (from observable yield curves at the end of the reporting period) and the contractual interest rate and are both discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Interest rate swaps (SC IRS)	Trading purpose: (16,036) Hedging purpose: (21,462)	Trading purpose: (4,646) Hedging purpose: 31,721	Trading purpose: (4,646)* Hedging purpose: 31,721* Level 2	Level 2	Discounted cash-flow method is used. The future cash-flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value and the accrued interest. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Interest rate swaps (DC IRS)	Trading purposes: (289) Hedging purposes: 1,448	Trading purposes: (461) Hedging purposes: 1,632		Level 2	Discounted cash-flow method is used. The future cash-flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value, the accrued interest but excludes the effect of the revalued principals (recognized as forward exchange). Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own crTrading purposes: (461) Hedging purposes:1,632edit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Multicallable swap	–	–	–	Level 2	Discounted cash-flow method is used. The future cash-flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted, taking into account the Bermudan option feature of the product. The FV includes both the market value and the accrued interest. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none

[1] FV of derivatives does not contain the Fair Value corrections (FVA; CVA), FV of securities does not contain the accrued interest.

Notes to the financial statements (Continued)

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT 31.12.2021	31.12.2020 REVISED PRESENTATION	31.12.2020	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
Forward Exchange & Swap	(2,454)	(8,184)	(8,184)	Level 2	Discounted cash-flow method is used. The future cash-flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates and are discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Finan-cial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
FX Options	–	–	–	Level 2	The European options calculation uses the standard Garman-Kohlhagen form of the Black-Scholes formula, Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
IR Options	–	–	–	Level 2	The options calculation uses the Black-Scholes model.	none	none
Equity Options	-	-	-	Level 2	The options calculation uses the Black-Scholes model.	none	none
Commodity forward & swap	-	3	3	Level 2	Discounted cash-flow method is used. The future cash-flows are estimated based on forward commodity rates (from observable commodity index curve at the end of the reporting period) and contractual commodity price and are discounted, Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Bonds	733,441	672,050	672,050	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Reuters). Liquidity and close-out fair value adjustments apply.	none	none
Bonds	2,427	28,066	28,066	Level 2	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjust-ments apply.	none	none
Corporate bonds	41,293	25,036	25,036	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Reuters). Liquidity and close-out fair value adjustments apply.	none	none
Corporate bonds	93,161	95,506	95,506	Level 2	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjust-ments apply.	none	none
Corporate bonds	35,890	15,891	15,891	Level 3	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjust-ments apply.	none	none

Notes to the financial statements (Continued)

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT 31.12.2021	31.12.2020 REVISED PRESENTATION	31.12.2020	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
Investment certifi-cates	19,810	19,537	19,537	Level 2	Marked-to-market valuation based on NAV published by Association of Hungarian Investment Fund and Asset Management Companies.	none	none
Equities	1,277	1,188	1,188	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Budapest Stock Ex-change).	none	none
Equities	323	323	323	Level 3	Based on cost model.	none	none
Mortgage bonds	94,503	121,563	121,563	Level 2	Marked-to-model valuation based on a curve consisting of liquid covered bonds. Liquidity and close-out fair value adjustments apply.	none	none
Loans and advances to banks	1,546,845	753,531	753,531	Level 2	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calcula-tion. For non-performing loans, fair value is calculated by esti-mating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to banks	44,018	40,247	40,247	Level 3	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calcula-tion. For non-performing loans, fair value is calculated by esti-mating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to customers	745,392	811,144*	811,188	Level 2	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calcula-tion. For non-performing loans, fair value is calculated by esti-mating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to customers	888,816	875,862*	875,857	Level 3	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation. For non-performing loans, fair value is calculated by estimating expected loss, the expected re-covery and risk premium.	none	none
Deposits and loans from banks	784,549	615,525	615,525	Level 2	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits and loans from banks	13	-	-	Level 3	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits from customers	2,556,909	2,618,212	2,618,212	Level 2	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits from customers	34,695	2,717	2,717	Level 3	Discounted cash-flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none

[1] FV of derivatives does not contain the Fair Value corrections (FVA; CVA), FV of securities does not contain the accrued interest.

Notes to the financial statements (Continued)

Reconciliation of Level 3 fair value measurements

(HUF million)

	CORPORATE BONDS	MORTGAGE BONDS	FORWARD EXCHANGE&SWAP	OTHERS	TOTAL
31 December 2021					
Opening balance	15,891	–	–	323	**16,214**
Total gains or losses:					
– profit or loss	–	–	–	–	**0**
– in other comprehensive income	–	–	–	–	**0**
Transactions:					
– purchases	19,102	–	–	–	**19,102**
– output	–	–	–	–	**0**
– disposals/settlements	–	–	–	–	**0**
Transfer to level 3	–	–	–	–	**897**
Transfers out of level 3	–	–	–	–	**0**
Closing balance	**35,890**	**–**	**–**	**323**	**36,213**
31 December 2020					
Opening balance	1,015	–	–	323	**1,338**
Total gains or losses:					
– profit or loss	–	–	–	–	**0**
– in other comprehensive income	–	–	–	–	**0**
Transactions:	14,876	–	–	–	**14,876**
– purchases	1,015	–	–	–	**1,015**
– iss output ues	0	–	–	–	**0**
– disposals/settlements	0	–	–	–	**0**
Transfer to level 3	0	–	–	–	**0**
Transfers out of level 3	0	–	–	–	**0**
Closing balance	**15,891**	**–**	**–**	**323**	**16,214**

Notes to the financial statements (Continued)

43. Balances outstanding and transactions with related parties

(HUF million)

	2021	2020
Assets		
Financial assets held for trading	162,390	36,808
Financial assets held to maturity	323	323
Loans and receivables to banks	310,651	448,280
Loans and receivables to customers	1,738	2,455
Equity investments	1,277	1,188
Derivatives used for hedging	75,394	48,944
Intangible assets	4,647	4,941
Total	**556,420**	**542,939**
Liabilities		
Loans and receivables to banks	145,340	51,238
Loans and receivables to customers	2,241	4,515
Issued securities	11,084	-
Financial liabilities held for trading	99,000	45,951
Derivatives used for hedging	115,579	24,530
Deferred tax liabilities	4	4
Other liabilities	2,160	20,607
Other provisions	23	100
Revaluation reserve	43	44
Retained earnings	144	144
Total	**375,618**	**147,133**
Commitments, contingencies, derivatives		
Loan and overdraft facilities granted not disbursed	2,246	2,575
Financial guarantees	52,285	40,992
Derivatives notional amount	**6,368,115**	**5,471,444**
Statement of profit and loss		
Interest and similar income	252	417
Interest expense and similar charges	(1,569)	(3631)
Fee and commission income	592	627
Fee and commission expense	(401)	(460)
Dividend income	191	5
Net FX income	(3)	(24)
Impairment and loan loss provision	1,638	(1340)
Net trading income	(18)	162
General operating expenses	(7,714)	(6,846)
Other income/(expenses)	269	307
Total	**(6,763)**	**(10,783)**

The above balances and transactions are outstanding with:

UniCredit Bank SA., UniCredit Bank Czech Republic and Slovakia AS., Zagrebacka Banka DD., UniCredit Bank AG., UniCredit SPA., UniCredit Bulbank, UniCredit Bank Serbia JSC., UniCredit Services SCPA., UniCredit Services GmbH., Európa Befektetési Alapkezelő Zrt., UniCredit Turn-Around Management CEE GmbH., UCTAM Hungary Kft., AO UniCredit Bank, UniCredit Banka Slovenija DD, UniCredit Bank Austria AG, UCTAM Retail Humgary Kft., BAH-OMEGA Zrt. BAH-KAPPA Kft. Fundamenta-Lakáskassza Zrt., Garantiqa Hitelgarancia Zrt., VISA Inc., CA-ZETA Real Estate Development Limited Liability Company, FMZ Savaria Kft., UniCredit Factoring SPA, UniCredit Bank DD, BAH BETA Ingatlanhasznosító Kft.

Apart from the above, the following qualify as related parties due to their key position. Supervisory Board: Emilia Stefanova Palibatchiyska, Maria Chiara Manzoni, Adeline de Metz, Emidio Salvatore, Gianfranco Bisagni. Management Board: Tóth Balázs, Ivan Vlaho, Vörös Réka, Anschau János, Soós Gábor, Ivana Lonjak Dam, Silvano Silvestri

Notes to the financial statements (Continued)

44. Fair value information

44.1 Fair value information 2021

(HUF million)

	2021	
	FAIR VALUE	CARRYING AMOUNT
Cash and unrestricted nostros to Central Bank	23,026	23,026
Financial assets held for trading	236,510	236,510
Investment securities	884,603	879,051
Loans and advances to banks	1,590,863	1,564,087
Loans and advances to costumers	1,634,208	1,731,851
Hedging derivatives assets	75,073	75,073
Equity investments	1,277	1,277
Financial assets	**4,445,561**	**4,510,875**
Loans and advances to banks	784,562	812,278
Loans and advances to costumers	2,591,604	2,792,420
Subordinated loans	-	-
Issued bonds	182,905	183,330
Financial liabilities held for trading	238,942	238,942
Hedging derivative liabilities	115,647	115,647
Financial liabilities	**3,913,660**	**4,142,617**

44.2 Fair value information 2020

(HUF million)

	2020 REVISED PRESENTATION		2020	
	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT
Cash and unrestricted nostros to Central Bank	23,026	29,794	29,794	29,794
Financial assets held for trading	236,510	77,284	77,284	77,284
Investment securities	879,051	962,224	962,224	944,892
Loans and advances to banks	1,564,087	1,206,345	1,206,345	1,190,926
Loans and advances to costumers	1,731,851	1,686,941	1,687,045	1,696,812
Hedging derivatives assets	75,073	49,585	49,585	49,585
Equity investments	1,277	1,188	1,188	1,188
Financial assets	**4,510,875**	**4,013,361**	**4,013,465**	**3,990,481**
Loans and advances to banks	615,525	670,354	615,525	670,354
Loans and advances to costumers	-	-	2,620,930	2,641,238
Subordinated loans	-	-	-	-
Issued bonds	196,256	208,748	197,016	209,508
Financial liabilities held for trading	76,688	76,688	76,688	76,688
Hedging derivative liabilities	24,636	24,636	24,636	24,636
Financial liabilities	**913,105**	**980,426**	**3,534,795**	**3,622,424**

Estimation of fair values for the Fair Value Report to the Notes

The following description summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans: Fair value is calculated based on discounted expected future principal and interest cash-flows, expected future cash-flows are estimated considering credit risk and any indication of impairment. Expected future cash-flows are estimated on a single deal basis and discounted at a rate considering the risk-free rate and any potential risk factors that market participants also consider. Credit card advances, overdrafts and similar very short-term receivables are deemed to be the receivable on demand at the balance sheet date. The estimated fair values of loans also reflect changes in interest rates. For non-performing loans, the fair value calculation methodology is based on an estimate of expected loss, expected payback time and risk premium.

Investments carried at cost and derivatives: Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs, where available. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash-flow techniques, where applicable. For investments and fixed assets, where no reliable market price or model price is available, the book value is taken as fair value.

Notes to the financial statements (CONTINUED)

Where discounted cash-flow techniques are used, estimated future cash-flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Bank and customer deposits: The estimated fair value of fixed-maturity deposits is based on discounted future cash-flows using a rate consisting of the risk-free rate and own credit spread. For demand deposits and deposits with no defined maturities, fair value is deemed to be the amount payable on demand at the balance sheet date.

Long-term debt: The fair value is based on quoted market prices, if available. For debt instruments without quoted prices the fair value is estimated as the present value of future cash-flows, discounted at market interest rates available at the balance sheet date.

45. Segment report

(HUF million)

	TOTAL BANK		RETAIL		PRIVATE BANKING	
	2021	2020	2021	2020	2021	2020
Total Net Interest Income	**79,643**	**67,853**	**19,945**	**16,016**	**901**	**681**
Net fee and commission income	44,983	42,755	17,691	17,827	1,571	1,230
Trading profit	10,604	15,905	3,415	3,140	199	147
Other operating income/expenses	1,112	(120)	(52)	(81)	-	(45)
Total non-interest income	**56,699**	**58,540**	**21,054**	**20,886**	**1,770**	**1,332**
REVENUES	**136,342**	**126,393**	**40,999**	**36,902**	**2,671**	**2,013**
Direct Expenses	**(76,219)**	**(69,644)**	**(23,764)**	**(22,865)**	**(1,016)**	**(852)**
Indirect and overhead expenses	-	-	(9,890)	(9,003)	(373)	(334)
OPERATING EXPENSES	**(76,219)**	**(69,644)**	**(33,654)**	**(31,868)**	**(1,389)**	**(1,186)**
GROSS OPERATING RESULT	**60,123**	**56,749**	**7,345**	**5,034**	**1,282**	**827**
Provision for risk and charges	(1,369)	374	(663)	364	(15)	(1)
Result and impairment on loans	**(7,781)**	**(23,329)**	**(3,587)**	**(7,314)**	**29**	**(21)**
Gain/ (losses) on other equity investments	(24)	726	–	–	–	–
Integration costs	–	–	–	–	–	–
RESULT BEFORE TAXES	**50,949**	**34,520**	**3,095**	**(1,916)**	**1,296**	**805**
Income taxes	(4,610)	(3,252)	–	–	–	–
NET PROFIT FOR THE YEAR	**46,339**	**31,268**	–	–	–	–
Customer loans net	1,731,712	1,696,812	393,815	314,875	5,296	7,437
Deposits from Customers	2,792,420	2,641,238	829,924	748,451	93,612	74,942

Notes to the financial statements (CONTINUED)

(HUF million)

	CORPORATE AND INVESTMENT BANKING		LEASING		OTHERS	
	2021	2020	2021	2020	2021	2020
Total Net Interest Income	**45,664**	**28,266**	**2,916**	**2,629**	**10,217**	**20,261**
Net fee and commission income	26,242	24,352	71	110	(592)	(764)
Trading profit	14,204	12,908	30	33	(7,244)	(323)
Other operating income/expenses	343	275	167	(18)	654	(251)
Total non-interest income	**40,789**	**37,535**	**268**	**125**	**(7,182)**	**(1,338)**
REVENUES	**86,453**	**65,801**	**3,184**	**2,754**	**3,035**	**18,923**
Direct Expenses	**(32,135)**	**(27,451)**	**(1,804)**	**(1,761)**	**(17,500)**	**(16,715)**
Indirect and overhead expenses	(8,705)	(7,913)	-	-	18,968	17,250
OPERATING EXPENSES	**(40,840)**	**(35,364)**	**(1,804)**	**(1,761)**	**1,468**	**535**
GROSS OPERATING RESULT	**45,613**	**30,437**	**1,380**	**993**	**4,503**	**19,458**
Provision for risk and charges	(361)	(22)	(8)	(8)	(322)	41
Result and impairment on loans	**(4,008)**	**(15,491)**	**(579)**	**(517)**	**364**	**14**
Gain/ (losses) on other equity investments	140	687	–	–	(164)	39
Integration costs	–	–	–	–	–	–
RESULT BEFORE TAXES	**41,384**	**15,611**	**793**	**468**	**4,381**	**19,552**
Income taxes	–	–	–	–	–	–
NET PROFIT FOR THE YEAR	**–**	**–**	**–**	**–**	**–**	**–**
Customer loans net	1,221,716	1,145,235	123,260	124,935	(12,375)	104,330
Deposits from Customers	1,928,181	1,790,675	1,170	620	(60,467)	26,550

46. Exposure to credit risk

46.1

(HUF million)

LOANS TO CUSTOMER	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Loss allowance as at 1 January 2021	**(9,260)**	**(11,409)**	**(26,546)**	**3,780**	**(43,435)**
Loss allowance as at 1 January 2021 revised presentation	**(9,082)**	**(9,593)**	**(26,523)**	**3,780**	**(41,418)**
Transfers	1,042	(2,194)	1,152	–	–
Transfers from Stage 1 to Stage 2	1,432	(1,432)	–	–	–
Transfers from Stage 1 to Stage 3	34	–	(34)	–	–
Transfers from Stage 2 to Stage 1	(424)	424	–	–	–
Transfers from Stage 2 to Stage 3	–	330	(330)	–	–
Transfers from Stage 3 to Stage 2	–	(1,516)	1,516	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	(877)	(1,196)	(1,703)	(708)	(4,484)
Changes to model assumptions and methodologies					–
Financial assets derecognized during the period	–	–	86	–	86
Write-offs	–	–	449	–	449
Unwind of discount	–	(28)	(627)	–	(655)
FX and other movements	(272)	(1,868)	(367)	–	(2,507)
Loss allowance as at 31 December 2021	**(9,189)**	**(14,879)**	**(27,533)**	**3,072**	**(48,529)**

Notes to the financial statements (Continued)

46.2 (HUF million)

LOANS TO BANKS	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Loss allowance as at 1 January 2021	**(1,837)**	**–**	**–**	**–**	**(1,837)**
Transfers	1,720	(1,720)	–	–	–
Transfers from Stage 1 to Stage 2	860	(860)	–	–	–
Transfers from Stage 1 to Stage 3	860	(860)	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	1,694	–	–	–	1,694
Changes to model assumptions and methodologies	–	–	–	–	–
Financial assets derecognised during the period	–	–	–	–	–
Write-offs	–	–	–	–	–
Unwind of discount	–	–	(1)	–	(1)
FX and other movements	(2)	–	–	–	(2)
Loss allowance as at 31 December 2021	**1,575**	**(1,720)**	**(1)**	**–**	**(146)**

46.3 (HUF million)

LOAN COMMITMENTS, FINANCIAL GUARANTEES TO CUSTOMERS	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Provision as at 1 January 2021	**(1,976)**	**(1,615)**	**(8,748)**	**–**	**(12,339)**
Transfers	14	(108)	94	–	–
Transfers from Stage 1 to Stage 2	17	(17)	–	–	–
Transfers from Stage 1 to Stage 3		–	()	–	–
Transfers from Stage 2 to Stage 1	(3)	3	–	–	–
Transfers from Stage 2 to Stage 3	–	5	(5)	–	–
Transfers from Stage 3 to Stage 2	–	(100)	100	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	586	(1,748)	(777)	–	(1,939)
Financial assets derecognized during the period	–	–	–	–	–
Write-offs	–	–	–	–	–
FX and other movements	(652)	(18)	(65)	–	(735)
Provision as at 1 January 2021	**(2,027)**	**(3,490)**	**(9,497)**	**–**	**(15,013)**

46.4 (HUF million)

LOAN COMMITMENTS, FINANCIAL GUARANTEES TO BANKS	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Provision as at 1 January 2021	**(150)**	**(1)**	**–**	**–**	**(151)**
Transfers	–	–	–	–	–
Transfers from Stage 1 to Stage 2	–	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	(509)	(8)	–	–	(517)
Financial assets derecognized during the period	–	–	–	–	–
Write-offs	–	–	–	–	–
FX and other movements	625	–	–	–	625
Provision as at 31 December 2021	**(34)**	**(9)**	**–**	**–**	**(43)**

Notes to the financial statements (Continued)

46.5

(HUF million)

LOANS TO CUSTOMERS AT AMORTIZED COST NET OF ALLOWANCE	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Net outstanding amount as at 1 January 2021	**1,379,593**	**281,876**	**26,158**	**5,417**	**1,693,044**
Net outstanding amount as at 1 January 2021	**1,351,750**	**268,834**	**26,132**	**5,417**	**1,652,133**
Transfers	(270,238)	262,807	7,432	–	1
Transfers from Stage 1 to Stage 2	(301,831)	301,831	–	–	–
Transfers from Stage 1 to Stage 3	(2,521)	–	2,521	–	–
Transfers from Stage 2 to Stage 1	2,219	(8,602)	6,383	–	–
Transfers from Stage 2 to Stage 3	–	1,451	(1,451)	–	–
Transfers from Stage 3 to Stage 2	31,895	(31,873)	(21)	–	1
Financial assets derecognized during the period other than write-offs	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Write-offs	(41)	(2)	(6)	–	(49)
FX and other movements	56,185	(24,217)	(12,987)	(1,004)	17,977
Net outstanding amount as at 31 December 2021	**1,137,656**	**507,422**	**20,571**	**4,413**	**1,670,062**

46.6

(HUF million)

LOANS TO BANKS AT AMORTIZED COST NET OF ALLOWANCE	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Net outstanding amount as at 1 January 2021	**1,190,926**	**–**	**–**	**–**	**1,190,926**
Transfers	(18,423)	18,442	–	–	19
Transfers from Stage 1 to Stage 2	(18,423)	18,423	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	–	19	–	–	19
Financial assets derecognized during the period other than write-offs	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Write-offs	–	–	–	–	–
FX and other movements	304,767	44,731	–	–	349,498
Net outstanding amount as at 31 December 2021	**1,477,270**	**63,173**	**–**	**–**	**1,540,443**

46.7

(HUF million)

	GROSS EXPOSURE	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	ALLOCATED MATERIAL VALUE
Credit-impaired assets (stage 3)	**48,104**	**(27,533)**	**20,571**	**23,941**
Loans to banks	–	–	–	–
Loans to individuals	5,703	(3,961)	1,742	3,676
– Mortgages	4,194	(2,706)	1,488	3,669
– Consumer Loans	825	(669)	156	–
– Current Acc. & Credit C.	433	(378)	55	–
– Other Loans	251	(208)	43	7
Loans to corporate entities	42,401	(23,572)	18,829	20,265
– Large Corporate Customers	33,203	(22,091)	11,112	12,148
– Small and medium-sized enterprises (SMEs)	1,355	(645)	710	526
– Other (Leasing)	7,843	(836)	7,007	7,591

46.8

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE
– Warrant and guarantees	188 349	231 721	6 471	426 541
– Cautions	29 213	12 495	1 427	43 135
– Property	408 384	157 200	11 382	576 966
– Debt securities	4 471	2 921	–	7 392
– Equity	482	349	–	831

Notes to the financial statements (Continued)

46.8

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE
– Other	124 961	21 911	4 059	150 931

46.9

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
Gross carrying value per asset type					
Cash and balances with central banks	23,026	–	–	–	23,026
– Investment Grade	23,026	–	–	–	23,026
– Standard monitoring	–	–	–	–	–
– Impaired	–	–	–	–	–
Loans and advances to banks	**1,476,555**	**64,034**	**–**	**–**	**1,540,589**
– Investment Grade	1,459,850	64,015	–	–	1,547,509
– Standard monitoring	16,705	19	–	–	16,724
– Impaired	–	–	–	–	–
Loans and advances to customers	**1,146,841**	**522,306**	**48,102**	**1,342**	**1,718,591**
– Investment Grade	598,723	238,715	52	27	837,517
– Standard monitoring	548,118	283,196	53	731	832,098
– Impaired	–	395	47,997	584	48,976
Debt securities	**863,731**	**16,257**	**–**	**–**	**879,988**
– Investment Grade	855,586	6,197	–	–	861,783
– Standard monitoring	8,144	10,060	–	–	18,204
– Impaired	–	–	–	–	–
Total gross carrying value	**3,510,153**	**602,597**	**48,102**	**1,342**	**4,162,194**
Loan commitments and financial guarantee contracts					
Loans and advances to banks (loan commitments)	1,852	–	–	–	1,852
Loans and advances to banks (financial guarantees)	267,256	497	–	–	267,753
Loans and advances to customers (loan commitments)	715,068	198,461	7,311	–	920,841
Loans and advances to customers (financial guarantees)	211,714	178,781	8,849	–	399,344
Total Loan commitments and financial guarantee contracts	**1,195,890**	**377,739**	**16,160**	**–**	**1,589,790**

Notes to the financial statements (Continued)

46.10 (HUF million)

MOVEMENTS OF LOSS ALLOWANCE	LOANS AND ADVANCES TO CUSTOMERS	LOANS AND ADVANCES TO BANKS	INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	INVESTMENT SECURITIES AT AMORTIZED COST	COMMITMENTS AND FINANCIAL GUARANTEE	TOTAL
Loss allowance / Provision as at 1 January 2021:	**(43,435)**	**(1,837)**	**(469)**	**(1,282)**	**(12,490)**	**(59,513)**
Loss allowance / Provision as at 1 January 2021 revised presentation:	**(41,418)**	**(1,837)**	**(470)**	**(1,282)**	**(12,490)**	**(57,497)**
Loss allowance/Additional Provision:	(32,906)	(135)	(205)	(843)	(10,909)	(44,998)
Loss allowance/Reversals of Provision:	26,309	1,827	444	1,120	8,454	38,153
FX and other effects:	(515)	(1)	–	–	(111)	(627)
Loss allowance/Provision as at 31 December 2021:	**(48,529)**	**(146)**	**(231)**	**(1,005)**	**(15,057)**	**(64,968)**
Modification of contractual cash-flows	(937)	–	–	–	–	(937)
Impairment and losses on credit products recognized in the statement of profit and loss	**(7,533)**	**1,691**	**239**	**277**	**(2,456)**	**(7,781)**

47. Exposure to market risks – trading and non-trading portfolios

Exposures to interest rate risk

The daily management of interest rate risk is based on BPV and VaR limits. BPV sensitivities are split to re-pricing time buckets and currencies, therefore changes in the certain parts of yield curve is visible. Both regular and ad-hoc sensitivity analyses are prepared with standard and occasional scenarios.

The displayed scenarios are the 200bp positive and negative shocks, parallel up and down shifts based on EBA and NBH guidelines written parametrizations, turns up and down, respectively short rates shocks up and down. Currency-wise both HUF yield and all relevant foreign currency yield curve shocks are analyzed. However almost the whole interest rate risk position denominated in local currency. Regarding methodology the results are reflect to the ‘flooring’ impact, so +/- shocks in the affected segments (e.g. customer positions) were counted by only the extent to ‘flooring’.

Below scenarios describe a sudden, permanent change in the market; revalued immediately along NPV approach and accrued interest approach where applicable.

Notes to the financial statements (Continued)

(HUF million)

		INCOME	EQUITY	OTHER (NOTES ONLY)	TOTAL
2021					
All yields	+200bp shock	1,221	(1,107)	(30,525)	(30,411)
	-200bp shock	(1,309)	585	19,315	18,591
	shift up	819	(1,364)	(37,699)	(38,244)
	shift down	(1,653)	738	24,413	23,498
	turn up	259	44	(1,104)	(801)
	turn down	(317)	(363)	(5,966)	(6,646)
	short rates shock up	247	(826)	(20,195)	(20,774)
	short rates shock down	(123)	425	11,365	11,667
Worst of the above		**(1,653)**	**(1,364)**	**(37,699)**	**(38,244)**
2020					
All yields	+200bp shock	(322)	(1,968)	(22,475)	(24,764)
	-200bp shock	(355)	930	13,681	14,256
	shift up	(511)	(2,425)	(27,752)	(30,688)
	shift down	(350)	932	13,523	14,106
	turn up	(474)	618	7,185	7,329
	turn down	(617)	(363)	(2,166)	(3,146)
	short rates shock up	(719)	(1,209)	(13,949)	(15,876)
	short rates shock down	(496)	619	6,913	7,036
Worst of the above		**(719)**	**(2,425)**	**(27,752)**	**(30,688)**

Fair value fluctuations in both the HTCS portfolio and the cash-flow Hedge derivatives affect Equity directly. NPV changes of positions booked against Equity will migrate to Statement of Profit or Loss as their cash-flows mature. However, given that fair value fluctuations of cash-flow Hedge derivatives do not have impact on own funds, those are shown under Others category in the above table. Trading position and other derivatives affect Statement of Profit or Loss. General interest rate positions and HTC bond holdings impact neither Income nor Equity, their effect is shown under Others.

FX Sensitivity

Year-end FX open position sums up to 2,8 bn HUF. The total open FX position is limited at 60 mn EUR, ca. 22 bn HUF. On-balance FX position ratio (DEM) was 0.1%.
Positions reported as they are managed and show the bank's overall risks including all on-balance and off-balance items, underlying and derivatives.

All market value change from FX revaluation impacts P&L.

FX risk in general is out of scope of hedge accounting except for derivative transactions where both IR and FX components influence the fair value at the same time (i.e. cross-currency IRS). As hedging relationship must be designated for a hedging instrument in its entirety, FX part of these derivatives is subject to fair value hedge with FX revaluation impact in P&L.

Notes to the financial statements (Continued)

48. Summary of VaR position

The internal model based VaR (1 day, confidence level of 99 %) for 2021 moved in a range of HUF 2,250 million and HUF 11,856 million. The average VaR was HUF 4,251 million; less than a year before, mainly due to the less volatile 250d period in VaR horizon. Credit spread risk and Interest rate risk were the main drivers of the VaR. The FX risk was far below the other components although also contributed the total market risk of the Group.

(HUF million)

RISK CATEGORY	YEAR-END	AVERAGE	MINIMUM	MAXIMUM
VaR as at 31 December 2021 (HUF million)				
Exchange rate risk	17	56	4	424
Interest rate risk	3,585	2,898	1,354	4,979
Credit spread	3,023	3,788	1,865	7,395
Vega risk	53	18	9	55
Equity risk	0	1	0	72
Overall	**3,839**	**4,251**	**2,250**	**11,856**
VaR as at 31 December 2020 (HUF million)				
Exchange rate risk	207	101	1	2,116
Interest rate risk	4,223	2,934	927	7,262
Credit spread	6,867	5,106	1,740	7,094
Vega risk	10	4	1	12
Equity risk	-	-	-	7
Overall	**10,864**	**7,431**	**1,769**	**10,927**

As part of the daily risk reporting, detailed Market Risk Reports are prepared for all risk-taking departments, with updated and historical information made available to all risk-takers and the respective heads of department.

49. Summary of interest sensitivity

As at 31 December 2021 and 2020, the entire interest rate position of the Group (trading and investment) for major currencies was composed as follows:

Basis Point Value ("BPV") for main currencies (HUF million)

							ANNUAL STATISTICS		
CURRENCY	LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 YEARS TO 10 YEARS	OVER 10 YEARS	TOTAL	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE
As at 31 December 2021									
CHF	0.01	0.00	(0.02)	(0.01)	0.00	(0.02)	(0.01)	(0.41)	0.03
EUR	(2.02)	(0.73)	9.69	2.40	(0.10)	9.23	23.50	(18.09)	7.71
GBP	0.00	(0.01)	(0.05	0.00	0.00	(0.06)	0.01	(0.07	0.01
HUF	(0.22)	(11.23)	(52.96)	(108.15)	(2.86)	(175.42)	(128.69)	(211.55)	180.01
USD	(0.30)	0.25	(0.02)	(0.00)	0.00	(0.06)	0.83	(0.73)	0.25
Total*	**(2.53)**	**(11.76)**	**(43.36)**	**(105.76)**	**(2.96)**	**(166.36)**			
As at 31 December 2020									
CHF	(0.02)	(0.04)	-	(0.03)	-	(0.10)	(0.02)	(0.11)	0.07
EUR	(3.03)	(2.98)	(8.96)	11.47	(0.73)	(4.23)	29.35	(17.79)	10.29
GBP	-	(0.01)	-	-	-	(0.01)	-	(0.04)	0.02
HUF	(1.06)	(4.46)	(16.04)	(148.89)	11.63	(158.81)	(88.23)	(169.56)	129.68
USD	(0.81)	1.40	(0.28)	0.11	0.00	0.42	8.93	(2.32)	0.72
Total*	**(4.91)**	**(6.09)**	**(25.27)**	**(137.35)**	**10.90**	**(162.73)**			

*Total contains risk taking in all reported currencies

During 2021, the Group had major interest rate exposures in HUF.
Risk-taking departments and the management are daily informed about the development of the interest rate risks from the BPV monitoring reports.

Notes to the financial statements (Continued)

By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by issuer and maturity.

SEGMENTS	SECTOR	CREDIT SPREAD BASIS POINTS
Spread Points as at 31 December 2021 (CPV, HUF million)		
Corporate	Energy BBB	(12.19)
Corporate	Corporate - Local	(14.60)
Corporate	Corporate - International	(11.69)
Financial	BBB banks	(46.56)
Treasury	Government bonds – Local	(266.04)
Spread Points as at 31 December 2020 (CPV, HUF million)		
Corporate	Energy BBB	(10.17)
Corporate	Corporate - Local	(1.96)
Corporate	Corporate - International	(15.14)
Financial	BBB banks	(35.09)
Treasury	Government bonds – Local	(299.56)

Government and local mortgage banks of investment grade account for the largest part of the Group's credit spread positions.
Government bonds related credit spread exposures increased in 2021.

Capital requirements for market risk

Market risk, counterparty- and settlement risk of trading positions must be reported together. The quarterly average capital requirement of the trading book was HUF 2 billion (in 2020 HUF 2.5 billion), the highest quarterly capital requirement was HUF 2.7 billion (in 2020: HUF 3.1 billion) mostly stemming from the counterparty risk of OTC derivatives and the position risk of bonds.

50. Compensation of key management personnel

The remuneration of the Board of Directors, the Managing Directors, and the members of the Supervisory Board was the following:

(HUF million)

	2021	2020
Short-term employee benefits	1,955	1,883
Share-based payments	112	146
Long-term employee benefits	–	–
Total	**2,067**	**2,029**

Loans granted to the key managament personnel was the following:

(HUF million)

	2021	2020
Loans granted to the key management personnel	14.5	18.5
Total	**14.5**	**18.5**

Notes to the financial statements (Continued)

51. Regulatory capital

The EU Regulation No 575/2013 (Capital Requirements Regulations - CRR) has introduced common reporting standards for institutions in relation to capital (COREP - Common Reporting) from 1 January 2014 and financial reporting (FINREP) from 30 September 2014.

The local Group implemented Basel III from 1 January 2014. The Group complies with the requirements and methods according to the Hungarian Banking Law (Law CCXXXVII of 2013 on credit institutions and financial enterprises, Hpt.) and to the Capital Requirements Regulations (EU No. 575/2013) taking into account the instructions, requirements and methods given by the national regulator and its parent bank.

The most significant risks to which the Group is exposed are credit, liquidity, market (including interest and foreign exchange rate risks) and operational risk. Integrated and on-line systems ensure constant, timely monitoring of risk. The Group's policies and processes for managing the major financial risks are reviewed regularly by the respective business areas, internal audit, senior management and the Board of Directors.

From the 1st July 2011 UniCredit Bank Hungary Zrt. switched to internal rating based IRB method in its capital requirement calculation in case of Hungarian medium and large enterprises, multinational large enterprises and commercial banks.

Solid capital situation is an important element of the Group's policy in order to maintain investor, creditor and market confidence and to sustain future business growth. The impact of the level of capital on shareholders' return respecting the regulatory requirements is also recognized and the Group pays special attention to balance between the higher returns that might be possible with gearing and the advantages and security of a sound capital position.

One of the main blocks of COREP reporting templates is capital adequacy: an overview of regulatory capital and total risk exposure amount.

The reporting templates of capital adequacy overview include information about Pillar 1 capital requirements and regulatory own funds. They are structured in CA1-4 templates as of below:

CA1	contains the amount of own funds of the institutions
CA2	summarizes the total risk exposure amounts
CA3	contains capital ratios and capital levels
CA4	contains memorandum items needed for calculating items in CA1 as well as information with regard to the Hpt. capital buffers

Own funds components:

- **Common Equity Tier 1 (CET 1):** Ordinary share capital, Share premium, Other reserve, Retained earnings, Profit for the year, Accumulated other comprehensive income, Deduction from CET1 capital due to prudential filters (mains items: Intangible assets, cash-flow hedge reserve, IRB shortfall of credit risk adjustments to expected losses);
- **Additional Tier 1;**
- **Tier 2 capital (T2):** Subsidiary loan capital, IRB excess of provisions over expected losses eligible.

The minimum regulatory capital requirement is at 8% of total risk exposure amount. On the top of this requirement the Group complies with the SREP additional requirements and the capital buffer requirements set by the Hpt. and the national supervisor.

Notes to the financial statements (Continued)

Capital Management

Group's risk Division has been responsible for Internal Capital Adequacy Assessment Process reporting since 1 January 2013, which also includes the comparison of Pillar 1 and Pillar 2 capital requirements on a quarterly basis, ICAAP is performed on local consolidated level.

The Group calculates its planned capital requirements based on Basel Pillar 1 and 2 methodology on local consolidated level once in a year as part of the yearly budgeting process. Might the figures of the financial budget change, capital plan is also modified if required.

The Group's regulatory Capital position at 31 December 2021 and 2020 was as follows:

(HUF million)

	2021	2020
Tier 1 Capital		
Ordinary share capital	24,118	24,118
Share premium	3,900	3,900
Retained earnings	268,647	281,981
– of which Profit or loss attributable to owners of the parent	46,272	31,669
– of which proposal of dividend payment on profits for 2021 and 2020 years	(55,100)	–
Accumulated other comprehensive income	(12,034)	23,693
Other reserves	57,638	53,128
Adjustments to CET1 due to prudential filters	17,510	(15,402)
Goodwill included in the valuation of significant investments	–	–
Intangible assets (Deduction based on CRR2 from 2020YE)	(12,631)	(10,838)
Deferred tax liabilities associated to other intangible assets	–	–
IRB shortfall of credit risk adjustments to expected losses	–	–
Excess of deduction from AT1 items over AT1 Capital	–	–
Other transitional adjustments to CET1 Capital	–	–
Tier 1 Total	**347,148**	**360,580**
Tier 2 Capital		
Qualifying subordinated liabilities	–	–
Reserves for IRB position	4,614	4,336
Other transitional adjustments to T2 Capital	–	–
Tier 2 Total	**4,614**	**4,336**
Own Funds	**351,762**	**364,916**
RWA		
Credit risk	1,503,730	1,375,925
Total risk exposure amount for position, foreign exchange and commodities risks	19,335	29,492
Operational risk	176,233	160,765
Total risk exposure amount for credit valuation adjustment	1,549	656
RWA Total	**1,700,847**	**1,566,838**
Capital adequacy (%)	**20.68**	**23.29**
Own Funds for legal limits (according to CRR Regulations (EU) No 575/2013 prior 28 June 2021)	**351,762**	**364,916**
Tier 1 Capital for legal limits (according to CRR II Requirements are applicable from 28 June 2021)	**347,148**	

52. Events after the reporting date

All adjusting events after reporting date have been taken into account in the preparation of the consolidated financial statements of the Group. There were no material events that occurred after the balance sheet date that would impact the Group's consolidated financial statements. Dividend of HUF 55,100 million is expected to be declared with regard to 2021 and is expected to be paid in 2022.

Budapest, 11 February 2022

Supervisory Board and Management Board

UniCredit Bank Hungary Zrt.

	SUPERVISORY BOARD
EMILIA STEFANOVA PALIBATCHIYSKA	Chairman
GIANFRANCO BISAGNI	Deputy Chairman
MARIA CHIARA MANZONI ADELINE DE METZ EMIDIO SALVATORE	Members
	BOARD OF DIRECTORS
BALÁZS TÓTH	Chairman – CEO
IVAN VLAHO	Deputy Chairman, Deputy CEO till 31.05.2021
GIACOMO VOLPI	Deputy Chairman, Deputy CEO as of 01.06.2021
RÉKA VÖRÖS	Head of Retail and Small Business Division
SILVANO SILVESTRI	Chief Financial Officer
IVANA LONJAK DAM	Head of Risk Management Division
JÁNOS ANSCHAU	Head of Global Banking Division
GÁBOR SOÓS	Head of Corporate Investment and Private Banking Division
SVETLANA PANCENKO	Head of People & Culture

Supervisory Board and Management Board (Continued)

UniCredit Jelzálogbank Zrt.

BOARD OF DIRECTORS

FARKAS BÁLINT MÁRTON	Chairman of the Board
JUHÁSZ VIKTOR	member
CSÁKY ATTILA ISTVÁN	member

SUPERVISORY BOARD

IVAN VLAHO	Chairman till 31.05.2021
GIACOMO VOLPI	Chairman as of 07.06.2021
ANSCHAU JÁNOS	member
SILVANO SILVESTRI	member
VÖRÖS RÉKA	member
IVANA LONJAK DAM	member
TÓTH BALÁZS	member
SOÓS GÁBOR	member

Calendar

January 2021

Never before has **online transacting** been so important as this year: UniCredit Bank Hungary Zrt. launched its online account opening service. The process is fully digitalised, and there is no need for visiting the bank in person, not even to sign a new contract. Customers can choose from the three different account types depending on which one is best suited to their financial habits.

This year, UniCredit received for the fourth time the award from the Top Employers Institute in recognition of providing outstanding opportunities for its employees. This award confirms that UniCredit Group is a great company to work for.

February 2021

UniCredit was included for the second time in **Bloomberg's Gender-Equality Index** (GEI), which measures gender equality across the following five pillars: the promotion process for women and talented executives, equal pay and closing the gender pay gap, inclusive culture, sexual harassment policies, and a brand that supports women. UniCredit has performed comprehensively at or above global thresholds and across the five pillars of the framework while maintaining a high level of visibility.

March 2021

In Euromoney's 2021 Private Banking and Wealth Management Survey, UniCredit was found the best in the category **Environmental, Social and Corporate Governance and Environmental and Socially Responsible Investment** in Central and Eastern Europe, based on the annual performance review, among many of the strongest private banks in the market worldwide.

UniCredit won again the title of **best global trade finance bank** in Euromoney's trade finance survey.

UniCredit introduced a Group-wide practice on **parental leave:** in the spirit of employee welfare and inclusiveness, it offered at least 16 weeks of paid leave to mothers and at least four weeks of paid voluntary leave to fathers.

UniCredit Bank has been supporting **Earth Hour** for 14 years. On 27 March, the lights were switched off for sixty minutes in 45 buildings of our Group worldwide.

April 2021

Giacomo Volpi was appointed as the new **Deputy CEO** of UniCredit Bank Hungary Zrt. with the prior approval of the National Bank of Hungary. Ivan Vlaho became CEO of Zagrebačka banka.

The Board of Directors of UniCredit S.p.A appointed **Pietro Carlo Padoan** and **Andrea Orcel** as Chairman of the Board of Directors and CEO of the company, respectively, with all the rights and powers necessary to perform their duties.

UniCredit supported its nearly 37,000 suppliers with close to EUR 4 billion over the past year through its practice, introduced in April 2020, of accelerating the payment of supplier invoices in response to the economic impact of the crisis caused by the coronavirus.

May 2021

Following the appointment of the new Chairman and CEO, UniCredit Group announced a **new organisational structure** and management team. The changes aimed to enable the new management to organise the business more effectively and to implement its new strategic plan in the second half of 2021.

June 2021

The UniCredit Foundation **supported local projects for children in the Group's countries outside Italy** with EUR 360,000. The Call for Europe programme supported 48 projects in 12 countries, including those of four Hungarian foundations. The winners were the Amigos for Children Foundation's Amigos for Children Recovering at Hospital programme, the Real Pearl Foundation's Step by Step to Work project, the Smile Foundation's Healing through Art and Storybook programme, and the SOS Children's Village's Every Chance to Every Child Every Day project.

UniCredit was again, for the twelfth year in a row, recognised as the **best sub-custodian bank** in Central and Eastern Europe by

Calendar (Continued)

Global Finance magazine in 2021. In addition to the prestigious regional award, UniCredit also came first in the Best Sub-Custodian Bank category in eight countries, including Hungary.

UniCredit Bank Hungary Zrt. launched **joint research** with SteiGen Consultancy Kft., an advisory firm, in which the opinions of members of four generations, Baby Boomers, Generations X, Y, and Z, were mapped on **sustainability:** what they think about it, what they do for it and what activities they associate with it. The research revealed that respondents have different understandings of the term, have very different motivations for sustainability, and they all regard themselves as individuals more active than their peers.

For the fourth year in a row, UniCredit has won Professional Wealth Management's Best Private Bank for Use of Technology in the CEE **Award.**

July 2021

Euromoney, the leading European business and finance magazine chose UniCredit as Western Europe's **Best Bank for Transaction Services and Central and Eastern Europe's Best Bank for Advisory.**

The UniCredit Foundation **launched** once again **competitions** aimed at supporting young European talents through study and research. The programme included eight calls for 32 scholarships and fellowships with a total amount of more than EUR 1.2 million.

August 2021

UniCredit Bank launched a campaign with the slogan **"Easy Banking",** where popular influencers showed in their videos how easy it is to fit banking into busy everyday life thanks to online account opening and the mBanking app. During the collaboration, young mums and YouTubers demonstrated how easy it is to manage finances with UniCredit Bank's digital services, even while doing other activities.

September 2021

UniCredit Group created its **new Digital Division,** headed by Group Digital & Information Officer Jingle Pang. The digitalisation and simplification process aims to create a data-centred bank where all processes, products, and services improve customer satisfaction.

The **joint research of UniCredit Bank Hungary Zrt. and SteiGen Consultancy Kft.** revealed that the representatives of the generations surveyed attach a crucial role to the individual, the family, and education in the discourse on sustainability and in encouraging action, yet they most emphasise the responsibility of corporations, politicians, and the government in power.

October 2021

Eximbank Zrt. awarded its most successful partners in several categories. UniCredit Bank Hungary Zrt. won in the Most Active Bank of the Year category again, after several times in a row: at the end of last year, the bank had the most customers refinanced by Eximbank Zrt.

UniCredit Bank Hungary Zrt.'s programme, Social Impact Banking for a more just society **won the Sustainability Award.** Each year, the Effekt 2030 – Community Investment Award is given to corporate responsibility and sustainability programmes that make demonstrable positive changes to society and the environment.

UniCredit Jelzálogbank Zrt. completed its **first issue of green mortgage bonds** with a value of HUF 23.2 billion (EUR 63.8 million). The proceeds of the bond will be used to finance green assets selected based on criteria set out in the UniCredit Sustainability Bond Framework.

The **green interest subsidy** can be requested for the Family Housing Allowance (CSOK). At UniCredit Bank Hungary Zrt., the interest-subsidised loan for families with several children (CSOK loan) is available for the purchase or construction of a new, energy-efficient home, even interest-free.

UniCredit Bank Hungary Zrt.'s **green loan** was launched. The Hungarian National Bank launched the Funding for Growth Scheme Green Home Programme (FGS GHP) as part of the Funding for Growth Scheme. In this context, UniCredit Bank Hungary Zrt. offers its customers the FGS Green Home Loan with favourable financing conditions.

In line with its commitment to a climate-positive future, UniCredit joined the **Net-Zero Banking Alliance** (NZBA), a UN-established banking alliance, whose members are committed to aligning their lending and investment portfolios with net-zero emissions by 2050 or sooner, under the targets set in the Paris Climate Agreement.

Capital Finance International picked UniCredit as **the Best Social Impact Bank** in Europe in 2020. The magazine ranked UniCredit number one for the second time in 2021, in justification of its strong contribution to positive social impacts by supporting the real economy throughout Europe.

November 2021

The **sustainability research** conducted jointly by UniCredit Bank Hungary Zrt. and SteiGen Consultancy Kft. revealed that Baby Boomers, members of Generations X, Y, and Z agree that we have become noticeably more sustainable during the pandemic, not because we wanted to, but because we were forced to. While some people will certainly return to their old bad habits, every generation envisages that we will pay more attention to sustainability in the future.

A **sustainability campaign** was launched with the participation of UniCredit Bank Hungary Zrt. and some of its customers, Alteo Group, Mirelite Mirsa Zrt., and UTB Envirotec Zrt., who not only receive financing but are also guided by common goals to create a sustainable future.

December 2021

UniCredit Bank Hungary Zrt. launched a **podcast** with the title About money matters without a tie in the second half of 2021, followed by its **second season** at the end of the year. The series aims to bring listeners closer to the ESG (Environment, Social, Governance) attitude, an approach to sustainability from a corporate perspective.

After the launch of **Apple Pay** in October, UniCredit Bank Hungary Zrt. made it possible for its customers to pay with **Google Pay** from 30 November. The app, which can be used with all retail and corporate debit and credit cards issued by the bank, allows users to pay quickly and easily with a single movement.

Network units

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E-mail: info@unicreditgroup.hu
UniCredit Call Centre 0-24: +36 1/20/30/70 325 3200
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On 31 December 2021 UniCredit Bank's network consisted of 54 units throughout Hungary, from which 22 branches were located in Budapest, while 32 in the country.

Network units (Continued)

Branches in Budapest

Bécsi úti branch
1023 Budapest, Bécsi út 3–5.

Mammut II. branch
1024 Budapest, Margit krt. 87–89. (Mammut II.)

Pesthidegkúti branch
1028 Budapest, Hidegkúti út 167. (Széphalom Üzletközpont)

Lajos utcai branch
1036 Budapest, Lajos u. 48–66.

Ferenciek tere branch
1053 Budapest, Ferenciek tere 2.

Alkotmány utcai branch
1054 Budapest, Alkotmány u. 4.

Szabadság téri branch
1054 Budapest, Szabadság tér 5–6. (UniCredit Bank székház)

Boráros téri branch
1095 Budapest, Boráros tér 7.

Lurdy Ház branch
1097 Budapest, Könyves Kálmán krt. 12–14. (Lurdy Ház)

Fehérvári úti branch
1117 Budapest, Fehérvári út 23.

Lágymányosi úti branch
1111 Budapest, Lágymányosi u. 1–3.

Alkotás úti branch
1123 Budapest, Alkotás u. 50.

Duna Plaza branch
1138 Budapest, Váci út 178. (Duna Plaza)

Gateway branch
1138 Budapest, Dunavirág utca 2.

Szent István körúti branch
1137 Budapest, Szent István körút 16.

Örs vezér téri branch
1148 Budapest, Örs vezér tere 24. (Sugár Üzletközpont)

Mátyásföldi branch
1165 Budapest, Veres Péter út 105–107.

Pestszentlőrinci branch
1182 Budapest, Üllői út 455.

Shopmark branch
1191 Budapest, Üllői út 201. (Shopmark)

Campona branch
1222 Budapest, Nagytétényi út 37–43. (Campona)

Self–service branch
1052 Budapest, Szervita tér 1–2.

Infopark Partner Centrum
restricted services
1117 Budapest, Infopark sétány 3.

Network units (Continued)

Branches in the country

Békéscsaba branch
5600 Békéscsaba, Andrássy út 37–43. (Csaba Center)

Budakeszi branch
2092 Budakeszi, Fő út 139.

Budaörs branch
2040 Budaörs, Szabadság út 49.

Cegléd branch
2700 Cegléd, Kossuth tér 4.

Debrecen branch
4024 Debrecen, Kossuth Lajos u. 25–27.

Dunakeszi branch
2120 Dunakeszi, Fő út 70.

Dunaújváros branch
2400 Dunaújváros, Dózsa György út 4/D

Eger branch
3300 Eger, Törvényház u. 4.

Érd branch
2030 Érd, Budai út 13. (Stop.Shop)

Esztergom branch
2500 Esztergom, Kossuth Lajos u. 14.

Gödöllő branch
2100 Gödöllő, Dózsa György út 13.

Győr branch
9021 Győr, Árpád út 45.

Kaposvár branch
7400 Kaposvár, Dózsa György u. 1.

Kecskemét branch
6000 Kecskemét, Kisfaludy u. 8.

Miskolc branch
3530 Miskolc, Hunyadi u. 3.

Mosonmagyaróvár branch
9200 Mosonmagyaróvár, Fő u. 6.

Nagykanizsa branch
8800 Nagykanizsa, Fő út 8.

Nyíregyháza branch
4400 Nyíregyháza, Dózsa György út 1–3.

Pécs – Árkád Üzletház branch
7621 Pécs, Rákóczi út 58. (Árkád Üzletház)

Salgótarján branch
3100 Salgótarján, Rákóczi út 13.

Siófok branch
8600 Siófok, Fő u. 174–176.

Sopron branch
9400 Sopron, Várkerület 1–3.

Szeged branch
6722 Szeged, Kossuth Lajos sugárút 18–20.

Székesfehérvár branch
8000 Székesfehérvár, Budai út 1.

Szekszárd branch
7100 Szekszárd, Arany János u. 15–17.

Szentendre branch
2000 Szentendre, Dobogókői út 1. (Városkapu Üzletház)

Szigetszentmiklós branch
2310 Szigetszentmiklós, Bajcsy–Zsilinszky u. 26.

Szolnok branch
5000 Szolnok, Baross Gábor út 27.

Szombathely branch
9700 Szombathely, Kőszegi út 30–32.

Tatabánya – Vértes Center branch
2800 Tatabánya, Győri út 7–9. (Vértes Center)

Veszprém branch
8200 Veszprém, Ady E. u.1.

Zalaegerszeg branch
8900 Zalaegerszeg, Kovács Károly tér 1/a

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Empowering
Communities to Progress.

UniCredit Bank

www.unicreditbank.hu