Unlocking...

A better bank
A better world
A better future

UniCredit Bank
Annual Report and Accounts
2022

Empowering
Communities to Progress.

UniCredit

Unlocking...

Message from the Chairman and CEO of UniCredit Bank Hungary Zrt.

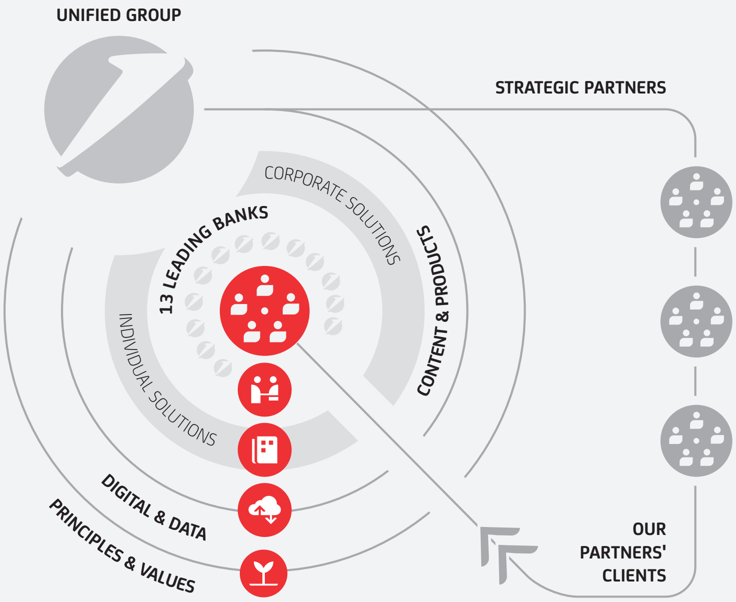
Content

At a glance

UniCredit: who we are

UniCredit is a pan-European Commercial Bank with a unique offering serving 15 million clients across Italy, Germany, and Central and Eastern Europe.

Our Purpose is to **empower communities to progress.** We believe that by delivering the very best for all our stakeholders, we can unlock the potential that exists across Europe – both for our clients and our people, and for their wider communities.



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COVERAGE REGIONS

15 MILLION

CUSTOMERS WORLDWIDE

What we do

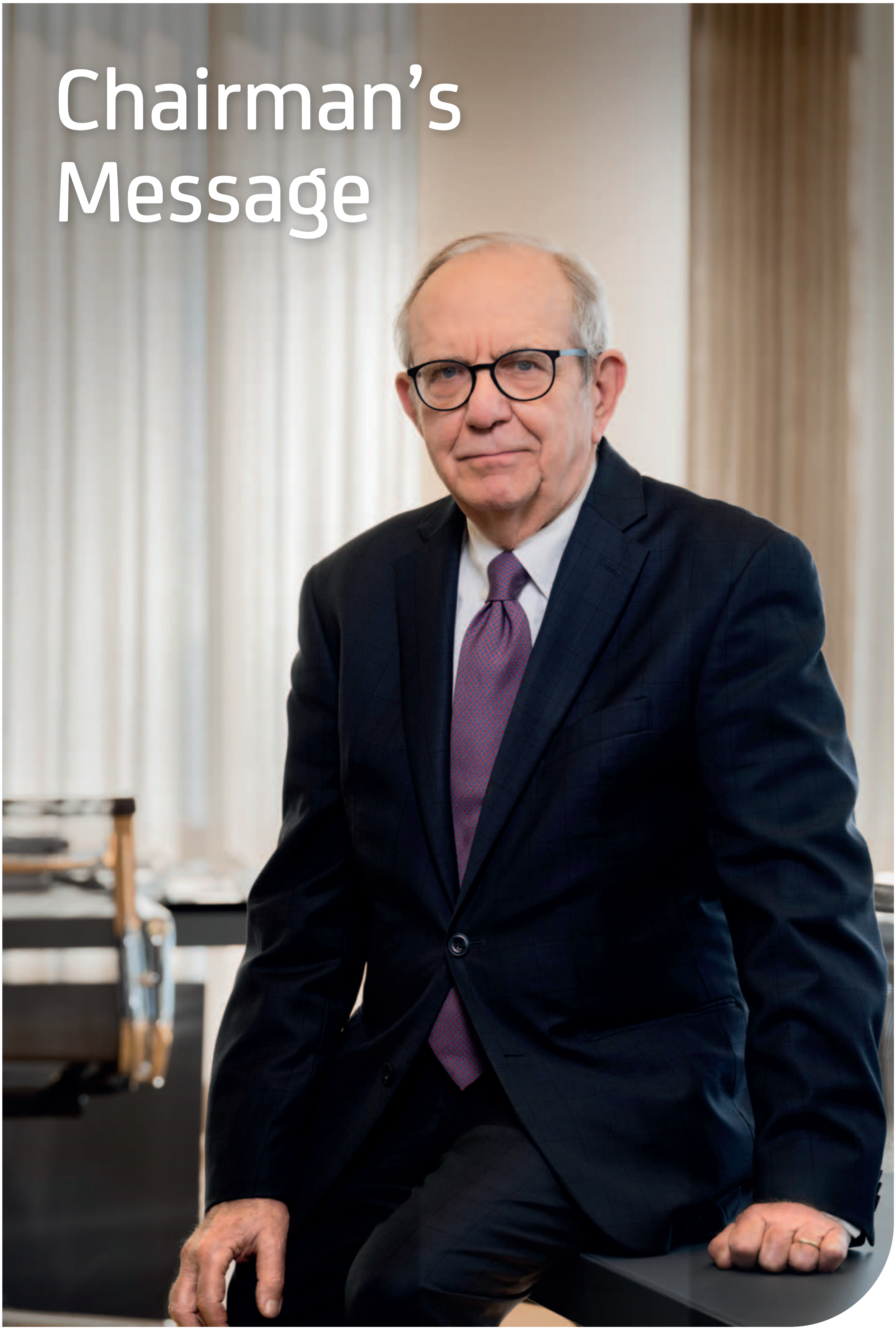
UniCredit's ambition is to be the bank for Europe's future. This year, we continued to transform in order to deliver that ambition, **building a better bank** that can act as a benchmark for our industry.

Our strategic plan, **UniCredit Unlocked**, is designed to ensure that we deliver for all our stakeholders: our clients; our people; and our shareholders. The plan is well underway and the foundations for sustainable, long-term success have been laid.

We are operating as one bank, leveraging our presence across Europe and the strength of our collective to offer the very best to all our stakeholders. Everything we do is underpinned by a commitment to ESG principles. We are determined to play a part in creating a sustainable future for our planet, and this ambition drives all our actions and decision making.

This year, we have seen the impact of our transformation, evidenced in our strong financial performance, delivering above all the goals we set out in UniCredit Unlocked. It is also evidenced in how we have delivered for our stakeholders and, ultimately, on our Purpose of empowering communities to progress.

Chairman's Message



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The world may be uncertain, but our vision for UniCredit has never been clearer. Against the backdrop of huge external transformation, our organisation has been transforming internally.

Dear Stakeholders,

It is a pleasure to write to you as the Chairman of the UniCredit Board. It is a privilege to be part of this bank, particularly at this significant moment in our journey.

Over the past 12 months, we've been forced to confront the interlocking challenges facing our world. The ongoing war in Ukraine, geopolitical tensions that have divided our continent and a global slowdown of growth.

It has been a year of economic uncertainty, with the banking sector facing arguably the biggest macroeconomic challenges of the modern era. However, in light of these external obstacles, the progress we've made at UniCredit, as detailed in this report, is all the more impressive.

The world may be uncertain, but our vision for UniCredit has never been clearer. Against the backdrop of huge external transformation, our organisation has been transforming internally. Our strategic plan, UniCredit Unlocked, will ensure that we are not standing still, waiting to be swept up in change. Instead, we are driving it.

This strategy, focused on leveraging the value and resources that already exist within the bank, amounted to a complete and comprehensive organisational transformation through 2022.

We have reduced the complexity of our organisational structure and strengthened our model for governance to drive the business effectively. We have also successfully supported our teams in the gradual return to work. This has enabled us to respond to global headwinds and deliver sustainable profit in a challenging year for banks worldwide. Our results speak for themselves.

Photo Andrea Cherchi

In times of economic turbulence, the support of financial institutions is even more essential for people, who deserve not only to survive in difficult times, but to thrive wherever possible. At UniCredit, we have been committed to helping communities recover from the pandemic and financing companies looking to seize the opportunities arising from the National Recovery and Resilience Plan. We remain deeply committed to our home market, Italy, and will continue to invest in the success of its businesses and communities.

These are just a few steps we have taken in our ambitious programme to unlock the full potential of this truly pan-European organisation. Our presence across the continent continues to be a great source of strength for us, enhancing our ability to serve each of our individual markets. We know that when Europe thrives, we thrive as a bank.

Europe itself is at a critical point in its history: there are many more benefits to come from greater integration and schemes such as NextGenerationEU should not be a one-off. For our part, we will continue to find new ways to collaborate with governments, stimulate the economy, and support struggling businesses.

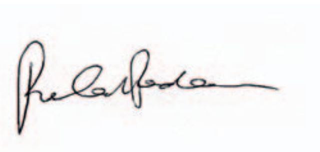
Alongside our work to finance the Europe of tomorrow, we have also renewed the mission of our Foundation to focus on the younger generation, who will be the continent's future leaders.

2022 was a strong year for UniCredit and the Board wishes to congratulate the UniCredit leadership on its successes. As a result of this dedication and an unwavering commitment to our strategy, we can look to 2023 with confidence and push even further. When we do this, we succeed and importantly, our stakeholders succeed.

Thank you for trusting us as we continue on this journey, and thank you for your contribution to the success we are already seeing.

As a result, we are a better bank. A bank that delivers for our clients, communities and for Europe.

Yours sincerely,



Pietro Carlo Padoan
Chairman UniCredit S.p.A.

Letter from the Chief Executive Officer

“

I am determined that UniCredit is an institution which lives by the principles we have set for ourselves, as we have done throughout 2022. We have confronted challenges head-on and because of the proactive steps we have taken, we are primed to seize all opportunities as they arise.

Dear Stakeholders,

When we look back on UniCredit's journey, 2022 will be seen as a pivotal year. It was the year that we executed on the fundamental aspects of UniCredit Unlocked that have strengthened our bank further. It was the year we laid the foundations for future successes. And it was the year we transformed our bank.

The UniCredit of today is a different organisation from a year ago. This is not because of a change in any of our bank's fundamentals; it is because of the growth and value we have driven and created from within. The assets that gave us our innate strength and potential a year ago remain today: UniCredit continues to have an extensive talent pool, fantastic clients and a pan-European reach. But we are a different bank.

We are different because of what we have done with those ingredients. UniCredit Unlocked has changed the way we are utilising our bank's fundamental assets. Through 2022, we transformed our operating model, to one which empowers our people and gives our clients what they are asking for. One which unleashes the very best of what our bank has to offer, and one which focuses on growth rather than retrenchment.

Critically, in 2022 UniCredit Unlocked changed our organisation's culture and our mindset. We are now a forward-looking bank, one that is ambitious about the future and achieving sustainable growth. We are winning.

This mindset change is what is driving our ability to serve clients, deliver success for all our stakeholders, and become the bank for Europe's future. We have much more to do before we achieve that ultimate ambition, but we are now a bank that is operationally capable of delivering on such a bold ambition.

As the last year has shown more than ever, the world in which we live is a complicated and rapidly evolving one. The only thing that can be certain is uncertainty itself. As always, but especially in such an environment, we must return, unfailingly, to our principles and values.

I am determined that UniCredit is an institution which lives by the principles we have set for ourselves, as we have done throughout 2022. We have confronted challenges head-on and because of the proactive steps we have taken, we are primed to seize all opportunities as they arise.

This has led to some difficult decisions, but they are decisions guided by integrity and which we would return to again and again.

We are setting a new benchmark for the banking industry, with a focus on long-term value creation, sustainability, resilience and inclusion.

Strong foundations

At the start of the year, our ambition was deemed too steep by many. Our plan was too difficult. Yet despite all the challenges 2022 provided, it will be remembered as a year we beat all our targets - with a generous margin.

We have moved quickly, outperforming our plan and executing on our industrial transformation in record time, with a team that are motivated by a shared ambition and passion.

We have strengthened our two best-in-class product factories, which can be leveraged by each of our 13 banks. This is a proven model that is difficult for our competitors to replicate.

We have begun to optimise and update our legacy infrastructure, so that we can build a fully digital and data driven organisation which is fit for the future.

We have delivered on our ESG objectives, and remain steadfast in our commitment to reach 150bn new ESG volumes by 2024, 10bn of which will be social finance, and our plan to reach net zero on financed emissions by 2050 and on our own emissions by 2030. Our ESG commitments are a critical aspect of our ability to set a new benchmark for banking and become a bank for the future, and we are determined to do even more and go further in coming years.

All our actions on industrial transformation are directly connected to our financial performance and financial KPIs through which we manage the three levers of cost, net revenue and capital. Today we are a bank that grows profitably and sustainably, is efficient, generates outsized capital organically, and has a robust balance sheet and capital. We are achieving the best results in UniCredit's history. In Q4, we announced FY22 net profit[1] of 5.2bn and we are now in our eighth quarter of year-over-year growth.

1. Net Profit with UniCredit Unlocked methodology (means the stated net profit adjusted for AT1 and CASHES coupons and impacts from DTAs tax loss carry forward contribution)

COST

-2%

FY22/FY21
Targeted reduction

TARGETED, SUPERIOR OPERATIONAL EXCELLENCE

NET REVENUE

+13%

FY22/FY21
(Gross revenue up +14%)

HIGH-QUALITY NET REVENUE GROWTH

CAPITAL

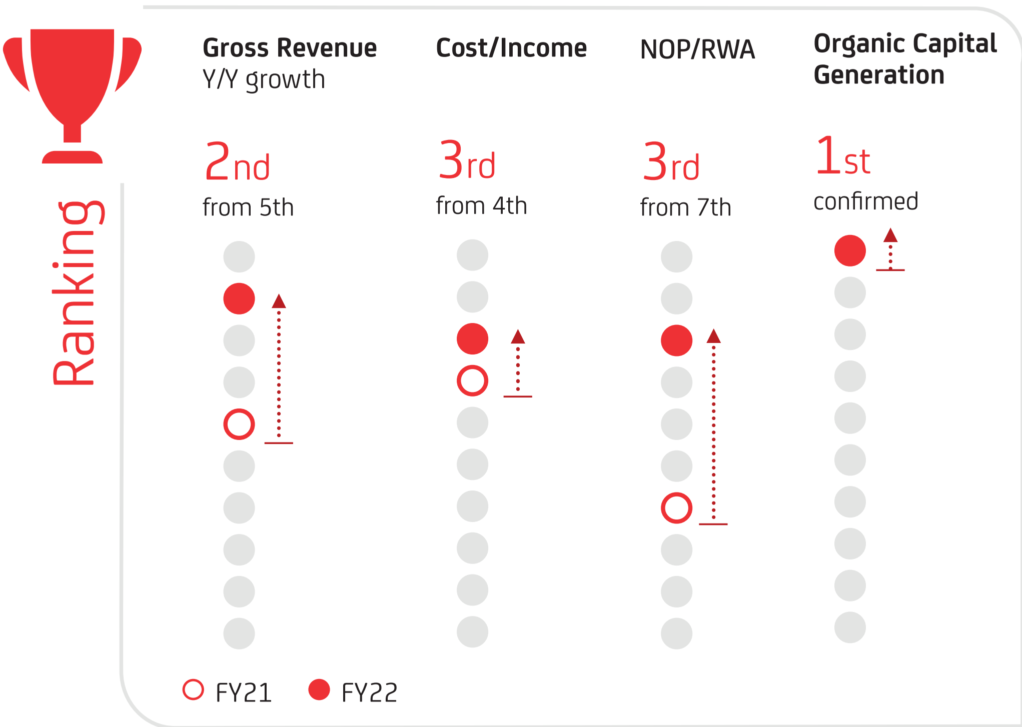
+279bps

FY22 Organic Capital Generation (€8.9bn)

BEST-IN-CLASS CAPITAL EFFICIENCY

In comparison to our peers, we have top tier top-line growth, operating efficiency, and unrivalled organic capital generation. We have one of the highest CET1 ratios, one of the highest quality credit portfolio and coverage, and the highest forward-looking precautionary overlays.

MOVING AT AN ACCELERATED PACE VS. PEERS ACROSS ALL LEVERS[2]

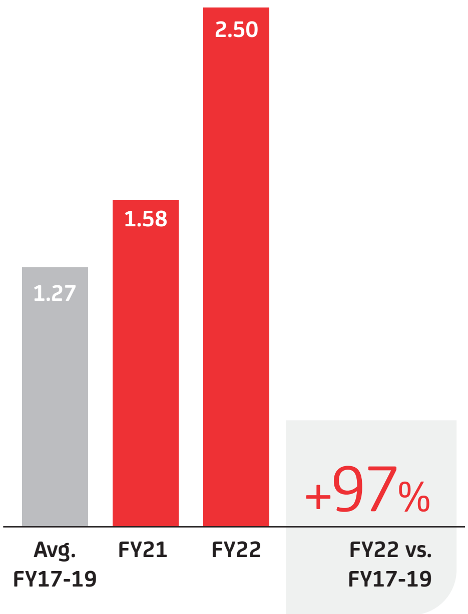


2. **Peers and UniCredit stated figures based on publicly available data**
Selected peers: BBVA, BNP Paribas, Commerzbank, Credit Agricole S.A., Deutsche Bank, ING, Intesa Sanpaolo, Santander, Société Générale

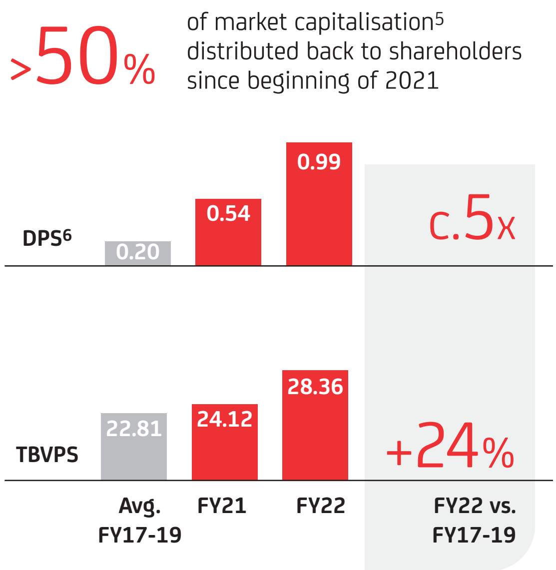
Our results throughout the year are evidence of industrial transformation and execution of strategy across all levers which gives us the ability to withstand shocks and to deliver sustainable and attractive shareholder distributions. Our results, and their quality, allow us to propose a total 2022 shareholder distribution of 5.25 billion euros, up 40% year on year, pending shareholder and supervisory approvals.

At the same time, we are delivering exceptional per-share value creation. Our net profit growth has been enhanced by share buy-backs, nearly doubling EPS versus our historical run-rate, with DPS five times higher, and tangible book value per share up nearly a quarter.

BOOSTING EPS[3,4]



EXCEPTIONAL SHAREHOLDER VALUE CREATION



Figures Group including Russia

3. Net Profit with UniCredit Unlocked methodology (for 2022 means the stated net profit adjusted for AT1 and CASHES coupons and impacts from DTAs tax loss carry forward contribution; for 2021 also adjusted for non-operating items); FY17-2019 Group excluding Turkey and Fineco Bank for comparison purposes.
4. EPS is calculated using Net Profit as per the definition above, divided by the average diluted shares in the period.
5. FY22 distribution subject to supervisory and shareholder approvals.
6. FY22 DPS best estimate, please refer to the FY22 results press release for additional details.

Face the future

It is difficult to predict what is to come in 2023, but the progress we have made this year gives me confidence in our ability not just to face the future, but to capture the opportunities that this environment will present. We have achieved a great deal, but there is so much more value still within our bank that needs to be released. In 2022 we transformed our bank, but I am confident that was just the beginning, and we will go on to achieve much more.

There is no doubt that great challenges lie ahead, for organisations individually, but also for Europe as a whole. If we are to unleash the full potential of Europe as an economic bloc, we must come together more fully than we have done to date. The benefits of greater integration will be exponential and enable us to compete on the world stage – in a way that we are not at the moment.

For us at UniCredit, when we face the challenges ahead, we will return to two things.

The first is our strong foundations, now liberated to thrive and release their potential, as well as the innate strength that comes with being a pan-European bank. Our presence and reach across the continent enables us to leverage the benefits that come with scale. We have seen throughout 2022 how our offering to clients is maximised exponentially when shared across our 13 banks.

The second is our desire to set a new blueprint for banking, one which is guided by principles and values, and determined to create success for all stakeholders for the long-term. This is what we will return to, time and again, when we are carving our path through a challenging time. I firmly believe that if we adhere to these, we will succeed. And more than that, we will win: for our clients, our communities, and our investors.

This is the bank that UniCredit is becoming: a better bank. In 2022, we took incredible steps towards that goal, and I know that much more is to come in 2023.

I extend my sincere thanks to you all for your support on this journey. I am grateful to the Board, our investors, the UniCredit team, as well as our clients and those communities that we serve for staying with us and supporting us as we move into the next phase of our growth, building on what we achieved in 2022.

It is the team's commitment that has enabled us to deliver what is not only an incredible organisational transformation, but a better way of operating as an industry for the whole of Europe.

2022 was the year we laid the foundations for this success, and I have no doubt 2023 will be the year we capitalise on them.

Thank you,

Andrea Orcel
Chief Executive Officer UniCredit S.p.A.

Our key 2022 milestones - while delivering record results

JANUARY

A Top Place to Work in Europe
UniCredit certified as a 2022 Top Employer in Europe

UniCredit & Allianz – a new collaboration is born
Allianz Partnership

Optimising our digital portfolio through leading data analysis technology
Germany launches the OneWealth platform

FEBRUARY

United behind a single ambition. Support for Ukraine
UniCredit supports Ukraine and its people across all geographies

MARCH

Putting our clients at the centre
CIB becomes Client Solutions

1Q

Proud of our Progress

APRIL

Simplify to help our clients succeed
Embedding simplification best practices as we build our bank for the future

MAY

Keeping our digital communities connected
UniCredit expands its social media footprint

Austria's first inaugural Green Covered Bond to support green projects

Delivering for our shareholders
Share Buyback Programme launch - Financial capital for ESG strategy

JUNE

A new training offering for all our people
The official launch of UniCredit University

The official launch of our Culture and Values
Culture Day

JUNE

3 Financial levers: Net Revenues, Cost and Capital

2Q

Excellent performance and strong positioning

JULY

A new offering for Digital-first corporate services
Investing in new onli-ne solutions

Our Sustainability commitment
First Sustainability Bond Allocation report

Introducing our new Code of Conduct
2022 Code of Conduct

AUGUST

Leading solar energy financing in Hungary
Sustainable solar energy developments

SEPTEMBER

Investing in our future generations
Announcing a Partnership with Teach For All

Empowering our employees with collaboration tools
A Group-wide Digital transformation through cloud technology

Our commitment to individuals and SMEs
UniCredit per l'Italia

Reducing our carbon footprint: one ESG commitment at a time
UniCredit signs up to Sustainable STEEL Principles to promote greener steelmaking

A market leader in financing for renewables
UniCredit Serbia leads renewable project financing

3Q

Proof of a transformed UniCredit

OCTOBER

Prioritising gender equity across our bank
UniCredit obtains EDGE Certification

Another step in our journey to Net Zero
UniCredit is the first bank in Europe to obtain the ESG GRESB scoring on its corporate real estate portfolio

Building an integrated, fast and Digital bank
Living Digital Days

The beginning of a new era for UniCredit
Launching the onemarkets Fund

Empowering Bulgarian corporates and SMEs
First securitisation deal in Bulgaria

Culture Roadshow
Our Culture Manifesto in action

NOVEMBER

Next-generation Wi-Fi for all
Network efficiency across all our premises

Embedding DE&I in everything we do
Diversity, Equity & Inclusion Week

UniCredit Foundation

Unlocking the potential of Europe's next generation
UniCredit Foundation relaunch

DE&I WEEK
#EmpoweringU

Data stands behind our improved customer service
Building a better data-driven bank

DECEMBER

UniCredit & Azimut – a new collaboration is born
Strengthening competence and driving scale and synergies

Creating an enhanced Digital experience for our retail clients
A new approach to doing business

UniCredit Unlocked one year anniversary: posting a record year, well ahead of UniCredit Unlocked

4Q

Transformed and positioned to win
Record 4Q22 and best Full Year results in a decade. Already delivering above UniCredit Unlocked

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Financial Highlights & Milestones

Financial Highlights & Milestones

FY22 confirmed UniCredit is already a transformed bank. UniCredit Unlocked the right strategy.

PEOPLE & ORGANISATION - THE RIGHT WAY TO WIN TOGETHER

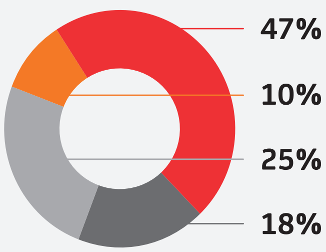
- Building an ecosystem to deliver grow by removing silos and having 2 product factories
- Streamlining processes and empowering people within a clear framework
- Delayering the organisational structure to move closer to the client

PRINCIPLES & VALUES

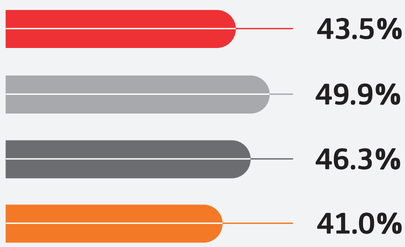
INVESTORS - ATTRACTIVE BANK DELIVERING 2022 BEST-IN-CLASS SUSTAINABLE RETURNS AND CAPITAL GENERATION

- +279 bps Organic capital generation
- RoTE above 10.7%
- Risk management - CoR at 41bps
- CET1r (stated) 16.0%

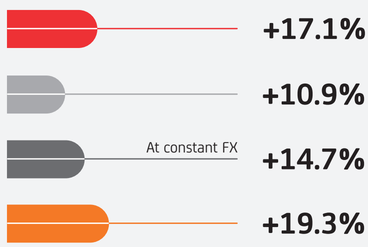
Net revenues per region



Cost - CIR (cost income ratio) per region



RoAC per region



● Italy ● Germany ● Central Europe ● Eastern Europe

Delivering for our shareholders
Share Buyback Programme launch - Financial capital for ESG strategy

MAY

JUNE

3 Financial levers: Net Revenues, Cost and Capital

UniCredit Unlocked one year anniversary: posting a record year, well ahead of UniCredit Unlocked

DECEMBER

Our financial results. Transformed and positioned to win.

GROW

18.4bn net revenues. 13% Y/Y

STRENGTHEN

FY22 CET1r stated capital up to 16.0%

DISTRIBUTE

Proposed distribution for 2022 at 5.25bn[1], up 40%

OPTIMISE

Strong cost management with CIR at 47.0%

1. Pending Shareholder and supervisory approval

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ESG

Navigating the sustainable transition is a key part of empowering our communities to progress. In 2022, UniCredit continued to support its clients and communities in the transition towards a fairer and more sustainable future.

In line with our Net Zero commitment, we became the first bank in Italy to sign a corporate power purchase agreement with a specialist green power producer for our core data centres, and the first bank in Europe to obtain the Global Real Estate Sustainability Benchmark scoring on its corporate portfolio.

We were also proudly recognised as the Best ESG Bank Italy 2022 by the World Economic Magazine and the Best Social Impact Bank Europe 2022 by Capital Finance International.

Furthermore, we continued to increase the scope of our social activities with a strong commitment to Youth and Education, launching a foundational partnership with Teach For All to elevate education for children across seven of our countries and strengthening our ESG culture with dedicated training programmes for all staff under the UniCredit ESG University.

In addition, we were the first company in Italy to sign up to the Finance for Biodiversity Pledge, further supporting our Net Zero journey and commitment, and our Group also became a member of the Ellen MacArthur Foundation's international charity network to support our approach to accelerating the circular economy transition across our countries.

To follow UniCredit's Sustainability journey in 2022, click on the timeline below and find out more about how we transformed through 2022 in order to fulfil our Purpose: to empower communities to progress.

Our ESG milestones

Austria's first inaugural Green Covered Bond to support green projects

MAY

JULY

Our Sustainability commitment
First Sustainability Bond Allocation report

Leading solar energy financing in Hungary
Sustainable solar energy developments

AUGUST

SEPTEMBER

Investing in our future generations
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OCTOBER

NOVEMBER

Unlocking the potential of Europe's next generation
UniCredit Foundation relaunch

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UniCredit Foundation

UniCredit Foundation

Unlocking the potential of Europe's next generation

This year, the UniCredit Foundation relaunched its Purpose and commitment to empowering Europe's youth by unlocking their potential through equal education opportunities.

We believe that only by investing in the next generation's education and progression, can we ensure growth and development across our society.

In line with UniCredit's ambition – to be the bank for Europe's future – our Foundation is focused on giving Europe's next generation the key to unlocking their innate potential and empowering them to become the changemakers of our society.

To do this, the UniCredit Foundation is working towards combating school dropout rates, enhancing employability, encouraging university attainment and promoting study and research. These all directly feed into to the Foundation's new Purpose: to unlock the potential of Europe's next generation. The UniCredit Foundation empowers our youth by providing them with the tools and resources they need to become successful in their academic and professional careers.

This is why the Foundation relaunched its Mission: offering equal educational opportunities to Europe's youth – our future leaders of tomorrow. To pursue this ambitious new journey, the UniCredit Foundation reshaped its governing bodies, electing a new Board of Directors for the next three years, which will be chaired by Andrea Orcel, Group Chief Executive Officer and Head of Italy, and vice-chaired by Professor Giorgio Barba Navaretti. Serenella De Candia has maintained her role as a member of the Board, while six new members have joined: Katharina Gehra, Szilvia Gyurkó, Roberto Kutić, Dorith Salvarani-Drill, Gerry Salole and Klaus Schwertner.

The nine international members aim to ensure there is equal representation both internally (UniCredit Group) and externally outside of the bank. Further, the careful selection of representatives maintains a strong presence of members from all four UniCredit regions, who represent diverse backgrounds, gender, expertise, and philanthropic experience.

Education is essential. It's a key driver of Europe's future, and it is our responsibility as an institution to identify, support and empower our youth – those individuals who will lay the foundation for Europe's progress and success in the years to come. It is our bank's Purpose to empower communities to progress, and it is our commitment to promoting social advancement, in line with our ESG strategy and strategic plan.

Andrea Orcel
Chairman of the
UniCredit Foundation

2022: Year of transition

2022 has been a transitional and evolutionary year for the UniCredit Foundation.

Key Milestones

Food For Poverty Initiative
Since the beginning of the pandemic, the UniCredit Foundation has taken concrete actions to fight food poverty across Italy and to support organisations involved in the distribution of food to all those in need throughout the Country. To date, the Foundation has donated over **€5 million, the equivalent of 3.8 million meals, to 69 non-profit organisations.**

HUMANITARIAN EMERGENCY

MARCH

MAY

JUNE-JULY

HUMANITARIAN EMERGENCY

Our charitable initiatives for Ukraine
A total of 4,170 employees from across the Group came together in unity to donate their personal funds in full support for Ukrainian refugees. All donations were matched (doubled) by the UniCredit Foundation **for a final total contribution of approximately €845,000**.

SUPPORT TO STUDY & RESEARCH

PhD, Master scholarships and Fellowship
UniCredit Foundation launched a series of initiatives to support European university students, in line with its continued commitment to supporting study and research. This includes **about 30 scholarships and research grants, with a total value of around €1.5 million**.

NOVEMBER

PILOT PROJECTS IN EDUCATION

Obiettivo Lavoro Project - Orienteering in Vocational School

Together with the Fondazione Ing. Rodolfo Debenedetti, the Foundation acts as a compass, addressing the lack of **connections between schools and labour market intermediaries**. The ambition is to **improve access to employment** for young graduates of vocational schools through the implementation and evaluation of the impact of a **counselling programme**.

THE RELAUNCH

New mandate and look

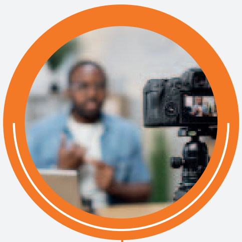
This year, the UniCredit Foundation **relaunched its Purpose** and commitment to empowering Europe's youth by unlocking their potential through equal education opportunities. The Foundation also presents a fresh look: **a brand-new logo** composed of a harmonious intersection of lines, shaping the 'U' and the 'F' with shades of warm colours representing growth, development, and progress. This introduces **a new visual identity** to bring it closer to its target audience.

DECEMBER

PILOT PROJECTS IN EDUCATION

Call for Education

UniCredit Foundation launched an internal call to identify and support educational projects in **Bulgaria and Romania** for young people in the 11-19 age group (lower and upper secondary school), allocating financial resources **up to €500,000**, to maximum of 4 wide-ranging projects.



20 YEARS OF GIFT MATCHING

Gift Matching Program

UniCredit Foundation launched the Gift Matching Program **for the 20th year** in a row. Through this initiative, the Foundation and UniCredit's people joined forces in their solidarity commitment. The 2022 edition supported non-profit organisations engaged in activities for children and young people up to the age of 24, **doubling donations made by groups of colleagues** and recognising an **additional contribution** to initiatives aimed at **fostering educational equality**.

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Results of UniCredit Bank Hungary group

Message from the CEO of UniCredit Bank Hungary Zrt.

Dear Readers,

In 2022, after the end of the pandemic, we faced unforeseen difficulties. Uncertainty has increased, and the war in our neighbourhood has created a difficult situation in humanitarian, economic and energy terms. I am proud that our Bank has maintained its market position with record results despite the challenges, including rising inflation. This would not have been possible without the dedication, commitment and enthusiasm of our colleagues, and I thank them for this.

Let me highlight just two examples of the successes of our efforts. The consolidated balance sheet total of UniCredit Bank Hungary Zrt. at the end of 2022 was HUF 5.052 billion, an increase of HUF 456 billion (10%) compared to the end of 2021. With a very strong increase in operating costs, the bank's profit after tax for the year was HUF 84.8 billion, up more than 80% year-on-year.

The key to our success lies in the expertise and experience of our staff and in our advanced and comprehensive range of services. In the case of our corporate partners, we have paid particular attention to green financing, including solar energy investments. I am proud that we are now one of the main financiers of solar energy investments in Hungary. Our work has helped to increase Hungary's solar capacity at the fastest rate in the EU in recent years, and as a result, the annual Hungarian share of solar power generation is almost double the European average.

Another important achievement of the year is that we have redesigned our lending process for our small business customers, so that they can access the funds they need even faster. We continue to be at the forefront of customer-friendly pricing, with some of the best offers for both home loans and personal loans.

Sustainability is mainstreamed in all our business and decision-making processes. The exemplary way UniCredit does business, our commitment to helping our customers make a just and sustainable transition, and our contribution to building a better society all underpin this approach.

UniCredit's value system is based on our three corporate Values, Integrity, Ownership and Caring. Our mission is to empower communities to success - it drives our daily lives and our business decisions and processes.

The slowdown in economic growth in 2022, the threat of recession, inflation and the resulting drop in demand for credit due to rising interest rates are all serious challenges - but our vision is strong and we are confident in continuing the efforts we have begun. This is how we can respond optimally to constant change and drive value for our customers.

Sincerely,

Balázs Tóth
Chairman and CEO
UniCredit Bank Hungary Zrt.

Content

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Financial highlights

Financial highlights

UniCredit Group Hungary – IFRS consolidated

Profit figures

(HUF million)

	2022	2021
Profit before taxes	93,266	50,949
Profit after taxes	**84,845**	**46,339**

Balance Sheet figures

(HUF million)

	2022	2021
Balance Sheet Total	**5,052,402**	**4,596,614**
Loans and Advances to customers (net)	2,061,277	1,730,549
Deposits from customers	2,887,653	2,792,420
Shareholder Funds	391,341	395,361

Indicators

(HUF million)

	2022	2021
Return on Equity before taxes	23.71%	13.06%
Return on Equity after taxes	21.57%	11.88%
Return on Average Assets (ROA) before taxes	1.93%	1.17%
Return on Average Assets (ROA) after taxes	1.76%	1.07%
Cost Income Ratio*	50.29%	55.90%
Net fee income in percentage of Total Operating Income	25.55%	32.99%

Indicators prescribed by NBH

(HUF million)

	2022	2021
Regulatory Capital	379,903	351,762
Risk Weighted Assets	1,744,889	1,700,847
Total Capital Ratios	**21.77%**	**20.68%**

Other figures

(HUF million)

	2022	2021
Headcount (FTE)	**1,774**	**1,770**
Number of locations	54	56
Number of branches	52	54

* Based on standard of Consolidated Financial Statement

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Management report

Management report

Macroeconomic environment and the banking sector in 2022

The international economic and financial environment

The normalisation processes of the world economy, which is slowly recovering from the shock caused by the pandemic, were tested in 2022 by a series of the new complex, difficult-to-manage, unexpected and unavoidable challenges. Among these, the biggest threat to global growth was inflation, which accelerated to levels unseen for decades in most countries, in part due to the growth stimulus during the pandemic crisis, and in part due to the energy crisis fuelled by restrained Russian gas deliveries, the sanctions related to the Russian–Ukrainian war that started in February, and the drought growing to global size. Following the strengthening of price dynamics, which was initially believed to be temporary but essentially sustained for most of 2022, the fight against inflation, which also accepts slowdown risks, came to the forefront of economic policy efforts.

Among the central banks that influence international financial trends, the US Fed started the tightening well ahead of the European Central Bank (ECB) due to the higher inflation risks when it lifted the reference interest rate from 0.25% to 0.5% in March and then in several steps during the year by 400 basis points, to 4.5% by the end of the year. The ECB raised interest rates for the first time in 11 years in July 2022, ending an eight-year era of negative interest rates. The reference interest rate for the euro area rose from -0.5% to 2% between July and December. In addition to the interest rate hikes, both central banks stopped their asset purchases, and the Fed started reducing its total balance sheet. After a definite turn in inflation, as defined by financial decision-makers, they had been delayed for a long time. During the year, the rhetoric of both the ECB and the Fed shifted in the direction of increasingly strong tightening, which, concerning 2023, essentially means the continuation of interest rate increases and the reduction of balance sheets, and in the case of the ECB, the beginning of the latter.

In terms of monetary tightening, the Fed's actions, which were much firmer than the ECB's for a long time, generated a lasting dollar strengthening and forced many emerging economies that relied heavily on external financing to follow the path of monetary tightening.

The global business climate gradually worsened due to less favourable financing conditions and inflation eroding real earnings. Most economies also showed slowing GDP growth from the year's second half. The zero-tolerance reinforced the negative trends of China's resurgent Covid-19 pandemic wave, which firmly restrained the dynamics of GDP growth in the world's second-largest economy and broke the year-long consolidation of supply chains.

Domestic macroeconomic developments

By the beginning of 2022, the Hungarian economy had become overheated due to the significant fiscal expansion of late 2021 and early 2022. Intensified internal demand and exploding global energy prices resulted in a rapid deterioration of external equilibria, the weakening of the exchange rate of the HUF vis-a-vis the euro and other major currencies, one of the highest inflation rates in the Central and Eastern European region, and a significant increase of the general government deficit.

By May, it became clear that fiscal adjustment was inevitable. The correction took place in several steps during the summer. In the first round, an adjustment package corresponding to 3% of GDP was published, 40% of which came from sectoral taxes and 60% from cuts in government spending. In the second round, significant expenditure-reducing and additional income-increasing measures followed suit, transforming utility subsidies and modifying the flat-rate small-taxpayer tax KATA.

Most of the adjustment package elements further intensified the already intense consumer price pressure caused by the fiscal stimulus preceding the parliamentary elections in April 2022, the global energy price explosion, the wage outflow induced by the tight labour market, and the sharp depreciation of the HUF. Inflation, which was still close to 8% at the beginning of the year, accelerated to 24.5% by the end of 2022 year-on-year, the highest rate measured in the European Union, and the annual average speed rose from 5.1% in 2021 to 14.5% in 2022. The Hungarian Central Statistical Office (HCSO) last measured a similarly high rate in 1998, valued at 14.8%. The price caps levied on food, and fuel could not curb inflation significantly. Moreover, in the case of fuel, the excess demand resulting from depressed prices generated such a severe supply shortage that the government decided to abolish the price cap on 6 December.

In connection with the evaluation of 2022, another aspect that deserves attention in addition to the uncontrollable inflation is the weakening trend of the HUFs exchange rate, which became a significant factor reinforcing price pressure starting from the second third of the year. The Hungarian currency depreciated by 15% against the euro and 27% against the US dollar between 1 January and 13 October 2022, a new negative record day. Several country-specific risk factors and global market trends worsened its position. These included, among other things, the weakened fundaments (increased general government and external financing deficit), the high degree of dependence on Russian natural gas imports and the unfavourable market reception of the adjustment package focused on special taxes. Even more important than these in affecting the exchange rate was that the inflow of EU transfers was uncertain until mid-December. The central bank's interest rate decisions (one-week deposit) did not follow market expectations for a more permanent and higher-level interest rate hike cycle, based on the inflation rate tending to be higher than expected.

Thanks to the trend of gas prices going downward since September and the agreement with the EU in December, the losses were halved by the end of the year. However, the HUF underperformed most emerging currencies in 2022, and its weakness is a challenge from an inflationary, current account and budgetary point of view.

Despite increasingly unfavourable macroeconomic trends and risks in energy supply, Hungary's GDP expanded at a high rate of 4.6% in 2022, thanks to the rapid dynamics of the first half of the year.

The performance of the Hungarian banking sector

The Hungarian banking system achieved after-tax profits of HUF 328 billion in the first three quarters of 2022, 34% less than a year earlier.

The average ROE (Return on Equity) indicator was 5.7%. The central bank's interest rate hikes and the loan portfolio expansion resulted in a 50% jump in net interest income, but this effect was cancelled out by the increase in operating and risk costs.

Net fee and commission income, which depends on real economic activity, lending, and payment transactions, rose by 17%. Operating costs exceeded the previous year's level by 38%, the reason for which was primarily the newly introduced extra profit tax. Since banks typically recorded the new special bank tax imposed for the entire year already in the second quarter, the cost increase was less pronounced in the third quarter.

Several one-off and temporary negative items affected the banking sector's profitability in 2022. The government imposed an extra profit tax of HUF 200-250 billion on the banking sector. From 1 July 2022, the transaction duty was extended to securities transactions, and the upper limit of the duty was raised from HUF 6,000 to HUF 10,000 per transaction representing another HUF 50 billion burden on the financial sector. The banking sector was also hit by the cost of the interest rate cap on retail mortgage loans, and in November 2022, an interest rate cap was also introduced for SME loans.

In the first nine months of 2022, impairment and provisions were generated in the amount of HUF 363 billion – of which HUF 126 billion alone in the third quarter – which was three times the figure of the previous year, but this has not yet reflected the deterioration of the loan portfolio. According to the MNB's (Magyar Nemzeti Bank – National Bank of Hungary) information, the dominant part of the net impairment and provisioning was attributed to a large banking group with significant foreign exposure.

The downward trend of the non-performing loan (NPL) rate of the total loan portfolio stopped at the end of 2021 and was on a continuous rise in 2022, reaching 3.0% at the end of the third quarter.

The NPL rate of non-financial companies stagnated at 4.0%; that of all household loans increased from 4.2% to 4.4% in the third quarter compared to the previous quarter, whereas the NPL rate of mortgage loans secured by residential real estate grew from 3.7% to 3.8%.

At the end of December, the total domestic loan portfolio was up by 16.5% compared to the end of 2021, within which the portfolio of loans to non-financial companies increased by 16.3% in one year, which was strengthened by government loan programmes.

Due to the phasing out of the general moratorium and the surge in prepayments, the growth rate of the loan portfolio decreased already in the first half of the year. Loans granted to households grew by 6.3% compared to the end of 2021 due to subsidised loans, the demand brought forward in connection with the interest rate hike, and the jump of loans because of the housing price increases. The strong demand for the Funding for Growth Scheme (FGS) Green Home Programme (ZOP) also contributed to the dynamic rise in lending, thanks to which a record volume of housing loans was issued in the second quarter. However, with inflation and the dynamic increase in housing prices in real terms, the provision of retail loans was substantially below the levels preceding the 2008 crisis. As a result of the interest rate hike cycle, demand could have been brought forward in the first half of 2022; however, from July, new loan issuance decreased simultaneously with the decline in housing market transactions, the further rise of interest rates, and the termination of the FGS ZOP.

December was a particularly weak month for housing loans; new outlays amounted to HUF 41 billion, which was 61% less compared to December of the previous year. In 2022, the provision of new housing loans decreased by 8.3% to HUF 1,195 billion. The demand for childbirth incentive loans was high at the end of the year; in December HUF 70 billion worth of contracts were concluded, but even so, this type of loan closed the year 2022 with a 17% decrease, while personal loans were up by 5% in 2022. Still, they were 20% lower in December than a year earlier.

Operations of UniCredit Bank Hungary group

Quantitative and qualitative performance indicators

At the end of 2022, UniCredit Bank Hungary Zrt's consolidated balance sheet was HUF 5,052 billion, representing an increase of HUF 456 billion compared to the value at the end of 2021.

Net volume of loans and advances to customers amounted to HUF 2,061 billion; the nearly 20% annual increase can be partly attributed to the expansion of business activity, and to a lesser extent can be explained by the effect of the revaluation of foreign currency loans. The amount of receivables from credit institutions was HUF 929 billion, more than 20% lower than the value of the previous year.

Volume of deposits from customers ended at HUF 2,888 billion, and because of the more modest annual growth compared to loans, the loan/deposit ratio rose from 62% to 71% in 2022.

The bank's profit after tax for the current year is HUF 84.8 billion, which is by more than 80% higher than the previous year's value. The significant increase in earnings is primarily due to the higher net interest income caused by the interest rate environment. The annual growth rate of the net commission result is almost 20%, while the trading result - solely due to the negative result shown on the Treasury FX swap transactions - shows a slight lag compared to the previous year's value.

Very significant increase in operating costs is primarily due to the higher tax payment obligation: the group had – in a form of a new tax type (extra profit tax) - an additional payment obligation of HUF 15.5 billion in 2022. Additionally, the strong inflationary pressure, the rise in energy prices and the weakening of the HUF also contributed to the year-on-year change. Risk costs exceeded the level of the previous year by almost 50%; the difference can be explained on the one hand by the implementation of some government measures (interest rate cap), on the other hand by building special provision to cover the increased geopolitical risks.

The bank's performance indicators (in terms of profit after tax) were as follows:

$ROA_{2022} = 1.76\%$ $ROE_{2022} = 21.57\%$
$ROA_{2021} = 1.07\%$ $ROE_{2021} = 11.88\%$

Return on assets and equity indicators increased in 2022 due to higher profit after tax. The higher interest rate environment contributed to more robust profitability in 2022.

After the outstanding year 2022, a significant decrease in the net interest margin, as well as a further increase in cost levels due to the high inflation is expected in 2023.

These negative effects may be somewhat counterbalanced by the expected single-digit growth of the business volumes, as well as by lower projected risk costs; considering all expected effects, more than 20% decrease of the profit after tax is anticipated.

According to the plans, the balance sheet total may decrease slightly, at the end of 2023 it is expected to be around HUF 5,060 billion.

Lending risks

Concerning new retail loans, the banking group applies selectivity, which places greater emphasis on lower-risk segments and products, under the group's guidelines and responsible lending laws that came into force in 2010 and following the central bank's decree regulating payment-to-income ratio and loan-to-value ratios, entered into force in 2015 and then amended in 2016, 2018, and 2019, and its recommendations on practices considered prudent as part of its related supervisory procedures, and in line with the executive circulars of the MNB, thanks to which the quality of the newly placed portfolio is excellent.

The bank places a strong emphasis on its claims management and restructuring processes, as part of which, taking into account the MNB Recommendations 5/2022 (IV.22), 39/2016 and 2/2019 (II.13) and fulfilling their provisions, it continuously provides renegotiation opportunities for its retail customers who inform the bank about their current payment problems or worsening economic situation, or the bank detects those because of an already existing delay.

In 2022, the bank renewed the multi-year framework agreement on selling non-performing, terminated receivables according to a predetermined schedule and price. Based on this, the sale of the receivables package according to the second quarter is currently in the preparatory phase.

At the end of the moratorium period, our bank contacted our customers through several channels, informing them that they should visit our bank branches for a solution if they have any payment difficulties. Based on the provisions of MNB Recommendation 5/2022 (IV.22), the bank collection and restructuring process and the options available to customers have been reviewed. As a result, new, previously unused restructuring options were developed for several products. With this amendment, the bank allowed customers to maintain their solvency even after the moratorium, thereby aiming to reduce the number of defaulted loans. To facilitate the above, the bank implements a new predefined (dedicated) operation, significantly shortening the restructuring process. The business logic and its implementation have been completed, and the IT development went live.

In 2022, the bank's most important goal regarding the corporate portfolio was to protect the quality of the existing portfolio. Regarding the corporate loan portfolio, the bank's lending policy is differentiated by sector, stipulating that a selective risk approach must be applied to new transactions with the most vulnerable sectors.

In 2022, the risk policy with a sectoral approach was even more valuable in the emerging geopolitical situation. We took our measures on a sectoral basis, as well. We also based the strengthening of our monitoring activities on sectors hit the hardest by the economic effects caused by Russian–Ukrainian war. In our lending activities, we relied heavily on forward-looking analysis, particularly regarding economic ripple effects, energy and input price increases, volatile exchange rate and interest rate risks, inflation, trade relations, supply chain problems and the examination of special sectoral taxes. In the analyses, we sought to reveal the effects of the crisis, with the help of which we actively recommended various crisis products to our customers, including the incorporation of crisis guarantees, keeping in mind the avoidance of payment difficulties.

In the new lending activity, the selection was also based on the individual sectors' crisis impact and crisis resistance. In addition to the strengthened monitoring activity, we aimed to assess direct and indirect risks with targeted portfolio analyses, identify problematic customers, and carry out the appropriate stage classifications. When examining the moratorium portfolio, we primarily focused on uncovering payment difficulties expected to arise after the expiry of the moratorium.

Thanks to the prudent risk-taking policy, the loan portfolio is balanced in terms of sectoral composition, both concerning unproblematic transactions and transactions assigned to special treatment in 2022.

Market risks

UniCredit Bank Hungary Zrt. measures its market risks according to several risk factors and levels and limits them with the associated limit system. For all portfolios, it monitors their value at risk (VaR) calculated by historical simulation daily. VaR shows the value that, with the Group's current position, it would lose on the 2.5th worst of the last 250 working days (99% confidence level).

The VaR values are broken down according to the five leading risk factors: exchange rate, interest rate, unique interest premium, and stock and option volatility factors. The value at risk at the end of 2022 was EUR 19.4 million, i.e., HUF 8 billion. The distribution of risk factors at the end of the year was as follows: HUF 9.4 billion was the unique risk of bonds, HUF 6.4 billion the interest rate risk, HUF 307 million the exchange rate risk, volatility risk and around HUF 121 million the stock risk. Due to the diversification effect, the sum of the individual parts exceeds the total value at risk.

In addition to the applied VaR model, limits set for volume and loss warning levels also help reduce market risks.

For the interest rate risks, time band and all basis point value limits have also been determined per currency, i.e., changes resulting from simultaneous movements of the yield curve and its per-band simultaneous movements are also quantified and limited (Basis Point Value – BPV). A separate issuer risk premium above the interest rate risk (Credit Spread Point Value – CPV) was also determined for individual bond positions. The year-end interest sensitivity of the main currencies according to BPV level is summarised in the following table.

The year-end interest sensitivity of the main currencies according to the BPV level

BPV 2022.12.30 Euróban	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	Összesen
CHF	41	18	-2	4	0	61
EUR	-6 838	-31 934	56 382	-11 631	-5 182	797
GBP	-6	-37	0	0	0	-43
HUF	8 003	-18 713	-49 056	-47 065	-60 471	-167 303
USD	-776	-850	353	0	6	-1 266

Note: Negative values expressed in euros indicate long positions.

Liquidity management

According to the liquidity coverage ratio (LCR – Liquidity Coverage Ratio), credit institutions must maintain a sufficient liquidity buffer to cover the net liquidity outflow of a thirty-calendar-day stress period. The liquidity coverage ratio is regulated in EU law by Commission Delegated Regulation 2015/61/EU, which has been applicable since 1 October 2015. Based on EU laws, institutions must meet 60% of the LCR from 1 October 2015 and 70% from 1 January 2016. Within its national competence, the MNB accelerated the introduction of the regulatory limit for the indicator, and from 1 April 2016 on, it requires a 100% fulfilment of the liquidity coverage ratio.

The bank continuously monitors and manages the evolution of the LCR. At the end of 2022, the LCR value was 147.8%, with which the bank met the regulatory requirement. During the year, the LCR ranged between 132% and 255%.

The indicator quantifying the adequacy of long-term regulatory funding (NSFR – Net Stable Funding Ratio) was in the range of 124% and 154% in 2022, and at the end of the year, its value was 136%. Thus the bank group complied with the supervisory and internal limits during the year.

The internal rules for the structural (long-term) liquidity limit system and the management of the structural liquidity position changed in 2021. In 2021, the Group introduced a new structural liquidity indicator, the Structural Liquidity Ratio (SLR). The structural FX gap introduced in 2017 remained effective. At the same time, the SLR indicator entered into force, replacing the adjusted NSFR. Its evolution was still followed by the bank on a monitoring basis in 2021, while from 2022, limits were also assigned to it.

The structural FX gap indicator is the difference between long-term liabilities in each currency and long-term assets in the same currency (according to the classification criteria corresponding to the SLR calculation). There are no limits, but triggers were established for the euro and other currencies.

The SLR indicator is the quotient of the cumulative value of liabilities in maturity bands longer than the given date and the cumulative value of the assets reported for the same. The basic version of the indicator considered maturity bands beyond one year, for which a 93% trigger and a 90% limit were defined. There is no limit for the SLR 3Y+ indicator, which focuses on maturity bands beyond three years; only a trigger was determined at 100% level.

As regards the trigger, if this level is exceeded, a review, analysis and proposal process is activated. Still, it does not require the immediate correction of the position to keep it within the trigger. The proposal must be sent immediately to the competent body to decide on further measures.

The bank's loan/deposit ratio moved in the range of 56% and 75% during 2022 and was 71% at the end of the year. The indicator increased by 9 percentage points year-on-year with moderate fluctuations within the year. The main reason was the gradual increase in loans, which needed to be fully compensated for by the rise in deposits.

As of 1 January 2016, the Foreign Exchange Balance Indicator (FEB, in Hungarian: "DEM") was introduced, which maximises the denomination difference between assets and liabilities as the share of the total balance sheet at 15%. The value of DEM at the end of the year was -0.432%. Based on the decree prescribing the DEM indicator, in the case of a group that includes several credit institutions under consolidated supervision, the credit institution members of the group that are based in Hungary must comply jointly and on a consolidated basis.

The bank raised funds from supranational institutions in 2018 and 2022. At the end of 2022, the total loan volume drawn from the EIB (European Investment Bank) refinancing credit lines amounted to EUR 136 million. In addition to the above scheme, after suspending the MNB's Funding for Growth Scheme, with a net decrease of HUF 18 billion, the refinanced loan portfolio totalled HUF 170 billion at the end of 2022. At the end of the year, the refinancing loan stock provided by Hungarian Export-Import Bank Plc. totalled HUF 143 billion (with an annual decrease of HUF 9 billion), and the MFB (Magyar Fejlesztési Bank – Hungarian Development Bank) refinancing funds HUF 2.7 billion (with a yearly reduction of HUF 0.5 billion).

On a consolidated level, the bank group's mortgage bond portfolio amounted to HUF 171 billion. It issued MREL (Minimum Requirement for own funds and Eligible Liabilities) bonds of HUF 147 billion at the end of 2022.

The short-term liquidity situation was also characterised by stability in the examined period. In December 2022, the parent bank provided EUR 250 million in long-term parent bank funds to fulfil the foreign exchange financing compliance indicator.

During the period examined, the bank continuously met the minimum requirements stipulated in the government decree determining the liquidity level of credit institutions and regulating the maturity balance in foreign currency positions. Thanks to the strict group regulations, compliance with local regulatory limits was continuously ensured.

Employment policy

UniCredit's value system is based on authenticity, an ownership approach and care, which are sustainable conditions for us to create value from profits for stakeholders. A simple guiding principle, facilitating the development of communities, ensures that we live by these values every day.

By enforcing sustainable behavioural standards and values that guide our Group's objectives, the remuneration strategy plays a crucial role in enhancing and protecting our reputation and creating long-term value for the Group's stakeholders. The remuneration policy contributes to UniCredit's business strategy, long-term interests, and sustainability.

Much more than before, sustainability is a central part of everything UniCredit does and is fully integrated into business and decision-making processes: setting an example in UniCredit's business activities, assisting customers in a just and sustainable transition, and contributing to a better society. It is crucial to future business strategies and critical to the bank's success.

UniCredit strives to create a best-in-class, inclusive work environment through appropriate remuneration mechanisms. It supports and develops individual abilities to attract, retain and motivate a highly skilled global workforce capable of creating a competitive advantage for the Group. Individuals are remunerated based on merit and performance in terms of sustainable results, behavioural norms and group values.

UniCredit believes that inclusion is a strategic business driver, and it is committed to creating an inclusive, positive, and accessible work environment for its diverse workforce, where everyone has the opportunity to perform at their best. Employees are expected to contribute to creating and maintaining a work environment that is respectful, safe, and inclusive and in which differences in gender identity, age, race, ethnicity, sexual orientation, ability, cultural background, religion or ethical values and political beliefs, and other differences resulting from categories protected by the law of local jurisdictions are respected, and their acceptance is supported.

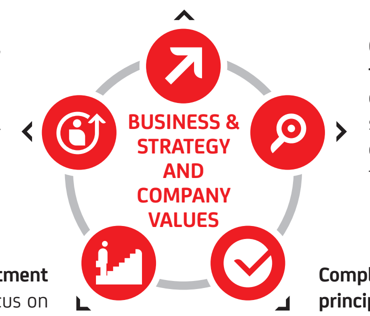
Based on UniCredit's governance model, the group-level remuneration policy provides a framework for the uniform and consistent design, introduction and monitoring of remuneration practices.

This general framework has defined guidelines for introducing remuneration programmes and plans that reinforce sound risk management policies and long-term strategy, aiming at the company's long-term value creation and sustainability. In this way, the Group can effectively respond to the specific and emerging needs of our various business lines, our market environment and our employees while ensuring that business and personal strategies are always correctly aligned with the remuneration approach, including, where appropriate, external networks and agents as required by regulation.

To ensure the competitiveness and efficiency of remuneration, as well as transparency and internal fairness, the main pillars of our remuneration policy are defined by the principles of sustainable behaviour and performance as follows:

Clear and transparent governance, trough efficient corporate and organizational governance structures, as well as clear and rigorous governance and rules.

Sustainable pay for sustainable performance, by maintaining consistency between renumeration and performance, and between rewards and long-term stakeholder value creation, as well as enhancing both the actual result achieved and the means by which they are achieved.



Continuous monitoring of market trends and practices and awareness of international practies, aimed at sound formulation of competitive compensation as well as at transparency and internal equity.

Motivation, retention and fair treatment of all employees, with particular focus on talents and mission-critical resources.

Compliance with regulatory requirements and principles of good business conduct, by protecting and enhancing our company reputation, as well as avoiding or managing conflicts of interest between roles within the Group or vis-à-vis customers.

Research and development activities

The bank does not carry out any research and development activities.

Events after the balance sheet date

After the balance sheet date, no material event or essential process affecting the bank occurred.

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Report on the divisions

Report on the divisions

Corporates Division

The year 2022, for the global economy as well as for the Corporates, was fundamentally defined by the Russian-Ukrainian war, central bank tightening and interest rate hikes given as a response to rising inflation, as well as HUF exchange rate volatility. On the back of growing loan volumes and interest rate hikes, in 2022 Corporates Division realised a significant increase in revenue, whilst maintaining a strong focus on asset quality and concentrating on digitalization efforts. The corporate loan portfolio increased by +21.9% during the year, resulting in a 10.7% loan market share at the end of 2022. In terms of both revenue and profits, Corporates Division continues to serve as the leading pillar of the bank.

It is, however, not only our profit indicators that make our bank one of the main Hungarian corporate banks. Awards received from prestigious forums and, even more importantly, the feedback from our corporate clients confirm our excellent reputation. Based on an objective satisfaction survey conducted among our clients (NPS), UniCredit's high standard of services were recognised again for the outstanding result it achieved among the corporate and investment banks active on the Hungarian market in 2022. Based on Euromoney's annual cash management survey, UniCredit Bank Hungary Zrt. won the "Euromoney Market Leader" and "Best Service Provider" awards. Additionally, Euromoney, based on its annual trade finance survey, recognised UniCredit Bank Hungary as the market leader and the best trade finance provider in 2022, as well. Additionally, at the Mastercard Bank of the Year competition organised for the sixteenth time, in a renewed form, UniCredit Bank won the second prize in the category "Corporate product and service innovation of the year 2021" with its innovative Smart Data application.

The key to our success is the expertise and experience of our colleagues and our comprehensive range of sophisticated services. As in prior years, we continued to pay special attention to the quality of the services we provide to clients. To this end, a renewed customer service model was launched in 2022, in line with the UniCredit Group approach, which enabled a more efficient service to customers.

In 2022, structured financing closed another successful year. We continuously sought to help and serve our customers' needs by offering them customised structured financing solutions that were ideally matched to their needs and often had an international dimension. During the year, we significantly increased our share in the renewable energy sector. Among other things, as a leading organiser, coordinator, and general lending agent, we facilitated the financing of the solar power plant project with the largest installed capacity in Hungary, as part of a bank consortium. The total solar power plant capacity financed by us now exceeds 500 MW, making us one of the largest players in this segment. We were also active in the field of structured corporate finance, performing banking coordinating, organising, and lending agency functions in several new transactions that are significant even by international standards, and thus we were able to again strengthen our leading market position. Thanks to our positive and flexible approach, we were able to further strengthen our relationship with our customers. In the meantime, we were also able to maintain the excellent quality and profitability of our loan portfolio. In 2022, the loan portfolio managed by the Real Estate Finance Department continued to expand, maintaining the high quality of the portfolio.

In 2022, we involved additional transactions under the EIF InnovFin portfolio guarantee agreement signed with the European Investment Fund (EBA/EIF), which provides guarantees for the investment and working capital loans of SMEs and mid-cap companies, thereby facilitating our customers' access to financing. In addition, as in previous years, we provided our customers with subsidy pre-financing and financing to supplement own contributions in investment projects, in projects partially realised with EU or domestic funding.

Agribusiness financing in the broader sense continued to be one of our focus areas in 2022. The expansion of the investment loan portfolio for agricultural and food producers was also stimulated by the development subsidies received under the Rural Development Program. In addition, the increase in world market prices resulted in an expansion of working capital financing needs, where we continued to support our customers with tailored solutions.

The management of the significantly changed HUF and foreign currency interest rate environment by the Transactions & Payments' Cash Management department in 2022 required greater adaptability than in previous years.

As a result of our reliable service level and high-quality client service, additional card acceptance locations were deployed. Our market share also continued to grow, by the end of the year more than 7,000 POS terminals were operating in our network. We continued to promote the UniCredit SoftPOS application introduced in December 2021, which allows the acceptance of contactless cards or payment devices – phones, smartwatches – with unprecedented convenience anywhere, anytime. With the new application, small businesses can replace the physical POS terminal with their own mobile device, offering a simple, convenient payment option to their own customers. In response to customer feedback, we improve the quality of our services and expand our product range on an ongoing basis. Thus, in 2023, we will continue to work on developing our card acceptance service.

Our Trade Finance department closed another successful year in 2022. The department expanded dynamically in structured working capital optimisation and financing solutions tailored to customer needs, and it managed to actively participate in the sale of products refinanced by EXIM. The awards received at Euromoney's Trade Finance survey serve as a prestigious recognition of UniCredit Bank Hungary Zrt.'s trade finance performance.

The staff of the Documentary and Guarantee business unit continued to manage a significant portfolio of guarantees, and new types of transactions were added to our letter of credit portfolio.

As a member of Factors Chain International (FCI) and the Hungarian Factoring Association, UniCredit Bank Hungary Zrt. paid special attention to developing its factoring, debt purchase and Supply Chain Finance services and to flexibly serve customer needs in 2022, as well.

2022 was a challenging, yet successful year for the Global Securities Services (GSS) department. GSS maintained its market leading position in institutional clients. Similarly to previous years, in 2022 we again won Global Finance magazine's award for best sub-custodian, which is awarded to financial institutions that reliably provide the best service, taking into account clients' feedback. GSS develops its services to meet the unique needs of its institutional customers, to comply with the continually tightened legal requirements and to respond to the changes in the capital market. Digitalisation and automation play a key role in conducting daily operations as well as in shaping the future strategy of the business division. GSS pays special attention to keeping clients satisfied, to operating with a focus on customers and to complying with legislative requirements.

The Transactional Sales department had an outstandingly successful year in 2022. The sizable customer base continued to expand, thereby further increasing the department's already market-leading position in terms of the HUF loro (correspondent bank) account management service. The department maintained its clear market-leading position in the special HUF CLS account management service introduced on the Hungarian market in 2015.

Our bank's Treasury Sales closed one of the most outstanding years in its history in 2022. The backbone of our revenue continued to be the foreign currency transactions and the share of foreign currency hedging transactions increased significantly. The second largest income was provided by interest hedging transactions. Last year's sale of commodity hedging products, which forms the third pillar of Treasury Corporate Sales' revenues, was supported by the commodity market price volatility. In 2022, many personal meetings and customer events took place after the pandemic situation allowed it; the in-person Treasury business breakfasts in Budapest and regional client conferences could resume. We continued to promote digitalization among our customers, thanks to which every second foreign currency transaction was concluded on UC Trader by year-end.

Our Bank's Trading department continued its activities, whilst from autumn 2022 it integrated into the trading organization of UniCredit Group. From October 2022, UniCredit Bank AG acts as the primary dealer for the Government Debt Management Agency (ÁKK).

In 2022, UniCredit Leasing Zrt., owned by UniCredit Bank Hungary Zrt., was the 3rd largest player on the market, with a market share of 6.12% percent. The company actively sold the subsidised financing schemes available to customers; after the closing of the FGS programme, the EXIM programme as well as the Széchenyi Leasing GO! financing brought a revival in the market and in the company's own portfolio. UniCredit Leasing kept its financed portfolio at the level of the previous year, with new placements exceeding the levels of 2021, despite various headwinds. 2022 was characterised by production and delivery difficulties caused by the pandemic on the supply side, which were further aggravated by the outbreak of the Russian-Ukrainian war and the subsequent sudden increase in interest rates, which also negatively affected the demand side. UniCredit Leasing was also affected by the extra profit tax, which was a significant burden, as well as the impact from the agricultural moratorium.

Leading solar energy financing in Hungary

Sustainable solar energy developments

Values: Ownership

ESG plays a fundamental role in every decision we make and every action we take. We've seen a very tangible example of this in **Hungary**, which has **increased the share of solar-derived electricity** in its electricity production fivefold since 2018. Thanks to this substantial improvement in a very short period of time, **10.6%** of the country's annual electricity production comes from solar power, compared to **7.5% in Europe**, making Hungary a prime example for transformation towards sustainable energy production in Europe.

As one of the main financiers of sustainable solar energy developments in the country, UniCredit Bank Hungary has contributed to this impressive increase by financing the construction of many Hungarian solar projects totalling **€250 million** in structured loans.

A major contribution to our excellent lending position in the solar market came from our part in a significant solar park financing deal, which was the largest corporate green loan agreement of 2022 in Hungary, worth **HUF 28 billion**, to our client **SolServices Kft.** This deal was a milestone not only due to its size but the fact that the **100-megawatt solar plant** being built in **Szolnok** will be one of the largest in the country, making an important contribution to renewable electricity supply. It will be able to generate the equivalent of **40% of the electricity consumption** of the entire population of **Jász-Nagykun-Szolnok County** while saving tens of thousands of tons of CO_2 emissions.

Our key to success in this field was solving the problem of how to participate in the financing of solar panel procurement in a way that creates a closed financing chain from the investment loan to the collateral manager to the solar panel manufacturer. This complex transaction also won UniCredit the **Transaction of the Year award**. In addition, as a pioneer among local banks, UniCredit Bank Hungary has further introduced a specialist retail loan product for purchasing and installing solar panels with a favourable interest rate.

Andrea D'Alessandro, Head of the International Corporates Center:

"Overall Europe's efforts to work towards a more sustainable future has become a challenging task since geopolitical and economic threats appeared strongly in the last period. But we are aware that from every crisis, lies an opportunity. Sense of urgency to secure energy independence and higher focus on longer-term global climate threats impacts all of us, giving right awareness, motivation and commitment to work toward sustainability with the right matrix of green financing solutions.

This deal was the perfect matrix for achieving green success: it provided a strong, experienced international sponsor in renewable energy supported by a tailored financing structure – requiring involvement and hard work from a wide deal team across UniCredit Hungary – with the aim to finalise Hungary and the CEE region's largest and first next-generation nature-friendly solar park (able to cover 42% of the county's total residential electricity consumption).

UniCredit's purpose is empowering communities to progress, which means taking every aspect of ESG into account and finding solutions that help all the individuals and communities we serve at every stage. This means, locally, we must be more sustainable ("walk the talk") but most importantly, support our clients through any challenges they face in this transition. It is important that we execute a clear ESG strategy in line with our strategic plan."

Jávor Balázs, Head of Advisory and Specialised Lending:

"Supporting our clients in delivering their green and ESG ambitions is of key importance to us. We very much aim at demonstrating again and again how committed we are to sustainability and green initiatives. The development of the solar plants we finance also play a vital role in the green transformation and energy independence of the Hungarian economy.

We typically finance relatively large, industrial sized solar plants up to 50–100 MW. In these projects we have had the opportunity to develop a deep co-operation with highly experienced international sponsors, we worked out tailored financing structures covering the full value chain and could contribute to the realisation of cutting edge, state-of-the-art solar technology. Our deep co-operation with our business partners will continue in further solar projects in the future and will enable our clients to develop even more complex and flexible renewable energy solutions.

Sustainability is a focal point in UniCredit Unlocked strategy. Our local success, which comes also as a result of deep co-operation between local and central teams, contribute largely to the execution of our strategy in the CE&EE and further up at UniCredit Group level."

Values: Caring, Ownership

UTB Envirotech Zrt. puts sustainability at the forefront

UniCredit client **UTB Envirotech Zrt**. is a company well versed and fully engaged in wastewater purification and treatment. They design, construct and develop the technologies to achieve this, with their main patents in wastewater treatment and "**cyclator**" technology. A total of **50 patents** are already operating in **Hungary** and the surrounding countries, as well as a related decanter product line, of which **more than 100** are already operating worldwide, including New Zealand and Australia.

Out of all UTB Envirotech Zrt.'s developments, their most important sustainability-related developments is **Cycle**. Cycle is a range of cleaning products based on a unique technology that allows them to recover useful raw materials from the sewage sludge and turn it into the desired detergent range.

As a company that is heavily invested in **Sustainability and ESG** as a whole, it's our top priority to ensure our clients have the same focus and drive to better the world around us. Identifying clients who make concrete sustainable efforts and embed this in their work is always something UniCredit wants to be part of. For this reason, UniCredit has been their **exclusive partner for 15 years**, providing the client with financial sustainability. In those 15 years, the Group has seen its turnover quintuple and the number of employees triple.

Retail Division

In 2022, UniCredit Bank Hungary Zrt.'s Retail and Small Business Division emphasised flexibly adapting to market changes and customer satisfaction in an economic environment of constant challenges.

Our business policy focuses on establishing and developing long-term customer cooperation and offering products and services built on customer needs. In addition to customer acquisition, our bank paid particular attention to customer retention and enhancing customer activity in digital channels in 2022. By continuously updating our product range, we strive to satisfy customer needs as much as possible in daily banking transactions, savings, investments, and lending. The success of our efforts is confirmed by steady annual growth in the number of retail customers whose income is regularly transferred to their UniCredit Bank Hungary Zrt. accounts. At the same time, many small business customers also consider UniCredit Bank Hungary Zrt. as their primary bank.

In 2022, we also continued to improve the online account opening procedure. We made it possible to apply for new account packages via the online interface, through which customers can open retail bank accounts with our bank. We have created a new account package for students, with which it is possible to manage accounts from the age of 14 and which, adapting to the needs of the "Y" and "Z" generations, can be applied online from the age of 18. Certainly, opening a student account at a bank branch is also possible for those who prefer traditional banking.

In 2022, we continued the developments related to digital banking for our debit and credit card customers. The bank completed and published for its customers the Google Pay in-app provisioning solution on Android, then also the promotion of ApplePay and Google Pay payment options among customers with the mBanking application and the expansion of additional digital card management functions related to debit and credit cards. Several times during the year, we announced annual fee and issuance fee promotions for Mastercard Standard and Mastercard Gold retail debit card applications and upgrades to encourage card purchases.

As part of our customer-centric strategy, the bank launched an overall customer experience framework based on five pillars. Along these pillars, Retail Division as well collects, analyses, and solves our customers' feedback to increase customer satisfaction.

With this approach in mind, the business division is constantly working to increase the quality of service, the professional training and support of the branch network employees, and the development of sales, thereby contributing to a high degree of customer satisfaction, which increases year by year. By the end of 2022, in terms of customer satisfaction, UniCredit Bank Hungary Zrt. was ranked among the Top 3 banks (based on the Kantar Market Research company's survey). According to surveys on the services provided at our branches, our customers are satisfied with service quality, the advisors of UniCredit, the financial advice tailored to their financial needs and the consultations on the following steps to take. New customers expressed great satisfaction with the helpfulness of our advisors and the atmosphere experienced in our branches. Further improving the quality of the service, we also wholly renovated two of our bank branches in 2022. Online appointment booking was introduced in all branches, which made it easier for our customers to plan the use of services that require in-person administration. Based on surveys carried out among customers, their willingness to recommend our bank is high, and they are happy to recommend the bank to their acquaintances, family members and business partners.

As a result, the Division currently serves roughly 300,000 customers, including 32,000 micro-businesses and more than 2,000 private banking customers.

In addition to maintaining a stable and prudent course of business in a constantly changing environment, 2022 was a great year from a lending point of view; we achieved record volumes and market shares in personal loans and mortgages. Thanks to our competitive offers and customer-oriented administration procedures, the retail loan portfolio increased by more than 25% during the year.

In line with the government's family support decisions, we provide several products to our customers: the interest-subsidised home renovation loan, the green loan for the construction and purchase of a new home under the FGS Green Home Programme, or a zero per cent housing interest subsidy, are all available in our bank's product range. We developed and optimised our online personal loan facility, which allows us to handle the applications of our existing and new customers without requiring their visit to a bank branch.

We prioritised handling tasks related to the repeatedly extended loan repayment moratorium. At the end of the suspension on 31 December 2022, only less than 3% of our retail customers still used the deferral of repayments.

During the moratorium, in line with the requirements of the CBH and UniCredit Group, several restrictions were introduced in lending, which we managed to ease in multiple stages in 2022. During the year, we provided customers with several automated solutions in day-to-day administration that supported remote administration.

The micro-enterprise loan portfolio increased by more than 14% during the year, mainly induced by the demand for overdraft and working capital loans. The portfolio of overdraft loans went up by 51.2%, and the working capital loans by 34.5% compared to the end of 2021. In 2022, our bank introduced the products of the new Széchenyi Card Restart Programme (Széchenyi Card Overdraft MAX, Széchenyi Energy Card MAX, Széchenyi Investment Loan MAX, and Széchenyi Liquidity Loan MAX). There was still significant demand for these products last year.

With the end of the payment moratorium in December 2022, only 1.7% of customers in our bank took advantage of this option.

At the end of 2022, the Division held a loan portfolio of HUF 487 billion, representing a 4.9% share of the retail market segment.

At the end of 2022, the bank had a 4% market share in deposits and securities held by private individuals. The client assets managed by the private banking segment exceeded HUF 430 billion. The savings portfolio of the Retail and Small Business Division was virtually unchanged in 2022, closing at HUF 1,575 billion.

As a result of the lingering effects of the turbulent geopolitical situation, customers continued to enhance their liquid assets, so the demand deposit portfolio increased by 4% during the year, exceeding 50% of the total savings portfolio at the end of the year. Within securities, government securities lost their popularity in the high-inflation environment, while the portfolio of investment funds expanded, primarily thanks to short-term bond funds.

Mindful of the significant changes in customer needs and habits, we pay special attention to developing customer-focused digital solutions whereby we create value for our customers. The transition to digital banking channels requiring sign-in continued in 2022.

In 2022, 2.1 million individuals visited the unicreditbank.hu website; the number of submitted inquiries decreased slightly, but interest in online account opening and personal loans ascended constantly. The number of online requests for these products more than doubled.

Over 90% of the clientele of the Retail and Small Business Division can still transact their finances via the Telephone Banking channel. The fact that the response rate to customer calls exceeded 90% by the end of the year played a significant role in improving the quality of customer service.

Until the end of 2022, there was an endless possibility to submit the statement on the payment moratorium in the eBanking system and to carry out the mandatory customer due diligence without visiting a bank branch. More than 240 thousand customers had a contract 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. The bank continued to promote and communicate the functions of this digital channel extensively.

The bank introduced a new version of the application for its customers using the Huawei AppGallery app store, thus further increasing the number of customers accessing the application.

Using the application, following log-in (even via biometric identification), customers of the bank can still use the application to activate their new or renewed debit cards, set up new standing transfer orders, and manage existing ones. The customers can conveniently control their credit card repayments and limits, 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 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, and 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 using a bank card. The number of customers using the Mobile Banking service at least once a month exceeded 150 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 continuously maintained the number of ATMs suitable for cash deposits. At the end of 2022, this convenience function was available at 83 ATMs.

Environmental protection is a priority for our bank, and many customers are choosing e-statements instead of printed bank account statements. At the end of 2022, more than 90% of our retail customers used this service.

Report on the divisions (Continued)

People and Culture

Strategy and values

The pillars of our People and Culture (P&C) strategy include "reinforce a positive working environment" and "accelerate people growth".

The P&C department supports the bank with innovative, sustainable solutions over the long term and focuses on effective recruitment and selection processes. Improving our employee experience is a key priority, with a strong focus on fostering equal opportunities, providing flexible working methods, building a solid succession line and outstanding talent management, and providing employees with competitive compensation packages and excellent HR services.

UniCredit believes a diversified workforce encourages sustainable growth, fosters innovation, and creates an engaging working environment. UniCredit is therefore committed to building an organisation that fully uses its talents, skills, experiences, and different cultural perspectives in which individuals feel respected and valued and can unlock 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-centred support of specific business areas and activities in the bank in terms of attraction, recruitment, 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), supporting the organisation in change management activities, and partnering with the business leaders to make 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

UniCredit Bank Hungary Zrt. continues to pay special attention to employees' mobility in the organisation and the utilisation of their expertise on both national and international levels. The management considers the internal applications by colleagues for any vacancies or newly opened positions before 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 behavioural interviews, professional assignments, and work attitude tests.

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

In 2022, the bank hired 278 new FTEs (Full-time Equivalents) (without leased workforce and colleagues from abroad); the annual bank turnover was 13.8% vs 20% on the Hungarian market.

Besides improving our recruiting process, several initiatives were launched to boost sourcing activities: we have started an employee referral program, strengthened cooperation with universities, and introduced graduate programs in other areas.

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

Onboarding

Nurturing the engagement of our employees starts from the first moments. P&C generalists support the first 3-6 months of the new joiners. Therefore in 2022, we further improved our onboarding procedure, aiming to provide newcomers with a simple process, easy-to-access information, and regular check-up points.

Employee satisfaction and retention

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

Employee surveys

The bank constantly looks for 'listening moments' with all its colleagues, as UniCredit cares about employee engagement and satisfaction. In 2022 we continued to collect employee feedback at different stages of the employee lifecycle. We continued to have so-called Pulse Checks and an overall employee experience survey, as well as onboarding, and offboarding surveys.

UniCredit Bank Hungary Zrt. continued to monitor the experience of our newly joined colleagues, leveraging on the new joiner survey we launched. We can follow up on new joiners' engagement and satisfaction trends through the survey. The new joiners' employee experience survey covers the following topics: attraction (employer branding), recruitment & selection process, onboarding, development (training, performance), and engagement (mentoring).

To improve our organisation and its processes, we must understand why our colleagues leave the company. The bank restructured the exit survey for the leaving employees in 2021, and we further improved the quality of the collected data in 2022. It is a comprehensive questionnaire to understand the most critical workplace factors for employees regarding satisfaction and engagement. It covers company culture; IT support; working environment (office space, furniture); compensation; work-life balance; career opportunities; training, education, professional improvement; colleagues, team spirit, line manager; top management, company strategy; moderated stress level; flexible working; meaningful job/job content.

Training and development, succession management

People and Culture continuously strive 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 organisation up to date, Learning and Development (L&D) focus strongly on permanently supporting high business demand. In 2022 the main focus was on supporting cultural transformation in line with the UniCredit Group strategy.

With regular measuring of the learning impact and communication, the L&D team ensured a high level of learning engagement. The bottom-up planning process was re-introduced in the third and fourth quarters of 2022 to improve budget allocation further and for better investment utilisation.

Group and local talent management remained the focus of UniCredit Group's People and Culture strategy. Its objective is to identify people in the organisation with outstanding potential, skills, and professional knowledge and ensure that their career plans will be implemented on the national and international levels. In 2022, additional focus was laid on local high potentials, fostering knowledge sharing across the organisation, providing further development, and creating new opportunities to boost their capabilities and readiness.

Investing in leadership capabilities and boosting managers' skillsets remained a critical pillar of P&C to support people engagement and cultural transformation. In 2022 the Leadership manifesto of the bank was created.

In addition to talent management and succession planning, knowledge sharing is one of the critical values of UniCredit Bank Hungary Zrt. An increasing number of employees are allowed to participate in international and national development programs, ranging from project works of a few months to assignments spanning several years.

Digital learning with Coursera

From 1 February 2022, the Coursera learning platform became available for colleagues. In reaction to Strategic Workforce Planning's Gap Analysis findings, Coursera's curated catalogue recommends courses in three main topics: data science, computer science, and business.

Since the start date, 87 colleagues have had (or still have) the opportunity to learn from the world's leading universities and institutes. By the end of 2022, they were enrolled in 536 video courses and completed 285.

Diversity, Equity, and Inclusion initiatives

With Hungary joining 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, promotion, and work-life balance. Changes implemented locally under the procedure continue to be monitored internationally. Reports of these indicators, defined on UniCredit Group level, are also regularly presented to the senior management. This policy was revised in 2021 and was approved again without changes. The bank achieved a significant result regarding equal pay, decreasing the same role pay gap close to zero (1.2%).

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

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

In the 2022 DE&I week, we focused on the following topics: generations, disability, women in leadership, and cultural diversity.

Besides numerous Group activities different activities were organised during the week.

- In terms of disability, a therapy/assistance dog demonstration was held by an external association to present these dogs' work and people's lives with disabilities.
- Another activity was sending an anonymous questionnaire to employees to share their insights, ideas, and personal

opinions on female vs male leadership, female career opportunities and fairness versus equality.

- A video testimonial was published on the intranet, with local expats sharing their funny stories about cultural diversity.
- A fascinating panel discussion was organised with local colleagues representing different age groups and discussing the cooperation and diverse needs of generations.

Female Career Support

The Extended Management Team, including the Heads of Divisions/Competence lines, are balanced very much from the gender point of view (62% 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 careers.

Based on the research feedback, a series of panel discussions were launched to share personal career stories of our female leaders, involving our top female managers in 2021. Thus, our employees could get an insight into their lives from a different perspective.

In 2022, during DE&I week, the L&D team surveyed gender equality to use the results as the base of a new Female Program in 2023. The survey was filled by 81 colleagues and showed significant improvement in fields like recognition of female leaders or providing support for women in work-life balance.

In the future, based on equity, we want to support men and women according to their needs. This is how we can create equal conditions by targeting the skills in the lack of development of both genders.

‘Mommies back’

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

Wisdom program

The bank’s Wisdom Program is tackling age diversity, as it is created for 55+ colleagues. After being trained, our senior colleagues mentor others, and the bank provides them with different learning opportunities based on their needs.

After the positive feedback regarding the mentoring, we focused on this pillar of the program. We extended the scope of potential mentees. In 2022 the number of mentor-mentee pairs increased from 7 to 14. The mentors participated in training to prepare them for the mentor role. This year, preparation training was also provided for the reverse mentors (mentees willing to share their knowledge with the classic Wisdom mentors).

To increase the program’s prestige, we organised a “Mentor workshop” exclusively for the Wisdom mentors, where they can reflect on their mentor role and share best practices with the support of an external expert.

The program gained Group-wide attention well.

Performance Management

As part of the high focus on strengthening the feedback culture and part of the succession planning procedure, the L&D team is responsible for the annual performance management of the employees. In 2022 three new UniCredit values were introduced and implemented– Integrity, Ownership and Caring – as an integral part of UniCredit culture. Strong support has been provided to the managers in the preparation phase of the performance management cycle to ensure complete alignment with our values and high-quality appraisals.

Values: Ownership, Caring

Relaunching the Up Academy for local talent

At **UniCredit Bank Hungary**, it is essential that we support our people along all steps of their career journey. We want to make sure that the people who will build and craft the future of this bank are well-equipped with the skills of the future and are exposed to an environment that will help them improve their professional skills and behaviours. This is why the local talent programme, **UP Academy**, was created.

During the **one-year programme**, our top talent was able to enjoy several development opportunities including trainings held by world-renowned professors, access to online development platforms, shadowing, consultation with psychologists, and a career discussion with the **People & Culture** team. At the end of the programme, our talents had the opportunity to work on projects out of their scope.

Together with their mentors, they worked on topics such as exploring the concept of data science and its use at the bank, preparing a peer analysis based on EBA data or investigating AML-related reports and possible simplifications. To give them visibility and networking opportunities, during the conclusion of the event, participants presented the results of their projects in front of the **Board** team. After the successful closing of the programme, our bank is preparing to launch the **new edition** of UP Academy as we move forward into the new year.

Unlocking...

A better bank

A better world

A better future

Report on UniCredit Jelzálogbank Zrt.

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 core 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, UniCredit Bank Hungary Zrt. serves all administration financing home buyers' private individuals, estate development, and land financing. The issuing of mortgages and unsecured bonds serving as the basis for the lending and refinancing activities has remained the responsibility of UniCredit Jelzálogbank Zrt.

In line with its past practices, UniCredit Jelzálogbank Zrt. relies on long-term HUF and foreign exchange financial sources from the capital market, obtains typically medium- and long-term funding for its own and refinanced loan portfolios by issuing mortgage bonds and money-market and long-term borrowing. Issuing mortgages and unsecured bonds typically occur as part of an offering programme. In this context, UniCredit Jelzálogbank Zrt. raises long-term HUF and foreign exchange funds from the capital market.

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 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.

In November 2017, UniCredit Jelzálogbank Zrt. signed an absolute suretyship agreement with UniCredit Bank Hungary Zrt. regarding the payment obligations relating to the securities of the former.

In 2018, UniCredit Jelzálogbank Zrt. commissioned international credit rating agency Moody's Investors Service to rate its mortgage bonds. 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 Bank Group's ESG and Green Framework in 2021. Green mortgage bonds issued under the framework support the implementation of the green strategy of the bank and its parent company. Low-cost funding allows customers to take out green loans at more favourable rates.

With the support of the Central Bank of Hungary's Green Mortgage Bond Purchase Programme, the green mortgage bond market started functioning in Hungary in 2021. UniCredit Jelzálogbank Zrt. issued a mortgage bond with a green rating for the first time.

In 2022, UniCredit Jelzálogbank Zrt significantly increased the refinancing portfolio within the banking group and maintained the existing portfolios.

Based on its balance sheet drawn up according to the International Financial Reporting Standards (IFRS), UniCredit Jelzálogbank Zrt. closed the fiscal year 2022 with a balance sheet total of HUF 347 billion and profits after tax of HUF 660 million.

Unlocking...

A better bank
A better world
A better future

Independent Auditor's report

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Independent Auditors' Report

To the shareholder of UniCredit Bank Hungary Zrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 2022 consolidated financial statements of UniCredit Bank Hungary Zrt. and its subsidiaries (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, with total assets of MHUF 5,052,402, the consolidated statement of profit or loss, with profit for the year of MHUF 84,845, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRSs) and they are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (Act on Accounting).

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, the policy on rules of conduct (ethics) of the audit profession and on disciplinary procedures of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) translated into Hungarian and published on the website of the Chamber of Hungarian Auditors and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Expected credit losses on loans and advances to customers, loan commitments and financial guarantees

As at 31 December 2022, loans and advances to customers (gross): HUF 2.037.979 million and related loss allowance: HUF 55.380 million, loan commitments and financial guarantees: HUF 1.753.246 million and related provision: HUF 16.498 million, and, for the year then ended, impairment and provision charge: HUF 5.885 million

See Note 21 Loans and advances to customers and Note 46 Exposure to credit risk

Key audit matter	Our response
Impairment allowances for loans and advances to customers and provision for loan commitments and financial guarantees (collectively, "loans", "exposures") represent the Group's best estimate of expected credit losses ("ECL") associated with these exposures at the reporting date. Measurement thereof requires the Group to make complex and significant judgements and assumptions. ECLs on individually significant non-performing loans are based on the Group's estimates of the present value of expected future cash flows on a given loan, which are inherently uncertain. The present value of such expected future cash flows is often influenced by, among others, the estimated realizable value of the collateral, and the applied discount factor thereon, the length of the recovery process, the cost of liquidation or sale process and the probability weight of each loan recovery scenario. Collective ECLs on performing exposures (classified as Stage 1 and Stage 2 exposures), and on individually not significant Stage 3 (non-performing) exposures, are determined by modelling techniques relying on key parameters such as the client rating, probability of default ("PD") and loss given default ("LGD"). These modelling techniques consider historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and other areas of judgement. In addition, during 2022, in light of the spill-over effect of the Russo-Ukranian conflict and the resulting energy crisis, the identification of SICR	Our audit procedures in this area, performed, where applicable, with the assistance from our own financial risk management and information technology (IT) specialists, included the following, among other things: — We inspected the Group's ECL methods and models and assessed their compliance with the relevant requirements of the financial reporting framework. As part of the above, we challenged the Group on whether the level of the methodology's sophistication is appropriate based on an assessment of entity-level factors, and also inspected the model validation reports by the Group's Internal Validation function, as part of our assessment of their ability to produce accurate and consistent ECL estimates; — We tested the design, implementation and operating effectiveness of selected controls over recognition of loans, recording and re-valuation of collaterals, client ratings, and periodic monitoring. We also tested selected IT-based controls over the days past due calculation and automated daily loan monitoring; — We assessed the relevance and reliability of data used in ECL estimates, such as data for loan terms, loan collateral, days past due, etc.; — We assessed whether the relevant standards' definitions of SICR and default, and loan staging criteria, were appropriately and consistently applied; — We evaluated whether in its ECL measurement the Group appropriately considered the effects of the current market

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and exposures at default is associated with an increased estimation uncertainty. Management therefore applied an additional geopolitical overlay to address the credit risk arising from such uncertainties that collective models may not be able to capture. In the wake of the above factors and complexities, we considered impairment of loans and advances to customers and provision for loan commitments and financial guarantees to be associated with a significant risk of material misstatement in the separate financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	disruption and volatility. As part of the procedure, we also challenged the relevant forward-looking information and macroeconomic projections used in the ECL assessment, by reference to the European Central Bank forecasts; For ECLs calculated individually: — For a risk-based sample of exposures, we inspected the borrower loan files and challenged the key assumptions within the Group's estimates of the present value of expected future cash flows from the borrower, as follows: • future debt recovery scenarios – by reference to credit committee proposals and decisions, history of the exposure and our experience with the borrower industry and current economic conditions; • collateral values – by reference to asset valuations by experts engaged by the Group, whose competence, capabilities and objectivity we independently assessed. For ECLs calculated collectively, we: — assessed the underlying model set-up and reperformed the calculation of its output based on the Group's data and assumptions, including reperformance of staging; — challenged the collective LGD and PD parameters used by the Group, by reference to its historical loan experience, such as that in respect of past default occurrence and realized losses thereon, and also considering any required adjustments to reflect expected changes in circumstances. Also, using our own models and the Group's data, we independently re-estimated selected PD and LGD parameters; — assessed the appropriateness of any post-model adjustments to account for risks and uncertainties not captured by the Group's ECL models. As part of the procedure, we evaluated the appropriateness of the method and model applied to estimating the geopolitical overlay, and also tested the underlying data and the model's application;

	For all loans in totality: We examined whether the Group's expected credit loss and credit risk-related disclosures in the separate financial statements appropriately address the relevant quantitative and qualitative information requirements of the applicable financial reporting framework.

Financial instruments - Level 2 and Level 3 fair value measurements and hedge accounting

As at 31 December 2022, financial instruments carried at fair value:

- financial assets using Level 2 fair value measurements amounted to HUF 528,243 million, including hedging derivatives,
- financial assets using Level 3 fair value measurements amounted to HUF 91,300 million,
- financial liabilities using Level 2 fair value measurements amounted to HUF 621,193 million, including hedging derivatives.

In 2022, the changes in the hedge accounting-related amounts were the following:

- fair value adjustments (gain) for the hedged risks for financial assets and liabilities measured at amortised costs amounted to HUF 50,486 million,
- cash-flow hedge reserve (loss) in the other comprehensive income, net of tax, amounted to HUF 32,580 million

See Note 18 Financial instruments held for trading, Note 22 Hedging derivative instruments and Note 41-43 Derivative financial instruments held for Trading, Derivative financial instruments held for Hedging purposes, Fair valuation hierarchy respectively

Key audit matter	Our response
The Group applies Level 2 and Level 3 fair value measurements (as defined by IFRS 13 Fair value measurement) for certain derivatives, including hedging instruments, and also for certain securities and retail loans failing the solely payments of principal and interest (SPPI) criteria. The instruments' fair values are determined through the application of complex valuation techniques. Level 2 fair value measurements are based primarily on the observable pricing inputs derived from financial instruments comparable to the target instrument subject to the valuation, often with valuation adjustments required to account for any differences in terms of the target	Our audit procedures in this area, performed, where applicable, with the assistance from our own financial instruments valuation, accounting advisory and information technology (IT) specialists, included the following, among other things: — We tested the design, implementation and operating effectiveness of selected controls over the recognition of the relevant financial instruments, end-of-day reconciliations and fair value measurement. We also tested selected IT-based controls over related interfaces, automated foreign currency revaluations and automated hedging derivatives interest calculation;

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and comparable instrument. Level 3 fair value measurements are generally based on the discounted cash-flow (DCF) models, with observable and unobservable inputs and assumptions, such as, primarily, contractual cash flows, risk free interest rate and credit spread. Significant management judgement is involved in determination of the appropriate valuation method and the determination of the model assumptions and inputs. In addition, comprehensive models tend to be more susceptible to the risk of management bias, error and inconsistent application. These require more attention during the audit process to assess the objectivity of the sources used in developing the assumptions and their consistent application. Further, for a significant portion of the financial instruments, the Group applies fair value or cash flow hedge accounting. Significant judgment and complex assumptions are required in the assessment of and accounting for the hedging relationships pursuant to the requirements of IAS 39 *Financial instruments: Recognition and measurement*. In the wake of the above factors, coupled with increased estimation uncertainty stemming from the current volatile economic environment, we considered the area to be associated with a significant risk of material misstatement in the separate financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	— We tested the reporting date fair value measurements for Level 2 and Level 3 financial instruments, other than retail loans not meeting the SPPI criterion, by developing our own independent fair value expectations. As part of the procedure, among other things: • we assessed the relevance and reliability of the data to be used in the valuations; • for Level 2 measurements – we applied our own models and input parameters derived from comparable bonds and markets; • for Level 3 measurements, we developed the key DCF model inputs as follows: ○ Contractual cash flows – by reference to our inspection of the underlying contractual provisions; ○ Risk-free interest rate – by reference to benchmark risk-free yield curves; and ○ Credit spread – by reference to the comparable securities approach or market curve approach, as considered relevant. — For retail loans failing the SPPI criterion, we assessed the Group’s fair value methods and models against the financial reporting requirements and the market practice. We also challenged the input data and assumptions applied by the Group (such as those for expected cash-flows, risk-free yield curves and credit-spread curve used for discounting purposes, by reference to benchmark yield curves and contractual provisions; — In order to assess the appropriateness of the Group’s hedge accounting, we: • challenged the appropriateness of methods related to fair value and cash flow hedge accounting for both portfolio- and micro hedging relationships; • assessed whether the established hedging relationships are appropriate in light of the

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	risk to be addressed and whether all of the hedge accounting criteria of IAS 39 are met; • challenged both the retrospective and prospective hedge effectiveness tests performed by the Group. As part of the procedure, we independently compared the actual change in fair value of the hedged asset or liability or in cash flows with respect to the hedged risk with the change in the fair value of the hedging instrument. — For fair value and hedge-related disclosures, we examined whether they appropriately addressed the relevant quantitative and qualitative requirement by the applicable financial reporting framework.

Other Information

The other information comprises the 2022 consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the consolidated business report.

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

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements and expressing an opinion on this and whether the consolidated business report is consistent with the consolidated financial statements.

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

In our opinion the 2022 consolidated business report of the Group is consistent, in all material respects, with its 2022 consolidated financial statements and the applicable provisions of the Act on Accounting.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder on 13 April 2022 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2022. Our total uninterrupted period of engagement is one year, covering the financial year ending31 December 2022.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Group dated 3 March 2023;

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

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

Budapest, 10 March 2023

KPMG Hungária Kft.

Registration number: 000202

Zsuzsanna Csáki
Partner, Professional Accountant
Registration number: 007448

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Unlocking...

A better bank

A better world

A better future

Financial statements

Financial statements

Consolidated statement of financial position (Balance Sheet)

Assets

	NOTE	2022 HUF MILLION	2021, RESTATED HUF MILLION
Cash and cash equivalents	17	667,141	415,612
Financial assets held for trading	18	2,828	1,324
Trading derivative assets	18	275,557	235,186
Hedging derivative assets	22	206,163	75,073
Placements with, and loans and advances to banks	20	929,477	1,171,501
Loans and advances to customers	21	2,061,277	1,730,549
Investment securities	19	813,540	880,328
Equity investments	23	–	–
Investment properties	24	8,725	8,864
Property, plant and equipment	25	24,449	25,127
Intangible assets	26	21,207	19,526
Current tax assets	16	141	10
Deferred tax assets	16	4,943	1,632
Other assets	27	36,909	31,882
Assets held for sale	28	45	–
Total assets		**5,052,402**	**4,596,614**

Liabilities

	NOTE	2022 HUF MILLION	2021, RESTATED HUF MILLION
Deposits and loans from banks	29	759,106	801,064
Deposits from customers	30	2,887,653	2,792,420
Issued bonds	31	318,407	183,330
Trading derivative liabilities	18	279,560	238,942
Financial liabilities held for trading	18	–	2,108
Hedging derivative liabilites	22	341,633	115,647
Other provisions	36	18,627	18,657
Current tax liabilities	16	4,581	380
Deferred tax liability	16	478	277
Other liabilities	32,33	50,931	48,346
Total Liabilities		**4,660,976**	**4,201,171**

Equity

	NOTE	2022 HUF MILLION	2021, RESTATED HUF MILLION
Share capital	34	24,118	24,118
Capital reserve		3,900	3,900
Retained earnings		257,795	275,402
Statutory reserves	35	66,502	57,638
Other reserves		–	–
Valuation reserves		(45,814)	(12,034)
Net profit for the year		84,840	46,337
Total Equity attributable to the equity holder of the Bank		**391,341**	**395,361**
Minority interest		**85**	**82**
Total Equity		**391,426**	**395,443**
Total Liabilities and Equity		**5,052,402**	**4,596,614**

The accompanying notes (1–51) form an integral part of these financial statements.

The figures disclosed in the 2021 accounts have been restated for the reasons detailed in note 3.1.

Consolidated Income Statement – 31 December 2022

	NOTE	2022 HUF MILLION	2021, RESTATED HUF MILLION
Interest income calculated using the effective interest method	7	227,254	76,914
Other interest and similar income	7	115,530	36,597
Interest expense and similar charges	7	(199,425)	(34,059)
Net interest income		**143,359**	**79,452**
Fee and commission income	8	65,445	54,862
Fee and commission expense	8	(11,826)	(9,879)
Net fee and commission income		**53,619**	**44,983**
Dividend income	9	9	191
Net trading income	10	2,287	(313)
Net gain and loss on hedge accounting	11	1,552	45
Net gain and loss on non-trading financial instruments	12	302	(2,631)
Foreign exchange result	10	3,154	13,503
Operating income		**204,282**	**135,230**
Impairment and losses on credit products	46	(11,600)	(7,781)
Personnel expenses	13	(25,330)	(22,271)
General operating expenses	14	(74,242)	(48,525)
Other provision	36	1,299	(1,369)
Depreciation on property, plant and equipments	25	(2,201)	(2,028)
Amortization and impairment on intangible assets	26	(4,467)	(3,395)
Operating costs		**(104,941)**	**(77,588)**
Other income	15	7,427	2,361
Other expense	15	(1,763)	(1,245)
Other results		**5,664**	**1,116**
Gain / (losses) on investment properties		(139)	(28)
Profit before tax		**93,266**	**50,949**
Income tax expense	16	(8,421)	(4,610)
Net profit for the year		**84,845**	**46,339**
Attributable to:			
Shareholder of the Group		84,840	46,337
Minority interests		5	2

The accompanying notes (1–51) form an integral part of these financial statements.

The figures disclosed in the 2021 accounts have been restated for the reasons detailed in Note 3.1.

Consolidated statement of comprehensive income – 31 December 2022

(HUF million)

	NOTE	2022	2021
Net profit for the year		**84,845**	**46,339**
Other comprehensive results that will be subsequently reclassified to profit or loss:			
Movement in fair value reserve of financial instruments measured at fair value through other comprehensive income		(1,432)	(1,282)
Deferred income tax on movement of fair value reserve of financial instruments measured at fair value through other comprehensive income	16	129	115
Net movement in fair value reserves		**(1,303)**	**(1,167)**
Movement in cash flow hedge reserves		(35,802)	(37,737)
Deferred income tax on movement in cash flow hedge reserves	16	3,222	3,396
Net change in cash flow hedge reserves		**(32,580)**	**(34,341)**
Other comprehensive results that will not be subsequently reclassified to profit or loss:			
Asset revaluation surplus		134	(241)
Deferred income tax on asset revaluation surplus	16	(10)	22
Net movement in asset revaluation surplus		124	(219)
Other comprehensive income for the year, net of tax		**(33,759)**	**(35,727)**
Total comprehensive income for the year		**51,086**	**14,743**
Attributable to:			
Shareholder of the Group		51,081	10,610
Minority interests		5	2

The accompanying notes (1–51) form an integral part of these financial statements.

Consolidated statement of changes in Shareholder's equity

(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 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)	–	–	–
Net profit for the current year	–	–	–	–	–	–	–	46,337	46,337	2	46,339
Net movement in fair value reserve of financial instruments measured at fair value through other comprehensive income	–	–	–	–	(1,167)	–	–	–	(1,167)	–	(1,167)
Net movement in cash flow hedge reserves	–	–	–	–	–	(34,341)	–	–	(34,341)	–	(34,341)
Net movement in asset revaluation surplus	–	–	–	–	–	–	(204)	–	(204)	–	(204)
Change of non-controlling interest	–	–	–	–	–	–	–	–	–	(94)	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,167)**	**(34,341)**	**(204)**	**46,337**	**10,625**	**(92)**	**10,533**
Transfers to statutory reserves	–	–	(4,510)	4,510	–	–	–	–	–	–	–
Transfer of realised revaluation differences on real estate to retained earnings	–	–	15	–	–	–	(15)	–	–	–	–
Total transfers between components of equity	**–**	**–**	**(4,495)**	**4,510**	**–**	**–**	**(15)**	**–**	**–**	**–**	**–**
Dividend to equity holder	–	–	–	–	–	–	–	–	–	–	–
Total transfers to equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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**
Balance as at 1 January 2022	**24,118**	**3,900**	**275,402**	**57,638**	**6,633**	**(19,564)**	**897**	**46,337**	**395,361**	**82**	**395,443**
Net profit for the previous year	–	–	46,337	–	–	–	–	(46,337)	–	–	–
Net profit for the current year	–	–		–	–	–	–	84,840	84,840	5	84,845
Net movement in fair value reserve of financial instruments measured at fair value through other comprehensive income	–	–		–	(1,303)	–	–		(1,303)	–	(1,303)
Net movement in cash flow hedge reserves	–	–		–	–	(32,580)	–		(32,580)	–	(32,580)
Net movement in asset revaluation surplus	–	–		–	–	–	124		124	–	124
Change of non-controlling interest	–	–		–	–	–	–		–	(2)	(2)
Total comprehensive income for the year	–	–	46,337	–	(1,303)	(32,580)	124	84,840	51,081	3	51,084
Transfers to statutory reserves	–	–	(8,864)	8,864					–	–	–
Transfer of realised revaluation differences on real estate to retained earnings	–	–	20	–			(20)		–	–	–
Total transfers between components of equity	–	–	(8,844)	8,864	–	–	(20)	–	–	–	–
Dividend to equity holder	–	–	(55,100)	–	–	–	–	–	(55,100)	–	(55,100)
Total transfers to equity holders	–	–	(55,100)	–	–	–	–	–	(55,100)	–	(55,100)
Balance as at 31 December 2022	**24,118**	**3,900**	**257,795**	**66,502**	**5,330**	**(52,144)**	**1,001**	**84,840**	**391,341**	**85**	**391,426**

The accompanying notes (1–51) form an integral part of these financial statements.

Consolidated statement of cash-flows – 31 December 2022

Cash-flows from operating activities

(HUF million)

	NOTE	2022	2021, RESTATED
Profit after tax		**84,845**	**46,339**
Modifying items			
Depreciation and amortisation	25, 26	6,668	5,423
Profit on disposal of property, plant and equipment	25, 26	3	(50)
Net loss/gain from cashflow hedging assets	42	59,095	27,786
Net impairment and losses in credit products	46	12,368	5,134
Fair value change of fixed assets (real estates)	25	212	243
Fair value change of investment properties	24	139	28
"Fair value change and foreign exchange loss/(gain) of non-operating cash flows"		67,727	93,749
Net loss arising from derecognition of financial assets measured at amortised cost	19	2,296	1,127
Net gain on sale of Fair value through other comprehensive income securities	19	(1,357)	(2,113)
Net interest income	7	(143,359)	(79,452)
Business combination		(5)	(5,603)
Tax expense	16	8,421	4,610
Cash flows from operating profits before changes in operating assets and liabilities		**97,053**	**97,221**
Change in financial assets held for trading	18	(41,875)	(159,226)
Change in other assets		(6,671)	77,859
Change in deferred tax assets	16	(1)	–
Change in other liabilities		5,394	(14,953)
Change in loans and advances to customers	21	(342,670)	(39,054)
Change in placements with, and loans and advances to banks	17	241,907	(230,333)
Change in deposits from customers	30	95,233	151,182
Change in deposits from other banks	29	(41,958)	141,924
Change in financial liabilities held for trading	18	38,510	164,362
Interest received	7	342,784	113,511
Interest paid	7	(199,425)	(34,059)
Income tax paid	16	(4,120)	(2,098)
Net cash from operating activities		**87,108**	**169,115**

Cash-flows from investing activities

(HUF million)

	NOTE	2022	2021, RESTATED
Proceed on sale of property, plant and equipment	25	22	76
Addition of property, plant and equipment	25	(1,671)	(5,211)
Addition of intangible assets	26	(6,148)	155
Acquisitions of investment securities	19	(419,099)	(178,493)
Proceeds from sale of investment securities	19	393,747	73,916
Change in non-controlling interest		3	(92)
Net cash used in investing activities		**(33,146)**	**(109,649)**

Cash-flows from financing activities

(HUF million)

	NOTE	2022	2021, RESTATED
Proceeds from issue of debt securities	31	161,602	27,745
Repayment of debt securities	31	(4,720)	(48,980)
Dividend paid	35	(55,100)	–
Payments of lease liabilities	33	(1,268)	(1,033)
Net cash from financing activities		**100,514**	**(22,268)**
Net increase in cash		**251,529**	**134,419**
Cash at the beginning of the year	17	415,612	281,193
Cash at the end of the year	**17**	**667,141**	**415,612**

The accompanying notes (1–51) form an integral part of these financial statements.

The figures disclosed in the 2021 accounts have been restated for the reasons detailed in Note 3.1.

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. Bank's website is available at http://www.unicreditbank.hu.

The Bank is a wholly owned subsidiary of UniCredit S.p.A., its address is IT 20154 Milan, Piazza Gae Aulenti 3., Italy.

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 KPMG Hungary Kft., the responsible registered auditor is Zsuzsanna Csáki (registration number: 007448).

The financial statements are signed by Balázs Tóth, CEO (address: 2120 Dunakeszi, Déli utca 2.) and Nevena Nikse, CFO (address: 30c Kneza Viseslava, Bosnia and Herzegovina, Mostar).

The responsible chief accountant is András Tornay-Csomor, IFRS chartered accountant (registration number: 202785).

The consolidated financial statements were approved by the Supervisory Board on the 10th of March 2023.

2 Basis of preparation

2.1 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. The Group's compliance with IFRS reporting requirements has been confirmed by a separate report issued by the auditor.

2.2 Basis of measurement

The consolidated financial statements are presented in Hungarian Forint ("HUF") that is the group's functional currency. The functional currency is the currency of the primary economic environment in which the group operates. The accounting records of the group are also maintained in this currency. Unless otherwise indicated, financial information presented in Hungarian Forint has been rounded to the nearest million.

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 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 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.

Notes to the financial statements (Continued)

3.1 Revised disclosure

In 2022, the group revised its accounting policies, requiring the following revised disclosure of figures disclosed in the 2021 financial statements.

The consolidated financial statements of the group include the figures after reclassification at the end of the reporting period and the end of the comparative period, and the supplementary information on the restated statement of financial position lines has also been restated to reflect the new comparatives.

- Change in classification of cash and cash equivalents

The group has revised its accounting policy for the classification of cash and cash equivalents. According to the group's previous accounting policy, nostro accounts with credit institutions other than the National Bank of Hungary and the amortised cost of overnight deposits were recognised in the previous year's statement of financial position under the item Placements with, and loans and advances to banks, while in current year they were reclassified to Cash and cash equivalents s these assets are highly liquid, the risk of changes in value is negligible. The reclassification was necessary in order to make the periods presented comparable. As a result of the reclassification, the Bank has also made adjustments to the prior period figures in the cash flow statement in order to reconcile the cash flow statement to the cash and cash equivalents line, as adjusted by the reclassification, by deriving cash flows.

In accordance with IAS 8, the comparative disclosures in the notes to the financial statements regarding Cash and cash equivalents and the notes to the financial statements regarding Placements with, and loans and advances to banks have been amended.

- Change in classification of other liabilities

The group has revised its accounting policy for the classification of provisions for guarantees and undrawn credit facilities in the balance sheet, whereby provisions recognised under IFRS 9 have been reclassified from other liabilities to Provisions in the amount of 15,057 million HUF. The group has also reclassified its current corporate tax liability from the same balance sheet line to the balance sheet line current tax liabilities.

In line with the reclassifications, the comparative disclosures in the notes to the other liabilities have been amended.

- Reclassification of initial fair value adjustments on subsidised loans with interest rates below market rates

The group has revised its accounting policy for the determination of the initial fair value of certain subsidised loans with interest rates below market rates and the related refinancing financial liabilities carried at amortised cost.

The group has refinancing loans obtained under the Funding for Growth Program (Növekedési Hitelprogram, NHP) of the National Bank of Hungary for which there is an initial fair value difference calculated at inception due to off-market pricing. These loans are then distributed to SME clients with lower than market interest rates to achieve the goal of the underlying program, thus also considered as off-market loans. The initial fair value difference (ie. the day one loss) calculated on the asset side is accrued by the group, by reference to IFRS 9 B5.1.2A b) as the group believes there are unobservable inputs in the initial fair value calculation. This means that at inception the initial fair value difference was separated from the underlying loan and at the same time it was accrued (recorded as an other asset), which is then reversed during the lifetime of the underlying loan, in paralell with the effective interest rate of the underlying loan, meaning that the reversal and amortization of the loan has a net result of zero in the subsequent periods.

On the refinancing liability side, the initial fair value difference was also calculated similarly to the asset side, however the separation of this element was not made as an analogy, therefore a reclassification misstatement was corrected in 2022 for the prior period ending as well. This means that the unamortized difference on the liability (deposits from banks) was reclassified to other liabilities in an amount of HUF 9,913 million for 12.31.2021. to be in line with the asset side. As detailed on the asset side, having no profit or loss effect due to the reversal of accrual and amortization offsetting each other, no further correction identified.

In addition to the above, the group identified in 2022 that there are two another programs that were considered off-market for which previously no initial fair value difference was calculated. These are the refinancing program of EXIM Bank, the so called Kárenyhítő and Fordulat program and Zöld NHP program, having similar accounting effect as the above NHP program, resulting in off-market loans on the asset side and off-market loans on the liability side. The initial fair value difference was calculated by the Bank in 2022 also for the prior period and corrected for 12.31.2021 for the comparative period in an amount of HUF 1,302 million on the asset side and HUF 1,302 million on the liability side. Referring also to IFRS 9 B5.1.2.A b) since the calculation uses unobservable inputs, the initial fair value difference on both sides were accrued and separated from the asset and liability, having no significant profit or loss effect either at inception, or in subsequent periods due to the above detailed reasons.

- Equity investment

Notes to the financial statements (Continued)

In the 2021 financial statements, investments disclosed in the equity investments balance sheet line have been reclassified to the Investment securities balance sheet line.

Notes affected by the change:

Number of note	Description of note
17	Cash and cash equivalents
20	Placements with, and loans and advances to banks
21	Loans and advances to customers
27	Other assets
29	Deposits and loans from banks
32	Other liabilities

Impact of accounting policy changes on the relevant line items in the statement of financial position

(HUF million)

FINANCIAL LINE ITEM	2022	RESTATED 2021	RECLASSIFICATION	DISCLOSED 2021
Cash and cash equivalents	667,141	415,612	392,586	23,026
Placements with, and loans and advances to banks	929,477	1,171,501	(392,586)	1,564,087
Loans and advances to customers	2,061,277	1,730,549	(1,302)	1,731,851
Investment securities	813,540	880,328	1,277	879,051
Equity investments	–	–	(1,277)	1,277
Current tax assets	141	10	10	–
Other assets	36,909	31,882	1,292	30,590
Deposits and loans from banks	759,106	801,064	(11,214)	812,278
Other provisions	18,627	18,657	15,057	3,600
Current tax liabilities	4,581	380	380	-
Other liabilities	50,931	48,346	(4,223)	52,569

In 2022, the Group revised its accounting policies, which required the following adjustments to the comparative figures disclosed in the Consolidated statement of profit or loss and Notes to the 2021 for the year ended 31 December 2021. The amendments have been made to provide more relevant information to users of the statements. The Group's Consolidated statement of profit or loss includes the figures after reclassification at the end of the current and comparative periods. The additional information on the restated financial statement line items has also been restated to reflect the new values for the comparative figures. The main elements of the restatements are:

- Interest income calculated using the effective interest method has been highlighted under interest income and is detailed in Note 7 Net Interest Income;
- Net result on hedge accounting has been highlighted in the operating result and is detailed in Note 11;
- Other Income and Other Expenses are shown in separate lines in the Financial Statement, with details of the items shown in Note 15 Other Income and Expenses.

As the changes affecting the statement of profit and loss have only changed the level of aggregation of the information presented, the Bank does not present the effects of reclassifications in the table on the previous page, other than the effect of reclassifications on the statement of financial position.

Effect of restated disclosures on the cash flow statement

The impact of the restated disclosures detailed above on the main headings of the cash flow statement is shown in the table below. The following table shows the impact of the restatements on the main figures of the statement of cash flows. Under other changes, the table contains the effect of changes to the structure of the statements of cash flows and the effect of the removal of non-cash items relating to lines Net cash flow used in investing activities and Net cash flow from financing activities due to mathematical calculation mistake that are not an effect of the restatements detailed above.

Notes to the financial statements (Continued)

(HUF million)

DESCRIPTION	2022	2021 REVISED COMPARATIVE DATA	OTHER CHANGES	EFFECT OF RESTATEMENTS	2021 DISCLOSED
Cash flows from operating profits before changes in operating assets and liabilities*	97,053	97,221	17,921	–	79,300
Net cash from operating activities	87,108	169,115	147,709	141,187	(119,781)
Net cash used in investing activities	(33,146)	(109,649)	(169,540)		59,891
Net cash from financing activities	100,514	(22,268)	3,910		(26,178)
Net increase in cash	**251,529**	**134,419**	**–**	**141,187**	**(6,768)**
Cash at the beginning of the year	415,612	281,193	–	251,399	29,794
Cash at the end of the year	667,141	415,612	–	392,586	23,026

* The operating cash flows presented in the table include the starting point of the cash flow statement, the net result for the year.

3.2 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 if that fair value is reliably measurable. Changes in fair values are thus directly recognised in consolidated other comprehensive income. 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.

3.3 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.

3.4 Cash and cash equivalents

Cash and cash equivalents include cash, unrestricted nostro accounts with the Hungarian National Bank (“MNB”) and other credit institutions, and overnight deposits, which are subject to an insignificant risk of changes in fair value and which the Bank uses to meet its short-term obligations. Cash and cash equivalents are carried on the balance sheet at amortised cost.

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).

3.5 Financial instruments

3.5.1 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.

Notes to the financial statements (Continued)

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 '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.

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.

The group's hedge accounting policy has been adopted in accordance with the hedge accounting part of IAS 39 in force.

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.

Notes to the financial statements (Continued)

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. 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.

When calculating hedge ineffectiveness, the group considers the fair value changes excluding valuation adjustments such as FVA, CVA, FUVA. All fair value changes related to valuation adjustments are recognised in the statement of profit and loss.

The effective portion of the changes in the fair value of hedging derivatives is recognised in the statement of comprehensive income (fair value hedge reserve). The positive or negative change in fair value associated with the ineffective portion is recognised in profit or loss. No change in fair value relating to the ineffective portion has been recognised in the statement of profit and loss in 2022.

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.

3.5.2 Recognition and de-recognition
The group recognises financial assets and liabilities using settlement date accounting. On initial recognition, the Bank measures financial instruments at fair value, plus or minus transaction costs that are directly attributable to the issue or acquisition of the financial asset or financial liability.

For financial instruments at fair value through profit or loss, gains and losses arising from changes in the fair value of assets and liabilities between the trade date and the settlement date are recognised in the income statement if the asset or liability is at fair value through profit or loss or in equity if the asset is a financial asset at fair value through other comprehensive income. Loans and receivables are recognised on the date on which the amount is paid to the counterparty to the transaction.

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.

3.5.3 Measurement
Initial measurement
Financial assets are initially recognised at fair value. The related transaction costs are recognised in accordance with the valuation model applied to the financial asset. In most cases the fair value of financial assets agrees with the consideration paid.

Notes to the financial statements (Continued)

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.

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. For detailed rules on the recognition of impairment of financial assets, see note 4 Risk management policy.

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 other comprehensive income is recognised in the statement of profit or loss.

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.

3.5.4 Changes to financial assets and liabilities
When the group renegotiates a financial instrument, modifies its contractual terms or replaces it with a new financial instrument, it carries out an evaluation. On the basis of the valuation, if the renegotiated cash flows are materially different from the contractual cash flows of the original instrument, the original financial asset is derecognised and the renegotiated financial asset is recognised instead.

The group considers the following changes to be substantive, significant changes that result in derecognition accounting:
- Inclusion of a factor in the contract that violates SPPI criteria in the contract;
- Contract modification due to intervention by government authorities, or contract modification due to a natural disaster. These types of modifications are assessed by the Bank on a case-by-case basis to determine whether they are significant and thus require derecognition of the original exposure. The assessment of government actions for 2020-2022 is presented in Supplementary Note 6;
- Change in the currency of the financial instrument;
- Change in the debtor’s identity;
- Change in the type of interest rate (fixed/variable);
- Change from non-revolving to revolving loan or vice versa;
- Modifications for commercial reason.

If the contract amendment is not a substantive change, the group will determine the reason for the contract amendment.

Contract amendments due to changes in credit risk:
- have been the result of a deterioration in the debtor’s credit risk that has put in doubt the recovery of the amount lent,
- are designed to maximise the group’s return and not specifically to increase the credit risk of the parties by rebalancing the cash flow conditions.

For contractual amendments resulting from changes in credit risk that are not substantive modifications, the group recalculates the gross carrying amount of the financial asset and recognises the difference between the new gross carrying amount and the gross carrying amount before modification as a gain or loss on modification in profit or loss.

The group derecognises a financial liability if its terms have changed and the cash flows from the modified financial liability are materially different. The group considers the terms to be materially different if the discounted present value of the new cash flows, including fees paid net of fees received and discounted at the original effective interest rate, differs by at least 10 per cent from the discounted present value of the remaining transaction cash flows of the original financial liability.

In addition to the 10 per cent threshold, the group also considers the following amendments to be significant changes that result in derecognition accounting:
- Contract modification due to intervention of governmental authorities or contract modification due to natural disaster – These types of adjustments are assessed by the Bank on a case-by-case basis to determine whether they are significant and thus require derecognition of the original exposure. The assessment of government measures for 2020-2022 is presented in Supplementary Note 6;

Notes to the financial statements (Continued)

- Change in the currency denomination of a financial liability;
- Exchange of debt instruments;
- A significant change in the maturity of the liability compared to the total maturity;
- Significant change in interest rate terms (e.g. fixed/variable).

If the cash flows from the modified financial liability measured at amortised cost are not materially different from those before the modification, the modification does not result in derecognition of the original financial liability. In such a case, the group recalculates the amortised cost of the financial liability and recognises the difference between the new amortised cost and the amortised cost before the modification as a gain or loss on the modification in profit or loss.

3.6 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.

3.7 Property, plant and equipment

The group applies the revaluation model for buildings and land owned and used by the group (together referred to as “Properties”). The group revaluates the Properties at least every six months and carries them at a revalued amount equal to their fair value less any subsequent accumulated depreciation and any subsequent negative fair value losses.

At each revaluation date, the accumulated depreciation recorded is remeasured in proportion to the change in the gross carrying amount of the asset so that, following the revaluation, the carrying amount equals the revalued amount. The amount of the adjustment arising on the restatement or derecognition of accumulated depreciation forms part of the increase or decrease in the carrying amount.

For machinery and equipment that is not property, plant and equipment, the group measures its property, plant and equipment using the cost model, and such property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

3.8 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.

3.9 Depreciation and amortisation

The depreciation of property, plant and equipment and intangible assets is determined on a straight-line basis, taking into account the expected useful life and the residual value.

For real estate, depreciation is based on the revalued gross value. 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

The estimate of the useful life and residual value is reviewed each year at the balance sheet date and adjusted if necessary, and if there is an indication that they have changed.

3.10 Impairment of non-financial assets

The group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If there is an indication of impairment that a non-financial asset (property, plant and equipment or intangible asset) is impaired, the asset's carrying amount is compared with its recoverable amount (the higher of the fair value less costs to sell and its value in use, being the net present value of estimated future cash flows expected to arise from the asset). The difference between the two comparisons is recognised in profit or loss. If circumstances no longer exist that indicate impairment and, as a result, the impairment loss is reversed, the increased carrying amount shall not exceed the amount at which the asset was carried before the impairment loss was recognised.

3.11 Loans and advances

Loans granted by the group are included in financial assets at amortised cost and financial assets at fair value through profit or loss. Purchased loans that the group has the intent and ability to hold to maturity and that meet the SPPI criteria are classified as financial assets at amortised cost.

The Bank's exposures that do not meet the SPPI test and are required to be recognised as financial assets at fair value through profit or loss include the following:

- State subsidised loan types under the Family Home Loan Facility, where the contractual interest rate is quantified by adding a risk premium to 130% of the ÁKK average yields. The Bank has classified the multiplier applied to the ÁKK average yield as leverage that is inconsistent with a core lending arrangement, and therefore the cash flows for these loan facilities are not classified by the Bank as interest-only payments on principal outstanding.
- Baby Support Loans have been introduced as part of the Hungarian Government's Family Support Action Plan under Government Decree 44/2019 (III.12) on Baby Support. According to the regulatory framework, couples can get a state-subsidised loan of up to HUF 10 million under the scheme on condition that they have at least one child within five years. They will receive additional state support – in the form of loan debt relief – after the birth of the second child (30% relief) and the entire loan debt will be forgiven after the birth of the third child. The loan is interest-free for the borrower during the period of the interest subsidy, and individuals pay only a principal repayment and a guarantee fee to the budget. For the period of the State interest subsidy, the commercial interest rate to be paid by the central budget is the monthly weighted arithmetic average of the 5-year nominal government bond auction yields published monthly by the ÁKK, plus 130% of the average of the weighted average of the 5-year nominal government bond auctions held in the three calendar months preceding the publication, plus a fixed percentage point. The Bank has classified the multiplier applied to the average yield as leverage that is inconsistent with a core lending arrangement, and therefore the cash flows on the Baby Support Loans are not classified by the Bank as interest-only payments on principal outstanding.
- The Bank also has exposures that were originated under the Hungarian Development Bank's program for small and medium-sized enterprises. For these facilities, the currency of the loan is not denominated in the same currency as the benchmark interest rate of the loan and therefore these special condition loans do not meet the SPPI test.

Loans granted by the group held at amortised cost are stated at amortised cost less any impairment for credit losses, which represents the amount expected to be recovered.

Purchased or originated impaired financial assets ("POCI assets") are impaired on initial recognition. The initial recognition date of POCI assets is the date on which the contractual terms of the financial asset become binding on the group. The POCI classification remains on the group's books from initial recognition until derecognition, and no impairment stages are identified for these assets.

For a more detailed description of the Stage classification, see Additional information 4.

The effective interest method is used to determine the income earned on loans and receivables measured at amortised cost during the financial year. The effective interest rate is determined for all loans and receivables individually. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or the amortised cost of the financial liability. All contractual cash flows, including fees and commission income, are taken into account in the calculation of the effective interest rate, as are potential premiums and discounts. Estimated future losses are not included in the calculation until the asset becomes impaired (Stage 3). Once impaired, the interest calculation is based on the gross carrying amount less the recognised losses. For POCI financial assets, interest income is determined using the loan adjusted effective interest rate. The result of this calculation is recognised in the income statement.

3.12 Provisions for impairment and loan losses

In accordance with the Bank's accounting policies, the Bank reviews its portfolio of receivables at regular intervals and, if necessary, recognises an impairment loss based on expected credit losses. Increases or decreases in the value of financial assets carried at amortised cost are recognised in the income statement. For debt instruments measured at fair value through other comprehensive income, no impairment loss is recognised in the statement of financial position because the carrying amount of these financial assets is equal to their fair value. Impairment losses recognised on these financial instruments are recognised in the fair value reserve. Further details on the valuation of financial instruments are provided in chapter 4 Risk Management Policy.

Notes to the financial statements (CONTINUED)

3.13 Leasing

In accordance with the requirements of IFRS 16 Leases, the group assesses at the inception of each contract whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if one party transfers to the other party, for consideration, the right to control the use of an identified asset for a period of time. In determining whether the group has the right to control the use of an identified asset under a contract, it applies the requirements of IFRS 16. The group adopted the EU endorsed IFRS 16 from 1 January 2019. Upon first application of the provisions of IFRS 16, the group has elected the modified retrospective application to its leases.

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 to reflect a constant, periodic rate of return on the group's net investment outstanding in respect of the leases.

In the event of non-performance of the lease or other termination of the lease for other reasons, the repossessed assets are recorded in the books at the fair value of the underlying receivable and any impairment is recognised in the light of the market value of the asset. The group's inventory (including repossessed assets) is not significant.

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 new leasing standard has no significant impact on the group as a lessor other than increased disclosure requirements.

The group as lessee

As a lessee, the group takes advantage of the option provided by the standard not to separate non-lease components from lease components but to account for each lease component and the related non-lease components as a single lease component.
The group, as lessee, recognises an asset right and a lease liability at the commencement of the lease term.

Recognition of right-to-use assets

The right to use an asset is recognised at cost, which comprises the following items:
- The initial recognition of the lease liability;
- Lease payments made on or before the commencement date, less any lease incentives received;
- Initial direct costs;
- Estimated costs associated with the dismantling, removal and restoration of the underlying asset to its original condition or to the condition required by the lease terms, unless those costs were incurred to produce inventories.

The group measures the right to use the asset after initial recognition using the IAS 16 cost model. Accordingly, it depreciates the right to use the asset over the lease term and recognises an impairment loss, if necessary, and adjusts it by remeasuring the lease liability.
The depreciation of asset-use rights is in line with the accounting rules presented for tangible fixed assets (see Supplementary Note 3.10)
The group presents rights to use assets on the same line item as it would present the underlying assets if it owned them.

The group, as a lessee, applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and to recognise any identified impairment loss.

The group uses the following practical expedients provided by the standard:
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Adjusts the right-of-use asset at the date of initial application by the amount of the provision recognised in the statement of financial position for the leases with an adverse effect immediately before the date of initial application;
- applies a simplified method for contracts maturing within 12 months;
- Excludes initial direct costs from the measurement of the right to use the asset;
- applies a retrospective approach, for example, in determining the lease term if the contract contains an option to extend or terminate the lease.

Recognition of lease obligations

At the inception of the lease, the group measures the lease liability as the present value of the unpaid lease payments up to that date.
The lease payments included in the lease liability at the commencement date consist of the following amounts due for the right to use the underlying asset during the lease term that have not been paid by the commencement date:
- Fixed charges less lease incentives due;
- Variable lease payments, which are dependent on an index or rate, with an initial valuation based on the index or rate at the commencement date;
- Amounts expected to be paid by the lessee under residual value guarantees;
- The exercise price of the call option if the lessee is reasonably certain to exercise the option;
- Termination penalties if the lease term reflects the exercise by the lessee of a lease termination option.

Notes to the financial statements (Continued)

As the implicit interest rate on transactions cannot be determined, the group uses the incremental interest rate allowed by the standard for discounting purposes, which is based on the group's FTP (funds transfer price) and represents, for practical purposes, the group's cost of funds at each date, and is therefore applied to the individual contract maturity dates without further transformation. The FTP faithfully reflects the group's cost of funds in each currency at each date, and the cost of funds is equivalent to the interest rate that the group would pay in a similar economic environment, for a similar term and with similar collateral, to borrow the funds that would be required to acquire an asset of similar value to its right-of-use asset.
In subsequently measuring the lease liability, the initial measurement shall be increased by the amount of interest earned on the liability and decreased by the amount of lease payments made (plus or minus) the amount recognised in remeasuring the liability.
The group presents lease liabilities under other liabilities.

The group applies the recognition exceptions set in the standard, so that lease payments related to leases with a short term (less than 12 months) and low value (less than EUR 5,000, HUF 2 million at the balance sheet date exchange rate, HUF 2 million for contracts denominated in HUF) underlying assets (such as office equipment, telephones and other business administration equipment used in the group's operations) are recognised directly in profit or loss over the term of the lease.

In the statement of cash flows, payments relating to the principal and interest portions of the lease liability are classified as financing activities, and payments relating to short-term leases, leases of low-value assets and variable lease payments not included in the valuation of the lease liability are classified as operating activities.

3.14 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.

3.15 Issued bonds

Bonds issued are recognised as financial liabilities, initially at issue value plus any direct costs attributable to the transaction and subsequently at amortised cost.

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.

The group has issued senior non-preferred (SNP) unsecured bonds with special features to meet the MREL (minimum requirements of own funds and eligible liabilities) requirements, starting from November 2021. The bonds have not been admitted to trading on a regulated market.The SNP bonds issued in 2021 and 2022 had the same issue value and face value.

3.16 Equity elements

3.16.1 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.

3.16.2 Revaluation reserves

Valuation reserves are part of equity. In accordance with IFRS principles, valuation reserves include only cash flow hedge reserves, reserves for assets measured at fair value through other comprehensive income and assets accounted for using the revaluation model, less deferred taxes.

3.17 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.

Notes to the financial statements (CONTINUED)

Quantitative information on the hedging derivatives is presented under Note 42.
The group holds certain embedded derivative transactions.
The group accounts for the embedded derivative separately from the host contract in the following cases:
- the host contract is not an instrument within the scope of IFRS 9;
- the host contract itself is not carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if it were a separate contract; and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

The Bank measures the separated embedded derivatives at fair value with all changes in fair value recognised in profit or loss unless they are part of a qualifying cash flow or net investment hedge.

Separate embedded derivatives are presented with the host contract in the financial statements.

3.18 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 liabilities in the line Provisions (details of the expected loss model are described in note 4).

3.19 Interest receivable calculated using the effective interest method, other interest and other interest-related income, interest payable

Interest income and interest expense calculated using the effective interest method are recognised continuously over the life of the financial instrument. The effective interest rate is determined separately for each financial instrument. In determining the effective interest rate, all contractual cash flows are taken into account, including commissions and management fees, as well as any premium and discount. However, probable future losses are not taken into account until the asset becomes impaired (Stage 3). Once impaired, the interest calculation is based on the gross carrying amount less the recognised losses. For POCI financial assets, interest income is determined using the loan adjusted effective interest rate.
The group recognises interest income or interest expense calculated using the effective interest method on loans and advances, bank overdrafts, securities measured at amortised cost, securities measured at fair value through other comprehensive income, and liabilities to financial institutions, customer funds and securities issued.

The group recognises other interest and interest-related interest income and interest expense on interest rate swaps (IRS, CIRS) contracts designated as hedges of risks directly associated with its activities and on its financial instruments (trading securities and loans designated at fair value through profit or loss). Interest expenses also include interest recognised in relation to IFRS 16 leasing transactions.

3.20 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.

3.21 Commission income and expenses

Commission income and expenses that are not part of the calculation of the effective interest rate on financial instruments carried at amortised cost are accounted for in accordance with IFRS 15.

Commission income includes the income from fee and commission-based services, and commission expenses include the commission and fee expenses for third-party services related to the Bank's fee-based services.

The Bank recognises fee and commission income when the performance obligation for the service has been satisfied, the service has been rendered, the customer has obtained control of the asset and the consideration for the service has been received or is probable to be received. For services where the Bank transfers control of the asset on an ongoing basis and thereby satisfies the performance obligation on an ongoing basis, revenue is recognised on an accruals basis. Fees and commissions charged by the Bank typically relate to payment services, account management, investment services, custody services and documentary services and are detailed in note 8.

3.22 Net result on financial assets held for trading

Net trading income includes the net results recognised in respect of interest rate swaps not included in hedging relationships, forward rate agreements and gains and losses on sales and changes in fair value of financial instruments held for trading that are carried at fair value.

Notes to the financial statements (Continued)

3.23 Net result on hedge accounting

The Bank includes in the net results of hedge accounting the gains and losses arising from changes in the fair value of derivative contracts designated as hedges to hedge exposure to changes in the fair value of assets or liabilities and gains and losses arising from changes in the fair value of hedged transactions that are designated as hedged risk.

3.24 Result on non-trading financial instruments

Net result on non-trading financial assets includes the gains and losses realised on the derecognition of non-trading assets and equity investments, as well as gains and losses on the sale and changes in the fair value of financial instruments designated at fair value through profit or loss.

3.25 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”.

3.26 Share-based payments

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

For cash-settled share-based payment transactions, the fair value of the liability at the balance sheet date is remeasured regularly until the settlement date. The result of the revaluation is recognised in the income statement under personnel expenses.

The share-based payments are not material in group’s accounts.

3.27 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. Events after the balance sheet date are disclosed in note 51.

3.28 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.

Notes to the financial statements (Continued)

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.
- 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.

3.29 New standards and interpretations

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2022.

New and amended standards and interpretations issued by the IASB and adopted by the EU that are effective from the current reporting period:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Amendments to IAS 41 Agriculture** – Annual Improvements 2018-2020 (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 3 Business Combinations; Amendments to IAS 16 Property, Plant and Equipment; Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Annual Improvements (effective for annual periods beginning on or after 1 January 2022).

The Bank believes that the adoption of these standards and amendments to existing standards will not have a material impact on the Bank's financial statements.

New and amended standards and interpretations issued by the IASB and adopted by the EU but not yet effective:

- **IFRS 17 Insurance Contracts, including amendments to IFRS 17** (effective for reporting periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Disclosure of Accounting Policies** (effective for annual periods beginning on or after 1 January 2023);
- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (effective for annual periods beginning on or after 1 January 2023);
- **IAS 12 Income taxes – Deferred tax relating to assets and liabilities arising from the same transaction** (effective for accounting 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.

Standards and interpretations issued by the IASB and not adopted by the EU

IFRSs adopted by the EU do not currently differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to existing standards and new interpretations that have not yet been adopted in the EU at the date of issue of the financial statements:

- **IFRS 16 Leases Amendment – Lease Obligations on Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024);
- **Amendment 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 2024).

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

4.1 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 group applied UniCredit Group's risk management-principles and implemented into group's processes. The risk principles and strategies are approved by the Management Board. The Management Board receives regular reports on the risk composition and evolution of the Bank's portfolio, on the basis of which it assesses the implementation of the risk strategy.

Notes to the financial statements (Continued)

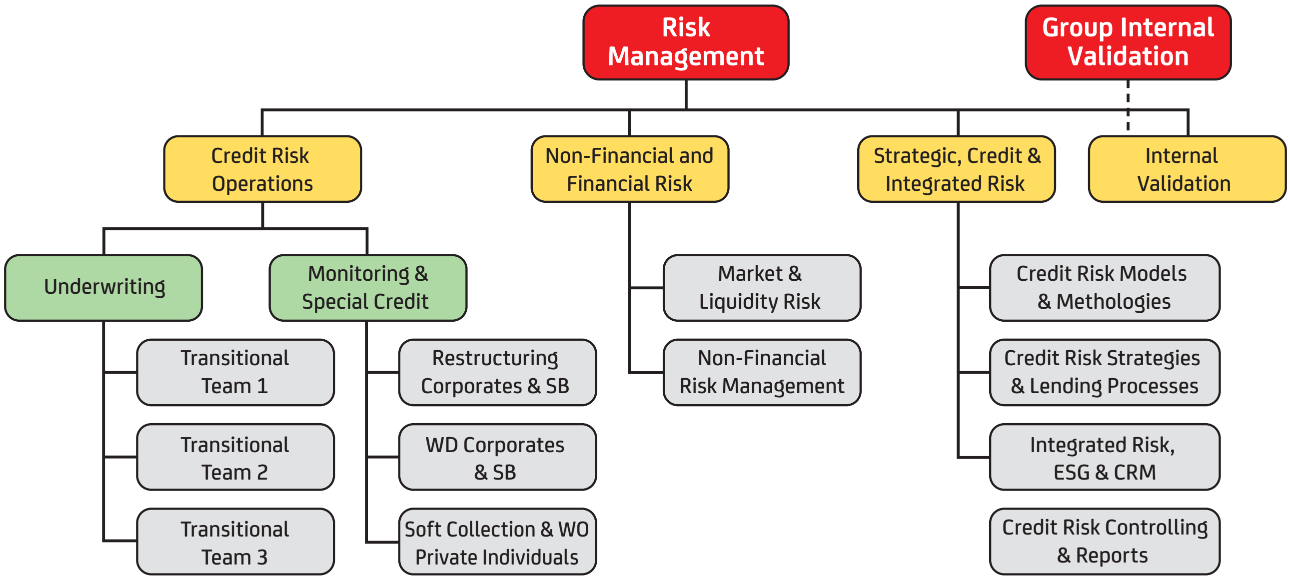
Based on the risk strategy group elaborates yearly "Risk appetite" documentation for next year in line with UniCredit Group's framework, in which target figures are identified for several risk types. Group elaborated risk management processes (identification, measurements and strict monitoring of risks)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

The group has also established risk committees to monitor, manage and take decisions on risks:
- Operational Credit Committee (meets regularly, twice a week)
- CEO Credit Committee (meets regularly, twice a week)
- Financial Risk Committee (FRC), which deals with ALM, liquidity and market risk (meets regularly, once a month)
- Non-Financial Risk & Control Committee (NFRCC), which deals with operational and reputational risk, the internal control system operated by Compliance and Internal Audit, as well as ICT, cyber security and business continuity issues (meets regularly, once a month)
- Risk Underwriting and Risk Management Committee (meets as required, but at least quarterly).

The permanent members of the Risk Committees are the managers at the appropriate level in the areas concerned, who are thus directly informed of risks, i.e. the group's risks are continuously monitored, assessed and, where necessary, intervened by senior management.

4.2 Risk Management Division

The group's risk management processes cover all the group's organisational units; and within this, the Risk Management Division plays a key role. The Division is organisationally completely separate from the business areas, the Head of the Division is a member of the Management Board and reports directly to the CEO. The structure of the Risk Management Division is shown in the figure below:



The main tasks and responsibilities of each area of the Risk Management Division are:

Underwriting is responsible for preparing risk statements for standard and watch list rated corporate and retail clients, reviewing credit referrals, making decisions on credit referrals within its competence, monitoring credit decisions within its business competence, assessing early warning signs and recommending reclassifications, and Application Fraud Management for retail and small business clients. Through these activities, Underwriting continuously and timely identifies and proposes to address risks at the client or client group level. It provides input to the development of the risk management strategy and contributes to the implementation of the underwriting strategy and policy. It will provide input to the development of risk management for the introduction of new products and services and modifications to existing products and will also play a proactive role in projects and initiatives aimed at simplifying the credit process.

The **Monitoring and Specialised Management** area is responsible for reducing the risk and potential loss of the performing loan portfolio by early detection and proactive management of credit deterioration, and for the management of problematic receivables. It develops and implements an action plan to manage loans and minimise losses through restructuring and work-out activities. Provides input to the development of risk management plans for the introduction of new products, services and processes and for modifications to existing products and processes.

Strategic Risk Management is responsible for providing regular, ad hoc internal and external information on the portfolio, as well as coordinating the provisioning and impairment accounting and the preparation of related reports on a monthly and quarterly basis. The area is responsible for ensuring compliance with the Basel rules in the area of credit risk, developing local models for estimating risk parameters and coordinating the

Notes to the financial statements (Continued)

implementation of group-wide models. The department is also responsible for the overall tasks related to the group's internal capital adequacy and the valuation of real estate.

Non-Financial Risk Management ensures compliance with legal and group-wide rules on operational and reputational risks and coordinates decentralised operational risk management.

Financial Risk Management tasks include the continuous monitoring of market, liquidity and counterparty risks, the preparation of related risk reports and their submission to decision-making forums.

The group's most significant business risks are credit risk, liquidity risk, market risk (including interest rate and foreign exchange risk) and operational risk.

4.3 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, 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. The main elements of credit risk mitigation are the understanding and prudent management of the counterparties involved in a financial transaction, the collateral they provide, and the risks of the transaction.

4.3.1 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%.

4.3.2 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;
- Credit derivatives;
- Real estate collateral;
- Assignment of revenue;
- Assignment of receivables, pledge on receivables;
- Movable property collateral;
- Other collateral.

According to Hpt. 99§ group does not accept
a) self-issued securities representing membership rights, including shares in cooperatives;
b) securities representing membership rights that have been issued by an enterprise with close links to the credit institution, including shares in cooperatives;
c) 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.

Notes to the financial statements (Continued)

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:

a.) market value in case of reliable active market,
b.) 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.

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.

4.3.3 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 into three stages in terms of risk and performance/non-performance:
- 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 – This portfolio includes non-performing financial instruments. For these financial instruments, the group recognizes impairment based on the expected loss over the life of the instrument in accordance with IFRS 9.
- POCI – The group classifies in POCI assets those purchased or originated financial assets that are impaired at inception (i.e. meet the definition of non-performing). POCI assets are initially recognised at amortised cost less impairment (life expectancy loss) and are subsequently carried in the statement of financial position at amortised cost using the credit-adjusted effective interest rate. On subsequent measurement, the cumulative changes in the lifetime expected credit losses since initial recognition are recognised in profit or loss as impairment gains or losses on POCI assets.

For those financial instruments where the group was not able to identify a significant increase in credit risk on the basis of existing quantitative information, the group considered whether the financial product was in the recommended or not recommended category on the basis of the rating scale when determining the stage 1-2 rating.

4.3.4 Non-performing exposure

Non-performing exposures are those that satisfy either or both of the following criteria:
- The group believes that it is probable that the counterparty will not fully discharge its credit obligations to the group's parent or a subsidiary unless the group recovers the collateral by way of a clawback;
- The counterparty has a significant credit obligation to the group, its parent or any of its subsidiaries that is past due for more than 90 days. The group has determined the extent of a significant obligation as follows:
- For retail customers and micro-enterprises: an amount equal to EUR 100 (fixed limit) and 1% of the higher of the group's gross receivables from the customer calculated on the balance sheet excluding exposures to which the group has an ownership interest
- For small, medium and large corporate customers: the higher of EUR 500 (fixed limit) and 1% of the group's gross exposures to the customer calculated on the balance sheet excluding exposures to which the group has a participation (relative limit).

Calculating days overdue

From a default point of view, the counting of days past due starts when the amount of overdue debt (due in respect of the principal amount of the loan, interest payable or any other type of fee due), according to the current, possibly modified, maturity schedule, exceeds the above thresholds. If, within 90 days prior to the occurrence of the 90-day default event, the amount of arrears falls below the materiality thresholds set out above, the counting of days past due shall stop and be reset. The counting of default days shall restart if the amount of overdue debt subsequently exceeds the materiality thresholds again. A 90-day overdue default event is considered to have occurred once the number of days overdue exceeds 90 days without interruption.

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).

Notes to the financial statements (CONTINUED)

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. The group incorporates forward-looking information in the IFRS9 PD and LGD parameters using so-called delta parameters. The delta parameters are calculated centrally by UniCredit Group using so-called Satellite models and are applied locally, the resulting delta parameters are applied to the underlying default rate for the PD parameter and to the underlying rate of return for the LGD parameter. The ratio indicators provided by UniCredit Group ensure the weighting of the scenarios in the expected loss calculation. The Group uses a total of three scenarios for which the weights are determined centrally by UniCredit group (baseline 60%, negative 40%, positive 0%).

As of 31 December 2022 geopolitical overlay amount to HUF 13.2 bn and is broken-down according to the following components:

- Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russia – Ukraine crisis, specifically impacting the energy supply and related price soaring;
- Retail clients, for: (i) floating rate mortgages (not having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment on their exposures, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.

HUF 5.8bn, which was written-down in 2021 as the minimum coverage requirement by Hungarian National Bank, was written-back during 2022. Out of which HUF 4.4bn was on non-financial corporates, and HUF 1.4bn was on retail clients.

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying – as macro-economic conditions – the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate. Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose LLPs are then calculated according to the average coverage rate applied to Unlikely to Pay.
The effect of geopolitical overlay on provision can be found in additional note of 46.5.

Write-off policy
If it is determined and demonstrated, as required by the group's "Write-off on financial assets" policy, that the group cannot reasonably expect to recover all or part of the financial asset (i.e. the receivable is considered uncollectible), the group writes off loans and securities (together with related impairment losses) as a loss. A write-off of a financial asset may relate to all or part of the financial asset.
Any subsequent recoveries of previously uncollectible amounts are recognised in profit or loss.

4.3.5 Current tendencies in lending

4.3.5.1 Retail lending
For new retail loans, the group applies selectivity, with a greater emphasis on lower-risk segments and products, in line with the group's guidelines and the legislation on responsible lending that entered into force in 2010 and the Central Bank Regulation on the regulation of income-based repayment and loan-to-value ratios that entered into force in 2015 and was amended in 2016 and 2018.

The group places particular emphasis on its debt management and restructuring processes, taking into account and complying with the recommendations of the MNB 5/2022 (IV.22) and Recommendations 39/2016 (X. 11.) and 2/2019 (II.13), and continuously provides renegotiation opportunities to its retail customers who report to the group their existing payment problems, their deteriorating economic situation or the group detects the existence of such problems due to the existing arrears.

In 2022, the group renewed a multi-year framework agreement for the sale of future defaulted, cancelled receivables at a predetermined rate and price.

4.3.5.2 Corporate lending
In 2022, main objective for the corporate portfolio was to protect the quality of the existing portfolio. With regard to the corporate loan portfolio, the group's lending policy is differentiated by sector, requiring a selective risk approach for new transactions with the most vulnerable sectors. In 2022, the sectoral approach to risk policy was further enhanced in the exceptional geopolitical situation that has emerged, and our actions

Notes to the financial statements (CONTINUED)

were also taken on a sectoral basis. Strengthening our monitoring activities has also been based on which sectors have been hardest hit by the economic impact of the events in Ukraine. Our lending activity continued to rely heavily on forward-looking analysis, with a particular focus on spill-over effects, energy and input price rises, volatile exchange rate risk, interest rate risk, inflation, trade linkages, supply chain issues, sectoral special taxes. In our analyses, we have sought to identify the effects of the crisis situation, through which we have actively recommended various crisis products to our clients, including the inclusion of crisis guarantees, with a view to avoiding payment difficulties.

Our new lending activities were also selected on the basis of the crisis sensitivity or resilience of each sector. In addition to enhanced monitoring activities, we have also used targeted portfolio analysis to assess direct and indirect risks, identify problematic clients and carry out appropriate stage classifications. In the moratorium portfolio analysis, we focused on identifying payment difficulties expected after the moratorium expires.

Thanks to a prudent underwriting policy, the loan portfolio is balanced in terms of sectoral composition, both in terms of non-problematic transactions and transactions that will be subject to special treatment in 2022.
The COVID-19 moratorium ended on 31.12.2022, but the Agricultural moratorium introduced in September 2022 remains in place. The group will closely monitor the behaviour of clients previously under moratorium after the moratorium is lifted.

4.4 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 2022. 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 2021 and 2022 are represented in Note 39 and the maturity analyses of derivative financial instruments are represented in Notes 41 and 42.

4.5 Market risk

4.5.1 Overview of the market risk management process

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.

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 48.

4.5.2 Asset Liability Management

Interest rate risk and liquidity risk from customer transactions is attributed to group's treasury operations throughout the UniCredit Group.

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.

4.5.3 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 38.

4.5.4 Compliance with CRD IV/CRR (Basel III)

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

Since the beginning of 2008, the group has applied the Basel II standardised approach. At the same time, the group is placing a strong emphasis on the gradual transition to the Advanced Internal Ratings Based (hereinafter Advanced IRB) methodology in order to achieve cost savings on invested capital while introducing and applying more advanced and efficient risk management principles and practices. A comprehensive implementation plan has been prepared for the gradual transition of subsidiaries to IRB.

As a first step, the group applied for and received approval from the Supervisory Authority to use the basic IRB method for its medium and large corporate, international corporate and banking clients with effect from 1 July 2011. The extension of the basic IRB and the introduction of the advanced IRB method in the corporate business will be implemented at a later stage, provided that a statistical model of sufficient quality can be developed. According to the draft implementation timetable, this could take place after 2023.

The gradual introduction of IRB will be done at local level. This decentralised approach means that the group will prepare for the requirements of the (advanced) IRB methodology essentially autonomously, but the work will be supported and supervised by the relevant areas of UniCredit Group through guidelines, standards, advice and training. The group is responsible for the use of the methods, the development and back-testing of local models and compliance with local regulatory requirements. For the Group models used at UniCredit S.p.A. level, the development and back-testing is the responsibility of the international UniCredit Group.

Models, processes and data quality under the internal rating methodology are verified by an independent validation area and audited regularly by Internal Audit.

Notes to the financial statements (Continued)

4.6 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 should be appointed within each area of the group and should be adequately supported in their duties;
- The relevant committees, with the support of Non-Financial Risk Management, should be informed of changes in risk profiles and risk exposures.

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.

The Operational Risk Mitigation Working Group, which also meets quarterly, is operationally active and serves to identify, monitor, mitigate, define action plans and follow up operational risks. The issues and proposals discussed by the Task Force also form the basis of the material to be presented to the Non-Financial Risk & Control Committee and the Internal Control Business Committee.

In reviewing the Operational Risk Framework, Internal Audit is responsible for assessing the operation and effectiveness of this framework and its compliance with regulatory requirements, once a year. Internal Audit also monitors the collection and management of data on operational risk events.

The centralised Non-Financial Risk Management operates the framework and coordinates the decentralised operational risk management activities, which are carried out by the operational risk managers (divisional and administrative) assigned to each business unit.

5 Use of estimates and judgements

The Non-Financial Risk Management area conducts an annual self-assessment of the compliance of the group's operational risk management and control system with UniCredit Group-wide standards and internal policies, which is also assessed by an independent validation area (UniCredit Group Internal Validation) and by Internal Audit. The self-assessment is eventually approved by the Bank's Management Board at a Management Board meeting.

These disclosures serve to complete the presentation of the risk management policy.

5.1 Impairment of credit losses

Assets carried at amortised cost, assets measured at fair value through other comprehensive income, loan commitments and financial guarantees are tested for impairment as described in the Supplementary notes 3.11 to the Principles of Main Accounting Policies and 4 Risk Management Policy.

5.2 Fair value measurement

With regard to the prices and techniques used for financial instruments, the group applies a three-level fair value hierarchy, reflecting the significance of the inputs used in determining fair values, and includes the following three levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2 – unquoted prices that are observable for the asset or liability either directly (e.g. prices observed in markets that are not active) or indirectly (e.g. 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 Additional Information 43.

The fair value measurement is supplemented by a Fair Value Measurement Reserve to cover the widened bid-ask spread and the deteriorated liquidity situation for the relevant securities.

In accordance with IFRS requirements, the group records a CVA (Credit Valuation Adjustment) as a fair value adjustment on its OTC derivative transactions. CVA is calculated centrally by UniCredit Group.

5.3 Principles of fair value measurement

The fair value of financial assets is based on the quoted market price at the balance sheet date, without deducting transaction costs. A market is considered to be active if quoted prices are readily and regularly available and represent genuine, frequently recurring, arms-length transactions. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques.

When discounted cash flow techniques are used, the estimated future cash flows are based on the best estimate and the discount rate used is the market rate for assets with similar characteristics at the balance sheet date. When pricing models are used, the source data are based on market observable values at the balance sheet date.

The fair value of unlisted derivatives is the value that the group would realize at the balance sheet date under normal business conditions, taking into account current market conditions and the creditworthiness of the counterparties.

The group recognises a fair value adjustment arising from foreclosure and liquidity costs. Assets measured at fair value through trading and other comprehensive income have been adjusted for fair value adjustments.

The group is not involved in any securitisation transactions and does not hold any credit derivatives or structured OTC products (e.g. CDO, SIV).

6 Impact of economic safeguards on the financial statement

2022 continued to be a year that was significantly affected by the pandemic caused by the novel coronavirus which started in 2020.
The Hungarian Government maintained most of its regulations with the aim of protecting the economy throughout 2022. 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;
- an interest rate freeze on a limited range of bank loans;
- extra profit tax.

6.1 Payment moratoria on loans and extensions

6.1.1 Overview

The general features of the credit moratorium, introduced as a targeted measure directly affecting the banking sector, are as follows:

- The payment moratorium applies only to loans already disbursed under loan and credit agreements concluded until 18 March 2020.
- The debtor is granted a moratorium on payments of principal, interest and charges due under the contract.
- The duration of the contract is extended by the time spent in moratorium.
- The principal of the debtor may not increase by the amount of interest not paid during the moratorium period.
- The interest accrued during the period of the moratorium shall be repaid in equal instalments over the duration of the moratorium after the moratorium expires, so that the sum of the instalments due and the payment of the accrued interest does not exceed the amount of the payments due under the original contract.
- The amendment to the contract resulting from this Regulation does not need to be notarised.

Notes to the financial statements (Continued)

The first phase of the payment moratorium (Moratorium 1) was in force from 18 March 2020 until 31 December 2020 (The related government regulations: Government Decree 47/2020 (18.3.2020), Government Decree 62/2020 (24.3.2020)). During this phase, the moratorium automatically applied to all loans already disbursed under credit and loan contracts concluded until 18 March 2020 and debtors could opt out and enter the payment moratorium at will.

The payment moratorium was abolished by the Government through Act CVII of 2020 and Act 637/2020 of 22 December 2020 amending Act CVII of 2020.), the payment moratorium was extended until 30 June 2021 under essentially unchanged conditions, with the addition that those who do not participate (opt-out) in Moratorium 1 by 31 December 2020 are not automatically subject to the extension (hereinafter "Moratorium 2" or "Moratorium 2"), but must apply separately for re-participation from the lender.

In the course of 2021, the moratorium was extended several times until 31 October 2021, and the Government extended the moratorium under the previous law and regulations by means of the decrees 536/2021 (IX.15.) and 537/2021 (IX.15.) On 15 September 2021, by Government Decree No 531/1921, the Government amended the existing moratorium on payments under the previous law (Decree No 531/1921) by extending it until 30 June 2022 for the social groups and enterprises defined in Act CVII of 2020 (hereinafter "Moratorium 3" or "Moratorium 3"). The main difference between Moratorium 3 and the previous moratoriums is that participation in Moratorium 3 is not automatic, but is only available to debtors who apply to the Bank by the deadline set in the Decree. The payment moratorium for debtors not belonging to the social groups and enterprises defined in Act CVII of 2020 ended on 31 October 2021.

By Government Decree 216/2022 (17.VI.6), the Government extended the moratorium described in detail above for a further six months, until 31 December 2022. Eligible customers had until the end of July to notify their intention to join the moratorium, which was extended until the end of 2022 (hereinafter "Moratorium 4").

The general payment moratorium was not further extended and therefore ended on 31 December 2022 for clients participating in Moratorium 4.

In the summer of 2022, in the context of drought damage, the Government introduced a new moratorium on repayments of investment and working capital loans to enterprises in the agricultural sector from 1 September 2022 to 31 December 2023 (hereinafter the "Agricultural Moratorium") under Government Decree 292/2002 (VIII.8).

In accordance with the group's general practice in the event of payment moratoria, the group has, in accordance with the Regulation, completed the setting of the payment moratorium in the base systems for all the loans concerned, the collection of repayment instalments has therefore been suspended, but interest accrual on the loans remains in force, but this interest has not become part of the principal in accordance with the Regulation, but is recorded as a separate interest receivable in the bank's records.

The net interest income in the profit and loss accounts therefore includes the interest due on loans from debtors under moratorium but not collected because of the moratorium. The statement of financial position includes the same amount of interest as part of the gross amount of customer receivables.

The group has monitored the behaviour of clients after the entry into force of the Moratorium 1 regulation and has taken into account statements made by clients and, if it concludes, either as a result of impulsive behaviour or as a result of a statement made, that the client wished to repay according to the original contract, it has removed the client from the moratorium and restored the original payment schedule.

Exit could be retrospective or prospective. In the former case, no interest accrued during the moratorium period, while in the latter case it did. In this case, the recording of accrued interest was the same as for loans under moratorium.

In the case of early repayment, the customer first repays the unpaid interest during the moratorium period, and the reduction of the principal and interest due under the original contract was only made after accounting for the unpaid interest during the moratorium period.

During Moratoria 2, 3, 4 and the Agricultural Moratorium, the group followed a similar accounting treatment to that detailed above for Moratorium 1, with the addition that:

- In the case of Moratorium 3, for customers who are not eligible and for customers who are eligible but have not made use of it without a declaration, the debt repayment schedule has been recalculated in the registers in accordance with the law and the regulations. As a consequence, the maturity of the relevant transaction round has been extended by a few months on average and the dates and amounts of interest accrued during the moratorium have been adjusted as part of the repayment schedule (amortization of the interest debt).
- In the case of debts arising from credit card and overdraft contracts, the group has carried out a recalculation of the debts and then implemented a correction of the debts towards the customers during 2021, as well as a forward capping of the interest rate, as set by the regulation.
- As of November 2021, automatic entry and exit from the payment moratorium was suspended in accordance with the provisions of the Regulation.

As of the end of 2022, the debt repayment schedules were recalculated in accordance with the legislation in all cases except for the contracts participating in the agricultural moratorium.

Notes to the financial statements (Continued)

6.1.2 Effects of moratoria and extensions of moratoria on certain elements of the statement of financial position.

6.1.2.1 Customer receivables

The group applies the payment moratorium imposed by the Government of Hungary on customer receivables, with more permissive conditions than those provided by law and regulation in respect of the repayment of interest accrued during the payment moratorium period after the moratorium expires, where applicable.

The group treats contract modifications made in respect of loans disbursed under the moratorium provisions as a contract modification event under IFRS 9.

The group did not determine the loss on contract modification reversed in interest income through increased interest amortization over the remaining life of the loans in 2020, 2021 and 2022 based on the final future cash flows due to contract modification, as they depended on parameters that were not known at the time of reporting. The main variable is the amount of accrued interest, which is directly dependent on the interest rate environment at the end of the moratorium and its changes during the moratorium period, as well as on the exact length of the moratorium period for each transaction. Also such an unknown variable is the required increase in the maturity in months, which is necessary in order for the group to comply with the condition in the Moratorium 1 Regulation, which applies equally to Moratoria 2, 3 and 4 and the Agricultural Moratorium, concerning the amount of the repayment after the expiry of the moratorium. This condition is set out in Article 2(3) of Government Decree 62/2020: 'after the expiry of the moratorium, the maturity is extended so that the sum of the repayments due and the interest payable in instalments during the moratorium does not exceed the amount of the repayments under the original contract'.

On this basis, the group has determined the loss on contract modification in its annual accounts for 2021 and 2022 based on a model using a significant estimate. The model aims to identify the variables that determine the contract modification loss. The principles of the model are as follows:

- The model is methodologically reviewed on a fixed (monthly) basis and the results take into account current information and status.
- For each loan transaction eligible for moratorium, the model determines the current principal outstanding, the current or estimated transaction interest rate and the amount of interest accruing until the end of the moratorium based on the time remaining until the end of the moratorium.
- Based on the current status of the loan transaction (e.g. in moratorium, opt-out), the model assigns a probability value to the calculated interest amount, expressed as a percentage, which expresses what proportion of the total theoretical accrued interest amount a given loan transaction will actually accrue based on the experience gained in the payment moratorium and expectations for the future, based on the frequency of entries and exits from the payment moratorium.
- The theoretical accrued interest and the assigned probability are used to determine the "practical" accrued interest at the level of individual loan transactions.
- The remaining maturity, the interest rate and the ratio of accrued interest to outstanding principal are used to determine, on the basis of a simulation parameter table, how many additional months the maturity of the individual loan transaction will be extended in compliance with the Regulation.
- The estimated contract modification loss per transaction is calculated as the difference between the present value of the theoretical cash flow of the accrued interest amortised at a constant rate until the new maturity and the nominal value of the same interest.
- A shift in the payment schedule of a transaction due to a moratorium, which in practice occurs as the maturity is extended, does not in itself result in a change in present value because interest can still be charged on the outstanding principal in the moratorium and this accrued interest compensates for the loss that would result from the shift in schedule in the absence of this feature of the moratorium. The present value loss arises from the fact that the accrued interest is not due in a lump sum at the end of the moratorium period but can only be collected from the customer in instalments.

The loss on contract modification calculated on the basis of the model is included in the statement of cash flows as a reduction of the carrying amount of customer receivables. The contract modification loss is recognised as a contract modification loss in the income statement under impairment losses. The calculated contract modification loss is not accrued between years as this is not allowed 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 recognised loss on contract modification includes significant management estimates, in particular for the probability percentages used, so the actual value may differ from the recognised amount when the actual repayment schedules after the payment moratorium become known.
In determining the probability percentages, the group has taken a conservative approach, i.e. it has both built on experience and behavioural patterns since the entry into force of the payment moratorium on 18 March 2020 and taken into account that, if the restrictive measures are maintained, there may be a negative change in the ability of customers to pay that could result in a higher percentage of opt-out transactions than the experience value that would result in the payment moratorium being triggered.

The model used to calculate the loss on contract variation is necessarily limited in its ability to estimate the true impact, but the assumptions built into the model reflect management's best estimate.

Notes to the financial statements (Continued)

In 2022 and 2021, the group has included extensions of the payment moratorium in the model. The extension of the payment moratorium caused an increase in the loss on contract modification calculated by the model. This was offset by the gradual withdrawal of customers from the payment moratorium.

Because of the practical discontinuity of Moratoria 1, 2, 3 and 4 in the model, the group is unable to allocate the model's calculated contract modification loss according to the amount of that loss that results from each moratorium change. One reason for this is that the final repayment schedules continue to be known only when the customer irrevocably leaves the payment moratorium for the contract in question or when the payment moratorium for the contract in question is ended by law.

The amount recognised as a contract modification loss in the income statements for 2022 and 2021 therefore essentially includes the change in the model estimate for the portfolio of transactions remaining in Moratorium 3 and Moratorium 4 until their expiry (including the estimate for transactions in the Agricultural Moratorium in 2022 and its change). In 2021, the variance between the model estimate and the actual contract modification loss effect calculated in the knowledge of the final repayment schedules ('estimation inaccuracy') for the portfolio of transactions exiting the payment moratorium by 31 October 2021 due to the legal force or absence of a declaration, and in 2022, the variance between the actual contract modification loss calculated for the remaining portfolio still in the payment moratorium during 2022 and the model estimate is also included in the contract modification loss in the income statement due to the expiry of the measures at the end of December 2022.

6.1.2.2 Impairment of financial instruments

The impact of payment moratoria on the stock and impairment of financial instruments is summarised in the following tables.

Exposures that are eligible for the moratorium but have voluntarily or by law been removed from the moratorium are shown in the table below at 31 December 2022 and 31 December 2021:

31 DECEMBER 2022	PERFORMING STAGE 1	PERFORMING STAGE 2	NON-PERFORMING STAGE 3	TOTAL
Gross book value of households	6,895	61,316	3,195	71,406
Gross book value of non-financial corporations	96,898	15,514	9,773	122,185
Gross book value total	**103,793**	**76,830**	**12,968**	**193,591**
Impairment of households	(38)	(2,294)	(1,847)	(4,179)
Impairment of non-financial corporations	(1,130)	(1,452)	(6,150)	(8,732)
Impairment total	**(1,168)**	**(3,746)**	**(7,997)**	**(12,911)**
Net book value of households	6,857	59,022	1,348	67,227
Net book value of non-financial corporations	95,768	14,062	3,623	113,453
Net book value total	**102,625**	**73,084**	**4,971**	**180,680**

31 DECEMBER 2021	PERFORMING STAGE 1	PERFORMING STAGE 2	NON-PERFORMING STAGE 3	TOTAL
Gross book value of households	6,293	77,814	3,814	87,921
Gross book value of non-financial corporations	89,134	53,585	11,742	154,461
Gross book value total	**95,427**	**131,399**	**15,556**	**242,382**
Impairment of households	(37)	(3,267)	(2,476)	(5,780)
Impairment of non-financial corporations	(878)	(2,783)	(7,417)	(11,078)
Impairment total	**(915)**	**(6,050)**	**(9,893)**	**(16,858)**
Net book value of households	6,256	74,547	1,338	82,141
Net book value of non-financial corporations	88,256	50,802	4,325	143,383
Net book value total	**94,512**	**125,349**	**5,663**	**225,524**

6.2 Interest freeze

On 24 December 2021, the Government introduced an interest rate freeze on mortgage loan contracts linked to the reference rate by Government Decree 782/2021. According to the Decree, the reference rate for the loans covered by the Decree must be fixed for the period from 1 January to 30 June 2022 in such a way that its rate, as of the contractual reference date following or preceding the entry into force of the Decree, i.e. 1 January 2022, cannot be higher than the contractual reference rate as of 27 October 2021.

In June 2022, by Government Decree 215/2022 (17.6.2022), the Government extended the interest rate freeze by six months until 31 December 2022.

On 15 October 2022, further provisions extending the interest rate freeze entered into force following Government Decree 390/2022 (X.14). On the one hand, the interest rate freeze was extended for another six months, until the end of June 2023. On the other hand, the provisions of the interest rate freeze will also apply to non-subsidised mortgage loan contracts with a fixed interest rate for a maximum period of five years from 1 November 2022. The legislation caps the applicable reference rate at the rate in force on 27 October 2021.

Notes to the financial statements (CONTINUED)

Lastly, by Government Decree 415/2022 (X.26), the Government extended the interest rate freeze measure to cover credit and loan contracts concluded by debtors classified as micro, small and medium-sized enterprises at the reference rate from 15 November 2022 until the end of June 2023. For this range of transactions, the legislation caps the reference rate applied at the rate applicable on 28 June 2022.

The group considers the temporary reduction of the reference rate by regulation to be a change in the interest cash flow of the loan, which results in a renegotiation or modification of the contractual cash flow of the financial instrument.

In accordance with the above, the group determined the net present value of the affected loans taking into account the cash flows under the regulations and recognized the difference between the recalculated net present value and the unadjusted value as a loss on contract modification in fiscal years 2022 and 2021. In calculating the original unadjusted net present value, the group made assumptions about the evolution of the benchmark interest rate over the period of the interest rate freeze.

The amounts of contract modification loss resulting from the calculations are recognised when the measures are implemented, the value of the loss is not reviewed during the period of the measures, unlike in the case of payment moratoria, because, unlike in the case of payment moratoria, the cash flows after the contract modification are known and do not contain uncertainty. As a result, contract modification losses recognised at the time of the measures are reversed through the income statement via increased interest income over the period of the measures. Unamortised contract modification losses at year-end reduce the gross amount of customer receivables.

6.3 Impact of loan moratoria and interest rate freeze regulations on the Bank's income statement

ITEM DESCRIPTION	2022	2021
Modification losses recognised on loans in moratorium (1-4)	(36)	9
Modification losses recognised on loans in agricultural moratorium	(140)	–
Modification losses recognised on loans in connection with interest freeze	(5,126)	(405)
Total	**(5,302)**	**(396)**

6.4 Special taxes introduced in the context of the epidemic and the post-epidemic economic situation

6.4.1 Epidemic tax
Government Decree 108/2020 (14.4.20) required credit institutions to pay a special tax to replenish the Epidemic Fund. The special epidemiological tax is based on the part of the tax base for the tax year 2020 determined in accordance with Section 4/A (4) (1) of Act LIX of 2006 (Special Tax Act) exceeding HUF 50 billion, at a rate of 0.19%.

The amount of the special epidemiological tax paid by credit institutions in 2020 shall reduce the amount of the special tax on financial institutions in the form of tax withholding in the next 5 tax years, up to an amount equal to 20% of the special epidemiological tax for 2020 per tax year. The base of the group's special epidemiological tax for 2020 is HUF 2,611,758 million, the amount of the special tax is HUF 4,962 million. Considering the recoverability, the group has recognised the discounted future recoverable amount as an asset, thus the discounted impact of the 2022 epidemiological tax totals HUF 26 million revenue (2021:HUF 13 million revenue). The group recognises an asset of HUF 2,825 million (2021: HUF 3,793 million) as a future receivable in the statement of financial position at the end of 2022.

6.4.2 Extra profit tax
In the framework of Government Decree 197/2022 (4.VI.), a new temporary tax – called the extra profit tax – was introduced in order to preserve the balance of public finances.

In the case of credit institutions, the extra tax is based on the net turnover determined on the basis of the annual accounts of the preceding tax year, in accordance with the Local Taxes Act. The special tax rate is 10% in 2022 and 8% in 2023.

Accordingly, the group will be liable to pay HUF 15,155 million in 2022, which is recognised in general operating expenses.

6.5 National Deposit Insurance Fund extraordinary payment
In 2022, the Hungarian National Bank revoked the operating licence of Sberbank Hungary Zrt. The compensation of the credit institution's customers was carried out by the National Deposit Insurance Fund (OBA). For the compensation, the OBA provided for a one-off payment to the member credit institutions, which the OBA undertook to repay to the member institutions and to cover the payments by issuing bonds. The one-off payment was recognised by the Bank in the profit and loss account under general operating expenses, as its recovery was uncertain at the time of Sberbank's liquidation. In December 2022, the one-off payment was partially reimbursed after the completion of the liquidation, so that in the income statement for 2022 the non-reimbursed amount is included only in general operating expenses. The bonds issued by OBA are included in securities held for investment at amortised cost. The group's exposure to Sberbank was fully recovered on liquidation.

Notes to the financial statements (CONTINUED)

(HUF million)

INTEREST AND SIMILAR INCOME	2022	2021
Interest income with EIR method		
Interest income from Central Bank	93,502	16,187
Interest income from banks	17,756	1,368
Interest income from customers	80,822	40,677
Interest income on securities at amorised cost	24,553	10,297
Interest income on securities at fair value through other comprehensive income	10,363	8,059
Other interest income with EIR method*	258	326
Total	**227,254**	**76,914**
Interest income other		
Interest income on customer loans at fair value through P&L	4,275	2,392
Interest income on trading financial assets	320	133
Interest income on hedge derivatives	110,935	34,072
Total	**115,530**	**36,597**
Total interest income:	**342,784**	**113,511**
Interest expense and similar charges		
Interest expense to Central Bank	(4,152)	(1,813)
Interest expense to banks	(2,793)	412
Interest expense related to hedge derivatives	(127,755)	(23,862)
Interest expense to customers	(58,116)	(5,679)
Interest expense on subordinated loans	(6,569)	(3,078)
Interest expense on issued bonds	(40)	(39)
Total interest expense:	**(199,425)**	**(34,059)**
Net interest income	**143,359**	**79,452**

* 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 146 million in 2022 and HUF 203 million in 2021. 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 2022 (2021: HUF 70 million).

8 Net fee and commission income

(HUF million)

FEES AND COMMISSION INCOME	2022	2021
Payment transaction fees	50,410	41,690
Financial guarantee fees	2,765	2,463
Custody service fees	4,846	4,303
Investment service fees	4,706	4,129
Other financial services fees and commissions	2,718	2,277
Total	**65,445**	**54,862**
Fees and commission expense		
Payment transaction fees	(8,015)	(7,031)
Financial guarantee fees	(429)	(154)
Custody service fees	(1,116)	(1,097)
Investment service fees	(66)	(119)
Other financial services fees and commissions	(2,200)	(1,478)
Total	**(11,826)**	**(9,879)**
Net fee and commission income	**53,619**	**44,983**

Notes to the financial statements (CONTINUED)

A short summary of the nature and timing of the performance obligations of the Bank pursuant to contracts with customers which result in the recognition of fee and commission income is provided in the following:

TYPE OF SERVICE PROVIDED	NATURE OF PERFORMANCE OBLIGATION, SIGNIFICANT PAYMENT CONDITIONS	ACCOUNTING FOR REVENUES ACCORDING TO IFRS 15
Payment service fees	The Bank provides account management services to clients. Fees and charges related to account management services are determined on a client group and account type level and are published to the public in its list of conditions. Fees are revised periodically. In case of services that are continuously performed, such as account management services, fees are typically fixed and charged on a monthly basis in arrears. In case of services relating to transaction-based orders that involve cash transfers, fees such as transfer fees, collection fees, cash withdrawal fees are charged along with the performance of the specific service. Such fees and charges are typically determined as a percentage of the transaction amount. Fees related to other, occasionally provided services such as account opening fees, certification fees, postage fees, collateral certification fees are charged along with the performance of the service.	Fees related to services provided continuously over time are recognised as fee income over the time the services are provided proportionately with the time elapsed, usually with monthly regularity. Fee income related to specific transactions is recognised when the transactions is concluded or in arrears on a monthly basis.
Financial guarantee fees	The Bank charges two types of fees for issuing guarantees: one-off fees, which mainly compensate the bank for management services related to the issuance of the guarantee, and guarantee fees, which are payable pro rata until the maturity of the guarantee and charged in advance at the beginning.	One-time fees related to specific services are recognised when the service is performed, while the pro rata guarantee fees are recognised on a straight-line basis over the life of the guarantee.
Custodian service fees	Fees charged related to custodian services are typically charged in arrears in the respective period that they refer to on a monthly basis.	Fees related to services provided continuously over time are recognised as fee income over the time the services are provided proportionately with the time elapsed.
Investment service fees	The Bank provides securities account management services to client in the scope of its investment services. Fees are charged to clients in connection with the management of the securities account and transactional fees are charged in connection with client orders executed on the accounts. In case of services that are continously performed (such as account management services), fees are typically fixed and are charged on a monthly basis in arrears. Transactional fees related to securities orders are charged when the orders are executed.	Fees related to services provided continuously over time are recognised as fee income over the time the services are provided proportionately with the time elapsed, while transactional fees are recognised when the service is performed
Other financial services	The Bank charges fees for continously peformed services in the period that they are performed, and charges one-off transactions fees when the transactions are concluded.	Fees related to services provided continuously over time are recognised as fee income over the time the services are provided proportionately with the time elapsed, while transactional fees are recognised when the service is performed.

9 Dividend income

(HUF million)

	2022	2021
Dividends on trading securities	–	–
Dividends on investments	9	191
Total	**9**	**191**

10 Net trading results

(HUF million)

	2022	2021*
Gain/(Loss) on foreign exchange	3,154	13,503
Gain/(Loss) on trading interest rate swaps, net	3,377	(323)
Gain/(Loss) on debt securities, net	(1,465)	(384)
Gain/(Loss) on equities, net	2	–
Gain/(Loss) on trading FRA's, net	84	165
Other trading income	289	229
Total	**5,441**	**13,190**

* Comparative figures have been amended for 2021.

Notes to the financial statements (Continued)

11 Net results of hedge accounting

(HUF million)

	2022	2021
Net result on hedging IRS transactions and changes in fair value of hedged instruments	455	84
Hedging derivative transactions CVA, FUVA, FVA results	1,097	(39)
Total	**1,552**	**45**

12 Net gain and loss on non-trading financial assets

(HUF million)

	2022	2021
Gain		
Debt securities at amortised cost	50	116
Debt securities at fair value through other comprehensive income	13,318	11,023
Loans at fair value through profit and loss	1,295	–
Gain on repurchased issued Mortgage Bonds	–	286
Total	**14,663**	**11,425**
Loss		
Debt securities at amortised cost	(2,346)	(1,243)
Debt securities at fair value through other comprehensive income	(11,961)	(8,910)
Investments at fair value through profit and loss	(54)	(19)
Loans at fair value through profit and loss	–	(3,121)
Loss on repurchased issued Mortgage Bonds	–	(763)
Total	**(14,361)**	**(14,056)**
Net gain from other financial investments	**302**	**(2,631)**

13 Personnel expenses

(HUF million)

	2022	2021
Wages and personal payments	(20,903)	(18,125)
Employer’s social-security contributions	(2,517)	(2,597)
Other employee allocations/benefits	(1,659)	(1,325)
Other employer's contributions	(251)	(224)
Total	**(25,330)**	**(22,271)**

The average number of employees was 1,785.36 in 2022. (2021: 1,772.75).

Notes to the financial statements (Continued)

14 General operating expenses

(HUF million)

	2022	2021
Tax expense	(38,335)	(30,379)
Extraprofit tax*	(15,155)	–
OBA extraordinary contribution*	(3,387)	–
Return of OBA extraordinary contribution*	2,029	–
Fees to authorities	(4,251)	(3,935)
Renting costs and operating expenses of property	(2,188)	(1,867)
Advertising costs	(569)	(687)
Information technology costs	(9,291)	(8,648)
Material and office equipment costs	(284)	(273)
Other administrative costs	(2,811)	(2,736)
Total	**(74,242)**	**(48,525)**

*Further details on extraprofit tax and OBA extraordinary contribution are disclosed in Note 6.4.2 and 6.5.

The following services were provided by KPMG to the group (fees are in net amounts):
- Audit services (audit fee) of HUF 116 million in 2022 (2021: HUF 113 million),
- Other assurance services (audit related fee) of HUF 0 million in 2022 (2021: HUF 3 million),
- Permitted non-audit services (other fees) were not provided in 2022 and 2021.

15 Other results

(HUF million)

	2022	2021
Other income		
Gain in transfer of trading operation	4,512	–
Income related to foreign currency loans converted to HUF	254	–
SLA services revenue	550	753
Revenue from services supplied by third parties	598	470
Rental income received	1,161	795
Compensation received	19	21
Recovery cost	25	25
Net gain on sale of tangible fixed assets*	65	263
Other	243	34
Total	**7,427**	**2,361**
Other expenses		
Expenditure on damages	(53)	(61)
Indemnity paid	(150)	(129)
Cost of Workout	(80)	(64)
Fine	(137)	(89)
Expenditure on services supplied by third parties	(598)	(415)
Revaluation loss on properties measured using the revaluation model	(206)	(260)
Net loss on sale of tangible fixed assets	–	–
Aid granted under a grant and cooperation agreement	(80)	–
Other	(459)	(227)
Total	**(1,763)**	**(1,245)**
Other results	**5,664**	**1,116**

In the financial statements for the year ended 2021, the figures marked by * in the above table related to Other income and other expense were presented under the line item Net gain and loss on in a net gain of HUF 4 million. The items were reclassified to Other income and other expense in order to provide more relevant information for the users of the financial statements.

Notes to the financial statements (CONTINUED)

Gain on transfer of trading operation show the amount of compensation received in connection with the centralization of Treasury at the parent company. The transferred capacity does not meet the criteria of a separate operation, consequently, the compensation received is presented as Other income.

16 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 2022 and 2021 in Hungary. Only corporate tax is presented as income tax in the Bank's financial statements.

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

16.1 Tax liability for the year

(HUF million)

	2022	2021
Current tax expense	8,190	4,354
Adjustments for prior years	0	326
Total	**8,190**	**4,680**
Deferred tax charge	231	(70)
Total income tax expense in statement of profit or loss	**8,421**	**4,610**

16.2 Reconciliation of effective tax rate

	2022		2021	
	%	(HUF MILLION)	%	(HUF MILLION)
Profit before tax		93,266		50,949
Income tax using the domestic corporate tax rate	9.3	8,645	9.0	4,585
Adjustments for prior years	–	–	0.1	30
Tax base correction items	(0.3)	(251)	(0.1)	(28)
Elimination of deferred tax on Provision for exchange differences	–	(7)	–	–
Tax differential due to group corporate tax	(0.1)	(73)	–	–
Other	0.1	107	–	23
Total	**9.0**	**8,421**	**9.0**	**4,610**

16.3 Balances associated with taxation

(HUF million)

	2022			2021		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets/liabilities	141	(4,581)	(4,440)	10	(380)	(370)
Deferred income tax						
Securities at fair value through other comprehensive income	(166)	(382)	(548)	(28)	(649)	(677)
Cash flow hedges	5,157	–	5,157	1,935	–	1,935
Asset revaluation surplus	–	(99)	(99)	–	(89)	(89)
Different valuation of Property, plant and equipment	126	(336)	(210)	79	(283)	(204)
Provision	188	–	188	315	–	315
Accrued losses from previous years	(68)	–	(68)	69	–	69
Impairment	(3)	–	(3)	2	–	2
Other (accruals)	219	–	219	229	–	229
Netting effect	(510)	339	(171)	(969)	744	(225)
Total deferred tax assets/(liabilities)	**4,943**	**(478)**	**4,465**	**1,632**	**(277)**	**1,355**
Total tax assets/(liabilities)	**5,084**	**(5,059)**	**25**	**1,642**	**(657)**	**985**

Notes to the financial statements (Continued)

16.4 Movements in temporary differences during the year 2022

(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	(677)	–	129	(548)
Cash flow hedges	1,935	–	3,222	5,157
Asset revaluation surplus	(89)	–	(10)	(99)
Property and equipment from tied up capital	(204)	(6)	–	(210)
Effect of items, increasing/(decreasing) tax base	390	(225)	–	165
Total deferred tax assets/(liabilities)	**1,355**	(231)	**3,341**	**4,465**

16.5 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)
Effect of items, increasing/(decreasing) tax base	408	(18)	–	390
Total deferred tax assets/(liabilities)	**(2,248)**	**70**	**3,533**	**1,355**

17 Cash and unrestricted balance

(HUF million)

	2022	2021
Cash on hand	21,563	22,986
Unrestricted balance with the Central Bank	29,715	40
Nostro account balances with other banks	22,108	19,571
Overnight deposits with the Central Bank	532,529	189,291
Overnight deposits with the other banks	61,370	183,739
Impairment on cash and cash equivalents	(144)	(15)
Total	**667,141**	**415,612**

Notes to the financial statements (Continued)

18 Financial instruments held for trading

(HUF million)

	2022	2021
Financial assets held for trading		
State treasury bills	2,797	259
State bonds	–	876
Other bonds	31	189
Financial assets held for trading total	**2,828**	**1,324**
Trading derivative assets		
Interest rate derivatives	217,976	96,454
Interest rate & fx derivatives	6,288	3,360
FX derivatives	14,210	8,683
Commodity derivatives	38,784	128,869
Adjustments	(1,701)	(2,180)
Trading derivative assets total	**275,557**	**235,186**
State bonds	–	(2,108)
Financial liabilities held for trading total	**–**	**2,108**
Interest rate derivatives	217,968	99,818
Interest rate & fx derivatives	6,581	3,538
FX derivatives	17,152	6,640
Commodity derivatives	38,781	128,869
Adjustments	(922)	77
Trading derivative liabilities total	**279,560**	**238,942**

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. Further details on trading derivatives are disclosed in Note 40.

19 Investment securities

(HUF million)

	2022	2021
Investment securities at fair value through other comprehensive income		
State bonds	172,219	235,907
Other bonds	68,970	78,725
Equities	323	323
Total	**241,512**	**314,955**

Investment in Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. and Garantiqa Hitelgarancia Zrt. are included in the Investments at fair value through other comprehensive income that group has designated as Investments at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9.

(HUF million)

	2022	2021
Investment securities at fair value through profit and loss		
Equities	1,420	1,277
Total	**1,420**	**1,277**

(HUF million)

	2022	2021
Investment securities at amortized cost		
Mortgage bonds	572,047	565,102
Impairment	(1,439)	(1,006)
Total	**570,608**	**564,096**
Investment securities total	**813,540**	**880,328**

Notes to the financial statements (Continued)

The total market value of investments securities at amortized cost was HUF 556,634 million as at 31 December 2022 (HUF 569,648 million as at 31 December 2021). Sales of investment securities both in 2022 and 2021 were insignificant in value and frequency.

20 Placements with, and loans and advances to banks

(HUF million)

	2022	2021
Placements with, and loans and advances to banks at amortized cost		
Placements with Central Bank	405,885	927,367
Loans and advance to other banks	523,842	244,265
Impairment on loans and advance to other banks	(250)	(131)
Total	**929,477**	**1,171,501**

21 Loans and advances to customers

(HUF million)

	2022	2021
Loans and advances to customers at amortized cost	2,037,979	1,717,289
Provision for impairment and losses on credit products	(55,380)	(48,529)
Loans and advances to customers at fair value through profit and loss	78,678	61,789
Total	**2,061,277**	**1,730,549**

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)

	2022		2021	
	(HUF MILLION)	%	(HUF MILLION)	%
Private clients	478,724	22.61	380,724	21.58
Real estate finance	372,846	17.61	321,545	18.06
Machine industry	186,880	8.83	159,686	8.97
Trade	217,809	10.29	206,242	11.58
Transportation	200,549	9.47	114,861	6.45
Financial activities	149,879	7.08	124,701	7.00
Food processing	61,767	2.92	56,828	3.18
Other	35,098	1.66	81,955	4.60
Metallurgy	79,095	3.74	71,945	4.03
Construction	83,794	3.96	70,419	3.95
Chemicals/Pharmaceutical	45,001	2.13	32,143	1.80
Agriculture	67,144	3.17	56,644	3.17
Electric energy industry	73,472	3.47	39,561	2.21
Community	23,482	1.11	22,345	1.25
Light industry	22,177	1.05	19,020	1.06
Catering trade	8,064	0.38	6,482	0.35
Communication	7,998	0.38	12,128	0.67
Mining	2,878	0.14	1,849	0.09
Total	**2,116,657**	**100.00**	**1,779,078**	**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.

B. Amounts receivable under finance lease:

Amounts receivable under finance lease in 2022 were mainly affected by the following factors:
- the weakening of HUF 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)

	2022
Less than 1 year	48,275
1-2 years	24,954
2-3 years	18,257
3-4 years	11,028
4-5 years	5,209
Onwards	2,158
Lease payments	**109,881**
Unguaranteed residual values	–
Gross investment in the lease	**109,881**
Less: unearned finance income	(8,768)
Present value of minimum lease payments receivable	**101,113**
Impairment losses	(2,053)
Net investment in the lease	**99,060**

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

The average effective interest rate contracted is approximately 3.08% per annum.

22 Hedging derivative instruments

(HUF million)

	2022	2021
Derivative assets held for risk management purposes		
Interest rate derivatives	196,688	74,144
Interest rate & fx derivatives	9,881	1,762
Adjustments	(406)	(833)
Total	**206,163**	**75,073**
Derivative liabilities held for risk management purposes		
Interest rate derivatives	338,534	110,731
Interest rate & fx derivatives	3,597	4,921
Adjustments	(498)	(5)
Total	**341,633**	**115,647**

Further details on hedging derivatives are disclosed in Note 42.

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)

23 Equity investments

As at 31 December 2022 and 2021 investments in consolidated subsidiaries were as follows:

EQUITY INVESTMENT	LOCATION
UniCredit Jelzálogbank Zrt.	1054 Budapest, Szabadság tér 5-6.
UniCredit Leasing Hungary Zrt.	1054 Budapest, Szabadság tér 5-6.
UniCredit Operatív Lízing Kft.	1054 Budapest, Szabadság tér 5-6.
UniCredit Biztosításközvetítő Kft.	1054 Budapest, Szabadság tér 5-6.

All the above mentioned equity investments are in companies incorporated in Hungary, in which the Bank has 100% ownership and 100% voting rights. In addition to the above investments, the group owns a majority stake in a special purpose entity (Europe Investment Fund). The Fund is consolidated, given the group's ability to manage the Fund and its exposure to volatility in returns.

24 Investment properties

(HUF million)

	2022	2021
Investment property in usage	8,725	8,864

(HUF million)

	2022	2021
Opening at 1 of January	8,864	8,892
Increases (purchase)	0	0
Decreases (sale)	0	0
Change in fair value	(139)	(28)
Closing at 31 of December	**8,725**	**8,864**

The group's investment properties are held within Europa Investment Fund, of which, 99.56% (2021: 99.55%) 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 708 million rental income in 2022 (2021: HUF 635 million).

Notes to the financial statements (CONTINUED)

25 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	ADDITIONS	DISPOSALS NET	REVALUATION ADJUSTMENT	OTHER MOVEMENT (*)	DEPRECIATION & AMORTIZATION	CARRYING AMOUNT AT THE END OF THE YEAR
2022								
Property and connected equipment	19,377	(2,073)	550	–	(78)	(45)	(536)	17,195
Office equipment	7,377	(6,220)	545	–	–	–	(369)	1,333
Motor vehicles	891	(525)	143	(24)	–	–	(128)	357
Investments	258	–	1,465	(1,288)	–	–	(4)	431
Right-of-use asset (**)	9,738	(3,696)	255	–	–	–	(1,164)	5,133
Total	**37,641**	(12,514)	**2,958**	(1,312)	**(78)**	(45)	(2,201)	**24,449**
2021								
Property and connected equipment	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**

Impairment on Property, plant and equipment was HUF 130 million in 2022 (2021: HUF 137 million).

* Reclassification is detailed in additional note 25.2.

** Rights-of-use assets include leased assets in the group of property, plant and equipment, typically leased bank branches, offices, parking lots and warehouses.

The group's property, plant and equipment is not subject to any restrictions on ownership, the group has no pledges or contractual commitments to purchase property, plant and equipment.

The valuation of the group's properties recorded in the revaluation model was performed on 30 November 2022 using independent valuer documentation. At the end of December 2022, it was determined that the November values were correct, with no changes that would justify a change in the values.

The net value of the properties at the end of 2022 without the application of the revaluation model would have been HUF 19.044 million and at the end of 2021 would have been HUF 18.512 million.

26 Intangible assets

Movement in intangible assets

(HUF million)

	COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	ADDITIONS	DISPOSALS NET	OTHER MOVEMENT	DEPRECIATION & AMORTISATION	CARRYING AMOUNT AT THE END OF THE YEAR
2022							
Rental rights	143	(139)	–	–	–	(2)	2
Licenses	6,309	(1,784)	149	–	–	(1,411)	3,263
Software	23,243	(8,246)	6,124	(121)	(4)	(3,054)	17,942
Total	**29,695**	**(10,169)**	**6,273**	**(121)**	**(4)**	**(4,467)**	**21,207**
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**

Notes to the financial statements (Continued)

27 Other assets

(HUF million)

	2022	2021
Trade receivables, advanced payments, other demands	6,413	5,561
Accrued income and prepaid expenses	6,483	8,527
Accrual of initial fair value differences on refinanced assets of MNB NHP program	12,009	9,913
Accrual of differences in the initial fair value of refinanced assets of the EXIM program	1,648	1,302
Receivables from State Treasury	9,955	6,465
Other	464	163
Total	**36,972**	**31,931**
Impairment losses	(63)	(49)
Total	**36,909**	**31,882**

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 (2022: HUF 6,812 million, 2021: HUF 2,549 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 3,139 million (2021: HUF 3,916 million).

28 Assets held for sale

In May 2022, the group decided to sell one of its owned branches, which was closed. The sale process started immediately after the closure. The property has been reclassified to non-current assets held for sale in accordance with the Bank's intention to sell and the circumstances of the sale in accordance with IFRS 5.

Prior to the reclassification, the carrying amount of the property recorded in the revaluation model before the reclassification – HUF 47 million – exceeded the fair value of the property less costs to sell, the difference – HUF 2 million – was recognised in the valuation reserve for tangible assets.

The fair value of the property less costs to sell of HUF 45 million was recognised separately in the group's statement of financial position as at 31 December 2022.
In relation to the property held for sale, HUF 12 million was allocated to the valuation reserve for tangible assets.

Efforts to sell the property have started and the sale is expected to take place in 2023.

At the end of 2021, the group had no non-current assets held for sale.

29 Deposits and loans from banks

(HUF million)

	2022	2021
Loans from Central Bank	436,831	432,714
Loans and deposits from other banks	322,275	368,349
Total	**759,106**	**801,064**

The group does not have past due debt.

Notes to the financial statements (Continued)

30 Deposits from customers

(HUF million)

	2022	2021
Sight deposits	2,156,373	2,413,238
Fixed-term deposits	719,511	368,115
Ongoing cash equivalents, settlement accounts	11,769	11,067
Total	**2,887,653**	**2,792,420**

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.

31 Issued mortgage bonds and bonds

(HUF million)

	2022	2021
Issued mortgage bonds	171,499	172,246
Issued bonds	146,908	11,084
Total:	**318,407**	**183,330**

The group measures the issued bonds partly at amortised cost partly adjusted for hedging gains/losses, partly at fair value hedge.

Development of the group's mortgage bond and issued bond portfolio in 2022:

Total mortgage bond volume at nominal value increased to HUF 245.76 billion by the end of 2022 from HUF 182.62 billion at the end of 2021. The increase in carrying value in 2022 was also influenced by fair value hedge valuation. At the end of 2022, the portfolio consisted of fixed-rate mortgage bonds with a nominal value of HUF 182.88 billion and variable-rate mortgage bonds with a nominal value of HUF 62.88 billion, all denominated in HUF.

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. In June, 2022, the Bank issued EUR 100 million, and in November EUR 235 million SNP bonds for MREL compliance, which were subscribed within the UniCredit Group. The form is classical global Notes, under Italian jurisdiction, the bond is not introduced to any regulated market. The maturity is 2027 and 2028, 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).

Opening and closing balance of issued bonds and related movements

(HUF million)

	2022	2021
Opening balance as of 1 January 2022	**11,084**	**–**
Cash inflow from bond issues	136,864	10,846
Repayments of bonds issued	–	–
Net change in cash flows from financing activities	**136,864**	**10,846**
Effect of Fx revaluation	(1,843)	224
Interest expense recognised on bond issues	1,663	14
Interest paid	(860)	–
Net interest	**803**	**14**
Closing balance as of 31 December 2022	**146,908**	**11,084**

The Bank had no default on principal or interest payments or other defaults on issued bonds in 2022 and 2021.

Notes to the financial statements (Continued)

32 Other liabilities

(HUF million)

	2022	2021
Accrued expenses and prepaid income	16,943	15,667
Accrual of initial fair value differences on refinanced assets of MNB NHP program	12,009	9,913
Accrual of differences in the initial fair value of refinanced assets of the EXIM program	1,648	1,302
Trade payable	10,557	7,548
Other taxes payable	3,081	3,068
Items in transit	5,274	5,094
Leasing liabilities	4,715	5,336
Other	(3,296)	38
Total	**50,931**	**48,346**

33 Leases

The group leases several assets including buildings, office equipments. The average lease term is 4.8 years (2021: 5 years).

Amounts recognised in profit and loss:

(HUF million)

	2022
Depreciation expense on right-of-use assets	1,164
Interest expense of lease liabilities	39
Expense relating to short-term leases	97
Expense relating to leases of low value assets	8
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)

	2022
Total cash outflow for leases	1,268

At 31 December 2022, the group is committed to HUF 299 million for short-term leases.

Lease liabilities maturity analysis:

(HUF million)

	2022
Within 1 year	1,189
1-2 years	1,058
2-3 years	1,023
3-4 years	545
4-5 years	368
Onwards	699
Total	**4,882**

There are no cash flows, including, but not limited to, variable lease payments, residual value guarantees, renewal and termination options, which have not been taken into account in the valuation of the lease liabilities but which may give rise to future exposure for the Bank.

Notes to the financial statements (CONTINUED)

34 Share capital

(HUF million)

	2022	2021
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.

35 Statutory reserves

(HUF million)

	GENERAL RESERVE	TIED-UP RESERVE	TOTAL
Balance at 31 December 2021	57,638	–	**57,638**
Appropriation from retained earnings	8,864	–	**8,864**
Balance at 31 December 2022	66,502	–	**66,502**

Based on the group's 2019 results, a dividend of HUF 18,000 million was declared, which was settled on 9 December 2021, while based on the 2021 results, a dividend of HUF 55,100 million was declared upon approval of the 2021 financial statements, which was paid in 2022.
The group's results for 2022 have not been declared irrevocably by the Owner as at the balance sheet date, and the amount of dividend expected to be paid after 2022 is disclosed in the Events after the Balance Sheet Date supplementary note 51.

The equity correlation table of the group based on paragraph 114/B of Act on Accounting as at 31 December 2022 and 31 December 2021:

Movement in intangible assets (HUF million)

	ORDINARY SHARES	CAPITAL RESERVE	RETAINED EARNINGS AND OTHER RESERVE	STATUTORY RESERVE	VALUATION RESERVE	TIED-UP RESERVE	NET PROFIT	TOTAL
31 December 2022								
Shareholder's equity elements as per IFRS	**24,118**	**3,900**	**363,408**	**–**	**–**	**–**	**–**	**391,426**
Other comprehensive income	–	–	45,814	–	(45,814)	–	–	–
Net profit for the year	–	–	(84,840)	–	–	–	84,840	–
Statutory reserve	–	–	(66,502)	66,502	–	–	–	–
Shareholder's equity elements as per Act C of 2000 on Accounting	**24,118**	**3,900**	**257,880**	**66,502**	**(45,814)**	**–**	**84,840**	**391,426**
31 December 2021								
Shareholder's equity elements as per IFRS	**24,118**	**3,900**	**367,425**	**–**	**–**	**–**	**–**	**395,443**
Other comprehensive income	–	–	12,034	–	(12,034)	–	–	–
Net profit for the year	–	–	(46,337)	–	–	–	46,337	–
Statutory reserve	–	–	(57,638)	57,638	–	–	–	–
Shareholder's equity elements as per Act C of 2000 on Accounting	**24,118**	**3,900**	**275,484**	**57,638**	**(12,034)**	**–**	**46,337**	**395,443**

Notes to the financial statements (Continued)

36 Provisions

The following table presents the changes in other provisions not subject to credit risk.

(HUF million)

	INTEGRATION PROVISION	PROVISION FOR LITIGATION	OTHER PROVISION	TOTAL
1 January 2022	**2,318**	**75**	**1,207**	**3,600**
Additional provisions	446	274	447	**1,167**
Amounts utilised	(890)	(10)	(1)	**(901)**
Amounts released	(530)	-	(1,207)	**(1,737)**
31 December 2022	**1,344**	**339**	**446**	**2,129**

The net balance of the other provision (addition) and use/release is shown in the following income statement lines:

(HUF million)

	AMOUNT
Personnel expenses	161
General operating expenses	30
Other provision	1,270
Other expense	10
Total impact of movements in the result for the year	**1,471**

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

In 2018, a provision for integration was recognised to prepare the group for the digital transformation, in particular to reorganise and recruit staff with “future skills”. In 2019, the integration cost had to be reviewed due to new challenges such as unemployment rates and high turnover in the Retail and Corporate branch network, which required further rethinking due to the highly challenging global pandemic.

In May 2021, UniCredit SpA announced a new Group Model of organisational simplification to be implemented in all countries. Key features: Establishment of a uniform organisational structure across CE&EE Banks – based on the size of local banks and local regulatory requirements – application of the Group GEC model in terms of organisational units and scope of activities as follows:
- Enhance and facilitate dialogue and coordination between Group and countries (e.g. global policy breakdown and local implementation)
- Empower country leaders to take autonomous decisions within given organisational parameters and frameworks
- Ensure alignment of local needs within a globally homogeneous and coherent organisational framework
- Delegating implementation to the local level.

In 2022, following the introduction of the new organisational model, the senior management of UniCredit Group has set a new mission. Our culture will be transformed to ensure this mission. Our purpose, our values and our ambitions are synergistic. As part of the Culture Transformation Plan, we have defined new UniCredit values (Credibility, Ownership, Caring) to ensure the success of our mission. These group-wide organizational changes brought about by Culture Transformation will have a significant and direct impact at the local level. To fulfil our mission, countries need to follow these changes accurately and quickly and adapt our local operations accordingly. The new culture, purpose and values have a direct impact on People & Culture processes, most importantly workforce planning, as a new direction and values require a new approach to our workforce. We need to take care of our colleagues and ensure that we have the right workforce.

In line with the organisational model, which includes organisational simplification, the integration provision also includes space savings in the group’s building and its optimisation to meet the requirements of a modern working environment.

Other provisions have been charged to the statement of profit or loss in connection with legal and operational risks incurred and holidays not taken by employees during the year.

The group measures provisions at the present value of the expenditure expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the liability. Any increase in the value of provisions due to the passage of time is recognised as interest expense. No such interest expense was recognised in 2022 and 2021.

Notes to the financial statements (CONTINUED)

37 Commitments and contingent liabilities

At 31 December 2022, the group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

	2022	2021
Loan and overdraft facilities granted not disbursed	1,068,419	922,693
Financial guarantees	672,626	651,205
Letters of credit	12,201	15,892
FX spot sales (notional)	677,350	96,941

As at 31 December 2022, the group's provision for loan losses related to guarantees and letters of credit issued by the group (collectively referred to as financial guarantees) amounted to HUF 13,942 million (2021: HUF 10,647 million) and the accrued guarantee fees related to guarantees amounted to HUF 1,191 million (2021: HUF 351 million).
As at 31 December 2022, the amount of the provision for loan and overdraft facilities not utilised amounts to HUF 2,556 million (2021: HUF 4,410 million).
As at 31 December 2022, the total face value of client assets held in safe custody by the group was HUF 4,184,538 million (2021: HUF 3,390,124 million).

38 Currency structure of assets and liabilities

The currency structure of assets and liabilities as at 31 December 2022 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG / (SHORT)
Euro	1,475,018	1,464,967	(9,013)	1,038
Swiss Francs	865	13,775	12,985	75
United States Dollars	78,333	119,389	40,656	(400)
Japanese Yen	1,313	1,255	(79)	(21)
Polish Zloty	778	8,217	7,467	28
British Pounds	3,083	7,671	4,510	(78)
Czech Crowns	897	865	(5)	27
Other	5,307	5,336	210	181
Total foreign currency	**1,565,594**	**1,621,475**	**56,731**	**850**
Hungarian Forint	3,486,808	3,430,927	–	55,880
Total	**5,052,402**	**5,052,402**	**56,731**	**56,730**

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)**

* Comparative figures for 2021 have been restated.

Notes to the financial statements (Continued)

39 Residual contractual maturities of financial assets and liabilities

(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 FINANCIAL ASSETS 31 DECEMBER 2022							
Cash and cash equivalents	667,141	667,285	667,285	–	–	–	–
Financial assets held for trading	2,828	3,052	1	1,330	1,704	17	–
Investment securities	813,540	1,229,123	8,909	12,442	198,914	670,780	338,078
Loans and advances to banks	929,477	965,854	875,468	(32,751)	16,564	105,445	1,128
Loans and advances to customers	2,061,277	2,538,727	122,767	93,357	299,141	1,173,482	849,980
Total:	**4,474,263**	**5,404,041**	**1,674,430**	**74,378**	**516,323**	**1,949,724**	**1,189,186**
NON-DERIVATIVE FINANCIAL LIABILITIES 31 DECEMBER 2022							
Deposits from banks	(759,106)	(1,632,072)	(212,026)	(189,293)	(173,904)	(602,124)	(454,725)
Deposits from customers	(2,887,653)	(2,922,892)	(2,797,965)	(81,236)	(26,745)	(7,332)	(9,614)
Debt securities issued	(318,407)	141,759	2,682	(1,750)	59,079	79,893	1,855
Issued loan commitments	2,556	(1,068,419)	(27,358)	(44,569)	(265,733)	(185,298)	(545,461)
Issued financial guarantee contracts	15,133	(684,827)	(3,779)	(8,952)	(49,703)	(92,445)	(529,948)
Total:	**(3,965,166)**	**(6,166,451)**	**(3,038,446)**	**(325,800)**	**(457,006)**	**(807,306)**	**(1,537,893)**
CASH FLOWS FROM DERIVATIVE POSITIONS 31 DECEMBER 2022							
Trading	(4,003)	8,180	(5,972)	5,906	(162)	6,489	1,919
Risk management	(135,470)	(132,212)	996	(11,382)	(31,501)	(75,400)	(14,925)
Total:	**(139,473)**	**(124,032)**	**(4,976)**	**(5,476)**	**(31,663)**	**(68,911)**	**(13,006)**

(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 FINANCIAL ASSETS 31 DECEMBER 2021							
Cash and cash equivalents	415,612	415,612	415,612	–	–	–	–
Financial assets held for trading	1,324	1,364	28	84	697	118	437
Investment securities	880,328	1,083,885	917	4,982	129,840	484,084	464,062
Loans and advances to banks	1,171,501	1,239,528	1,134,696	1,741	6,396	59,577	37,118
Loans and advances to customers	1,730,549	1,956,926	389,685	20,675	156,479	815,919	574,168
Total:	**4,199,314**	**4,697,315**	**1,940,938**	**27,482**	**293,412**	**1,359,698**	**1,075,785**
NON-DERIVATIVE FINANCIAL LIABILITIES 31 DECEMBER 2021							
Deposits from banks	(801,064)	(785,365)	(140,465)	6,050	(8,531)	(422,234)	(220,185)
Deposits from customers	(2,792,420)	(2,792,922)	(2,736,817)	(31,938)	(22,078)	(1,967)	(122)
Debt securities issued	(183,330)	(242,189)	–	(24)	(10,313)	(101,401)	(130,451)
Issued loan commitments	4,410	(919,640)	(4,983)	(38,178)	(169,933)	(212,684)	(493,861)
Issued financial guarantee contracts	11,577	(279,943)	(374)	(5,910)	(41,191)	(46,611)	(185,857)
Total:	**(3,776,814)**	**(5,020,059)**	**(2,894,969)**	**(115,545)**	**(311,033)**	**(831,704)**	**(1,075,278)**
CASH FLOWS FROM DERIVATIVE POSITIONS 31 DECEMBER 2021							
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)**

Notes to the financial statements (Continued)

40 Exposure to interest rate risk – non-trading portfolios

In the following table describing the interest rate gap position of the Mortgage bank on non-trading portfolios, fixed rate financial instruments are presented based on the maturity date and floating rate financial instruments are presented based on the next repricing date. In case of derivatives held for risk management purposes, the notional amounts are presented.

(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 2022							
Cash and cash equivalents	667,141	667,141	–	–	–	–	–
Loans and advances to banks	929,477	892,415	109,732	44,287	(27,908)	(89,049)	–
Loans and advances to customers	2,061,277	400,602	599,441	466,821	397,909	196,504	–
Investment securities	813,540	132,773	103,894	99,018	271,773	206,082	–
Total	**4,471,435**	**2,092,931**	**813,067**	**610,126**	**641,774**	**313,537**	**–**
Deposits from banks	(759,106)	(18,318)	(21,749)	(162,781)	(405,877)	(150,381)	–
Deposits from customers	(2,887,653)	(2,814,956)	(41,478)	(22,401)	(5,171)	(3,647)	–
Debt securities issued	(318,407)	(16,543)	(185,848)	(47,269)	(4,844)	(63,903)	–
Total	**(3,965,166)**	**(2,849,817)**	**(249,075)**	**(232,451)**	**(415,892)**	**(217,931)**	**–**
Effect of derivatives held for risk management	3,665,536	(26,864)	(281,221)	(167,666)	239,510	202,973	–
Total	**4,171,805**	**(783,750)**	**282,771**	**210,009**	**465,392**	**298,579**	**–**

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

(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	415,612	415,612	–	–	–	–	–
Loans and advances to banks	1,171,501	1,090,407	121,779	51,776	(1,220)	(91,241)	–
Loans and advances to customers	1,730,549	464,942	575,377	383,733	169,291	130,263	6,943
Investment securities	880,328	790,322	57	(3,102)	77,424	69,799	(54,172)
Total	**4,197,990**	**2,761,283**	**697,213**	**432,407**	**245,495**	**108,821**	**(47,229)**
Deposits from banks	(801,064)	(513,247)	(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	**(3,776,814)**	**(3,267,165)**	**(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	**3,890,166**	**(545,270)**	**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.

41 Derivative financial instruments held for Trading

31 December 2022 (HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2022			
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR	TOTAL
Interest rate derivatives				
Swap deals				–
Interest rate swap (IRS)	446,675	628,575	3,672,612	4,747,862
Fra	–	–	–	–
Interest rate options	–	–	47,403	47,403
Total	**446,675**	**628,575**	**3,720,015**	**4,795,265**
Interest rate & fx derivatives				
CC Interest rate swap	–	68,073	101,969	170,042
Total	**–**	**68,073**	**101,969**	**170,042**
Fx derivatives				
Forward Exchange deals				
Fx forward	1,218,699	388,751	7,729	1,615,179
Options				
Fx Barrier (European)	23,156	33,669	–	56,825
FX (European) without barrier	3,298	15,009	4,196	22,504
Total	**1,245,153**	**437,430**	**11,925**	**1,694,508**
Commodity derivatives				
Commodity forward&swap	91,982	75,459	4,044	171,485
Total	**91,982**	**75,459**	**4,044**	**171,485**
Overal Total	**1,783,810**	**1,209,536**	**3,837,953**	**6,831,299**

31 December 2021 (HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2021			
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR	TOTAL
Interest rate derivatives				
Swap deals				–
Interest rate swap (IRS)	114,000	1,099,755	4,463,373	5,677,128
Fra	120,000	227,500	–	347,500
Interest rate options	–	–	31,227	31,227
Total	**234,000**	**1,327,255**	**4,494,600**	**6,055,855**
Interest rate & fx derivatives				
CC Interest rate swap	1,613	1,602	162,590	165,806
Total	**1,613**	**1,602**	**162,590**	**165,806**
Fx derivatives				
Forward Exchange deals				
Fx forward	787,057	386,886	18,769	1,192,712
Options				
Fx Barrier (European)	27,005	51,133	3,272	81,410
FX (European) without barrier	8,156	4,554	2,621	15,331
Total	**822,218**	**442,573**	**24,662**	**1,289,453**
Commodity derivatives				
Commodity forward&swap	16,420	18,010	1,496	35,926
Total	**16,420**	**18,010**	**1,496**	**35,926**
Overal Total	**1,074,251**	**1,789,440**	**4,683,348**	**7,547,039**

Notes to the financial statements (Continued)

The following tables present the fair value of derivatives and related adjustments by type of risk exposure

(HUF million)

	FAIR VALUE		FVA*		CVA**		FUVA***	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
31 December 2022								
Interest rate derivatives								
Swap deals								
Interest rate swap (IRS) (IRS)	217,454	(217,446)	(10)	–	(1,232)	561	(340)	285
Fra	–	–	–	–	–	–	–	–
Interest rate options	522	(522)	–	–	–	6	–	–
Total	**217,976**	**(217,968)**	**(10)**	**–**	**(1,232)**	**567**	**(340)**	**285**
Interest rate & fx derivatives								
CC Interest rate swap (CCIRS)	3,206	(3,327)	–	–	(55)	(1)	(5)	–
CC Interest rate swap fx revaluation	3,082	(3,254)	–	–	–	–	–	–
Total	**6,288**	**(6,581)**	**–**	**–**	**(55)**	**(1)**	**(5)**	**–**
Fx derivatives								
Forward Exchange deals								
Fx forward	12,931	(15,873)	–	–	(33)	(1)	(1)	1
Options								
Fx Barrier (European)	810	(810)	–	–	(5)	1	–	–
FX (European) without barrier	469	(469)	–	–	(7)	1	–	–
Total	**14,210**	**(17,152)**	**–**	**–**	**(45)**	**1**	**(1)**	**1**
Commodity derivatives								
Commodity forward&swap	38,784	(38,781)	–	–	(12)	56	(1)	12
Total	**38,784**	**(38,781)**	**–**	**–**	**(12)**	**56**	**(1)**	**12**
Overal Total	**277,258**	**(280,482)**	**(10)**	**–**	**(1,344)**	**623**	**(347)**	**299**
31 December 2021								
Interest rate derivatives								
Swap deals								
Interest rate swap (IRS)	95,295	(98,395)	(68)	–	(1,742)	(183)	(274)	3
Fra	1,067	(1,332)	–	–			–	–
Interest rate options	92	(92)	–	–	–	5	–	–
Total	**96,454**	**(99,819)**	**(68)**	**–**	**(1,742)**	**(178)**	**(274)**	**3**
Interest rate & fx derivatives								
CC Interest rate swap (CCIRS)	2,248	(2,537)	–	–	(22)	3	(2)	1
CC Interest rate swap fx revaluation	1,112	(1,001)	–	–	–	–	–	–
Total	**3,360**	**(3,538)**	**–**	**–**	**(22)**	**3**	**(2)**	**1**
Fx derivatives								
Forward Exchange deals								
Fx forward	7,753	(5,710)	–	–	(24)	–	(1)	–
Options								
Fx Barrier (European)	814	(814)	–	–	(4)	–	–	–
FX (European) without barrier	116	(116)	–	–	(1)	–	–	–
Total	**8,683**	**(6,640)**	**–**	**–**	**(29)**	**–**	**(1)**	**–**
Commodity derivatives								
Commodity forward&swap	128,869	(128,869)	–	–	(42)	72	–	23
Total	**128,869**	**(128,869)**	**–**	**–**	**(42)**	**72**	**–**	**23**
Overal Total	**237,366**	**(238,866)**	**(68)**	**–**	**(1,835)**	**(103)**	**(277)**	**27**

* (Fair Value Adjustment); ** (Credit Valuation Adjustment);*** (Funding Valuation Adjustment)

Notes to the financial statements (CONTINUED)

42 Derivative financial instruments held for Hedging purposes

31 December 2022

(HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2022			
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR	TOTAL
Risk purposes				
Interest rate derivatives				–
Fair value hedge deals	**415,023**	**327,067**	**4,744,114**	**5,486,204**
Interest rate swap (IRS)	415,023	327,067	4,744,114	5,486,204
thereof bond hedging IRS	6,166	156,578	792,536	955,279
average fix interest rate (%)	1.29	0.33	1.92	1.64
thereof deposit hedging IRS	245,145	20,000	2,569,209	2,834,355
average fix interest rate (%)	0.14	9.32	1.87	1.77
thereof loan hedging IRS	163,712	150,489	1,382,369	1,696,570
average fix interest rate (%)	1.29	1.33	4.29	3.74
Cash flow hedge deals	**275,200**	**88,710**	**799,343**	**1,163,253**
Interest rate swap (IRS)	240,200	88,710	799,343	1,128,253
average fix interest rate (%)	1.73	1.80	3.12	2.72
FRA	35,000	-	-	35,000
average fix interest rate (%)	2.22	-	-	2.22
Total	**690,223**	**415,777**	**5,543,457**	**6,649,457**
Interest rate & fx derivatives				**56,825**
Fair value hedge deals				22,504
Cash flow hedge deals CCIRS	24,326	113,196	261,260	398,782
Total	**24,326**	**113,196**	**261,260**	**398,782**
Overal Total	**714,549**	**528,973**	**5,804,717**	**7,048,239**

31 December 2021

(HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2021			
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	MORE THAN 1 YEAR	TOTAL
Risk purposes				
Interest rate derivatives				–
Fair value hedge deals	**214,700**	**476,574**	**3,911,242**	**4,602,516**
Interest rate swap (IRS)	214,700	476,574	3,911,242	4,602,516
thereof bond hedging IRS	7,000	154,520	898,520	1,060,040
average fix interest rate (%)	**(0.27)**	**0.77**	**1.23**	**1.14**
thereof deposit hedging IRS	203,700	214,500	2,206,395	2,624,595
average fix interest rate (%)	0.51	0.45	1.41	1.26
thereof loan hedging IRS	4,000	107,554	806,327	917,881
average fix interest rate (%)	**0.46**	**0.07**	**1.47**	**1.30**
Cash flow hedge deals	**221,800**	**429,000**	**1,180,110**	**1,830,910**
Interest rate swap (IRS)	201,800	244,000	1,145,110	1,590,910
average fix interest rate (%)	1.10	0.82	2.49	2.06
FRA	20,000	185,000	35,000	240,000
average fix interest rate (%)	1.74	1.92	2.22	1.94
Total	**436,500**	**905,574**	**5,091,352**	**6,433,426**
Interest rate & fx derivatives				
Fair value hedge deals				
Cash flow hedge deals CCIRS	**42,777**	**109,247**	**276,629**	**428,653**
Total	**42,777**	**109,247**	**276,629**	**428,653**
Overal Total	**479,277**	**1,014,821**	**5,367,981**	**6,862,079**

Notes to the financial statements (CONTINUED)

The following tables present the fair value of derivatives and related adjustments by type of risk exposure

(HUF million)

	FAIR VALUE		FVA*		CVA**		FUVA***	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
31 December 2022								
Risk purposes								
Interest rate derivatives								
Fair value hedge deals	**178,902**	**(259,021)**	**(183)**	**(48)**	(106)	361	(30)	**161**
Interest rate swap (IRS)	178,902	(259,021)	(183)	(48)	(106)	361	(30)	161
thereof bond hedging IRS	116,632	6,281	(131)	(48)	19	(4)	7	(1)
thereof deposit hedging IRS	2,081	(260,016)	(2)	–	(2)	364	(2)	162
thereof loan hedging IRS	60,189	(5,286)	(51)	–	(123)	1	(35)	–
Cash flow hedge deals	**17,785**	**(79,513)**	**(85)**	**–**	**3**	**19**	**1**	**5**
Interest rate swap (IRS)	17,785	(78,380)	(85)	–	3	19	1	5
FRA	–	(1,133)	–	–	–	–	–	–
Total	**196,687**	**(338,534)**	**(268)**	**(48)**	**(103)**	**380**	**(29)**	**166**
Interest rate & fx derivatives				**–**				
Fair value hedge deals								
Cash flow hedge deals (CCIRS)	4,552	–	(22)	–	13	–	4	–
Cash flow hedge deals (CCIRS) fx revaluation	5,329	(3,597)	–	–	–	–	–	–
Total	**9,881**	**(3,597)**	**(22)**	**–**	**13**	**–**	**4**	**–**
Overal Total	**206,568**	**(342,131)**	**(290)**	**(48)**	**(90)**	**380**	**(25)**	**166**
31 December 2021								
Risk purposes								
Interest rate derivatives								
Fair value hedge deals	**65,555**	**(82,495)**	**(179)**	**(112)**	**(277)**	**35**	**(117)**	**18**
Interest rate swap (IRS)	65,555	(82,495)	(179)	(112)	(277)	35	(117)	18
thereof bond hedging IRS	48,176	2,936	(155)	(112)	(217)	29	(102)	14
thereof deposit hedging IRS	4,980	(83,941)	(11)	–	(3)	3	(2)	2
thereof loan hedging IRS	12,399	(1,490)	(13)	–	(57)	3	(13)	2
Cash flow hedge deals	**8,589**	**(28,236)**	**(265)**	**–**	**–**	**43**		
Interest rate swap (IRS)	8,589	(26,048)	(265)	–	–	43	–	20
FRA	–	(2,188)	–	–	–	–	–	–
Total	**74,144**	**(110,731)**	**(443)**	**(112)**	**(277)**	**78**	**(117)**	**38**
Interest rate & fx derivatives								
Fair value hedge deals								
Cash flow hedge deals (CCIRS)	1,533	(85)	–	–	4	–	–	–
Cash flow hedge deals (CCIRS) fx revaluation	228	(4,835)	–	–	–	–	–	–
Total	**1,761**	**(4,920)**	**–**	**–**	**4**	**–**	**–**	**–**
Overal Total	**75,905**	**(115,651)**	**(443)**	**(112)**	**(273)**	**78**	**(117)**	**38**

* (Fair Value Adjustment); ** (Credit Valuation Adjustment);*** (Funding Valuation Adjustment)

Notes to the financial statements (Continued)

The following amounts have been recognised in connection with derivative financial instruments used for hedging purposes, hedged instruments and hedge ineffectiveness in 2022.

2022 – DERIVATIVES HELD FOR HEDGING PURPOSES			
LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION WHERE THE HEDGING INSTRUMENT IS INCLUDED	CHANGE IN FAIR VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	INEFFECTIVENESS* RECOGNISED IN PROFIT OR LOSS	LINE ITEM IN PROFIT OR LOSS THAT INCLUDES HEDGE INEFFECTIVENESS
Derivative assets held for risk management – Fair value hedge	131,198	(3,680)	Net gain and loss on hedging instruments
Derivative liabilities held for risk management – Fair value hedge	(187,142)	4,135	Net gain and loss on hedging instruments

2022 – HEDGED INSTRUMENTS				
ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF HEDGED ITEM		LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION IN WHICH THE HEDGED ITEM IS INCLUDED	CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS REMAINING IN THE STATEMENT OF FINANCIAL POSITION FOR ANY HEDGED ITEMS THAT HAVE CEASED TO BE ADJUSTED FOR HEDGING GAINS AND LOSSES
ASSETS	LIABILITIES			
(63,079)	–	Loans and advances to customers – Fair value hedge	(46,499)	–
(106,635)	–	Investment Securities – Fair value hedge	(88,379)	–
–	58,435	Deposits and loans from banks – Fair value hedge	32,220	–
–	198,144	Deposits from customers – Fair value hedge	137,765	–
–	(36,379)	Own issued bonds – Fair value hedge	21,292	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the group considered fair value excluding and valuation adjustments (CVA, FuVA). Net gain or loss on hedging instruments presented in the statement of profit and loss (Note 11) is the total of hedge ineffectiveness shown above and the amount of CVA and FuVA charge to the statement of profit and loss.

2022 – DERIVATIVES HELD FOR HEDGING PURPOSES			
LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION WHERE THE HEDGING INSTRUMENT IS INCLUDED	CHANGE IN FAIR VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	CHANGE IN CASH FLOW HEDGE RESERVE*	LINE ITEM IN PROFIT OR LOSS THAT INCLUDES HEDGE INEFFECTIVENESS
Derivative assets held for risk management – Cash flow hedge	18,325	18,325	Net gain and loss on hedging instruments
Derivative liabilities held for risk management - Cash flow hedge	(54,128)	(54,128)	Net gain and loss on hedging instruments

2022 – HEDGED INSTRUMENTS				
ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF HEDGED ITEM		LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION IN WHICH THE HEDGED ITEM IS INCLUDED	CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS REMAINING IN THE STATEMENT OF FINANCIAL POSITION FOR ANY HEDGED ITEMS THAT HAVE CEASED TO BE ADJUSTED FOR HEDGING GAINS AND LOSSES
ASSETS	LIABILITIES			
–	–	Loans and advances to customers – Cash flow hedge	(18,325)	–
–	–	Deposits from customers – Cash flow hedge	54,128	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the group considered fair value excluding and valuation adjustments (CVA, FuVA). Valuation adjustments are charge to the statement of profit and loss and shown as Net gain or loss on hedging instruments (Note 11). The revaluation of cash flow hedging derivative instruments is recorded against the cash flow hedge reserve.

Notes to the financial statements (Continued)

The following amounts have been recognised in connection with derivative financial instruments used for hedging purposes, hedged instruments and hedge ineffectiveness in 2021.

2021 – DERIVATIVES HELD FOR HEDGING PURPOSES			
LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION WHERE THE HEDGING INSTRUMENT IS INCLUDED	CHANGE IN FAIR VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	INEFFECTIVENESS* RECOGNISED IN PROFIT OR LOSS	LINE ITEM IN PROFIT OR LOSS THAT INCLUDES HEDGE INEFFECTIVENESS
Derivative assets held for risk management – Fair value hedge	67,575	(25,990)	Net gain and loss on hedging instruments
Derivative liabilities held for risk management – Fair value hedge	(97,869)	26,073	Net gain and loss on hedging instruments

2021 – HEDGED INSTRUMENTS				
ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF HEDGED ITEM		LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION IN WHICH THE HEDGED ITEM IS INCLUDED	CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS REMAINING IN THE STATEMENT OF FINANCIAL POSITION FOR ANY HEDGED ITEMS THAT HAVE CEASED TO BE ADJUSTED FOR HEDGING GAINS AND LOSSES
ASSETS	LIABILITIES			
(18,644)	–	Loans and advances to customers – Fair value hedge	(18,134)	–
(46,421)	–	Investment Securities – Fair value hedge	(75,431)	–
–	26,179	Deposits and loans from banks – Fair value hedge	29,448	–
–	59,539	Deposits from customers – Fair value hedge	77,926	–
–	15,087	Own issued bonds – Fair value hedge	16,569	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the group considered fair value excluding and valuation adjustments (CVA, FuVA). Net gain or loss on hedging instruments presented in the statement of profit and loss (Note 11) is the total of hedge ineffectiveness shown above and the amount of CVA and FuVA charge to the statement of profit and loss.

The following amounts have been recognised in connection with derivative financial instruments used for hedging purposes, hedged instruments and hedge ineffectiveness in 2021.

2021 – DERIVATIVES HELD FOR HEDGING PURPOSES			
LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION WHERE THE HEDGING INSTRUMENT IS INCLUDED	CHANGE IN FAIR VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	CHANGE IN CASH FLOW HEDGE RESERVE*	LINE ITEM IN PROFIT OR LOSS THAT INCLUDES HEDGE INEFFECTIVENESS
Derivative assets held for risk management – Cash flow hedge	(8,357)	(8,357)	Net gain and loss on hedging instruments
Derivative liabilities held for risk management – Cash flow hedge	(29,380)	(29,380)	Net gain and loss on hedging instruments

2021 – HEDGED INSTRUMENTS				
ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF HEDGED ITEM		LINE ITEM IN THE STATEMENT OF FINANCIAL POSITION IN WHICH THE HEDGED ITEM IS INCLUDED	CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS FOR 2022	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS REMAINING IN THE STATEMENT OF FINANCIAL POSITION FOR ANY HEDGED ITEMS THAT HAVE CEASED TO BE ADJUSTED FOR HEDGING GAINS AND LOSSES
ASSETS	LIABILITIES			
–	–	Loans and advances to customers – CFH	8,357	–
–	–	Deposits from customers – CFH	29,380	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the group considered fair value excluding and valuation adjustments (CVA, FuVA). Valuation adjustments are charge to the statement of profit and loss and shown as Net gain or loss on hedging instruments (Note 11). The revaluation of cash flow hedging derivative instruments is recorded against the cash flow hedge reserve.

43 Fair valuation hierarchy(1)

43.1 Financial instruments measured at FV – fair value hierarchy

The below tables provide a breakdown of financial instruments measured at fair value based on the level of inputs used for valuation purposes in the fair value hierarchy. The amounts in the tables are based on the statement of financial position.

(HUF million)

	COMMENT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2022					
Financial assets measured at FV					
Financial assets held for trading (bonds)					
State treasury bills	18	54	2,743	–	2,797
Other bonds	18	18	13	–	31
Total		**72**	**2,756**	**–**	**2,828**
Financial assets trading derivatives					
Interest rate derivatives	41	–	216,395	–	216,395
Interest and fx derivatives	41	–	6,227	–	6,227
Fx derivatives	41	–	14,163	–	14,163
Commodity derivatives	41	–	38,772	–	38,772
Total		**–**	**275,557**	**–**	**275,557**
Financial assets hedging derivatives					
Interest rate risk	42	–	196,286	–	196,286
Interest rate and Fx risk	42	–	9,877	–	9,877
Total		**–**	**206,163**	**–**	**206,163**
Non-trading financial assets at fair value through profit or loss					
Investment fund	19	–	–	–	–
Equities	19	1,420		–	1,420
Loans and advances to customers	21	–	–	78,678	78,678
Total		**1,420**	**–**	**78,678**	**80,098**
Investment securities at fair value through other comprehensive income					
State bonds	19	160,796	11,423	–	172,219
Other bonds	19	24,327	32,344	12,299	68,970
Equities	19	–	–	323	323
Total		**185,123**	**43,767**	**12,622**	**241,512**
Financial assets at fair value total		**186,615**	**528,243**	**91,300**	**806,158**
Financial liabilities measured at Fair value					
Trading derivatives					
Interest rate derivatives	41	–	217,115	–	217,115
Interest and fx derivatives	41	–	6,582	–	6,582
FX derivatives	41	–	17,150	–	17,150
Commodity derivatives	41	–	38,713	–	38,713
Total		**–**	**279,560**	**–**	**279,560**
Hedging derivatives					
Interest rate risk	42	–	338,036	–	338,036
Interest rate and fx risk	42	–	3,597	–	3,597
Total		**–**	**341,633**	**–**	**341,633**
Financial liabilities at fair value total		**–**	**621,193**	**–**	**621,193**

Notes to the financial statements (CONTINUED)

(HUF million)

	COMMENT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2021*					
Financial assets measured at FV					
Financial assets held for trading (bonds)					
State treasury bills	18	124	135	–	259
State bonds	18	876		–	876
Other bonds	18	–	189	–	189
Total		**1,000**	**324**	**–**	**1,324**
Financial assets trading derivatives					
Interest rate derivatives	41	–	94,370	–	94,370
Interest and fx derivatives	41	–	3,336	–	3,336
Fx derivatives	41	–	8,653	–	8,653
Commodity derivatives	41	–	128,827	–	128,827
Total		**–**	**235,186**	**–**	**235,186**
Financial assets hedging derivatives					
Interest rate risk	42	–	73,308	–	73,308
Interest rate and Fx risk	42	–	1,765	–	1,765
Total		**–**	**75,073**	**–**	**75,073**
Non-trading financial assets at fair value through profit or loss					
Investment fund	19	–	–	–	–
Equities	19	1,277	–	–	1,277
Loans and advances to customers	21	0	–	61,789	61,789
Total		**1,277**	**–**	**61,789**	**63,066**
Investment securities at fair value through other comprehensive income					
State bonds	19	233,579	2,328	–	235,907
Other bonds	19	25,692	52,323	710	78,725
Equities	19	–	–	323	323
Total		**259,271**	**54,651**	**1,033**	**314,955**
Financial assets at fair value total		**261,548**	**365,234**	**62,822**	**689,604**
Financial liabilities measured at Fair value					
Trading derivatives					
Interest rate derivatives	41	–	99,994	–	99,994
Interest and fx derivatives	41	–	3,533	–	3,533
FX derivatives	41	–	6,639	–	6,639
Commodity derivatives	41	–	128,776	–	128,776
Total		**–**	**238,942**	**–**	**238,942**
Financial liabilities measured at Fair value					
State bonds – short position	19	2,108	–	–	2,108
Total	**–**	**2,108**	**–**	**–**	**2,108**
Hedging derivatives					
Interest rate risk	42	–	110,727	–	110,727
Interest rate and fx risk	42	–	4,920	–	4,920
Total		**–**	**115,647**	**–**	**115,647**
Financial liabilities at fair value total		**2,108**	**354,589**	**–**	**356,697**

* Comparative figures have been amended for 2021.

Notes to the financial statements (Continued)

43.2 The group uses the following valuation techniques and key inputs when determining the fair value of financial instruments:

FINANCIAL ASSETS / FINANCIAL LIABILITIES	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)
Forward Exchange & Swap	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. Financial model based FVA is used as an adjustment for the valuation of derivatives (close-out risk) as well.
FX Options	Level 2	The European options calculation uses the standard 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 as an adjustment for the valuation of derivatives (close-out risk) as well.
IR options	Level 2	The options calculation uses the Black-Scholes model. 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 as an adjustment for the valuation of derivatives (close-out risk) as well.
Commodity forward & swap	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 as an adjustment for the valuation of derivatives (close-out risk) as well.
Bonds	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.
Bonds	Level 2	Marked-to-market valuation based on prices quoted in a non-active market or (Marked to model) model-based pricing based on observable input (curve consisting of liquid bonds of the same sector or sovereign). Liquidity and close-out fair value adjustments apply.
Corporate bonds	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.
Corporate bonds	Level 2	Marked-to-market valuation based on prices quoted in a non-active market or (Marked to model) model-based pricing based on observable input (curve consisting of liquid bonds of the same sector or sovereign). Liquidity and close-out fair value adjustments apply.
Corporate bonds	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 adjustments apply.
Investment certificates	Level 2	Marked-to-market valuation based on the net asset value (NAV) published by Association of Hungarian Investment Fund and Asset Management Companies.
Equities	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Budapest Stock Exchange).
Equities	Level 3	Based on cost model.
Mortgage bonds	Level 2	Marked-to-model valuation based on a curve consisting of liquid covered bonds. Liquidity and close-out fair value adjustments apply.
Mortgage bonds	Level 3	Marked-to-model valuation based on unobservable market data (eg. applying a significant valuation adjustment). Liquidity and close-out fair value adjustments apply.
Loans and advances to banks	Level 2	Discounted cash flow method is used. For the purpose of estimating fair value, quoted prices for similar instruments are available in active markets or quoted prices for identical or similar instruments are available in markets that are not active, or a valuation model is used in which all significant inputs and significant value drivers are observable directly or indirectly in an active market.
Loans and advances to banks	Level 3	Discounted cash flow method is used. Fair value is estimated using a valuation model in which one or more significant inputs or significant value drivers are not observable in the market (e.g. non-performing loans).
Loans and advances to customers	Level 2	Discounted cash flow method is used. For the purpose of estimating fair value, quoted prices for similar instruments are available in active markets or quoted prices for identical or similar instruments are available in markets that are not active, or a valuation model is used in which all significant inputs and significant value drivers are observable directly or indirectly in an active market.
Loans and advances to customers	Level 3	Discounted cash flow method is used. Fair value is estimated using a valuation model in which one or more significant inputs or significant value drivers are not observable in the market (e.g. non-performing loans).
Deposits and loans from banks	Level 2	Discounted cash flow method is used. For the purpose of estimating fair value, quoted prices for similar instruments are available in active markets or quoted prices for identical or similar instruments are available in markets that are not active, or a valuation model is used in which all significant inputs and significant value drivers are observable directly or indirectly in an active market.

Notes to the financial statements (CONTINUED)

FINANCIAL ASSETS / FINANCIAL LIABILITIES	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)
Deposits and loans from banks	Level 3	Discounted cash flow method is used. Fair value is estimated using a valuation model in which one or more significant inputs or significant value drivers are not observable in the market.
Deposits and loans from customers	Level 2	Discounted cash flow method is used. In estimating fair value, quoted prices for similar instruments are available in active markets, or quoted prices for identical or similar instruments are available in markets that are not active, or the valuation is based on a valuation model in which all significant inputs and significant value factors are observable directly or indirectly in an active market.
Deposits and loans from customers	Level 3	Discounted cash flow method is used

43.2.1 Level 3 fair value disclosure

The below table presents the main movements of financial instruments measured at fair value within the Level 3 fair value hierarchy.

(HUF million)

	NON-TRADING FINANCIAL ASSETS MEASURED AT FVTPL	FINANCIAL ASSETS MEASURED AT FVTOCI	TOTAL
Balance at 01 January 2022	**(6,806)**	**(75)**	**(6,881)**
Gain/loss recognised in P/L	(6,283)	–	(6,283)
Gain/loss recognised in OCI	–	(686)	(686)
Increases from transacrions	(2,258)	(491)	(2,749)
Decreases from transacrions	74	–	74
Transfers to Level 3	–	(436)	(436)
Transfers from Level 3	–	197	197
Balance at 31 December 2022	**(15,273)**	**(1,491)**	**(16,764)**

The below tables provide a breakdown of financial instruments that are not measured at fair value based on the level of inputs used for valuation purposes in the fair value hierarchy.

(HUF million)

	COMMENT	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE TOTAL	CARRYING VALUE TOTAL
31 December 2022						
Financial assets not measured at fair value						
Cash and cash equivalents	17	–	667,394	–	667,394	667,141
Loans and advance to banks	20	–	862,645	19,109	881,754	929,477
Loans and advances to customers at amortized cost	21	–	1,018,292	926,580	1,945,142	1,982,599
Investments securities at amortized cost	19	431,272	99,402	25,960	556,634	570,608
Total		**431,272**	**2,647,733**	**971,919**	**4,050,924**	**4,149,825**
Financial liabilities not measured at fair value						
Sources from financial institutions	29	–	815,053	–	815,053	759,106
Customer sources	30	–	3,084,378	5,869	3,090,247	2,887,653
Issued bonds	31	–	89,374	213,435	302,809	318,407
Total		**–**	**3,988,805**	**219,304**	**4,208,109**	**3,965,166**
31 December 2021*						
Financial assets not measured at fair value						
Cash and cash equivalents	17	–	415,612	–	415,612	415,612
Loans and advance to banks	20	–	1,154,259	44,018	1,198,277	1,171,501
Loans and advances to customers at amortized cost	21	–	745,392	888,816	1,634,208	1,668,760
Investments securities at amortized cost	19	399,066	135,394	35,188	569,648	564,096
Total		**399,066**	**2,450,657**	**968,022**	**3,817,745**	**3,819,969**
Financial liabilities not measured at fair value						
Sources from financial institutions	29	–	784,562	–	784,562	801,064
Customer sources	30	–	2,591,572	32	2,591,604	2,792,420
Issued bonds	31	–	168,801	10,981	179,782	183,330
Total		**–**	**3,544,935**	**11,013**	**3,555,948**	**3,776,814**

* Comparative figures have been amended for 2021.

Notes to the financial statements (CONTINUED)

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.

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.

44 Balances outstanding and transactions with related parties

44.1 Balances outstanding with related parties

(HUF million)

	2022	2021
Assets		
Derivative financial instruments held for trading	189,343	162,390
Investment securities	1,743	323
Cash and cash equivalents	70,398	163,058
Placements with, and loans and advances to banks	406,223	147,593
Loans and advances to customers	54	1,738
Hedging derivative assets	238,761	75,394
Equity investments in subsidiaries	–	1,277
Intangible assets	4,730	4,647
Total	**911,252**	**556,420**
Liabilities		
Deposits and loans from banks	122,605	145,340
Deposits from customers	3,580	2,241
Issued bonds	146,908	11,084
Financial liabilities held for trading	189,449	99,000
Hedging derivative liabilites	341,813	115,579
Deferred tax liability	4	4
Other liabilities	3,672	2,160
Other provisions	854	23
Valuation reserves	44	43
Retained earnings	144	144
Total	**809,073**	**375,618**

Notes to the financial statements (Continued)

(HUF million)

	2022	2021
Commitments, contingencies, derivatives		
Loan and overdraft facilities granted not disbursed	1,441	2,246
Financial guarantees	56,499	52,285
Derivatives notional amount	**5,970,774**	**6,368,115**
Statement of profit and loss		
Interest income calculated using the effective interest method	1,204	247
Other interest and similar income	7	5
Interest expense and similar charges	(4,238)	(1,569)
Fee and commission income	1,167	592
Fee and commission expense	(336)	(401)
Dividend income	9	191
Net FX income	128	(3)
Impairment and loan loss provision	(1,019)	1,638
Net trading income	(54)	(18)
General operating expenses	(8,146)	(7,714)
Other income/(expenses)	4,729	269
Total	**(6,548)**	**(6,763)**

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,UNICREDIT BANK AG, MILAN BRANCH.

44.2 Key management personnel

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

(HUF million)

	2022	2021
Short-term employee benefits	2,362	1,955
Share-based payments	163	112
Long-term employee benefits	232	150
Total	**2,757**	**2,217**

Loans granted to the key managament personnel was the following:

(HUF million)

	2022	2021
Loans granted to the key management personnel	15	7
Total	**15**	**7**

Group's key management personnel at 31.12.2022:
Supervisory Board members: Emilia Palibatchiyska Stefanova, Gianfranco Bisagni, Maria Chiara Manzoni, Adeline De Metz, Emidio Salvatore.
Management Board members: Tóth Balázs, Giacomo Volpi, Nevena Nikse (from 25.07.2022), Ivana Lonjak Dam, Albert Hulshof (from 21.10.2022), Vörös Réka, Anschau János, Pancenko Svetlana, Silvano Silvestri (until 30.06.2022), Gábor Soós (until 31.08.2022).

Notes to the financial statements (Continued)

45 Segment report

(HUF million)

	TOTAL	RETAIL	PRIVATE BANKING	CORPORATES	OTHER
2022					
Total Net Interest Income	**143,368**	**41,925**	**2,025**	**85,686**	**13,732**
Net fee and commission income	53,619	18,257	1,181	34,344	(163)
Trading profit	7,295	4,008	152	18,972	(15,837)
Other operating income/expenses	5,595	(34)	–	517	5,112
Total non-interest income	**66,509**	**22,231**	**1,333**	**53,833**	**(10,888)**
REVENUES	**209,877**	**64,156**	**3,358**	**139,519**	**2,844**
Direct Expenses	**(105,540)**	**(29,062)**	**(577)**	**(54,869)**	**(21,032)**
Indirect and overhead expenses	–	(11,127)	(279)	(10,449)	21,855
OPERATING EXPENSES	**(105,540)**	**(40,189)**	**(856)**	**(65,318)**	**823**
GROSS OPERATING RESULT	**104,337**	**23,967**	**2,502**	**74,201**	**3,667**
Provision for risk and charges	599	297	–	8	294
Result and impairment on loans	**(11,600)**	**(1,522)**	**3**	**(9,750)**	**(331)**
Gain/ (losses) on other equity investments	(70)	–	–	–	(70)
Integration costs	–	–	–	–	–
RESULT BEFORE TAXES	**93,266**	**22,742**	**2,505**	**64,459**	**3,560**
Income taxes	(8,421)	–	–	–	–
NET PROFIT FOR THE YEAR	**84,845**	**–**	**–**	**–**	**–**
Customer loans net	2,061,277	480,823	2,518	1,623,721	(45,785)
Deposits from Customers	2,887,653	785,132	96,765	2,204,646	(198,890)
2021					
Total Net Interest Income	**79,643**	**19,945**	**901**	**48,580**	**10,217**
Net fee and commission income	44,983	17,691	1,571	26,313	(592)
Trading profit	10,604	3,415	199	14,234	(7,244)
Other operating income/expenses	1,112	(52)	–	510	654
Total non-interest income	**56,699**	**21,054**	**1,770**	**41,057**	**(7,182)**
REVENUES	**136,342**	**40,999**	**2,671**	**89,637**	**3,035**
Direct Expenses	**(76,219)**	**(23,764)**	**(1,016)**	**(33,939)**	**(17,500)**
Indirect and overhead expenses	–	(9,890)	(373)	(8,705)	18,968
OPERATING EXPENSES	**(76,219)**	**(33,654)**	**(1,389)**	**(42,644)**	**1,468**
GROSS OPERATING RESULT	**60,123**	**7,345**	**1,282**	**46,993**	**4,503**
Provision for risk and charges	(1,369)	(663)	(15)	(369)	(322)
Result and impairment on loans	**(7,781)**	**(3,587)**	**29**	**(4,587)**	**364**
Gain/ (losses) on other equity investments	(24)	–	–	140	(164)
Integration costs	–	–	–	–	–
RESULT BEFORE TAXES	**50,949**	**3,095**	**1,296**	**42,177**	**4,381**
Income taxes	(4,610)	–	–	–	–
NET PROFIT FOR THE YEAR	**46,339**	**–**	**–**	**–**	**–**
Customer loans net	1,730,549*	393,815	5,296	1,344,976	(13,538)*
Deposits from Customers	2,792,420	829,924	93,612	1,929,351	(60,467)

Notes to the financial statements (CONTINUED)

46 Exposure to credit risk

46.1 Credit quality analysis of the Bank's exposures

The tables below provide detailed information on the credit quality of financial assets, loan commitments and financial guarantees by instrument type. Financial assets measured at amortized cost or at fair value through other comprehensive income are shown at gross carrying amount before any fair value adjustments, collateral adjustments or other credit quality adjustments in each credit quality category. In case of financial guarantees, loan commitments and letters of credit the figures in the table represent the committed, guaranteed or otherwise certified amounts.

(HUF million)

	AVERAGE PD	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
31 December 2022						
Loans and advances to banks at amortised cost						
– Investment grade	0.001-0.305%	1,090,911	64,015	–	–	1,154,926
– Standard monitoring	0.305-99.990%	16,706	–	–	–	16,706
– Impaired	100.00%	–	–	–	–	–
Gross value		1,107,617	64,015	0	0	1,171,632
Loss allowance		(96)	(35)	–	–	(131)
Carrying value		**1,107,521**	**63,980**	**0**	**0**	**1,171,501**
Loans and advances to customers at amortised cost						
– Investment grade	0.001-0.305%	1,014,792	107,089	–	28	1,121,909
– Standard monitoring	0.305-99.99%	641,201	271,684	21	375	913,281
– Impaired	100.00%	–	–	48,452	2,143	50,595
Gross value		1,655,993	378,773	48,473	2,546	2,085,785
Loss allowance		(16,952)	(13,487)	(27,862)	2,921	(55,380)
Carrying value		**1,639,041**	**365,286**	**20,611**	**5,467**	**2,030,405**
31 December 2021						
Loans and advances to banks at amortised cost						
– Investment grade	0.001-0.305%	1,090,911	64,015	–	–	1,154,926
– Standard monitoring	0.305-99.990%	16,706	–	–	–	16,706
– Impaired	100.00%	–	–	–	–	–
Gross value		1,107,617	64,015	0	0	1,171,632
Loss allowance		(96)	(35)	–	–	(131)
Carrying value		**1,107,521**	**63,980**	**0**	**0**	**1,171,501**
Loans and advances to customers at amortised cost						
– Investment grade	0.001-0.305%	708,226	238,030	57	27	946,340
– Standard monitoring	0.305-99.990%	452,716	269,764	67	750	723,297
– Impaired	100.00%	–	–	48,349	605	48,954
Gross value		1,160,942	507,794	48,473	1,382	1,718,591
Loss allowance		(9,188)	(14,881)	(27,492)	3,032	(48,529)
Carrying value		**1,151,754**	**492,913**	**20,981**	**4,414**	**1,670,062**

Notes to the financial statements (Continued)

(HUF million)

	AVERAGE PD	STAGE 1	STAGE 2	STAGE 3	TOTAL
31 December 2022					
Investment securities measured at amortised cost					
– Investment grade	0.001-0.305%	649,656	5,163	–	654,819
– Standard monitoring	0.305-99.990%	7,377	16,486	–	23,863
– Impaired	100.00%	–	–	–	–
Gross value		657,033	21,649	–	678,682
Loss allowance		(460)	(979)	–	(1,439)
Carrying value		**656,573**	**20,670**	**–**	**677,243**
Investment securities measured at FVtOCI					
– Investment grade	0.001-0.305%	324,727	–	–	324,727
– Standard monitoring	0.305-99.990%	–	1,736	–	1,736
– Impaired	100.00%	–	–	–	–
Gross value		324,727	1,736	–	326,463
Loss allowance		(116)	(44)	–	(160)
Carrying value		**324,611**	**1,692**	**–**	**326,303**
31 December 2021					
Investment securities measured at amortised cost					
– Investment grade	0.001-0.305%	589,199	5,718	–	594,917
– Standard monitoring	0.305-99.990%	8,074	8,532	–	16,606
– Impaired	100.00%	–	–	–	–
Gross value		597,273	14,250	–	611,523
Loss allowance		(440)	(566)	–	(1,006)
Carrying value		**596,833**	**13,684**	**–**	**610,517**
Investment securities measured at FVtOCI					
– Investment grade	0.001-0.305%	331,391	138	–	331,529
– Standard monitoring	0.305-99.990%	–	1,292	–	1,292
– Impaired	100.00%	–	–	–	–
Gross value		331,391	1,430	–	332,821
Loss allowance		(203)	(51)	–	(254)
Carrying value		**331,188**	**1,379**	**–**	**332,567**

Notes to the financial statements (Continued)

(HUF million)

	AVERAGE PD	STAGE 1	STAGE 2	STAGE 3	TOTAL
31 December 2022					
Commitments					
– Loans and advances to banks	0.001-100%	348	–	–	348
– Loans and advances to customers	0.001-100%	924,532	138,301	5,238	1,068,071
Gross value		924,880	138,301	5,238	1,068,419
Provision		(410)	(65)	(2,081)	(2,556)
Financial guarantee					
– Loans and advances to banks	0.001-100%	298,217	–	–	298,217
– Loans and advances to customers	0.001-100%	260,025	114,428	12,157	386,610
Gross value		558,242	114,428	12,157	684,827
Provision		(2,574)	(3,181)	(8,187)	(13,942)
31 December 2021					
Commitments					
– Loans and advances to banks	0.001-100%	1,852	–	–	1,852
– Loans and advances to customers	0.001-100%	715,068	198,461	7,311	920,840
Gross value		716,920	198,461	7,311	922,692
Provision		(574)	(271)	(3,565)	(4,410)
Financial guarantee					
– Loans and advances to banks	0.001-100%	267,256	497	–	267,753
– Loans and advances to customers	0.001-100%	211,714	178,781	8,849	399,344
Gross value		478,970	179,278	8,849	667,097
Provision		(1,490)	(3,226)	(5,931)	(10,647)

46.2 Changes in impairment losses and provisions

The tables below provide a breakdown of the movement of impairment for expected credit losses by financial instrument type.

(HUF million)

LOANS AND ADVANCES TO BANKS AT AMORISED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 1 January 2022	**(96)**	**(35)**	**–**	**–**	**(131)**
Transfers:	**(34)**	**34**	**–**	**–**	**–**
Transfers to Stage 1	(34)	34	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impact of reassessment of expected loss	(176)	–	–	–	(176)
New financial assets originated or purchased credit-impaired	(24)	–	–	–	(24)
Financial assets derecognized during the period	39	1	–	–	40
Write-offs	–	–	–	–	–
Unwind of discount	–	–	–	–	–
FX and other movements	41	–	–	–	41
Loss allowance as at 31 December 2022	**(250)**	**–**	**–**	**–**	**(250)**
Loss allowance as at 1 January 2021	**(1,837)**	**–**	**–**	**–**	**(1,837)**
Transfers:	860	(860)	–	–	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	860	(860)	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impact of reassessment of expected loss	829	852	–	–	1,681
New financial assets originated or purchased credit-impaired	(22)	(27)	–	–	(49)
Financial assets derecognized during the period	77	–	–	–	77
Write-offs	–	–			–
Unwind of discount	–	–			–
FX and other movements	(3)	–	–	–	(3)
Loss allowance as at 31 December 2021.	**(96)**	**(35)**	**–**	**–**	**(131)**

Notes to the financial statements (Continued)

(HUF million)

LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 1 January 2022	**(9,188)**	**(14,881)**	**(27,492)**	**3,032**	**(48,529)**
Transfers:	**(2,510)**	**2,853**	**(343)**	**–**	**–**
Transfers to Stage 1	(3,215)	3,182	33	–	–
Transfers to Stage 2	702	(703)	1	–	–
Transfers to Stage 3	3	374	(377)	–	–
Impact of reassessment of expected loss	433	(2,210)	(435)	304	(1,908)
New financial assets originated or purchased credit-impaired	(5,211)	(1,511)	(4,248)	(155)	(11,125)
Financial assets derecognized during the period	714	2,219	6,045	88	9,066
Write-offs	–	–	(204)	–	(204)
Unwind of discount	–	–	(826)	(206)	(1,032)
FX and other movements	(1,190)	43	(359)	(142)	(1,648)
Loss allowance as at 31 December 2022	**(16,952)**	**(13,487)**	**(27,862)**	**2,921**	**(55,380)**
Loss allowance as at 1 January 2021	**(9,082)**	**(9,593)**	**(26,523)**	**3,780**	**(41,418)**
Transfers:	(1,376)	(2,184)	3,560	–	–
Transfers to Stage 1	(2,748)	365	2,383	–	–
Transfers to Stage 2	1,349	(2,862)	1,513	–	–
Transfers to Stage 3	23	313	(336)	–	–
Impact of reassessment of expected loss	2,208	(3,971)	(6,461)	35	(8,189)
New financial assets originated or purchased credit-impaired	(2,529)	(2,031)	(2,332)	29	(6,863)
Financial assets derecognized during the period	1,136	2,915	5,643	(30)	9,664
Write-offs	(2)	–	(321)	–	(323)
Unwind of discount	–	–	(535)	101	(434)
FX and other movements	457	(17)	(523)	(883)	(966)
Loss allowance as at 31 December 2021	**(9,188)**	**(14,881)**	**(27,492)**	**3,032**	**(48,529)**

(HUF million)

INVESTMENT SECURITIES MEASURED AT AMORTISED COST	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loss allowance as at 1 January 2022	**(440)**	**(566)**	**–**	**(1,006)**
Transfers:	**(58)**	**58**	**–**	**–**
Transfers to Stage 1	(71)	71	–	–
Transfers to Stage 2	13	(13)	–	–
Transfers to Stage 3	–	–	–	–
Impact of reassessment of expected loss	38	(189)	–	(151)
New financial assets originated or purchased credit-impaired	(26)	(282)	–	(308)
Financial assets derecognized during the period	27	–	–	27
FX and other movements	(1)	–	–	(1)
Loss allowance as at 31 December 2022	**(460)**	**(979)**	**–**	**(1,439)**
Loss allowance as at 1 January 2021	**(799)**	**(484)**	**–**	**(1,283)**
Transfers:	(198)	198	–	–
Transfers to Stage 1	(214)	214	–	–
Transfers to Stage 2	16	(16)	–	–
Transfers to Stage 3	–	–	–	–
Impact of reassessment of expected loss	678	(115)	–	563
New financial assets originated or purchased credit-impaired	(135)	(165)	–	(300)
Financial assets derecognized during the period	14	–	–	14
FX and other movements	–	–	–	–
Loss allowance as at 31 December 2021	**(440)**	**(566)**	**–**	**(1,006)**

Notes to the financial statements (Continued)

(HUF million)

INVESTMENT SECURITIES MEASURED AT FVtOCI	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loss allowance as at 1 January 2022	**(203)**	**(51)**	**–**	**(254)**
Transfers:	**2**	**(2)**	**–**	**–**
Transfers to Stage 1	(6)	6	–	–
Transfers to Stage 2	8	(8)	–	–
Transfers to Stage 3	–	–	–	–
Impact of reassessment of expected loss	81	9	–	90
New financial assets originated or purchased credit-impaired	(11)	–	–	(11)
Financial assets derecognized during the period	16	–	–	16
FX and other movements	(1)	–	–	(1)
Loss allowance as at 31 December 2022	**(116)**	**(44)**	**–**	**160**
Loss allowance as at 1 January 2021	**(353)**	**(140)**	**–**	**(493)**
Transfers:				
Transfers to Stage 1	(22)	22	–	–
Transfers to Stage 2	(22)	22		
Transfers to Stage 3	–	–		
Impact of reassessment of expected loss	–	–		
New financial assets originated or purchased credit-impaired	114	1		115
Financial assets derecognized during the period	(60)	(6)		(66)
FX and other movements	118	72		190
Loss allowance as at 31 December 2021.*	**(203)**	**(51)**		**254**

* Impairment losses on FVOCI debt instruments are not recognised in the statement of financial position, the carrying amount of these financial instruments stated in the balance sheet is their fair value.

(HUF million)

	GROSS EXPOSURE	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	ALLOCATED MATERIAL VALUE*
31 December 2022				
Credit-impaired assets	**48,473**	**(27,862)**	**20,611**	**21,356**
Loans and advances to banks:	–	–	–	–
Loans to individuals:	5,178	(3,545)	1,633	2,639
– Mortgages	3,235	(2,014)	1,221	2,635
– Consumer Loans	1,379	(1,048)	331	–
– Current Acc. & Credit C.	392	(335)	57	–
– Other Loans	172	(148)	24	4
Loans to corporate entities:	**43,295**	**(24,317)**	**18,978**	**18,717**
– Large Corporate Customers	36,183	(22,969)	13,214	12,469
– SME corporate	860	(404)	456	367
– Other (Leasing)	6,252	(944)	5,308	5,881
31 December 2021				
Credit–impaired assets	48,473	(27,492)	20,981	23,941
Loans and advances to banks:	–	–	–	–
Loans to individuals:	5,984	(3,919)	2,065	3,676
– Mortgages	4,475	(2,666)	1,809	3,670
– Consumer Loans	825	(669)	156	–
– Current Acc. & Credit C.	433	(377)	56	–
– Other Loans	251	(207)	44	6
Loans to corporate entities:	**42,489**	**(23,573)**	**18,916**	**20,265**
– Large Corporate Customers	33,292	(22,091)	11,201	12,148
– SME corporate	1,354	(646)	709	526
– Other (Leasing)	7,843	(836)	7,006	7,591

* The collateral valuation methods and principles and the calculation method of the allocated collateral value are discussed in detail in Note 4.3.2.

Notes to the financial statements (Continued)

46.4 Counterparty credit protection by type of collateral*

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION AS AT 31 DECEMBER 2022	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE*
– Warrant and guarantees	409,178	104,738	7,963	521,879
– Cautions	89,676	17,680	1,919	109,275
– Property	529,757	143,382	10,400	683,539
– Debt securities	2,776	1,005	–	3,781
– Equity	197	28	–	225
– Other	12,436	27,887	586	40,909
Total	**1,044,020**	**294,720**	**20,868**	**1,359,608**

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION AS AT 31 DECEMBER 2021	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE*
– Warrant and guarantees	188,327	231,704	6,468	426,499
– Cautions	29,213	12,488	1,427	43,128
– Property	406,643	155,121	10,893	572,657
– Debt securities	4,471	2,921	–	7,392
– Equity	482	349	–	831
– Other	24,434	9,704	278	34,416
Total	**653,570**	**412,287**	**19,066**	**1,084,923**

* The collateral valuation methods and principles and the calculation method of the allocated collateral value are discussed in detail in Note 4.3.2. The value of collateral received by the Bank by taking possession of it (by way of collateral enforcement) between 2022 and 2021 are HUF 0.

46.5 Changes in impairment losses and provisions, reconciliation of opening and closing values of impairment losses and provisions by financial instrument

(HUF million)

MOVEMENTS OF LOSS ALLOWANCE 2022	LOANS AND ADVANCES TO CUSTOMERS	CASH AND CASH EQUIVALENTS	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 2022	**(48,529)**	**(15)**	**(131)**	**(254)**	**(1,006)**	**(15,057)**	**(64,992)**
Loss allowance/Additional Provision	(38,613)	(129)	(283)	(71)	(1,058)	(12,035)	(52,189)
Loss allowance/Reversals of Provision	33,960	–	123	166	626	10,803	45,678
FX and other movements	(2,198)	–	41	(1)	(1)	(209)	(2,368)
Loss allowance/ Provision as at 31 December 2022	**(55,380)**	**(144)**	**(250)**	**(160)**	**(1,439)**	**(16,498)**	**(73,871)**
*Modification of contractual cash-flows**	(5,089)	–	–	–	–	–	(5,089)
Impairment and losses on credit products recognized in the statement of profit and loss	**(9,742)**	(129)	(160)	95	(432)	(1,232)	(11,600)

* of which modification loss related to the payment moratoria and interest rate cap is further detailed in Note 6.3.

Notes to the financial statements (CONTINUED)

(HUF million)

MOVEMENTS OF LOSS ALLOWANCE 2021	LOANS AND ADVANCES TO CUSTOMERS	LOANS AND ADVANCES TO BANKS AND CASH AND CASH EQUIVALENTS	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	**(41,418)**	**(1,837)**	**(493)**	**(1,283)**	**(12,490)**	**(57,521)**
Loss allowance/Additional Provision	(32,913)	(111)	(205)	(843)	(10,910)	(44,982)
Loss allowance/Reversals of Provision	26,314	1,805	444	1,120	8,454	38,137
FX and other movements	(512)	(3)	–	–	(111)	(626)
Loss allowance/ Provision as at 31 December 2021	**(48,529)**	**(146)**	**(254)**	**(1,006)**	**(15,057)**	**(64,992)**
*Modification of contractual cash-flows**	(936)	–	–	–	–	(936)
Impairment and losses on credit products recognized in the statement of profit and loss	**(7,535)**	1,694	239	277	(2,456)	(7,781)

* of which modification loss related to the payment moratoria and interest rate cap is further detailed in Note 6.3.

46.6 Geopolitical overlay effect

GEOPOLITICAL OVERLAY EFFECT	PROVISION AMOUNT
Total provision as of 31.12.2022	**(73,871)**
Corporate exposures	(12,086)
Retail exposures	(1,083)
Total geopolitical overlay	(13,169)
Total provision (exc. overlay effect) as of 31.12.2022	**(60,702)**

46.7 Macroeconomic outlook

The sensitivity of ECL on economic scenario was estimated as the ratio of the difference between the ECL estimated under the alternative scenario (Adverse) and the one under the baseline and the GDP deviations (on 3 years cumulative basis) between adverse and baseline scenarios (in % points). The results considering the up to date IFRS9 scenarios and portfolio is that for 1 point of GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +5%. The weights of the baseline and negative scenarios, applied in the ECL calculation as well, are 60% and 40%, respectively. In the previous years a so called positive scenario was also present but the weight of this scenario is 0% as of December 2022. These scenario weights are defined at UniCredit Group level.

Baseline scenario – Mild recession

Assumption principles:

- The decline in Russia's gas export continues, but European counter actions (high storage level, LNG and gas savings) in total are able to compensate for dwindling of Russian gas.
- Energy prices remain elevated, which, along with weak global trade and persistent supply shortage, impacts also food and commodities prices. Oil price somewhat subsides from 2022 year's levels and comes at around USD100/barrel for the average of 2023.
- ECB maintains restrictive policy.
- Growth outlook deteriorates further from the already subdue global growth in 2022. The weakening stems mostly from tighter financial conditions, surging energy bills in Europe and the spillover effect from reduced economic momentum across the US, Europe, and China. Headwinds weigh on manufacturing sector, whereas the boost to services from the reopening of the economy gradually fades, low consumer confidence prevails.
- Though supply constraints ease, they remain elevated compared to pre pandemic levels.
- High excess savings and the tight labor market ensure the recession can be mild.

The consequences on Hungary's macro path:

The economy may contract 0.6% in 2023 in the wake of weaker global demand, negative fiscal and monetary impulse, slowing household consumption, shrinking fixed capital investment. Inflation is expected to remain in double digits in most of the year, NBH will maintain tight monetary conditions adding to the drag on economic activity.

Possible delays in EU subsidies negatively influenced for the HUF, that has lost support from real economic fundaments, with the extended basic balance turning to heavily negative amid soaring global energy prices. This exposure comes at a time, when global recession fears hold back FDI inflows, and EU funds are still pending until the government fulfills the 27 milestones set by the European Commission. Absent non debt

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generating FX flows, for the hard currency needed to settle the elevated energy bills, Hungary is bound to rely on volatile portfolio investments in an environment predominated by monetary tightening.

GEOPOLITICAL OVERLAY EFFECT	2022	2023F	2024F	2025F
Real GDP, yoy change (%)	5.4	-0.6	3.8	3.4
Inflation (CPI) eop (%)	19.8	9.6	4.2	3.5
Inflation (CPI) average (%)	13.9	15.3	6.9	3.9
Monthly Wage, nominal EUR	1211	1234	1299	1294
Unemployment rate (%)	3.7	3.8	3.5	3.3
Exchange rate, EUR/HUF, eop	410.0	415.0	425.0	430.0
Exchange rate, EUR/HUF, average	392.1	408.5	420.0	427.5
Short term rate, eop (%)	14.0	10.2	5.2	4.2
Short term rate, average (%)	9.4	12.1	7.7	4.7
Long-term interest rates 10y (%)	10.2	7.8	6.0	5.5
Huse Price Index, yoy change (%)	15.0	4.5	4.0	4.0

Downside scenario – Severe recession

Assumption principles:

- The Russia-Ukraine conflict escalates further, gas shipments from Russia stop completely. 25-30pc higher energy prices vs. the baseline levels combined with strong price increase of food and other commodities keep inflation elevated.
- High inflation erodes real incomes more drastically than in the base line scenario.
- As a result, consumption experiences more profound contraction, which along with further supply chain disruption pushes the European economy in deeper recession in 2023.
- ECB maintains restrictive policy similar to what it does in the base line scenario.

The consequences on Hungary's macro path:

Due to a more pronounced contraction in European economies, external conditions for Hungary become more adverse in 2023. These translate into deeper real economic recession with a further deteriorating current account balance and additional HUF weakening. Elevated global price pressure and continued depreciation of the national currency end up in persistently high inflation and an even more restrictive monetary conditions than in the baseline. Overall, the economy contracts by around 4%, amid lower employment and an average 12% drop in purchasing power of wages.

RECESSION SCENARIO 2023 (WORSE CASE)	2022	2023F	2024F	2025F
Real GDP, yoy change (%)	5.4	-4.0	4.1	3.9
Inflation (CPI) eop (%)	19.8	14.3	5.5	3.9
Inflation (CPI) average (%)	13.9	17.3	8.4	4.9
Monthly Wage, nominal EUR	1211.1	1166.3	1290.5	1315.3
Unemployment rate (%)	3.7	4.4	4.2	4.1
Exchange rate, EUR/HUF, eop	410.0	435.9	426.2	425.0
Exchange rate, EUR/HUF, average	392.1	421.4	431.0	425.6
Short term rate, eop (%)	14.0	10.2	6.8	6.4
Short term rate, average (%)	9.4	12.9	8.5	6.6
Long-term interest rates 10y (%)	10.2	9.8	7.1	7.1
Huse Price Index, yoy change (%)	15.0	2.7	5.5	4.0

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, based on EBA and NBH guidelines written parametrizations, are the 200bp positive and negative shocks, parallel up and down shifts (interest rate curves move up or down with the same value along the different maturities), steepening (short rates down and long rates up), flattening (short rates up and long rates down) and short rates up, short rates shock 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.

(HUF million)

2022		INCOME	EQUITY	OTHERS*	TOTAL
All yields	+200bp shock	(1268)	(1,436)	(9,222)	(11,927)
	-200bp shock	728	770	6,067	7,565
	shift up	(1,325)	(1,779)	(11,660)	(14,763)
	shift down	749	979	7,734	9,462
	steepening	(407)	46	(227)	(588)
	flattening	(341)	(447)	(1,713)	(2,501)
	short rates shock up	(582)	(1,067)	(6,445)	(8,094)
	short rates shock down	140	550	3,594	4,284
Worst of the above		**(1,325)**	**(1,779)**	**(11,660)**	**(14,763)**

(HUF million)

2021		INCOME	EQUITY	OTHERS*	TOTAL
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
	steepening	259	44	(1,104)	(800)
	flattening	(317)	(363)	(5,966)	(6,646)
	short rates shock up	247	(826)	(20,195)	(20,774)
	short rates shock down	(123)	425	11,365	11,666
Worst of the above		**(1,653)**	**(1,364)**	**(37,699)**	**(38,244)**

***Notes only**

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 1,3 bn HUF. The total open FX position is limited at 21mn EUR. On-balance FX position ratio (DEM) was 0.4%. 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.

48 Summary of VaR position

The internal model based VaR (1 day, confidence level of 99 %) for 2022 moved in a range of HUF 3.5 bn and HUF 8.1 bn. The average VaR was HUF 5.8 bn; more than a year before, mainly due to the more 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.

VaR as at 30 December 2022

(HUF million)

RISK CATEGORY	YEAR-END	AVERAGE	MINIMUM	MAXIMUM
Exchange rate risk	32	58	4	307
Interest rate risk	5,227	4,552	1,240	6,400
Credit spread	9,225	5,345	3,073	9,424
Vega risk	34	79	33	121
Equity risk	0	0	0	0
Overall	**7,753**	**5,758**	**3,508**	**8,052**

VaR as at 31 December 2021

(HUF million)

RISK CATEGORY	YEAR-END	AVERAGE	MINIMUM	MAXIMUM
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**

RAs 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 30/31 December 2022 and 2021, 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

							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 2022									
CHF	0.02	0.01	0.00	0.00	0.00	0.03	0.04	(0.03)	0.01
EUR	(2.74)	(12.78)	22.57	(4.66)	(2.07)	0.32	31.58	(7.98)	8.73
GBP	0.00	(0.01)	0.00	0.00	0.00	(0.01)	(0.02)	(0.07)	0.05
HUF	3.20	(7.49)	(19.63)	(18.84)	(24.20)	(66.96)	(42.51)	(201.97)	116.23
USD	(0.31)	(0.34)	0.14	0.00	0.00	(0.51)	3.55	(5.33)	0.57
Total*	**0.17**	**(20.61)**	**3.08**	**(23.50)**	**(26.27)**	**(67.13)**			
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)	9.24	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	(0.07)	0.83	(0.73)	0.25
Total*	**(2.53)**	**(11.72)**	**(43.36)**	**(105.76)**	**(2.96)**	**(166.33)**			

* Total contains risk taking in all reported currencies

During 2022, 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 2022 (CPV, HUF million)		
Corporate	Energy BBB	(6.37)
Corporate	Corporate - Local	(9.72)
Corporate	Corporate - International	(8.07)
Financial	BBB banks	(30.57)
Treasury	Government bonds – Local	(230.99)
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)

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 decreased in 2022.

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 1.9 billion (in 2021 HUF 2 billion), the highest quarterly capital requirement was HUF 2.6 billion (in 2021: HUF 2.5 billion) mostly stemming from the counterparty risk of OTC derivatives and the position risk of bonds.

50 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 Management Board.

From the 1st July 2011 UniCredit Bank Hungary Zrt. switched to internal rating based (IRB) method in its capital requirement calculation in case of Hungary based medium-sized 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

Notes to the financial statements (Continued)

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 Banking Supervision.

The Central Bank of Hungary granted permission to use a risk weight of 0% when calculating the capital requirement for exposure to group members under local consolidated supervision.

group's Integrated Risks, ESG & Credit Risk Mitigation Department 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 2022 and 2021 was as follows:

(HUF million)

	2022	2021
Ordinary share capital	**24,118**	**24,118**
Share premium	3,900	3,900
Retained earnings	293,681	268,647
– of which Profit or loss attributable to owners of the parent	84,748	46,272
– of which proposal of dividend payment on profits for year 2021 and 2022	(50,850)	(55,100)
Accumulated other comprehensive income	(45,814)	(12,034)
Other reserves	66,502	57,638
Adjustments to CET1 due to prudential filters	48,514	17,510
Goodwill included in the valuation of significant investments	–	–
Intangible assets (Deduction based on CRR2 from 2020YE)	(15,183)	(12,631)
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	(46)	–
Tier 1 Total	**375,672**	**347,148**
Tier 2 Capital		
Qualifying subordinated liabilities	–	–
Reserves for IRB position	4,231	4,614
Other transitional adjustments to T2 Capital	–	–
Tier 2 Total	**4,231**	**4,614**
Own Funds	**379,903**	**351,762**
RWA		
Credit risk	1,521,656	1,503,730
Total risk exposure amount for position, foreign exchange and commodities risks	15,744	19,335
Operational risk	203,013	176,233
Total risk exposure amount for credit valuation adjustment	4,475	1,549
Total RWA	**1,744,889**	**1,700,847**
Capital Adequacy (%)	**21.77**	**20.68**
Own Funds for legal limits (according to CRR Regulations (EU) No 575/2013 prior 28 June 2021)		**351,762**
Tier 1 Capital for legal limits (according to CRR II Requirements are effected from 28 June 2021)	**375,672**	**347,148**

Notes to the financial statements (Continued)

51 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 50,850 million is expected to be declared with regard to 2022 and is expected to be paid in 2023.

Unlocking...

A better bank

A better world

A better future

Supervisory Board and Management Board

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

	MANAGEMENT BOARD
BALÁZS TÓTH	Chairman and CEO
GIACOMO VOLPI	Deputy Chairman, Deputy CEO
RÉKA VÖRÖS	Head of Retail
SILVANO SILVESTRI till 30 June 2022 NEVENA NIKSE as of 1 July 2022	Head of Finance
IVANA LONJAK DAM	Head of Risk Management Division
JÁNOS ANSCHAU	Head of Operative Division
GÁBOR SOÓS till 31 August 2022 ALBERT JOHAN HULSHOF as of 1 September 2022	Head of Corporates
SVETLANA PANCENKO	Head of People & Culture

UniCredit Jelzálogbank Zrt.

MANAGEMENT BOARD

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

SUPERVISORY BOARD

GIACOMO VOLPI	Chairman
ANSCHAU JÁNOS	member
VÖRÖS RÉKA	member
IVANA LONJAK DAM	member
TÓTH BALÁZS	member
NEVENA NIKSE as of 1 July 2022	member
ALBERT JOHAN HULSHOF as of 1 September 2022	member

Unlocking...

A better bank

A better world

A better future

ESG in Hungary

CSR Report of UniCredit Bank Hungary group

In 2022, UniCredit Bank Hungary Zrt. continued to strengthen its commitment to supporting social well-being. It treated the support for sustainable development and developing young people's financial literacy as a priority topic. It reflected on the current challenges of the year by helping disadvantaged social groups and those in need. In the area of sustainability, internal and external awareness raising, education and involvement of employees and customers took place on an ongoing basis. ESG (Environmental, Social, Governance) aspects were integrated into the bank's strategy, while the results achieved were published.

Our Social Impact Banking (SIB) programme finances and supports business projects of for-profit and non-profit organisations (social enterprises) that create social improvement and measurable value in society. As part of our corporate social responsibility, we have long been concentrating on developing enterprises because the social return is also essential in addition to the financial return of investments. In 2022, our SIB programme supported a high-impact social entrepreneurship project worth EUR 2.2 million.

An essential part of the SIB programme is to improve the economic and entrepreneurial knowledge of businesses and the financial knowledge of young people through education and mentoring. For this reason, our colleagues participated for the eighth time in MoneyWeek (Pénz7), Hungary's most prominent financial training programme. They supported the work of primary and secondary school teachers with real-life examples during the finance-entrepreneurship thematic week. In 2022, our fall semester was successfully held at the Department of Finance and Accounting of Budapest Business School, in the Fintelligence financial education centre established with the support of our bank. In the course „B@nking – Operation of a bank in practice", young people interested in the banking profession could get a glimpse into various banking fields' work with our senior managers' help. Our colleagues participated in 11 different educational programmes 37 times to develop businesses. Fifty-six of our employees took on a role as financial volunteers for 126.5 hours.

In the spirit of Earth Day, we started our tree-planting programme in the Ócsa Nature Reserve where we planted one tree for each of our employees, a total of two thousand. By the end of the year, the Hungarian UniCredit forest grew to four thousand trees; this time, new saplings were planted for our customers, who were the first to switch from a paper-based monthly account statement to an electronic one in the spring. With this, we contributed to preserving a hundreds-of-years-old protected forest, which is currently suffering the adverse effects of climate change. UniCredit Group planted 90,000 trees with the involvement of its employees worldwide to strengthen biological diversity and prevent soil degradation.

Since the outbreak of Russian-Ukrainian war, our bank – with our colleagues' active cooperation – has repeatedly assisted people with difficulty. We not only supported large organisations helping refugees with large sums of money, but we also collected material donations on several occasions. Our employees helped receive refugees at train stations, delivered food and donations to the border, and prepared food packages for organisations dealing with refugees. We constantly monitored the situation's development and changing needs and informed our employees about volunteer opportunities.

Throughout the year, we strived to support those who needed it and to help wherever possible. Assistance was provided on a broad spectrum:

- More than 120 of our colleagues gave blood at two, now traditional blood drives, organised as part of the initiative of the Hungarian Banking Association.
- In the UniCredit Foundation's Call for Europe programme, four Hungarian non-governmental organisations for children won the support of a total EUR 46,000 to implement their agenda for children.
- As part of our Employee Donation Programme, our colleagues collected donations to support a Hungarian non-profit organisation, and final the sum was matched by the Foundation.
- In our year-end donation programme, we helped non-profit organisations supporting Covid-19 orphans, food rescue, decent housing, children's rights, and social initiatives. With the exceptional support of the Á-Lom project of the Donation Taxi Foundation, we provided children's cots to disadvantaged families.

Volunteering was also an essential part of helping. In Habitat for Humanity Hungary's „Second Chance" housing programme, our employees helped a family in need with manual labour to create decent living conditions. In addition, they also participated in charity baking, where the Hungarian Food Bank Association delivered the finished cakes to families in need.

We also placed great emphasis on raising awareness about sustainability. We helped raise awareness among our colleagues with education, a special newsletter, lectures by invited external experts, campaigns and a sustainability page on our Intranet, and we promoted the topic with sustainability ambassadors. Educating and engaging our customers also played an important role. Together with our partners who are leaders both in sustainability and business, Alteo Group, Mirelite Mirsa Zrt., and UTB CSR Report of UniCredit Bank Hungary group Zrt., we demonstrated in short films the common goals that are driving us, as well as their excellent businesses in creating a sustainable future. We engaged our retail customers and commercial partners in a campaign to reduce paper use. We conducted a research series on the attitudes of four generations regarding sustainability. For those interested, in the third season of our podcast series "Finances Without a Tie", we talked with the help of our experts about ethical corporate operations and corporate governance, gender equality, and other. At the same time, UniCredit Bank's sustainability results are presented in an online publicationv.

Calendar

JANUARY

The SoftPOS application developed by Nexi has become available for business customers of UniCredit Bank Hungary Zrt. With this application, users can offer card payment options to their customers using their mobile phones as a terminal. With SoftPOS, NFC-enabled Android smartphones and tablets accept contactless payments of any amount – even by entering a PIN code thanks to the PIN On Glass function. No separate hardware is required, and the application meets the highest security standards.

Corporate Knights' Global ranks the world's 100 most sustainable companies annually based on the most critical environmental, social, and corporate governance (ESG) indicators. On Corporate Knights' Global 100 Index 2022 list, UniCredit ranks second worldwide and first in Italy among the 751 companies in its category. The bank ranks 59th in the 2022 general list.

European Top Employer UniCredit received, for the sixth time, the official recognition as European Top Employer. Every year, it recognises the organisations that pay special attention to people-centricity through their high-quality human resources policy. The bank won the European Top Employer certificate thanks to the local certifications in Hungary, Austria, Bulgaria, Germany, Italy, and Russia.

e-statement campaign
From January to March, an e-statement campaign for the sustainability education and engagement of UniCredit Bank's retail customers: for customers who were the first to switch to electronic account statements from paper-based monthly account statement 2,000 trees were planted at the end of the year.

UniCredit and RE Valuta,
the real estate appraisal company of Tinexta Group, have agreed to cooperate in collecting and processing the energy characteristics of properties used as collateral for mortgage loans provided by the bank. UniCredit is the first bank to undertake a task of this magnitude in Italy.

FEBRUARY

Mastercard–Bank of the Year
UniCredit Bank's Smart Data application won second prize in the "Corporate Product and Service Innovation of the Year 2021" category at the sixteenth Mastercard–Bank of the Year competition. In the competition for players in the Hungarian banking sector, products and services that brought new, innovative solutions to the market were awarded in eight categories.

MARCH

Charitable activity
After the outbreak of the war in Ukraine, UniCredit, with the participation of its colleagues, repeatedly assisted people with difficulty. The company provided large financial donations to several organisations supporting refugees, including the Hungarian Red Cross, the Hungarian Baptist Aid and the Hungarian Interchurch Aid. In addition to the financial donation, the employees organised material donation transports several times, and also provided personal assistance: among other things, they welcomed refugees at train stations, delivered food to the border and refugee care institutions, and made sandwiches. UniCredit constantly monitored and informed employees about volunteering opportunities.

MoneyWeek (Pénz7),
Hungary's most significant financial training programme, continued, in which UniCredit Bank Hungary Zrt. volunteers have participated since the programme started in 2015. In the course of the thematic week, they supported the work of teachers in elementary and secondary schools with real-life examples.

Earth Hour
UniCredit has been supporting Earth Hour for 15 years. On 26 March, electricity was turned off for one hour in the Group's 50 buildings in 13 countries, including UniCredit Bank's headquarters in Budapest.

EXIM Green Investment Loan Programme

UniCredit Bank Hungary Zrt. offers state-subsidised investment loans in HUF and EUR to domestic SMEs and large enterprises, with the refinancing of Hungarian Export-Import Bank Plc. The purpose of the loan programme is to support environmentally sustainable economic activities and the domestic developments necessary for this, with favourable, fixed-rate financing.

Best Global Trade Finance Bank for customer service

Once again, UniCredit was the "Best Global Trade Finance Bank for customer service" in Euromoney's 2022 Trade Finance Survey, strengthening its market-leading position with 22 awards won in different categories and regions.

APRIL

EXIM Exporters of the Future Credit Programme

to Improve Competitiveness investment loans: With the refinancing of Hungarian Export-Import Bank Plc., UniCredit Bank Hungary Zrt. offers subsidised investment loans in HUF or EUR to domestic SMEs and large enterprises with favourable interest rates. The loan programme aims to improve the competitiveness of businesses and promote their presence in export markets.

Habitat for Humanity
With their volunteering physical work, UniCredit employees helped create decent housing conditions for a family in need within Habitat for Humanity Hungary's "Second Chance" housing programme.

Earth Day
To protect the natural environment and biological diversity, the company with the cooperation of its colleagues, planted one tree for every employee, a total of 2,000 in the swamp forest in Ócsa.

MAY

New board member from UniCredit
Balázs Tóth, Chairman and CEO of UniCredit Bank Hungary Zrt., was elected Member of the Board at the annual ordinary board meeting of the Hungarian Banking Association.

UniCredit Foundation Call for Europe
The application season of Call for Europe has ended; a grant programme of UniCredit Group and the UniCredit Foundation, aims to support non-profit organisations dealing with children in the banking group's 12 European countries.
The Hungarian awardees, who can spend a total of EUR 46,000 on their projects, are the Humus Association – "Composting for the Future" project; Igazgyöngy Foundation – "Let's create together!" programme; InDaHouse Hungary Association – "Opportunity for Successful Education" programme, and KórházSuli Foundation – imPACKt Acceptance box project.

JUNE

Sustainability with environmental protection

The joint research of UniCredit Bank Hungary Zrt. and SteiGen established that, although sustainability plays an increasingly important role in our lives, the concept of ESG, which makes the related corporate efforts measurable, is known to few. The survey pointed out that Hungarians still mostly associate sustainability with environmental protection and must become more familiar with its social and corporate governance aspects. UniCredit strives to draw attention to the importance of sustainability issues, which is why it regularly conducts research in this field, the results of which are published.

ESG e-leaflet

UniCredit Bank published a sustainability leaflet. The publication summarises the company's most significant achievements in the field of ESG so far.

JULY

AUGUST

Podcast, 3rd season

The third season of UniCredit Bank's sustainability podcast series has started. In the new season of the series „ Finances Without a Tie", corporate governance, gender equality, and ethical corporate operations are discussed.

Solar energy market

Our excellent credit position in the solar energy market was significantly contributed by our participation in a major solar park financing transaction, the largest corporate green loan agreement in Hungary in 22 of HUF 28 billion, as the sole financier of SolServices Kft. The 100-megawatt solar power plant in Szolnok is one of the largest in the country, which significantly contributes to the supply of renewable electricity. The entire population of Jász-Nagykun-Szolnok County will be able to produce 40% of its electricity consumption while saving tens of thousands of tons of CO_2 emissions.

SEPTEMBER

Student Account Zero
UniCredit Bank Hungary Zrt. launched its Student Account Zero service, designed to meet the needs and banking habits of young people under 26.

Széchenyi Card Programme MAX
UniCredit Bank Hungary Zrt. also participated in distributing the Széchenyi Card Programme MAX loan facility. This state-subsidised overdraft facility, with a discounted interest rate and a two-year term, provides businesses with a credit line that can be used freely.

OCTOBER

Blood Donors' Week
UniCredit employees also participated in the Banking Blood Donors' Week, organised for the third time within the framework of Good Deed Bank, where employees of the sector helped the national blood supply with 3,000 units of blood.

DECEMBER

B@nking – Operation of a Bank in Practice

The bank's series of courses held from October to December each semester continued at the Fintelligence financial education centre, within the Department of Finance and Accounting of Budapest Business School since the start of the programme in 2019.

The series of lectures offers practical knowledge to students, who can thus gain an insight into the operations of the bank and the work of various areas with the help of UniCredit Bank's senior managers.

Planting trees

In the second phase of the UniCredit forest, UniCredit employees planted another 2,000 trees in the swamp forest in Ócsa for customers who were the first to switch from paper-based monthly account statements to electronic ones in the spring.

2022 European Markets Leaders survey

Euromoney has again recognised UniCredit's leadership role in its 2022 European Markets Leaders survey, an independent global ranking of leading financial services providers across 100 markets. In the ranking, UniCredit banks operating in nine countries in the four main European regions – Italy, Germany, Central Europe, and Eastern Europe – were named market-leading financial institutions with outstanding performance in categories ranging from social responsibility to digital solutions.

Charity baking event
Throughout the year, UniCredit and its employees tried to provide help to those who needed it. In December, the employees participated in a charity baking event: the Linzers made here were distributed to families in need by the Hungarian Food Bank Association.

"Finance for Biodiversity Pledge"
Protecting nature and restoring its unity for future generations is vital to creating a sustainable world for our customers and communities. UniCredit Group has signed the "Finance for Biodiversity Pledge" (FfB) commitment, which proves its commitment to a better and more sustainable future, as another step towards the realisation of Net Zero. Members of the FfB Pledge are committed to taking action for biodiversity. Protecting and restoring the integrity of nature for future generations is key to a sustainable world for our customers and communities.

Network units

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UniCredit Call Centre 0-24: +36 1/20/30/70 325 3200
www.unicreditbank.hu

As of 31 December 2022, UniCredit Bank Hungary Zrt. had 52 branches nationwide, of which 20 were in Budapest and 32 were in the countryside.

Network units (Continued)

Branches in Budapest

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

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

Ferenciek tere branch
1053 Budapest, Ferenciek tere 2.

Alkotmány utca branch
1054 Budapest, Alkotmány u. 4.

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

Boráros tér branch
1095 Budapest, Boráros tér 7.

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

Fehérvári út branch
1117 Budapest, Fehérvári út 23.

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

Alkotás út branch
1123 Budapest, Alkotás u. 50.

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

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

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

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

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

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

Alkotmány utca Partner Centrum
1054 Budapest, Alkotmány u. 4.

Bécsi út Partner Centrum
1023 Budapest, Bécsi út 3–5.

Infopark Partner Centrum
1117 Budapest, Infopark sétány 3.

Gateway Partner Centrum
1138 Budapest, Dunavirág utca 2.

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 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 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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