2023 Annual Reports and Accounts

Unlocking **transformation,** together.

For our clients, our people, and our communities.

Empowering Communities to Progress. | UniCredit

Our manifesto

We believe in **Europe's potential.**

Uniting behind a vision of a
better bank and a better future.
A transformation for our clients,
our people, and our communities.
Demonstrating what it means
to be the bank for Europe's future.

For everyone, everywhere.

For our clients

who demand **best-in-class** products, ideas and service…

Putting our clients at the centre of everything we do

We are harnessing the scale of our Group to develop and offer best in class products and services throughout our markets. We are equipping our people with the right tools to focus their expertise, effort, and energy on delivering excellence for all of our clients, all of the time.

A culture where our colleagues can thrive

We foster Diversity, Equity & Inclusion and are committed to building a safe, positive, barrier free and inclusive working environment, where everyone feels empowered to unlock their fullest potential and succeed. We are committed to be the engine of social progress for our people and our communities.

For our colleagues

helping to **build the Bank** for Europe’s future...

Fostering a just and fair transition

We are focused on delivering a sustainable transition to green energy which does as little harm to the planet and its people as possible. We work consistently towards having a positive impact in line with our role and responsibilities as a social actor – knowing banks play an important role that goes far beyond lending.

For our communities

that want to be **drivers of change...**

Innovating for our stakeholders

We understand that banking is increasingly not only a people business, but also a technology business. Digital technology is continually advancing, and capitalising on these advances for the benefit of all our stakeholders is the key to unlocking value.

For everyone

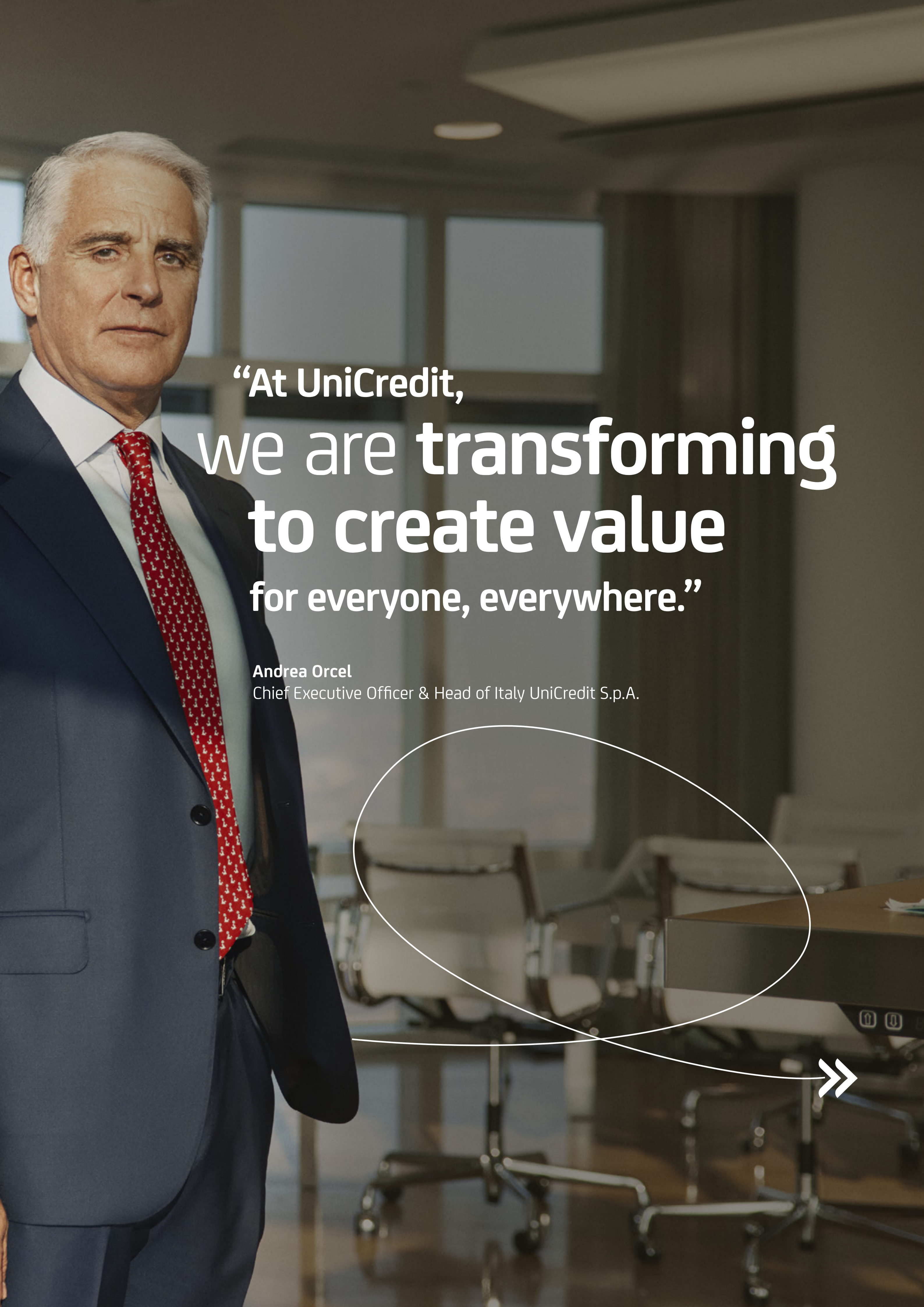
who wants to **embrace digital innovation** and the future of banking...

UniCredit Foundation: Inspiring young people across Europe

We are on a mission to empower young people across Europe by enhancing equality of opportunities in education. Together we can unlock the potential of Europe's next generation.

For Europe's next generation

who want to **shape their future...**



"At UniCredit,
we are **transforming**
to create value
for everyone, everywhere."

Andrea Orcel
Chief Executive Officer & Head of Italy UniCredit S.p.A.

Unlocking **transformation**, together.

For our clients, our people, and our communities.

The **UniCredit Group** **2023** results

Content

Who we are

UniCredit is a pan-European Commercial Bank with a unique service offering in **Italy, Germany, Central and Eastern Europe**. Our purpose is to empower communities to progress, delivering the best-in-class for all stakeholders, unlocking the potential of our clients and our people across Europe.

We serve over **15 million customers** worldwide. They are at the heart of what we do in all our markets. UniCredit is organized in four core regions and three product factories, Corporate, Individual and Group Payments Solutions. This allows us to be close to our clients and use the scale of the entire Group for developing and offering the best products across all our markets.

Digitalisation and our commitment to **ESG** principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities and our people.

Where we operate

15m
customers worldwide

4
coverage regions

13
leading banks

A. Central Europe includes Austria, Czech Republic, Hungary, Slovakia and Slovenia.

B. Eastern Europe includes Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Russia and Serbia.

What we do

At UniCredit we are building the **bank of Europe's future**. A bank that delivers consistently for our stakeholders and empowers people, business and communities across Europe to progress.

This year we were unrelenting in our execution of **UniCredit Unlocked**, a strategic plan which is transforming our bank and enabling us to set a new industry benchmark.

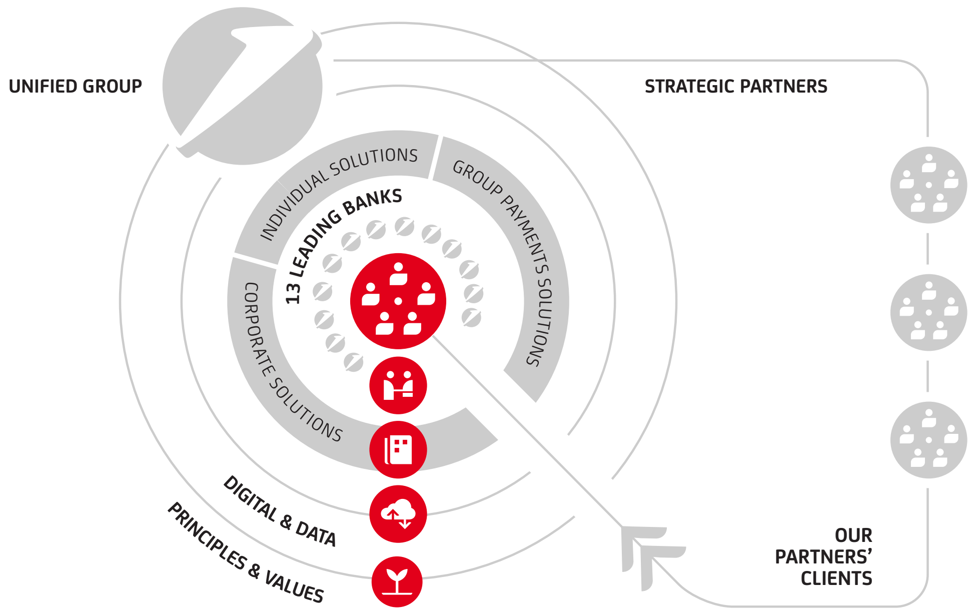
At its core, this is about putting **clients firmly at the centre of all we do**. For our clients we are a gateway to Europe, providing them with best-in-class solutions, strategic advice and innovation.

We deliver **competitive products and services** that create significant value for over one million SMEs, corporate, multinational corporates, financial institution and public sector clients – as well as 15 million retail, private banking, wealth management and family office clients across the Group.

As a result of **three years of transformation**, we have brought our thirteen banks together, leveraging their scale and reach across Europe to deliver competitive value-added services to our clients that are customised to their local needs. The strength of **two outstanding global product factories** – Corporate Solutions and Individual Solutions – is fundamental to this.

Our **simplified business model** and all our decision-making is driven by UniCredit's values of **Integrity, Ownership and Caring**. By embodying these values every day, we have become a true partner to our clients and an engine of social and economic progress in Europe. Today we are operating as one bank, leveraging our **pan European footprint** and the **strength of our workforce** to offer the very best to all our stakeholders:
our clients, our people and our communities.

The impact of our transformation is clear – evidenced not only by our **strong financial performance** and **quality growth**, but the value we have unlocked within our bank and for all our stakeholders. This report outlines our achievements in 2023, a year which is the culmination of three years of transformation and has set up UniCredit for future success.



"2023 was a remarkable year and the product of three years of transformation. There will no doubt be challenges ahead in 2024, but I am confident in the direction our bank is taking."

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

It will be remembered as the year we surpassed the targets we set at UniCredit Unlocked, and emerged as a better, stronger bank as a result. One capable of being the bank for Europe's future.

We are no longer a bank that settles for less. We have built a culture of excellence that puts our clients at the centre and prioritises long-term value creation over short-term gain.

This has been driven by a cultural and industrial transformation, which has redefined the way our bank operates. Before, there was no 'one UniCredit'. There were 13 disparate banks that lacked common principles, values and a clear strategy and were falling short of their potential.

Now our bank is united behind one vision, with all its parts operating in lockstep with the interests of the Group and Europe as a whole. A model that now empowers our people and gives our clients what they are asking for.

2023 was truly the year we came together behind one purpose and vision and executed an ambitious strategy that has propelled us from a laggard to a leader.

Surpassing our targets

Despite a challenging macroeconomic backdrop, 2023 was the year we surpassed targets that some thought impossible a year ago.

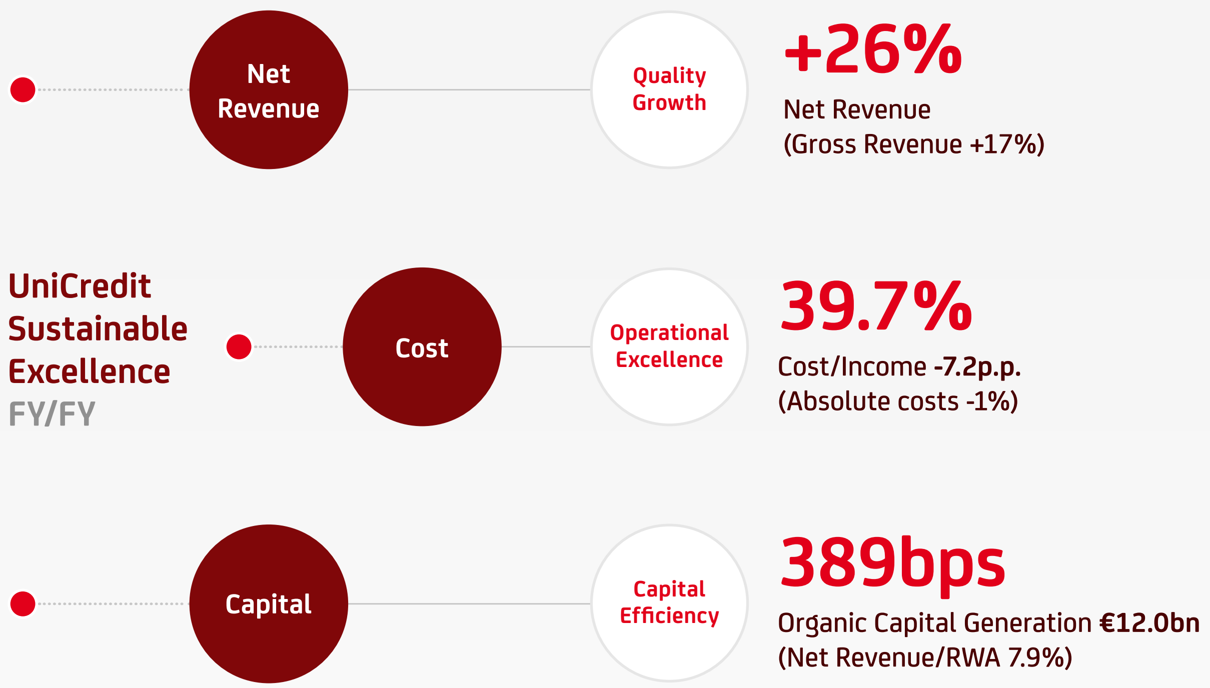
We achieved a RoTE of 16.6% (20.5% when correcting for the excess capital that we carry at 13% CET1).

Our net revenues stood at €23.3 billion – an increase of 26% year on year. This was mostly driven by exceptional net interest income and resilient fees while maintaining a low cost of risk.

We have enhanced our three product factories – corporate solutions, payments solutions, and individual solutions – to deliver best-in-class products for our clients at scale. As a result, our factories generated €9.9 billion in 2023, down 2% despite challenging market conditions.

We are now in our twelfth quarter of year-over-year profitable growth driven by outperformance across each of our three core financial levers, achieving the best results in UniCredit's history.

FY23 Highlights across our 3 levers

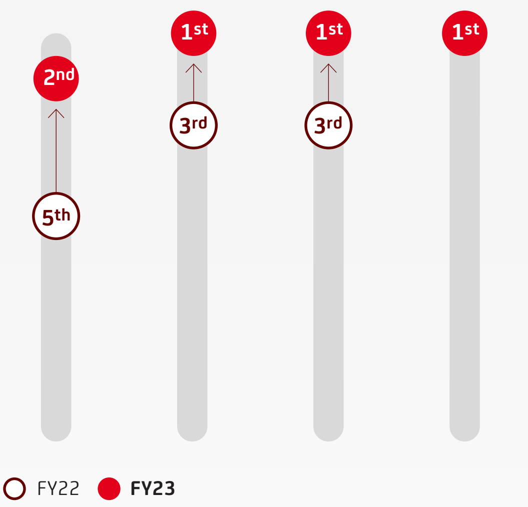



UniCredit
Credit: Andrea Cherchi

In comparison to our peers, we have best-in-class top-line growth, operating efficiency, and unrivalled organic capital generation. We have one of the highest CET1 ratios, one of the highest RoTE (the highest when corrected for our excess capital at 13%), quality credit portfolio and coverage, and the highest forward-looking precautionary overlays.

Superior performance vs. peers across all levers

Net Revenue/RWA	Cost/Income	NOP/RWA	Organic Capital Generation
2nd	**1st**	**1st**	**1st**
from 5th	from 3rd	from 3rd	confirmed



Peers and UniCredit stated figures based on publicly available data
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.

After three years of transformation, our RoTE has tripled, our net profit is over 2.5x compared to 2017-2019 averages[1], and we have delivered over €27 billion in organic capital generation. We distributed €17.6 billion over three years, which is equal to our market cap at the beginning of 2021.

This year alone we have generated €12 billion in capital organically, underpinning our proposed distribution of €8.6 billion (100% of net profit) in the fourth quarter – €3.0 billion dividends and €5.6 billion share buyback – while reinforcing our CET1 ratio by c.100 basis points to 15.9%.

In 2023 we delivered on the €5.25 billion commitment made in our FY22 shareholder distribution programme, and front-loaded the execution of a €2.5 billion share buyback as part of the FY23 distributions.

At the same time, per-share value creation has reached even greater heights, more than tripling EPS versus our historical run-rate, with DPS nine times higher, and tangible book value per share up almost a half.

The financial targets we have met and exceeded have not been at the detriment of our ESG commitments, which are embedded firmly in our business model.

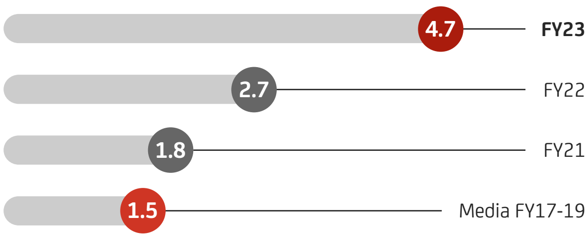
With a unique pan-European footprint, we have a responsibility to pursue a fairer, greener future.

We remain steadfast in our commitment to reach net zero by 2050 and in 2023, we became a single-use plastic-free bank and lent €7.6 billion in environmental loans.

The Social dimension of ESG continues to be a priority for UniCredit, and we are leading by example with €3.8 billion of social financing and €60 million of social contribution.

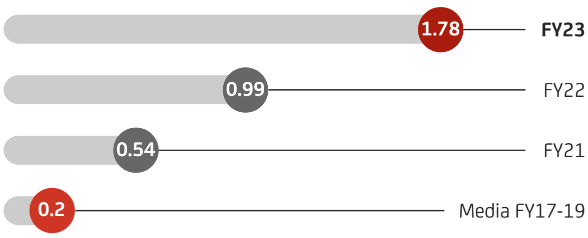
1. For comparison purposes the FY17-19 net profit is the simple average of Net profit recast figures for Group excluding Turkey and Fineco.

Propelled per share values



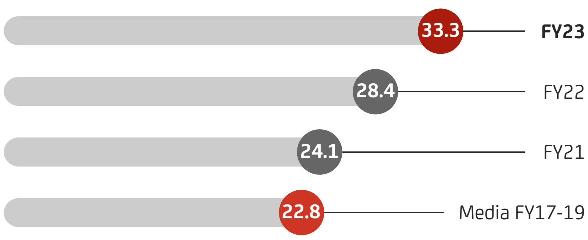
+3.1x

EPS[1] (€)



9.0x

DPS (€)



+46%

TBVPS (€, EoP)

1. Net Profit for FY22 and FY23 is stated net profit adjusted for impacts from DTAs tax loss carry forward resulting from sustainability test. The result is used for cash dividend accrual / total distribution. Underlying net profit for FY21. For comparison purposes the FY17-19 net profit is the simple average of Net profit recast figures for Group excluding Turkey and Fineco.

Our winning approach continues

There will no doubt be challenges ahead in 2024, but I am confident in the direction our bank is taking.

2023 was a remarkable year and the product of three years of transformation.

Every target we've set, we've exceeded, and now we are a leading European bank that is delivering consistently for its stakeholders. This would not have been possible without the belief, trust and hard work of thousands of people who work at UniCredit.

Our challenge now is to go beyond these record results and continue the performance of the past three years.

We must work to sustain our winning approach, defend our record financial performance, and set the stage for the next phase of UniCredit's growth.

We are now a leader in banking and we aspire to become champions. I have no doubt in our ability to do this.

Yours,

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

A year of powerful transformation

Together, every change we make, every month of the year, throughout all our businesses across all our geographies, all contributes to delivering the biggest transformation in our history.

» January

Becoming the main sponsor of the San Carlo Theatre in Naples
Supporting culture and territorial social growth

Building new hospitals in Angola
UniCredit provided loans for three new hospitals

UniCredit named one of the Top Employers in Europe

UniCredit launched Bank iD service
Making everyday life more convenient for our clients in the Czech Republic

Introducing the euro as Croatia's official currency

UniCredit underwrites €7 billion acquisition of GD Towers from Deutsche Telekom

2023 Milestones Timeline

Key to icons

- Strategy
- Finance
- Clients
- People & Culture
- ESG
- Digital & Data
- UniCredit Foundation

February

Net zero targets set for carbon-intensive sectors

100% single-use plastic free bank

Reducing the use of millions of plastic bottles in a single year

Project financing for Enel's 3SUN photovoltaic Giga Factory

Supporting the expansion of what will become Europe's largest factory of high-performance bifacial photovoltaic (PV) modules

March

UniCredit included as one of the Equileap Top 100 gender equality companies

Positive recognition for our efforts across the bank

Integrated Report
Human Capital

Launch of our first Group-wide Volunteering Community

Encouraging our employees to contribute one working day each year

Integrated Report
Human Capital

Eni and UniCredit partner around Open-es

An open alliance for sustainable growth and collaboration

2023 Milestones Timeline

April

Share buy-back programme

€3.343 million share buy-back programme receives approval

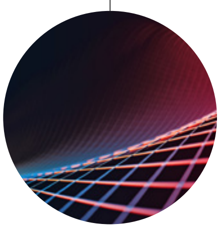
Integrated Report
Financial Capital

Supporting Gerresheimer's growth plan in Germany

Helping to raise €272 million in capital for High Value Solutions and Medical Devices

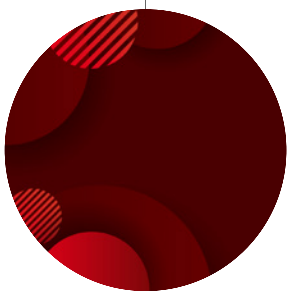
May

1Q



Relentless transformation

9th consecutive quarter of profitable growth and best 1Q ever



Growing our partnership with Mastercard

A first for a large commercial bank in Europe – putting in place, an at scale single card multi market strategy

UniCredit Bulbank opens completely cashless branches

Supporting the shift to a cashless society in Bulgaria

2023 Milestones Timeline

2nd tranche of UniCredit per l'Italia
Supporting the disposable income of individuals and households, and liquidity of Italian businesses

Integrated Report
Social and Relationship Capital

» June

Sponsoring Pride parades in Milan, Vienna and Munich
Reinforcing our strong commitment to diversity, equity and inclusion and support to the LGBTQIA+ community

Integrated Report
Human Capital

UniCredit acted as financial advisor to Dufry
Supporting them with the acquisition of Autogrill SpA

2nd edition of our Culture Day
Reflecting on our cultural transformation results

Launch of a Global Bank Insurance platform with Allianz
Aimed to renew the commercial offer of more than 20 insurance products

Integrated Report
Intellectual Capital

€292 million IPO for Ferretti
The first ever Hong Kong and Italian dual listing

2023 Milestones Timeline

» **July**

Launch of €1 billion Green Bond for the Federal State of Hesse
Supporting this pioneer in green financing in Germany

Integrated Report
Natural Capital

UniCredit and Trustpair announce partnership around IBAN check
Tackling fraud in B2B payments to protect our clients

Launch of 'Re-power your future' with Junior Achievement Europe
A €6.5 million program to empower youth and prevent early school leaving

Integrated Report
Social and Relationship Capital

Another record breaking set of results
Best 2Q and 1H ever

2Q

MSCI upgrade UniCredit's ESG rating to 'AA'
In recognition of the banks efforts to mitigate social risks and the robust integration of ESG practices

Hidroelectrica IPO in Romania
UniCredit acted as Joint Bookrunner in what was the largest IPO in Europe in 2023

2023 Milestones Timeline

» August

Publication of our Sustainability Bond Report
Setting out how our bonds have funded renewable energy, green buildings and social impact initiatives

Sponsorship of the Louis Vuitton 37th America's Cup
As both a Global Partner and the exclusive Global Banking Partner

» September

Renewing our main partnership for Filarmonica della Scala's 2024 season
Helping to foster musical excellence and culture in Italy and beyond

Integrated Report
Social and Relationship Capital

Installation of an innovative tree irrigation system
At our HQ in Hungary where we are now irrigating around 200 surrounding trees

2023 Milestones Timeline

October

onemarkets Fund celebrates its first anniversary

A family of eighteen funds with €3 billion of assets under management

UniCredit and Alpha Services and Holdings, announce merger

Creating a strategic partnership in Romania and Greece

Continuing to deliver quality profitable growth while investing for the future

3Q

November

Opening of our Innovation Hub in Germany

Creating a place where employees can actively shape the future of the bank

UniCredit Foundation and Teach For All renewed partnership

Furthering our commitment to boosting education and teaching

Integrated Report
Social and Relationship Capital

The launch of the UniCredit's Art Collection website

Making art accessible for all and drawing on our long tradition of supporting arts and culture

Integrated Report
Social and Relationship Capital

2023 Milestones Timeline

» December

Our inaugural ESG Day
With our mission of Empowering a Just and Fair Transition we fostered new dialogues and raised awareness

€100 million+ Equity Private Placement for D-Orbit
The largest in Italy in 2023

Winner of the Global EDGE Certification for gender equity and inclusion
The first pan-European bank to win this certificate

Launch of our first ever Kids4Kids & Donation Day
Supporting children in need across Europe

Our transformation continues into 2024

Bank of the Year
In a first for the bank we were hailed as Global 'Bank of the Year' for 2023 by The Banker

4Q

Our transformation journey: record breaking results, sights set on new heights

Our UniCredit Unlocked strategy

UniCredit Unlocked is a unique strategy which delivers for the present while transforming our bank for the future.

UniCredit Unlocked is aimed at reuniting a network of 13 independent banks into a cohesive pan-European leading entity, leveraging local strengths and harnessing collective capabilities through the centralization of products and technology.

Despite the continued macro challenges and economic and geopolitical uncertainty since day one of UniCredit Unlocked, we have demonstrated **excellent progression and delivered remarkable results in industrial and financial transformation**.

Two years into our strategic plan, **UniCredit is united around a clear purpose and vision: empowering communities to progress while becoming the Bank for Europe's future and setting a new benchmark for banking**. It is a transformed bank, moving at unprecedented pace, ready to face and take advantage of the future.

The overarching aims of the UniCredit Unlocked plan are to:

Continuous execute of our **winning strategy** that delivers for our stakeholders

Relentless focus on **industrial transformation**

Balancing three financial levers to steer our **financial plan**

A winning strategy

Our clients at the centre

- **Streamlined operations and enhanced tools** for fast and leaner processes
- **Decentralised and delegated decision making** to client facing colleagues, within a clear strategy and framework
- **Integrated and diversified service channels** at our clients' disposal, anytime and anywhere
- **Completed best-in-class products offer**, leveraging internal product factories and ecosystem of our partners

Our people valued and empowered

- **Enhancing empowerment and fostering accountability** at all levels through our culture
- **Unifying the organisation around a common objective, vision and purpose**
- **Investing in people**, through training and hirings in front line, product specialists and tech
- **Building a meritocratic environment** where performance is recognized and rewarded

Our investors remunerated

- **A unique pan-european champion** made of 13 leading banks, united in One group, leveraging Group solidity and synergies
- **Maintaining balanced focus on sustainable profitability, quality growth, operational and capital excellence and distributions**

Our industrial transformation priorities

1. **Empowering and unifying** through our culture

2. **Simplifying and delayering,** a new way of working

3. **Rationalising and strengthening** partnerships and procurement

4. **Investing** in our people and **growing** franchise and product factories

5. **Modernising and enhancing** Digital & Data

Our financial levers

Net revenue

Quality growth

Quality instead of volumes maintaining low expected loss (securing low stable CoR) and capital consumption growing in a capital light way

Cost

Operational excellence

Targeted instead of undifferentiated cost reduction – shrinking and optimizing the center while investing to secure the future

Capital

Capital excellence

Thoughtful capital allocation and active portfolio management **boosting returns on RWAs and capital**

Financial progress

2023 was a record-breaking year for UniCredit and another milestone in our journey to be the bank for Europe's future. Our aim is to deliver sustainable, profitable growth for our shareholders while investing for the future.

- This is the year we grew our net profit to €8.6 billion, up 54%, while continuing to invest in the future and expensing €1.1 billion of integration costs
- We delivered a record return on tangible equity of 16.6%, 5.8 percentage points higher than last year, or 20.5% with a CET1 ratio of 13% adjusting for our notable excess capital
- **We generated €12 billion in capital organically this year**, underpinning our **proposed distribution of €8.6 billion (100% of net profit) – €3.0 billion dividends and €5.6 billion share buyback** – while reinforcing our CET1 ratio by 97bps to 15.9%

2023: UniCredit's best year ever...

12th consecutive quarter of **sustainable quality profitable growth** across all regions, with **top-tier returns**

...crowning three years of success

Exceeding expectations in 2021-23 despite macro challenges, due to relentless execution of our **transformation**

Profitability	**FY23**	**FY21-23[1]**
Net profit	**8.6bn**	**>2.6x**
Organic Capital Generation	**12bn**	**>27bn**
RoTE	**16.6%**	**c.2.5x**

1. All delta calculated as FY23 vs. avg FY17-19 (simple average of recast figures of Group excluding Turkey and Fineco for comparison purposes; OCG referring to period FY21-23).

Our progress so far

Creating value for our shareholders

UniCredit is united around a clear Purpose – Empowering Communities to Progress – alongside our Vision of becoming the bank for Europe's future. We are setting a new benchmark for banking.

Under our UniCredit Unlocked strategy, we continue to focus on our transformation as we seek to unlock further value for all our stakeholders.

Surpassing our targets

Our financial ambition when we launched our UniCredit Unlocked strategy was to reach a RoTE of circa 10% by 2024. **Once again this year we outperformed this target – achieving a RoTE of 16.6%** by taking proactive actions on efficient capital generation and cost management alongside the favourable interest rate environment.

In 2023 we also delivered on the €5.25 billion commitment made in our FY22 shareholder distribution programme. Furthermore, we front-loaded a €2.5 billion share buyback as part of the FY23 distribution policy of €8.6 billion.

Vis à vis the initial €16 billion shareholder distribution set out in our UniCredit Unlocked strategy for 2021-2024, **we have already achieved €17.6 billion distributions[1] over FY21-FY23 earnings, with the FY24 distributions of at least 90% of our FY24 net profit** further to come as part of the UniCredit Unlocked horizon. This excellent result was sustained by our superior organic capital generation which in 2023 reached 389 basis points in – well ahead of our UniCredit Unlocked yearly target of c.150 basis points and enabling **us to grow our already best-in-class CET1 ratio of 15.9% already reflecting the full €8.6 billion FY23 distribution**.

Creating shareholder value continues to be our focus, as evidenced by our improved profitability and per-share metrics. **We generated an FY23 EPS[2] of 4.71, which increased by 74% year on year, and a DPS of 1.78 – an increase of 80% year on year**.

1. Pending Shareholder and supervisory approval on the remainder of FY23 distributions.
2. Earning per share (EPS) calculated as Net Profit – i.e. Stated net profit adjusted for impacts from DTAs tax loss carry forward resulting from sustainability test – on avg. number of outstanding shares excluding avg. treasury and CASHES usufruct shares.

Global Bank of The Year 2023: a testament to our ongoing transformation

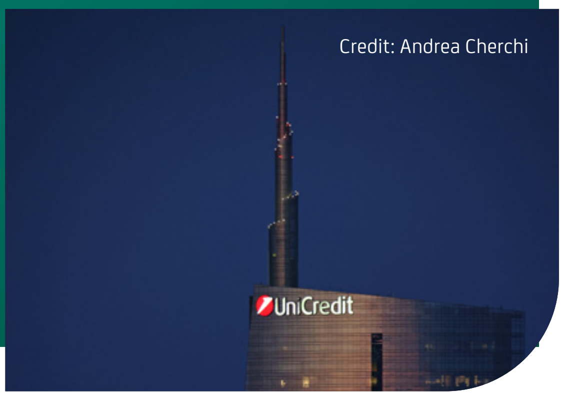
Milestone – December

In December, UniCredit was hailed Global 'Bank of the Year' for 2023 at The Banker's annual ceremony in London, in a first for the bank, as well as being named 'Bank of the Year in Western Europe', 'Bank of the Year in Italy' and 'Bank of the Year in Bulgaria'.

Over the last two years, since the launch of its UniCredit Unlocked strategic plan, UniCredit has relentlessly worked on its cultural and industrial transformation, streamlining its systems, **increasing its digital and data capabilities, and embedding ESG principles in everything it does** – in order to become a fundamentally better, stronger bank for the communities it serves.

"We are immensely proud of these achievements. We will continue to raise the bar on behalf of our clients and communities on our path to be the bank for Europe's future."

Andrea Orcel
Group Chief Executive Officer and Head of Italy



Credit: Andrea Cherchi

Our three financial levers

Our financial ambitions are influenced by three interconnecting levers that are largely under our own control: net revenues, costs and capital. By optimising these levers we can drive consistent, sustainable, profitable growth underpinning current and future shareholder distributions.

Net revenue

Our **net revenues stood at €23.3 billion – an increase of 26% year on year**. This was mostly driven by net interest income, up 31% year on year, with resilient fees underscoring the quality and diversification of our product factories despite the challenging macro environment.

Cost of Risk remained very low at 12 basis points in FY23, confirming the robust quality of our credit portfolio and the conservativeness of our staging, provisions, and overlays.

Cost

Our **cost base at year end was €9.5 billion, slightly down year on year** despite high inflation across the UniCredit footprint. This was driven by our disciplined and targeted approach to efficiencies to structurally reduce our cost base while protecting revenue growth.

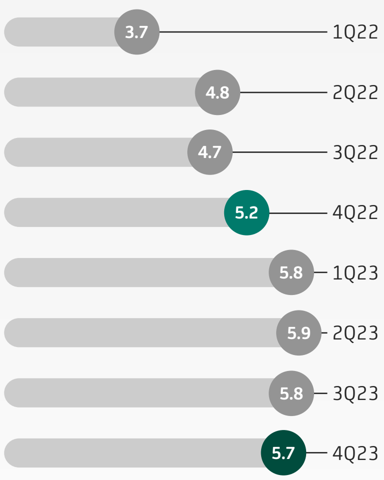
We continue to self-finance investments that will reduce the Group's structural long-term cost base, streamlining and simplifying our organisation and processes while continuing our hiring and investment strategy.

Capital

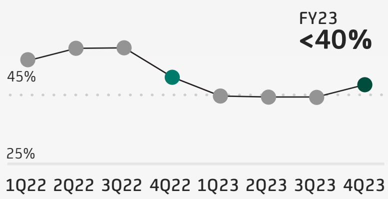
Our **organic capital generation of 389 basis points** is well above the ambitions laid out in our UniCredit Unlocked strategy, supported by a net profit of €8.6 billion and a €24 billion risk-weighted asset (RWA) efficiencies.

This success has been achieved thanks to, among other things, our proactive portfolio management – focused on capital efficiency while supporting clients.

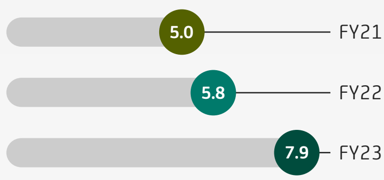
Growing net revenue base achieved quarter after quarter (bn)



Leading cost/income ratio in the industry



Net revenue/RWA (%)



Driving shareholder returns

In April, shareholders and the European Central Bank (ECB) approved our share buyback programme for a maximum of €3.343 million. The ECB's approval was based on the significant strength of the Group's capital levels and our best-in-class organic capital generation. Combined with the robustness of our liquidity position, these factors ensure we can weather stress scenarios from a position of strength.

The assessment took into account a capital trajectory under conservative assumptions and updated macroeconomic scenarios. It also considered the historical performance of the bank, which is operating at a new profitability floor; a new run-rate for earnings and distribution from which the business can grow further and continue to deliver strong results for all stakeholders.

Strategic initiatives and best-in-class partnerships

Underscoring our One UniCredit approach and further unifying all our markets, we continue to strengthen our best-in-class product factories. These in-house factories leverage our Group-wide scale and scope, and support an ecosystem of top-class partners.

In June 2023 we signed a landmark agreement with one of those partners: Mastercard. This was the first time any large commercial bank in Europe has put in place a single card multi-market strategy of this scale – allowing UniCredit to focus on emerging payments trends such as Mobile Payments and Wallets. The partnership will also enable us to develop innovative new solutions to satisfy customer needs – read more on page [X].

In Greece, our new strategic partnership with Alpha Bank is demonstrating the attractiveness of our products. Alpha Bank's customer base will benefit from access to a wider range of best-in-class product factories provided by UniCredit, creating a model that provides us with further growth potential; accelerating product development and knowledge transfer, giving us a stronger presence in this high-growth market.

We also expect our medium-term growth to be boosted by our strategic initiatives on fees. Our Asset Management strategy – based on rebuilding internal factories – is bringing higher retention of the value chain, more resilient revenue generation, and is expanding our reach. As a further example of the progress and development of our internal asset management capabilities, in 2023 we issued 18 onemarkets funds – which you can read more about on page [X] – as well as rolling out our internal investment platform in Central Europe.

Next steps

2024 Direction of travel

Looking to the future, 2024 is a normalization year. We should absorb most or all of the headwinds facing us by further improving the quality of our earnings, our operational and capital efficiency and risk taking, while greatly rewarding the investors willing to embark with us on the next phase of our journey.

2024

Direction

Net Revenue
c.22.5bn

OCG
>300bps

RoTE
c.16.5%

Net Profit
Broadly in line with FY23

Double Digit Growth
EPS, DPS

c.10bn[1]
Best ever calendar year distributions

1. o/w c.€7.2 billion FY23 (Total FY23 distributions less part of first tranche SBB executed within 2023 (€1.4 billion)), c.€3 billion Interim FY24. Distribution subject to supervisory and shareholder approvals.

Looking beyond 2024, the second phase of UniCredit Unlocked entails the continuation of its vision and strategy driving further achievements.

We have transformed ourselves, and as such are comfortable committing to delivering significant value, quality and predictability over the long term.

UniCredit's future profitability is underpinned by its **substantial P&L buffers, with c.€1.8 billion overlays and a portfolio covered more than its peers** thanks to proactive staging, we can also leverage on **€1.1 billion integration costs** ensuring future cost efficiencies and providing an ample buffer, we will also benefit from lower systemic charges in excess of €200 million.

Our still ongoing industrial transformation represents an important lever to further increase our top line and further reduce costs. Our best in class capital position and organic capital generation will defend or further propel our distributions also leveraging on a bolted balance sheet.

P&L buffers

c.1.8bn

Overlays

On a **quality portfolio covered 1.5 billion more** than peers[1] ensuring a stable and structurally lower CoR to **protect or propel** in the future

c.1.1bn

Integration costs

In FY23 with **c.20% IRR**[2] to sustain future performance and a further reduction in cost base

>0.2bn

Systemic charges

Reduction in FY24 vs. FY23

Industrial transformation ongoing

Improving revenue quality

Building and investing in our in-house product Factories generating fees

Enhancing client journey

Investing in the **front-line** and **distribution channels**

Improving efficiency

Simplification and automation to further reduce costs and increase speed

Best-in-class capital position

Organic capital generation

Underpinning top tier distributions while continuously accumulating capital

Excess capital

CET1r at 15.9% FY23 significantly above target range allowing for strategic flexibility

Bolted balance sheet

Strong asset quality

A robust portfolio and structurally **low and stable CoR** ensured by vigilant origination and prudent coverage

Leading CET1r

Highest CET1r among peers even after considering distributions

Healthy liquidity ratios

Better liquidity ratios than peers and a self-funded balance sheet with **LCR >145% and LTDr at 86%**

1. Latest Publicly available data as of 3Q23: calculated as the sum of delta between UniCredit and simple average of peers of the ratio for each stage 1, 2 and 3 and multiplied with UniCredit loans of the respective stage; peer group: BBVA, BNP (2Q23), Deutsche Bank, ING, Intesa, Société Générale, Santander.
2. IRR calculated with returns on a 10 years time horizon.

UniCredit Foundation

Unlocking the potential of Europe's next generation
Education is one of the most powerful tools that humanity has for shaping a brighter future. Through the UniCredit Foundation, we aim **to unlock the potential of Europe's next generation** by providing them with equal education opportunities.

Our ambitions

- **To build better futures** for our young people and their communities across Europe
- **To ensure growth and development** across all of society by investing in education
- **To leverage our extensive educational network**, our partnerships and our in-depth knowledge of our communities to **create equal opportunities in education**
- **To give Europe's next generation the keys to unlock their innate potential** and empower them to become the changemakers of our society

€20m
of Group funding to the Foundation in 2023

1,700
UniCredit employees contributed to helping support organisations

Our progress so far

The UniCredit Purpose is to empower communities to progress – and the Foundation is a key component in that ambition. Its aim is to **equip Europe's students with the tools they need to build a better future for themselves and their communities**. We made good progress over the last 12 months, thanks in particular to an increase in Group funding from €4 million in previous years to **€20 million**. This welcome boost enabled us to make a real difference in more ways than ever before.

The Foundation's Purpose is to **unlock the potential of Europe's next generation** by providing them with equal education opportunities in three priority areas:

School

High quality schooling is the starting point in the battle to reduce inequalities. A **quality school**, where students are placed firmly at the centre of the learning experience, can be a transformative force where the individual is empowered to thrive and is valued and respected, regardless of background – paving the way for a more equitable and just society.

Job

Young people with low levels of education have historically had difficulty in entering the labour market. The school-to-work transition is a particular problem for vocational school students, whose employment rates remain consistently lower than those of other high school graduates.

University

We strive to **support the best talents** in the fields of economics and finance through scholarships, and via research grants and awards in the countries where we operate.

We made good progress in 2023, investing a total of €20 million in these priority areas.

Giving students the skills to succeed

Over the last decade, the Foundation has granted more than 300 scholarships and fellowships to support almost 1,200 young students and researchers, with total funds provided now standing at €25.5 million. Many of these projects enable young people from countries across Europe to study at some of the world's leading academic institutions.

Investing in research to fight inequality in education
Our commitment continued through 2023 with a further €1.1 million funding research projects on education, including collaboration with **CID at Harvard University**.

While there is abundant research into educational needs in developing countries, much less exists on the challenges faced in Europe. The aim of these grants is to improve understanding of how education can fight inequalities – and then to bring that knowledge back to our operating countries where it can become the foundation that drives future progress.

Promoting talent in economics and finance
During 2023 we gave students the chance to apply for around **30 prestigious scholarships and fellowships focusing on economics and finance**. Based on ten separate competitions with total funding of **€1.9 million** available, these grants enable students to pursue Doctoral or Masters programmes at renowned universities in Europe and the USA. One of our key aims is to encourage 'brain gain'. After their studies, we want these talented students to return home and use their new knowledge to make a difference in their own countries.

Next steps

Firm believers in the transformative power of education, we want to touch lives and change them for the better through a focus on long-term programmes. And while we are proud of our progress and sure of our direction, we have only scratched the surface of what is possible – there is still so much more we can do to unlock the potential of Europe's next generation.

Many of the achievements of the last 12 months were built on our in-depth knowledge and connections with the communities in which we operate – and we will now work hard to make these connections even more robust and proactive.

Based on clear, demonstrable knowledge and understanding, guided by academic research and enabled by local insights that sit within our country organisations and teams, our future work will focus on:

– Continuing to leverage the work of the academics we have supported, while also providing funding for **new research**.
– Developing **targeted programmes** that meet the educational needs of young people in all the countries where we operate.
– Tackling the diverse aspects of educational poverty through a **multifaceted, community-level approach**.
– **Building even stronger relationships** between the central Foundation team and our colleagues working in the territories at a local level – continually striving for and measuring our impact.

Unlocking transformation, together.

For **underprivileged students** eager to continue learning

School dropout is one of the biggest challenges facing Europe's educators. It not only stifles employment opportunities – it leaves a lasting impact on lifetime earnings.

We have teamed up with **Junior Achievement (JA) Europe** to provide practical hands-on engagement with over **400,000 students** in **10 countries** where we operate, inspiring young people through the transformative power of learning.

A **€6.5 million** programme over three years, the main objective of "Re-power your future" is to **support students aged 10-19 by involving them in school activities** – improving outcomes, preventing them from dropping out of school and guiding them in an informed choice about future careers. The initiative has been built on strong partnerships with local schools, businesses and community organisations. Its focus is on teaching students how to think entrepreneurially, **inspiring young minds to pursue careers aligned with their passions and envisioning a future of possibilities for themselves**. From 2024 onwards, we have added a new volunteering aspect to the project, enabling our employees to donate their time and skills to support the **JA Europe** team.

"We can achieve a more equal and prosperous Europe only when every young European has access to opportunities and resources to thrive and succeed. Together, UniCredit Foundation and JA Europe have the ambition to change the landscape of Europe's education systems by significantly preventing and reducing the current rates of school dropout."

Salvatore Nigro
CEO of JA Europe

Unlocking
transformation,
together.

For our clients, our people, and our communities.

Results of **UniCredit Bank Hungary group**

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

Dear Readers,

Another hard, challenging year is behind us. 2023 might have been one of the most complex of the last twenty years, both in terms of economy and geopolitics. The pandemic might be in the past, but the impact of challenges of recent years still lingered in 2023. A decline in both consumption and investment volumes–due to high inflation–was slightly offset by increasing exports, yet the performance of the Hungarian economy was lacklustre.

I am proud that, despite all the challenges, **2023 ended up to be a great year for us.** Our consolidated balance sheet total is HUF 5,102 billion, while our profit after tax for the year is HUF 91.9 billion–the latter meaning an 8% growth compared to 2022. As a special professional achievement, we managed to maintain our position **in the financing of renewables:** as a key actor in financing investment projects aimed at harvesting solar energy, we continue to make a significant contribution to making the energy sector, including power generation, more sustainable in Hungary.

As in previous years, we also maintained our focus on **sustainability and the implementation of ESG aspects** in all areas and levels of our operations. In the context of

corporate social responsibility, my colleagues and I took every opportunity to empower our communities where we operate to progress through financial education, blood donations, fundraising, and volunteering (charity cooking, house renovations).

We also paid attention to climate awareness and environmental protection: our bank runs on 100% green power and we have removed single-use plastics from our offices and, together with the Municipality of Budapest District V, we contribute to watering the trees around our headquarters with a cistern system as well as continued our tree planting programme by participating in the replanting of a protected forest–just to name a few.

ESG aspects obviously have a key role in shaping our portfolio and business processes. The Green Bank Award by Magyar Nemzeti Bank (Central Bank of Hungary) is an important recognition of these efforts. I consider it one of the most significant professional achievements of my colleagues and me, and I want to take this opportunity to thank them for their work.

Nevertheless, the most important achievements in 2023 are not just impressive figures and awards; this was the year when we further increased our specific focus on improving **customer experience** and implemented a number of **improvements** that facilitate everyday banking and allow our clients to say that it is easy to get what they want at UniCredit Bank. Our small business clients can now also manage their finances conveniently with a mobile application, while our corporate clients manage their banking documents digitally. Moreover, we successfully implemented our Group's new investment portfolio that caters for many client needs.

Our achievements and successes reflect the work we plan and do in line with **our Values** defining our everyday operations: **Integrity, Ownership and Caring.** These Values provide a solid foundation, enabling us to contribute our professional performance to achieving UniCredit Group's ambition becoming the bank of Europe's future as a champion of the banking industry.

I want to thank our clients, partners, and colleagues for their support and work: I am certain that our journey of success will continue.

Best regards,

Balázs Tóth
Chairman and CEO
UniCredit Bank Hungary Zrt.

Content

Unlocking **transformation**, together.

For our clients, our people, and our communities.

Financial **highlights**

Financial highlights

UniCredit Group Hungary – IFRS consolidated

Profit figures

(HUF million)

	2023	2022 (RESTATED)
Operating result	108,279	98,414
Profit before taxes (HUF million)	106,930	98,275
Profit after taxes (HUF million)	**91,941**	**84,845**

Balance Sheet figures

(HUF million)

	2023	2022
Balance Sheet Total	**5,102,858**	**5,052,402**
Loans and Advances to customers (net)	2,184,057	2,061,277
Deposits from customers	3,041,603	2,887,653
Shareholder Funds	478,556	393,029

Indicators

(HUF million)

	2023	2022
Return on Equity before taxes	24.54%	24.93%
Return on Equity after taxes	21.10%	21.52%
Return on Average Assets (ROA) before taxes	2.11%	2.04%
Return on Average Assets (ROA) after taxes	1.81%	1.76%
Cost Income Ratio*	55.10%	48.22%
Net fee income in percentage of Total Operating Income	25.50%	25.54%

Indicators prescribed by NBH

(HUF million)

	2023	2022
Regulatory Capital	447,188	379,903
Risk Weighted Assets	1,795,304	1,744,889
Total Capital Ratios	**25.06%**	**21.77%**

Other figures

(HUF million)

	2023	2022
Headcount (FTE)	**1,784.13**	**1,785.36**
Number of locations	52	54
Number of branches	50	52

* Based on standard of Consolidated Financial Statement

Unlocking **transformation,** together.

For our clients, our people, and our communities.

Management report

Management report

Macroeconomic environment and the banking sector in 2023

The international economic and financial environment

2023 was marked globally by the repercussions of rising inflation over the past two years. Worried about a prolonged period of inflation similar to the seventies, major central banks continued with their interest rate hikes started in 2022 into the autumn months when they saw sufficient evidence of a turnaround in inflation. The Fed and the ECB halted their tightening cycles at 5.5 per cent and 4 per cent, respectively. In addition to tightening monetary conditions, the turnaround in inflation was also supported by trends in the commodity markets and natural gas prices quotes taking a sharp fall as a result of topped-up gas storage capacities and an increase in supply. In general, most commodity markets showed a decline in prices, especially in the grains market. Meanwhile, supply chains, which had experienced disruptions during the pandemic, showed considerable improvement until the summer, also alleviating inflationary pressures. A combination of a steep rise in inflation since 2022 and more expensive lending caused a reduction in the purchasing power of households, contributing to disinflation.

Emerging FX markets were affected primarily by the Fed's communication and fluctuations in the US dollar exchange rate. Investor sentiment over emerging markets had been negative before the first downward figures from the US real economy came in, when they took a favourable turn that lasted until the end of the year. In addition to US events, monetary easing was supported by a slowdown in the global economy; inflation expectations, however, stayed at a relatively high level. As a result, most central banks, particularly in emerging markets, took a cautious approach.

As for growth, the global picture was heterogeneous in 2023. The US economy, which is particularly sensitive to interest rate fluctuations and stock exchange movements while essentially being a more closed one, ended the year with strong growth. By contrast, China and Germany, whose economies are more open and, consequently, more sensitive to a slowdown in global economic growth, experienced a significant slowdown in the growth rate. In China, the usual pattern of enhancing fiscal stimulus amid economic slowdowns was not repeated in 2023. Meanwhile, demographics, an overinflated real estate sector and threats, posed by the shadow banking system brought long-term challenges to the surface. In Germany, the underperformance of energy-intensive industries was exacerbated by a fall in export demand in the machinery industry, while rigid fiscal rules prevented the application of stimulating fiscal policy measures.

Bond markets were characterised by increasing yields until a change in monetary policy in the autumn. At the same time, yield spreads on emerging market composites were lower than in 2022 throughout the year. Yields were on an upward trend until July and after October and on a downward trend in between those months, in line with monetary policy events. Major stock markets managed to grow despite monetary tightening, with DAX in Germany and S&P up by 10 and 20 per cent, respectively, by the end of the year.

Domestic macroeconomic developments

In early 2023, the inflation rate in Hungary peaked at the highest level across the European Union; however, from the spring months, the Hungarian consumer price index started to decline, driven by favourable developments in food, utility, and fuel prices. In May, the CBH (Central Bank of Hungary) was able to start the normalisation of its reference rate, hiked to 18 per cent in October 2022 as an emergency measure, in 100 and then 75 base-point cuts over the remainder of the year. The drop in Hungarian inflation and thereby the start of the interest rate reduction cycle was enabled by a decline in the purchasing power of incomes, the easing in international commodity supply constraints, in addition to the negative fiscal impulse and tightening monetary conditions.

Until April, money market returns hovered around interbank rates, while from April, they remained consistently below interbank rates. Implied swap yields typically stayed within 1 percentage point, while, as a result of government measures, yields on discount treasury notes were around 400 to 500 base points lower starting from June as compared to BUBOR rates over the same period. Throughout the year, the Hungarian forint appreciated by 4 per cent against the euro in total, initially supported by the particularly high interest rate level and, from the autumn, also by the halt in the international monetary tightening cycle.

In macro-financial trends, 2023 saw a substantial recovery owing to falling energy prices and declining domestic consumption. In spite of a lack of financing from the new EU budgetary cycle, certain transfers were received from the European Union (mainly in the form of agricultural subsidies and funding from the current EU cycle). Improving financial processes propped up the forint as well. By the end of the year, approximately a third of EU grants under dispute became theoretically available to the Hungarian government, as the latter has complied with the horizontal blocking conditions. Despite positive changes compared to the previous year, the general government deficit and general government debt were only slightly reduced by the government. While the deterioration of fiscal position is attributable primarily to a significant rise in debt servicing, the shortfall of collected indirect taxes and the inflation driven rise in pension expenditure also had a negative impact on the balance. On the revenue side, sectoral fees and a one-off payment (MVM dividend) improved the balance, while on the expenditure side, the lower financing needs of utility subsidies amid falling international gas prices provided some offset. Both cash deficit and cash-flow deficit were around 6 per cent of GDP.

In the real economy, the 4.6 per cent economic growth in 2022 (heavily bolstered by government transfers) was followed by a decline in economic output in 2023. This decline is attributable to domestic economic drivers (consumption, investment) as well as a decrease in inventories, which could not be fully counterbalanced by a significant increase in net exports. As a result, Hungary achieved the lowest growth rate in the region in 2023. On the production side, agricultural output bolstered by base effects and community services positively contributed to the GDP, while market services, construction and industry had a negative effect on growth. Within the latter group of activities, the majority of the year was characterised by a declining output in sectors producing for domestic consumption and diverging trends in machinery sectors after a long period of prosperity. However, the volume of new orders for export companies declined from July, which finally became apparent in the production figures of export sectors in the autumn months. The financing capacity of households and companies was high as a result of declining drive to borrow and high interest payments. Over 80 per cent of the interest income of households was derived from the state budget, due to the high volume of government bonds being repriced to take account of inflation.

The performance of the Hungarian banking sector

The Hungarian banking sector shows outstanding profitability despite the windfall tax and other government measures. The sector is expected to achieve more than twice the pre-tax profits in 2023 compared to the previous year, due to a significant growth in interest earnings, a decrease in risk costs and an increase in non-interest income.

As for the increase in interest income, the main contributing factor was interest income from the NBH, while other operating results also saw a similar growth. The latter includes revaluations related to family subsidy loans whose fair value show appreciation in the banking books in a decreasing interest environment when compared to the fair values at the end of last years. Depending on levels of hedging, the revaluation of government-subsidised loans had an asymmetric effect on the earnings of credit institutions.

The improvement in risk costs is attributable to economic outlook gradually becoming brighter, the base effects of impairment for Russian and Ukrainian interests in 2022 and to loans previously participated in payment moratorium that became performing. Net fee and commission income, which largely depends on real economic activity, lending, and payment transactions, showed a more modest performance in comparison to both the increase in interest income and inflation. This was compensated by an increase in operating costs that was below the inflation rate. The dividend balance was positive, while the trading balance had a negative contribution to the sector's result.

The profitability of the credit institution sector was substantially reduced by government measures taken throughout the year. The amended windfall tax with a retrospective tax base reduced the sector's profitability by over HUF 200 billion. The tax amendment in April affected actors in the sector to a varying degree, i.e. the tax burden had a less severe effect on dividend income and banks generating profits from non-conventional activities. The interest rate cap measure applicable to mortgage debtors and SMEs has been extended until 30 June 2024, and 1 April 2024 respectively, which also reduces the profitability of the sector.

The realisation of credit risks is currently not apparent. The ratio of non-performing loans (NPL) in the segment of non-financial companies has shown no substantial change since mid-2022 and was around 3 to 4 per cent in 2023. As for household credit, a technical effect following the end of the moratorium reduced the NPL ratio. The existence of an NPL ratio considered favourable in historical terms was supported by the high volume of fixed-rate loans as well as interest rate cap measures. As a result of both measures and due to a high level of income dynamics throughout the year, the present value of fixed-rate instalments continued to decline.

The growth rates of both corporate and household loans decreased compared to 2022. Due to declining economic growth and high borrowing rates, domestic loans could only achieve slightly positive year-on-year volume growth. As in 2022, subsidised corporate loans were prominent among newly concluded non-current account contracts. The increase in the weight of this subsidised segment was achieved through disbursements from corporate credit incentive programmes available with mostly negative real interest rates (Széchenyi Card Programme MAX+ and Gábor Baross Reindustrialisation Loan Programme).

Loans to households saw a slightly positive growth during the year; however, in real terms, this segment also suffered a significant drop in lending. The high base effect due to subsidised loans also played a substantial role in the slowdown in growth. The lending dynamics of housing loans took a positive turn in the last two months of the year, partially due to government measures narrowing access to subsidies announced for 2024, observed for baby loans. Both product categories ended the year with a high two-digit decline in the face of favourable trends at the end of the year. Owing to the need for households to smoothen their consumption, the volume of personal loans was able to grow.

Liquidity position in the sector continues to be satisfactory. Despite the crowding out of government securities and investment funds, the volume of deposits is about one-third higher than the volume of loans, while the sector also delivers a satisfactory performance in terms of the liquidity indicators with regulatory relevance. In addition to capital adequacy ratios, the share of foreign funds, the weight of liquid assets and operating costs all show a significantly brighter picture than during the financial crisis of 2008 to 2010.

Operations of UniCredit Bank Hungary group

Quantitative and qualitative performance indicators

The balance sheet total of UniCredit Bank Hungary group at the end of 2023 amounts to HUF 5,103 billion; that amount represents an increase of HUF 50 billion (+1%) compared to the value at the end of 2022.

Net receivables from customers amount to HUF 2,184 billion (+123 billion HUF y/y), up nearly 6% due to a growth in business activity and a favourable change in valuation differences. Net receivables from credit institutions amounted to HUF 1,029 billion, which represents an increase of 10% y/y.

The group's liabilities to customers were HUF 3,042 billion at the end of 2023 (+5.3%). The loan-to-deposit ratio at the end of the year was 71.8%, slightly higher than in 2022 (71.4%).

The group's profit after tax for the year was HUF 91.9 billion, up more than 8% compared to the previous year. The increase in profit before tax was due mainly to a higher interest income in the changed interest rate environment and to favourable impairment developments. Net fee and commission income grew at an annual rate of 7.8%, with trading profit lagging behind the previous year, driven by the outsourcing of trading activities within the group in 2022. The sharp increase in operating costs is mainly driven by higher tax liabilities (increased extra profit special tax liability), the impact of high inflation, rising energy prices and increased IT costs (digitalisation). Net impairment charged the profit and loss improved significantly compared to the previous year due to reversals driven by the improving outlook in macroeconomic conditions and the amount set aside in the previous year in order to cover increased geopolitical risks. The latter did not significantly influence the impairment charge in the current year as the balance of such items did not change significantly.

The group's performance indicators (relative to profit after tax) were as follows:

$ROA_{2023} = 1.81\%$ $ROE_{2023} = 21.10\%$

$ROA_{2022} = 1.76\%$ $ROE_{2022} = 21.52\%$

As in previous years, return on assets and return on equity indicators closed 2023 at a good level, mainly due to higher profit after tax.

Lending risk

Retail lending

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, 2019, and 2023, and its recommendations on practices considered prudent as part of its related supervisory procedures, and in line with the executive circulars of the CBH, thanks to which the quality of the newly placed portfolio is very good.

The bank places a strong emphasis on its claims management and restructuring processes, as part of which, taking into account the CBH 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 first quarter of 2024 is currently in the preparatory phase.

At the end of the moratorium period, our bank contacted customers through several channels, informing them that they should visit bank branches for a solution if they have any payment difficulties. Based on the provisions of CBH 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.

Corporates

In 2023, 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.

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 spill-over economic effects caused by the geopolitical situation. 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 supported 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 individual analyses, quarterly portfolio analyses of spill-over effects have been carried out to assess direct and indirect risks, identify problematic customers, and carry out the appropriate stage classifications. When examining the agricultural 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 2023.

Market risk

UniCredit Bank measures market risks according to several risk factors and levels, and limits them with the associated limit system. For each of its portfolios, it monitors their value at risk (VaR) calculated by historical simulation on a daily basis. VaR reflects the value the bank would, given its current position, lose on the 2.5th worst day out of the past 250 working days (a confidence level of 99 per cent).

The VaR values are broken down according to the 5 main risk factors: exchange rate, interest, unique interest premium, stock and option volatility factors. The value at risk at the end of 2023 was EUR 13.5 million, i.e. HUF 5.2 billion. The distribution of risk factors at the end of the year was as follows: HUF 6.9 billion is the unique risk of bonds, HUF 3.5 billion represents the interest rate risk, HUF 42 million represents the exchange rate risk, whereas volatility risk is HUF 157 million. The group did not have any equity exposure in 2023. The sum of the individual parts exceeds the total value at risk due to the diversification effect.

For the interest rate risks, time band and all basis point value limits have also been determined per currency, i.e. changes resulting from parallel movements of the yield curve and from its per-band parallel 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) is determined for individual bond positions.

The year-end interest sensitivity of the main currencies according to BPV level is summarised in the following table (where negative values expressed in euros indicate a long position):

BPV 2023.12.31 in EUR	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	TOTAL
CHF	-16	19	3	0	0	5
EUR	13 324	9 100	12 440	4 173	1 134	40 172
GBP	-46	3	0	0	0	-43
HUF	-8 051	-12 097	-43 087	-192 065	-23 372	-278 673
USD	454	428	445	153	3	1 483

Liquidity management

Liquidity means the bank's ability to finance and meet its growth in assets and maturing liabilities without incurring significant unplanned losses. Liquidity risks include maturity transformation for the sake of profitability (maturity risk), massive withdrawals of funds before maturity (drawdown risk), the renewability of funds, changes in the cost of funds (renewal risk), and uncertainties concerning environmental effects and the potential behaviour of other market participants. Liquidity risk management is an integral part of the bank's overall risk management structure. The bank is obliged to maintain a balance sheet structure that ensures its solvency at all times, to establish policies that quantify the bank's liquidity position, to identify structural liquidity risk and to prepare a sound financing plan.

According to the liquidity coverage ratio (LCR), 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. EU legislation provides that the liquidity indicator must be met to 100 per cent.

The group continuously monitors and manages the evolution of the LCR. At the end of 2023, the LCR value was 160.0%, i.e. the group met the regulatory requirement. During the year, the LCR moved in the range between 135% and 165%.

The indicator quantifying the adequacy of regulatory long-term funding (NSFR: Net Stable Funding Ratio) was in the range of

134%–159% in 2023, while its year-end value was 153.8%. The group thus complied with both the supervisory limits and its internal limits throughout the period.

The group has introduced a number of internal 'management indicators' to measure and monitor liquidity risks. Similarly to regulatory indicators (LCR, NSFR), those internal risk indicators reflect a stable and secure liquidity position of the bank.

The bank's loan to deposit ratio ranged from 62% to 82% during 2023, reaching 71.8% at the end of the year. The indicator increased by 0.4 percentage point on a year-on-year basis, due primarily to a gradual increase in loans, which was not fully compensated for by an increase in deposits.

The bank raised funds from supranational institutions in 2018 and again in 2022. At the end of 2023, the total loan volume drawn down from the EIB refinancing credit lines amounted to EUR 108 million. In addition to the above scheme, after the suspension of the central bank's Funding for Growth Scheme in 2023, with a net decrease of HUF 75 billion, the value of the refinanced loan portfolio amounted to HUF 95 billion at the end of 2023. At the end of the year, the amount of refinancing loans provided by Magyar Export-Import Bank was HUF 183 billion (with an annual increase of HUF 40 billion), while the MFB refinancing funds amounted to HUF 2.3 billion (with an annual decrease of HUF 0.4 billion).

The UniCredit Group's issued mortgage bonds amounted to HUF 191.58 billion in 2023, a reduction of HUF 9.76 billion year over year. Moreover, the bank held MREL (Minimum Requirement for own funds and Eligible Liabilities) bonds of HUF 250 billion at the end of 2023 and HUF 52 billion of Tier2 capital was raised.

Employment policy

UniCredit's value system is based on Integrity, Ownership and Caring, which are the sustainable conditions for creating 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 ethical standards and values that guide our Group's objectives, the remuneration strategy plays a key 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; contribution to a better society. It is a key part of future business strategies and a critical element of the bank's success.

Through appropriate remuneration mechanisms, UniCredit strives to create a best-in-class inclusive work environment, it supports and develops individual abilities in order 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 and

Clear and transparent governance, through 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.

grow. 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.

Within this general framework, guidelines have been defined for the introduction of remuneration programmes and plans that reinforce sound risk management policies and long-term strategy, and generally aim 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 people strategies are always properly aligned with the remuneration approach, including, where appropriate, external networks and agents as required by regulation.

In order 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:

Anti-bribery and anti-corruption programme

The Group Anti-Bribery and Anti-Corruption Programme consists of several components that altogether set a minimum standard for UniCredit Group Legal Entities' Anti-Corruption Programme. Main pillars are follows:

- Anti-Corruption Risk Assessment,
- Controls,
- Policies and written procedures,
- Culture, training,
- Raising doubts or suspicions,
- Management information and periodic reporting.

The corruption risk assessment shall be performed by each UniCredit Group company on a regular basis, at least every three years. Periodic reporting, at least once a year, to the CEO or/and to other relevant board members/Committee on the effectiveness of the ABC Programme must be done.

In each Legal Entity the Anti-Bribery and Anti-Corruption training should be implemented. An employee should confirm the completion of the training by passing a test at the end of the training.

In order to increase the awareness of the employees on the importance of Anti-Bribery and Anti-Corruption topics, UniCredit top management periodically publishes alerts, which emphasize the importance of Anti-Corruption compliance, requesting employees to stay alerted to any possible wrongdoing, raise concerns where appropriate, etc.

Gifts and business hospitalities

G&BH may only be given or received where all the following requirements are satisfied:

- they are of appropriate/modest value and are offered or accepted in the course of common business practices.
- the value, nature and frequency are appropriate to the status and seniority of the recipient;
- they are in compliance with applicable local laws and the Group company's internal regulations.

Cash or cash equivalents (e.g. gift cards, vouchers, coupons) are not acceptable.

All expenditures regarding G&BH must be accurately and completely recorded and disclosed in the Group company's books and records.

Management of third party risk

The use of a third party can present one of the highest risks of being involved in acts of bribery and corruption. No third party should be retained unless the UniCredit Legal Entity has conducted the due diligence process.

Group legal entities should not use third parties known or suspected for paying bribes or having corruption issues. The business sponsor must evaluate the risk of bribery and corruption associated with the third party.

Charity, sponsorship, donation and membership fees

Charitable contributions/donations, sponsorships and membership fees must be legal, in compliance with the applicable local laws and in line with the Group internal rules.

In determining if a contribution can be given, it is important to consider the risk that a charitable contribution/donation, sponsorship or a membership fee might be perceived as a means of exerting influence to obtain some undue advantage and damages the Group's reputation. In general, the risks associated with these contributions are higher, if public officials are involved. Therefore, UniCredit legal entities shall minimize the number of charitable contributions/donations, sponsorships and membership fees associated with public officials.

Employment

Overriding principles – like competitive, fair and transparent process – are to be applied to each and every of employment related activities (hiring, transfers, promotions, specific trainings, compensation reviews).

M&A and significant investments

Corruption risk under such circumstances can occur inter alia where corruption has been, or continues to be, present in the target's business practices.

The due diligence process is designed to discover and determine the likelihood of both current and past corruption in the target company.

Whistleblowing – unacceptable conduct report

To promote a corporate culture based on ethical behavior and good corporate governance UniCredit provides its employees and third parties with adequate communication channels to report unacceptable conduct within the Group.

Research and development

The bank is not engaged in any kind of research and development activities.

Events after the balance sheet date

After the balance sheet date, no material event or particularly significant process affecting the bank took place.

Unlocking **transformation,** together.

For our clients, our people, and our communities.

Report on the **divisions**

Report on the divisions

Corporates Division

Year 2023 for the Hungarian economy was fundamentally defined by the elevated and only gradually decreasing inflation. The Central Bank of Hungary maintained its tight monetary policy which proved to be a headwind for the real economy, for investments and related lending appetite due to the resulting high interest rate environment. In 2023, Corporates Division managed to increase its revenues significantly, whilst maintaining a strong focus on asset quality and digitalization. With our 10.5% corporate loan and 11.9% corporate deposit market share, UniCredit Bank belongs to the leading banks for small, medium, and large corporates in Hungary. In terms of both revenue and profits, Corporates 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 clients confirm our excellent reputation. In 2023, based on the customer satisfaction survey, it can be said that the Corporates Division of UniCredit Bank continued to be one of the leaders on the Hungarian market. Our bank effectively supports the international activities of customers and supports their further growth. Euromoney, based on its annual trade finance survey, recognised UniCredit Bank in the categories "Market Leader" and "Best Service" in 2023.

The energy crisis and the resulting dramatic increase of energy prices have underscored the importance of energy efficiency over the past year. Thus, UniCredit Bank is focusing on building a climate-aware portfolio, concentrating on renewable energy, circular economy and on sustainable real estate deals, as well as increasing awareness among clients. In recognition of this, the Central Bank of Hungary in 2023 awarded the bank with the Green Bank Award.

In 2023, Corporate Structured Finance Department continuously sought to support and serve our clients' needs by providing them with structured financing solutions tailored to their specific needs, often even on an international scale. During the year, the department significantly increased its share in the renewable energy sector. The total financed solar power plant capacity reaches almost 600 MW, making UniCredit Bank one of the largest players in this segment. Acting as Coordinator, Mandated Lead Arranger and providing agency services in several new transactions that were significant even by international standards, UniCredit Bank strengthened its leading market position in corporate structured finance. In 2023, notwithstanding a difficult market, the loan portfolio managed by the Real Estate Finance Department demonstrated its excellent quality and continued to grow.

Providing refinanced facilities to our clients gained importance amidst the current interest rate environment, therefore UniCredit Bank successfully offers beside the Hungarian subsidised refinanced lending schemes (Széchenyi programs, EXIM) a similar refinanced scheme of the European Investment Bank (EIB). In terms risk sharing schemes, in 2023 UniCredit Bank signed a new InvestEU portfolio guarantee agreement with the European Investment Fund (EBA/EIF), supplementing the wide range of Hungarian institutional guarantee schemes to facilitate our customers' access to financing.

Agribusiness financing continued to be another key focus area in 2023 with new loans for projects receiving non-refundable grants under the European Union's Rural Development Programme. Additionally, 2023 was marked with the incorporation of new direct payment schemes under the European Union's Common Agricultural Policy Pillar I. for working capital financing structures to our clients.

The significantly changed local and foreign currency interest rate environment required a more active deposit management process from the Transactions & Payments' Cash Management Department in 2023. As a result of the reliable service level and high-quality client service, additional card acceptance locations were deployed. The department continued to promote the UniCredit SoftPOS application, which allows the acceptance of contactless cards or payment devices – on phones, smartwatches – with convenience anywhere, anytime.

Our Trade Finance Department also closed a successful year in 2023. Compared to 2022, it further expanded in structured working capital optimization and financing solutions, tailored to customer needs. The Documentary and Guarantee Business Department keeps managing a significant portfolio of guarantees backing our corporate clients' everyday business activities. Factoring Department enhanced its factoring products, simplified its internal processes, and ran a relevant IT system development project in 2023 in order to serve the customers in the field of factoring, purchase of receivables and Supply Chain Finance services more flexibly. As a member of Factors Chain International (FCI) and the Hungarian Factoring Association, it was capable to further grow in this product segment in 2023 as well.

Global Securities Services (GSS) Department closed a very productive year. GSS maintained its market leading position among institutional clients. Also in 2023, GSS retained the 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 on the capital market. As a major milestone of the digitalization strategy, GSS Hungary successfully implemented its new group custody platform during 2023, that will play an important role in future business and IT developments.

The Transactional Sales Department had an outstanding year in 2023. The sizable customer base continued to grow, thereby further consolidating the department's already market-leading position in the correspondent bank account management services. The department also maintained its market-leading position in the special HUF CLS account management service.

Corporate Treasury Sales Department closed the most outstanding year in its history in 2023. The backbone of its revenue continued to be the foreign currency transactions, and the share of foreign currency hedging transactions increased significantly, supported by interest rate hedging transactions and commodity hedging products. In 2023, a significant number of personal meetings and customer events took place, where the department presented – along with the current macroeconomic outlook – its exchange rate, interest rate and commodity market hedging solutions. It continued to promote digitalization among customers, thanks to which almost two-thirds of foreign currency transactions were concluded through UCTrader (an online currency exchange platform).

The Corporate Finance Advisory Department took part in several significant transactions in 2023: in the summer of 2023 it participated in CIVITA Group Nyrt.'s IPO as exclusive advisor and in the listing of its shares in the BÉT Standard category after the successful capital increase; there has been no precedent of it on the Budapest Stock Exchange (BÉT) since 2017. Also in 2023, Gedeon Richter Nyrt. successfully sold its Romanian drug wholesale company (Pharmafarm SA.) and its retail network of nearly 100 pharmacies (Gedeon Richter Farmacia SA.) to Dr. Max via an M&A process conducted by UniCredit Bank, helping both companies achieve their strategic goals.

In 2023, UniCredit Leasing Zrt., a subsidiary of UniCredit Bank, was the 3rd largest player on the leasing market with a market share of 6.1%. The company actively sold subsidised financing schemes available to customers (EXIM and Széchenyi programs). It also expanded its vendor network to ensure a more diversified sales channel mix and put special focus on strengthening its position in ESG relevant market niches. Although 2023 was characterised by very high interest rates and lower appetite for financing overall, as a result of the diversified sales channels, excellent relationships and full product set, UniCredit Leasing Hungary's new business volumes reached record level.

The main activity of UniCredit Jelzálogbank Zrt., a subsidiary of UniCredit Bank, is the issuance of mortgage bonds and the refinancing of commercial banks. In 2023, UniCredit Jelzálogbank Zrt. has significantly increased its refinancing portfolios within the Group and with partner banks, in addition to maintaining existing portfolios. In 2023, the company issued green mortgage bonds with a nominal value of HUF 20 billion within ESG and green framework of UniCredit Group, supporting the ESG targets of the parent company and Jelzálogbank.

In order to expand the range of products for retail customers, UniCredit Jelzálogbank Zrt., in close cooperation with UniCredit Bank Hungary Zrt., started the issuance of retail bonds in 2023.

Success stories of the Corporates Division

Using local knowledge to unlock a corporate IPO

Civita Group Plc successfully issued 587,500 new shares and raised HUF 453,550,000 (€1.2 million) of fresh capital, with the new shares now listed on the Standard category of the Budapest Stock Exchange. Our bank acted as sole arranger and lead distributor of the transaction – and will use the unique knowledge and experience gained during the process to the advantage of our other clients through a range of ECM and DCM solutions.

The funds will drive the future plans of Civita, which has been operating one of the largest corn mills in Central Europe for 30 years. Based in Monostorpályi, near Debrecen, this plant processes GMO-free corn purchased exclusively from Hungarian farmers, using it to produce milling products, corn pasta and corn oil, among other products. A new production line was opened in 2023, creating one of the largest gluten-free pasta facilities in Europe, with a capacity of more than 15,000 tonnes per year. Civita has also opened up a new line to produce disposable plates and cups made exclusively from maize, replacing 500 tonnes of plastic per year. The company's maize-based products, maize oil and dry pasta are now exported to 11 European countries.

"The CIVITA IPO project presented several unique challenges as it was the first IPO in the Standard category of the Budapest Stock Exchange in the last seven years, but well-structured and effective communication with our client, the supervisory authority (Central Bank of Hungary) and the investors helped successfully close the transaction despite the adverse market conditions."

Zoltán Poják
Deal Captain,
Director of Advisory Budapest

Success stories of the Corporates Division

Advising a multinational company

Our advisory team based in Budapest, Hungary, provided exclusive M&A counsel on the sale of Richter's Group's Romanian pharmaceutical wholesale and retail operations to Dr. Max Group (Penta).

Our specialists played an important role in determining and deciding on all relevant aspects of the transaction. This included transaction structure, process strategy, potential investors, process documents, business plan, valuation, due diligence, and negotiation strategy. The structured sale process attracted the interest of key strategic players in the region and resulted in a win-win situation – our client received excellent service and maximized sale proceeds, while the acquisition will enable the purchaser to further consolidate its leading position in the Romanian market.

Retail Division

In 2023, UniCredit Bank Hungary Zrt.'s Retail Division continued to place great emphasis on flexibly adapting to market changes and on customer satisfaction in an economic environment of constant challenges.

Our business policy continues to be centred around the establishment and development of long-term cooperation with customers, and on offering products and services built on customer needs. In addition to customer acquisition, our bank continued to pay particular attention to customer retention and to increasing customer activity in digital channels in 2023. By continuously updating our product range, we strive to satisfy customer needs as fully as possible in the fields of daily banking transactions, savings, investments, and lending. The success of our efforts is confirmed by a steady annual increase in the number of retail customers whose income is regularly transferred to their UniCredit Bank accounts, while a large number of small business customers also consider UniCredit Bank Hungary Zrt. as their primary bank.

In 2023, the focus remained on digitalisation, increasing the number of fully digitally processed bank account openings, and improving customer experience by incorporating a number of lessons learned into our processes. By continuously adapting our range of accounts and conditions to market needs, and by leveraging the potential of our multi-channel sales strategy, we have managed to exceed our client acquisition plans.

In the area of bank cards, a major milestone was achieved by successfully concluding the card company tender, as a result of which we will continue to offer exclusively Mastercard cards. During the year, we announced various annual fee and issuance fee promotions for Mastercard Standard and Mastercard Gold retail debit card applications, as well as promotions to encourage card purchases.

As far as credit cards are concerned, our successful promotion campaigns led to a significant increase in the number of applications.

In 2023, we continued our bank-wide customer experience programme, launched in the previous year, which aims to continuously improve customer satisfaction on every point of contact with our clients. As part of that effort, we have been systematically collecting and analysing customer feedback, which has resulted in more than 50 improvement measures to date. We also regularly monitor key service and customer satisfaction indicators.

At the end of 2023, UniCredit Bank's retail client recommendation indicator reflected a stable, slightly upward trend, which continues to put the bank among market-leaders (based on a survey by Kantar Market Research). According to surveys on the services provided at our branches, retail and micro-enterprise customers continue to be satisfied with the service quality offered, UniCredit Bank advisors, the financial advice tailored to their financial needs and consultations on how they should proceed. Satisfaction among both individual clients and micro-enterprises continued to increase (branch TNPS, customer satisfaction after singular branch visits, internal survey), while the number of complaints decreased by 30% compared to the previous year.

We continued the complete renovation of our branch network to further improve the quality of service. Online appointment booking was introduced in all branches, enabling easier access for our customers to the services requiring personal attention. Based on surveys carried out amongst 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 management of our business in a constantly changing environment, 2023 proved to be another outstanding year for lending, as we achieved significant growth in our market share for both personal loans and mortgage loans. As a result of our competitive offers and customer-oriented processes, the retail loan portfolio increased by over 14% during the year. Within personal loan applications, particular attention has been paid to channelling the applications online. We continued to improve our online personal loan process by introducing a simplified, accelerated approval process for clients receiving their income to their bank account.

In line with the government's family grant policies, taking advantage of opportunities provided by the legislation, we continue to offer products to help families access housing, in addition to our competitive interest-rate market loans.

The micro-enterprise loan portfolio increased by more than 25 per cent during the year, mainly induced by the increase in demand for overdraft and working capital loans.

The beginning of 2023 saw the introduction of the Széchenyi Card MAX+ Programme, which accounted for approximately 90% of the total new micro-enterprise lending by volume in 2023, with a focus on overdrafts and working capital loans. We supported the achievement of our acquisition targets through ongoing sales campaigns in various channels and extended our loan application process to third-party agents, whose activity also contributed significantly to our results.

In 2023, the loan portfolio of the Division increased by HUF 72 billion in total, reaching HUF 560 billion at the end of the year, which represents a 5.3 per cent market share of the retail segment.

The savings portfolio of the Retail Division increased by almost HUF 65 billion in 2023, closing at HUF 1,617 billion at the end of the year. At the end of 2023, the bank had a 4.8 per cent market share in deposits held by private individuals. The client assets managed by the private banking segment exceeded HUF 430 billion.

The share of securities in the savings portfolio increased significantly, by almost 20%, due primarily to the popularity of short-term bond funds.

In response to customer demand, new investment products were introduced in 2023, contributing to a broader range of savings options. From the end of the year, our bank also offers the onemarkets Fund range of investment funds, which includes funds from the world's leading investment fund managers, uniquely tailored to the specific needs of UniCredit customers. These funds are only available at UniCredit Bank.

Mindful of the significant changes in customer needs and habits, we pay special attention to the development of customer-focused digital solutions, whereby we create value for our customers.

In 2023, 1.7 million individual visitors visited the unicreditbank.hu website; interest in online account opening and personal loans increased steadily.

Over 90 per cent of the clients of the Retail Division can still transact their finances via the Telebanking 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 2023, the bank continued to promote the possibility to trade government securities through the eBanking internet banking platform, updated its mandatory customer due diligence solution, which does not require a visit to a branch, and commenced the banking tests of the payment request service. The Spectra internet bank platform, available to corporate and small business clients, has been upgraded, together with an update of the back-end system. More than 280,000 customers were eligible to use the eBanking and Spectra systems.

Focusing on customer services and the development of the financial culture of clients, the bank continued to develop its mBanking application for retail private customers, in line with its Mobile 2.0 strategy, and introduced the mBanking Business application for its small business customers. We continued to promote such existing and new digital channels and to extensively communicate their features to the bank's customers.

The bank continued to promote the features and payment solutions related to bank cards to its mBanking customers. In addition to enhancing the security features of the application, it introduced new communication platforms within the application, modified the limits to be set for debit cards in line with customer needs and introduced a temporary suspension/unblocking function for debit cards.

The mBanking application will continue to enable retail customers (who can also log in with a biometric ID) to activate their new and renewed debit cards, create new standing transfer orders and direct debit orders and manage existing ones. They are now able to conveniently manage credit card repayments and payment limits and check their reserved debit and credit card transactions; register Google Pay and Apple Pay cards, view the PIN code of their cards, create new orders from payment orders already placed and booked, and authenticate their HUF and EUR transactions using biometric identification on their mobile phones capable of fingerprint scanning.

Customers using an activated mBanking application can still receive push notifications about their debit and credit card transactions, incoming transactions, expiring deposits, or declined and cancelled account transactions and orders. The application allows the Bank's customers to categorise their expenses with just a few taps, replan their expenditures using the cost analysis function or apply for a personal loan. The mToken service allows customers to authenticate their transactions initiated on the eBanking Internet banking platform, even after receiving a push message, as well as to approve their online purchases with the help of a push notification.

The cardless cash withdrawal service (mCash) continues to be available in the mobile application, allowing for cash withdrawals from any Hungarian UniCredit ATM without the use of a bank card. More than 167,000 customers used the mBanking service at least once a month.

The mBanking Business application, introduced in 2023, enables small business clients (who can also log in with a biometric ID) to activate their new and renewed debit cards, create new standing transfer orders and direct debit orders and manage existing ones. They are now able to conveniently manage debit card payment limits and check their reserved debit card transactions; view the PIN code of their cards, create new orders from payment orders already placed and booked, and authenticate their HUF and EUR transactions using biometric identification on their mobile phones capable of fingerprint scanning. Customers using an activated mBanking Business application can receive push notifications about their debit card transactions, incoming transactions, expiring deposits, or declined and cancelled account transactions and orders.

In order 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 2023, 84 ATMs were offering this convenience function. At the same time, the bank has started the physical replacement of its existing ATM network. The new machines better suit changing customer requirements. 7 ATMs were replaced by the end of 2023.

Environmental protection is a priority for our bank, and an increasing number of customers are choosing e-statements instead of printed bank account statements. By the end of 2023, nearly 95 per cent of our retail clients had chosen that option.

Changing how our sales team works

Successful transformation means being willing to change the ways we work. In Hungary, for example, this meant restructuring our sales team to boost client acquisition.

Under the new structure – which involves the regional manager of the Direct Sales Force being solely responsible for client acquisition – we have doubled the number of new clients from this source. For example, as a key part of our sales activity, we launched a unique "increase your salary with UniCredit" offer which led to more than 600 existing corporate clients signing contracts. We also doubled the number of direct sales force agents during the period, ensuring a strong personal on-site presence at target companies.

"The game changer to unlock acquisition potential was to do things differently: value proposition, way of working and network presence was tackled to unlock potential."

Csaba Kiss,
Head of Retail Network

Improving mobile experience

Our Digital transformation is not only important for our large corporate clients but for our smaller business customers, too. And, by improving the mobile experience for those in Hungary, we are helping them save time and money.

Based on feedback received from both our customers and our colleagues, we recognised that small businesses in Hungary did not have access to a classic mobile banking app from UniCredit. Instead, many were still accessing our services via web.

In response, in 2023 we launched a new app that was adapted to their needs. The feedback we have since had from our clients underlines the app's success, with users praising features such as the ability to quickly and easily activate their business bank card. Before, such tasks could only be completed via telephone banking or in a physical branch.

"We didn't want to put a mobile application in the hands of customers that has fewer functions compared to the version for individual users. Despite the difficult start, with a cooperation of several business units we were able to successfully deliver the application, and our customers are satisfied."

Tamás Faur,
Head of Digital Channels

UniCredit C.A.R.E.S. programme puts our customers first

UniCredit Bank Hungary has made customer experience a strategic priority. As part of this commitment, in 2023 we launched our UniCredit C.A.R.E.S. programme. C.A.R.E.S – which stands for Customer, Action, Return on investment, Employee and Strategy – has been built around our Value of Caring. The programme puts customers and employees at the centre of everything we do to make customer experience a key component of our daily activities – increasing loyalty and enhancing our performance.

"We are thrilled to have launched our C.A.R.E.S. programme and we are already seeing the results, not only in-house – colleagues better understand now the importance of CX and act on it – but also in relation to our customers, who are more and more satisfied with our services, as seen in our NPS results, and in the sharply declining number of complaints. Certainly, it's a long journey, but we have made the first steps and see the road clearly ahead of us."

Laura Tengerdi,
Head of Customer Experience

People&Culture

Strategy and values

The pillars of our People and Culture (P&C) strategy represent key enablers to enhance and protect the reputation of UniCredit Bank Hungary Zrt. and UniCredit Group and to create long-term value for all stakeholders. P&C strategy contributes to the business strategy, long-term interests, and sustainability of UniCredit with its remuneration policy, reinforcing a positive working environment and accelerate people growth.

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

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

Supporting business processes

The P&C strategic partner model focuses on the understanding and the client-centered support of specific business areas and activities in the bank in terms of attraction, acquisition, onboarding, assessment and development, engagement, and retention, and offboarding. The P&C strategic partners, as contact points for each business area, are responsible for understanding business needs (business acumen), for supporting the organization in change management activities, and for partnering with the business leaders in taking decisions with a data-driven approach.

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

Recruitment and selection

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

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

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

In 2023, the bank hired 185.75 new FTEs (Full-time Equivalents) without leased workforce and colleagues from abroad; the annual bank turnover was 10.2 per cent. Apart from improving our recruiting process, several initiatives were launched to boost sourcing activities: we have started an employee referral program, strengthened cooperation with universities, and launched a graduates' programs in further areas.

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

Onboarding

We believe that nurturing the engagement of our employees starts from the first moments, therefore in 2023 we further improved our onboarding process, aiming to provide a simple process, easy-to-access information, and regular check-up points for the newcomers. The first 3–6 months of the new joiners is supported by P&C generalists.

Employee satisfaction and retention

Employee satisfaction surveys and the implementation of subsequent action plans are of key importance not only for the Group but for UniCredit Bank Hungary Zrt. as well. Based on the reflections, P&C is continuously developing the services and the benefits.

Employee surveys

The bank is constantly looking for "listening moments" with all the colleagues, as UniCredit cares about employee's engagement and satisfaction. In 2023 we continued to collect feedback from the employees at different stages of the employee lifecycle. We continued to have Pulse Checks and as well an overall employee experience survey, onboarding survey, offboarding survey and in 2023 we have conducted the EDGE survey on diversity and inclusion also.

UniCredit Bank continued to monitor the experience of our newly joined colleagues, leveraging on the new joiner survey, that we launched in. Through the survey we are able to follow-up the trends of new joiners' engagement and satisfaction. The new joiners' employee experience survey covers the following topics: attraction (employer branding), recruitment & selection process, onboarding, performance, and engagement (mentoring). The survey takes the form of an anonymous, voluntary online questionnaire.

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

Training and development, succession management

People and Culture continuously strives to achieve learning and development excellence with learning embedded in the company culture. On top of the regular focus on constantly keeping the knowledge in the organization up to date, Learning and Development (L&D) also focuses strongly on permanently supporting high business demand. In 2023, we continued to keep the main focus on supporting cultural transformation in line with UniCredit Group's strategy leadership. Trainings of our leaders were completed with relevant modules on our company culture and Values; the Culture Team organized several games, discussions and workshops in company Values and culture topics.

The L&D team regularly measures the effectiveness of training and continuously communicates training opportunities to ensure constant learning engagement. In 2023, we reintroduced bottom-up training planning processes to allocate resources more efficiently and support better use of development spending. We use questionnaires to measure the effectiveness of our development actions.

Talent management at group and local level remains in the focus of UniCredit Group's People and Culture strategy. The objective of talent management is to identify employees with outstanding potential, skills, and professional knowledge within the organisation and to ensure that their career plans are realised on both national and international level. In 2023, we have increased our focus on employees with outstanding potential, promoting knowledge sharing within the organisation, ensuring their continued development, and creating new opportunities to boost their capabilities and readiness. A new initiative was introduced to focus on the development of potential successors for Board positions (Stretch project).

Investing in leadership capabilities and boosting the skillset of managers remained one of the key pillars of P&C to support people engagement and cultural transformation. In 2023, several leadership development programs were introduced: Board development based on the three UniCredit Values, a complex development programme for B-1 leaders concentrating on leadership behaviours based on the three Values. We continued our "Conscious leadership" development programmes for newly appointed managers. Focusing on mid-managerial level, we introduced a new initiative, called "Power Up!" Programme to help our team leaders within their teams. For retail branch managers, workshops were held on motivation.

In addition to talent management and succession planning, knowledge sharing is one of the key values of UniCredit Bank Hungary Zrt. An increasing number of employees are given the chance of participating in international and national development programs, ranging from project works of a few months to assignments spanning several years. Internal trainers conducted several trainings on Assertive communication, project management, conflict handling, etc. All employees have the access as of 2023 to the "Go Fluent" language learning platform, on which not only English, but a lot of other language learning opportunities are available.

Digital learning

From 1 February 2022, Coursera learning platform became available for the colleagues. As a reaction of Strategic Workforce Planning's Gap Analysis findings, Coursera catalogue recommend courses in 3 main topics: data science, computer science, and business. Since the start date, 87 colleagues had (or still have) the opportunity to learn from the world's leader universities and institutes. In 2023, we launched the MyLearning PLUS platform, with more than 30 000 e-learning materials available on various topics.

Equal opportunity

With Hungary having joined the international Gender Balance Initiative, we adapted our Gender Balance Policy in 2013. The Policy aims at enforcing the principle of equal treatment in employee selection and promotion as well as work-life balance. Changes implemented on local level under the Policy continue to be monitored internationally. Reports of these indicators that are defined on Group level, are regularly presented to the senior management as well. This policy was revised in 2021 and was approved again without changes. In terms of equal pay, the bank managed to achieve a significant result, decreasing the same role pay-gap close to zero (1.2 per cent).

We are proud that in 2023 we received the EDGE certificate that is one of the most valuable appreciations for Workplace Diversity, Equity, and Inclusion.

Diversity, Equity, and Inclusion initiatives

- The bank is continuously monitoring the level of salaries in the same jobs/positions to eliminate the same role pay-gap and ensure equal pay between genders.
- Succession planning and promotion is monitored to make available a gender-balanced and diverse pool of candidates and talents when developing our leadership pipeline.
- The recruiting process enables diverse candidates to successfully apply regardless of gender identity.
- This year we focused on unconscious biases, we have introduced a new DE&I e-training on MyLearning, and workshop was held for our recruitment team on avoiding biases during the recruitment process.
- This year we became member of the Hungarian Business Leaders Forum and the Diversity Charta as well.
- In our internal newsletter, P&C Highlights for you we constantly promote diversity, equity, and inclusion.

Female Career Support

- Management board including the Heads of Divisions/ Competence lines are balanced very much from the gender point of view (62 per cent female presence).
- In 2023, we reintroduced our Female Career Support program, named as EmpowHer. The concept is to give several development opportunities for the colleagues participating in the program, as well as sponsorship by leaders. During the sponsorship a dedicated sponsor (female managers of the company) are going to support the sponsored female colleagues during their development journey. The programme is open to all women applying.

Mommies back

The bank introduced a new, atypical employment form for colleagues in maternity leave in 2019. This flexible employment ensures that moms could join us again and take part-time, remote working positions. On the one hand, the programme helps our female colleagues to keep connected to their professional life during the maternity leave in a way that matches their work-life balance, and on the other hand, it provides the business with extra workforce. This programme was initially implemented in the Retail and the Corporates Divisions, and during the past years we have expanded this programme across the whole organization.

Wisdom programme

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

After the positive feedbacks regarding the mentoring, we put bigger focus on this pillar of the program. We expanded the scope of potential mentees, the mentors participated in a training to prepare them for the mentor role. In order to increase the program's prestige, we organized a "Mentor workshop" exclusively for the Wisdom mentors.

The programme gained Group-wide attentions well. This year it was broadened on CEE level, and now the mentees can have mentors from other countries.

Performance Management

As part of high focus on strengthening feedback culture and part of succession planning procedure, L&D team is responsible for annual performance management of the whole population. We introduced and implemented three UniCredit Values – Integrity, Ownership, and Caring – as integral part of UniCredit culture. Strong support has been provided to the managers in the preparation phase of the performance management cycle to ensure full alignment with our Values as well as the ensure high quality of appraisals.

In 2023, we continued our practice to organize managerial preparation workshops to make sure that everyone knows the basic rules of the process.

360-degree evaluations

In 2023 we have conducted several 360 evaluations. At the beginning of the year, Board members had the evaluation on Group level, however we have conducted for some B-1 managers and newly appointed managers 360 feedback on local level as well to support their development. In the year-end we had another 360 for Board members and B-1 leaders in frame of the Group evaluation.

ESG

ESG is an important priority for our company, thus besides the Group and CEE development initiatives, several local trainings were held for the employees and managers on ESG topics.

Unlocking
transformation,
together.

For our clients, our people,
and our communities.

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 mortgage bonds 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 mortgage bonds 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 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 UniCredit 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. The green-based use of the amount from the issuance of green bonds is reported in an annual ESG report, verified by an external independent auditor. UniCredit Jelzálogbank Zrt. has issued several mortgage bonds with a green rating. Low-cost funding allows customers to take out green loans at more favourable rates.

In order to expand the range of products for retail customers, UniCredit Jelzálogbank Zrt. launched the issuance of retail bonds in 2023 in cooperation with UniCredit Bank Hungary Zrt.

In 2023, UniCredit Jelzálogbank Zrt. significantly increased the refinancing portfolio within the banking group and with external banking partners, while maintaining 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 2023 with a balance sheet total of HUF 427 billion and profits after tax of HUF 3.3 billion.

Unlocking **transformation**, together.

For our clients, our people, and our communities.

Independent **Auditor's** report

KPMG Hungária Kft.
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
Email: info@kpmg.hu
Internet: kpmg.hu

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 2023 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 2023, with total assets of MHUF 5,102,858, the consolidated statement of profit or loss , with profit for the year of MHUF 91,940, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (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.

KPMG

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

As at 31 December 2023, loans and advances to customers (gross): HUF 2,121,437 million and related loss allowance: HUF 44,895 million, loan commitments and financial guarantees: HUF 1,441,320 million and related provision: HUF 14,233 million, and, for the year then ended, impairment and provision net release: HUF 11,097 million

See Note 21 Loans and advances to customers and Note 45 Exposure to credit risk

Key audit matter	Our response
Impairment allowances and provisions, respectively, for loans and advances to customers and 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 light of the spill-over effect of the Russo-Ukrainian conflict and the resulting energy crisis, the identification of SICR and exposures at	Our audit procedures in this area, performed, where applicable, with the assistance from our own financial risk management and information technology (IT) audit 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 continues to be 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

UniCredit Bank Hungary Zrt. - K30 - 2023.12.31.

2

default is associated with an increased estimation uncertainty. Management therefore applied a geopolitical overlay in 2022 to address the credit risk arising from such uncertainties that collective models may not be able to capture, and this management overlay was updated to current circumstances in 2023. In addition, during 2023, a new overlay was introduced in light of the increasing uncertainties in relation to the real estate market. 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 consolidated 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 and Hungarian National 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: — reassessed 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. — 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 real estate overlay, and also tested the underlying data and the model's application. For all loans in totality:

KPMG

	We examined whether the Group’s expected credit loss and credit risk-related disclosures in the consolidated 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 2023, financial instruments carried at fair value:

- financial assets using Level 2 fair value measurements: HUF 450,186 million, including hedging derivatives,
- financial assets using Level 3 fair value measurements: HUF 127,903 million,
- financial liabilities using Level 2 fair value measurements: HUF 288,498 million, including hedging derivatives.

As at 31 December 2023, the hedge accounting-related amounts:

- accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of hedged items: HUF 80,557 million,
- cash-flow hedge reserve (loss) in the other comprehensive income, net of tax: HUF 8,222 million

See Note 18 Financial instruments held for trading, Note 19 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) test. 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 and comparable instrument. Level 3 fair value measurements are generally based on the discounted cash-flow (DCF) models, with observable and unobservable inputs and	Our audit procedures in this area, performed, where applicable, with the assistance from our own financial instruments valuation, accounting advisory and IT audit 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, fair value measurement and designation of hedge relationships. — We tested selected IT-based controls over related interfaces, automated foreign currency revaluations and automated hedging derivatives interest calculation; — We assessed the Group’s fair value methods and models against the financial reporting requirements and the market practice;

UniCredit Bank Hungary Zrt. - K30 - 2023.12.31.

4

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 model assumptions and inputs. In addition, comprehensive models tend to be more susceptible to the risk of management bias, error and inconsistent application. As a result, more attention is required during the audit process in assessing the relevance and reliability 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 consolidated 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, we, among other things: • assessed the relevance and reliability of the data to be used in the valuations; • for Level 2 measurements – applied our own models and input parameters derived from comparable bonds and markets; • for Level 3 measurements, developed the key DCF model inputs as follows: o Contractual cash flows – by reference to our inspection of the underlying contractual provisions; o Risk-free interest rate – by reference to benchmark risk-free yield curves; and o Credit spread – by reference to the comparable securities approach or market curve approach, as considered relevant. — For retail loans failing the SPPI test, we inspected the product-related specific features and 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 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 requirements by the applicable financial reporting framework.

Emphasis of Matter

We draw attention to Note 3.1 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2022 has been restated for changes in accounting policies and for correction of an error. Our opinion is not modified in respect of this matter.

Other Information

The other information comprises the 2023 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 fulfilling our responsibility with respect to the consolidated business report, the requirements set out in the Regulation (EU) No 2178/2021 of 6 July 2021 (Taxonomy Regulation) were considered as other legal requirements applicable for the non-financial statement included in consolidated business report.

In our opinion the 2023 consolidated business report of the Group is consistent, in all material respects, with its 2023 consolidated financial statements and the applicable provisions of the Act on Accounting and the Taxonomy Regulation.

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.

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.

KPMG

• 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.

• 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 16 March 2023 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2023. Our total uninterrupted period of engagement is two years, covering the periods ending 31 December 2022 to 31 December 2023.

We confirm that:

• our audit opinion is consistent with the additional reports presented to the Audit Committee of the Group dated 4 March 2024 and 13 May 2024;

• 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.

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

Budapest, 15 May 2024

KPMG Hungária Kft.

Registration number: 000202

Zsuzsanna Csáki
Partner, Professional Accountant
Registration number: 007448

Unlocking **transformation,** together.

For our clients, our people, and our communities.

Financial statements

Consolidated statement of financial position (Balance Sheet)

Assets

	NOTE	31 DECEMBER 2023 (HUF MILLION)	* RESTATED 31 DECEMBER 2022 (HUF MILLION)	* RESTATED 1 JANUARY 2022 (HUF MILLION)
Cash and cash equivalents	17	461,931	667,141	415,612
Financial assets held for trading	18	2,756	2,828	1,324
Trading derivative assets	18	128,527	275,557	235,186
Hedging derivative assets	19	79,412,	206,163	75,073
Loans and advances to banks	20	1,029,319	929,477	1,171,501
Loans and advances to customers	21	2,184,057	2,061,277	1,730,549
Investment securities	22	1,109,553	813,540	880,328
Investment properties	24	7,416	8,725	8,864
Property, plant and equipment	25	24,289	24,449	25,127
Intangible assets	26	19,494	21,207	19,526
Current tax assets	16	16	217	41
Deferred tax assets	16	903	4,943	1,632
Other assets	27	55,185	36,834	31,851
Assets held for sale	28	–	45	–
Total Assets		**5,102,858**	**5,052,403**	**4,596,614**

Liabilities

Deposits from banks	29	717,093	759,106	801,064
Deposits from customers	30	3,041,603	2,887,653	2,792,420
Issued debt securities	31	440,229	318,407	183,330
Trading derivative liabilities	18	117,775	279,560	238,942
Financial liabilities held for trading	18	–	–	2,108
Hedging derivative liabilites	19	170,723	341,633	115,647
Other provisions	36	16,825	18,627	18,657
Current tax liabilities	16	3,377	6,231	615
Deferred tax liability	16	10	478	277
Other liabilities	32,33	64,498	47,593	46,423
Subordinated liabilities	31	52,116	–	–
Total Liabilities		**4,624,249**	**4,659,288**	**4,199,483**

Equity

Share capital	34	24,118	24,118	24,118
Share premium	35	3,900	3,900	3,900
Retained earnings		284,301	259,483	277,090
Statutory reserves	35	75,705	66,502	57,638
Valuation reserves		(1,408)	(45,813)	(12,034)
Net profit for the year		91,940	84,840	46,337
Total Equity attributable to the equity holder of the Bank		**478,556**	**393,030**	**397,049**
Minority interest		**53**	**85**	**82**
Total Equity		**478,609**	**393,115**	**397,131**
Total Liabilities and Equity		**5,102,858**	**5,052,403**	**4,596,614**

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

* Reasons for and substance of the restatements of figures for the year ended 31 December 2022 are presented in detail in Supplementary Note 3.1.

Consolidated Income Statement – 31 December 2023

	NOTE	2023 (HUF MILLION)	* RESTATED 2022 (HUF MILLION)
Interest income calculated using the effective interest method	7	366,383	227,254
Other interest and similar income	7	224,519	115,530
Interest expense and similar charges	7	(434,415)	(199,425)
Net interest income		**156,487**	**143,359**
Fee and commission income	8	72,127	65,445
Fee and commission expense	8	(14,349)	(11,826)
Net fee and commission income		**57,778**	**53,619**
Dividend income	9	5	9
Net trading income	10	2,770	2,287
Net gain and loss on hedge accounting	11	(1,997)	1,552
Net gain and loss on non-trading financial instruments	12	(557)	302
Foreign exchange result	10	12,469	3,154
Operating income		**226,955**	**204,282**
Impairment and losses on credit products	**46**	**6,535**	**(11,600)**
Personnel expenses	13	(27,886)	(25,330)
General operating expenses	14	(88,524)	(69,233)
Other provision	36	–	1,299
Depreciation on property, plant and equipments	25	(2,510)	(2,201)
Amortization and impairment on intangible assets	26	(5,915)	(4,467)
Operating costs		**(124,835)**	**(99,932)**
Other income	15	4,320	7,427
Other expense	15	(4,696)	(1,763)
Other results		**(376)**	**5,664**
Gain / (losses) on investment properties		(1,349)	(139)
Profit before tax		**106,930**	**98,275**
Income tax expense	16	(14,989)	(13,430)
Net profit for the year		**91,941**	**84,845**
Attributable to:			
Shareholder of the Group		91,940	84,840
Minority interests		1	5

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

* Reasons for and substance of the restatements of figures for the year ended 31 December 2022 are presented in detail in Supplementary Note 3.1.

Consolidated statement of comprehensive income – 31 December 2023

(HUF million)

	NOTE	2023	2022
Profit for the period		**91,941**	**84,845**
Items that are may be reclassified subsequently to profit or loss			
Movement in fair value reserve of debt investments measured at fair value through other comprehensive income		(4,443)	(1,432)
Deferred income tax on movement of fair value reserve of debt investments measured at fair value through other comprehensive income	16	390	129
Net movement in fair value reserve of debt investments measured at fair value throuhg other comprehensive income		**(4,053)**	**(1,303)**
Movement in cash-flow hedge reserves		48,266	(35,802)
Deferred income tax on movement in cash-flow hedge reserves	16	(4,344)	3,222
Net change in cash-flow hedge reserves		**43,922**	**(32,580)**
Items that will not be reclassified to profit or loss			
Movement in fair value reserve of equity investments measured at fair value through other comprehensive income	22	4,530	–
Deferred income tax on movement of fair value reserve of equity investments measured at fair value through other comprehensive income	16	(78)	–
Net movement in fair value reserves of equity investments measured at fair value through other comprehensive income		4,452	–
Revaluation on property		123	134
Deferred income tax on revaluation on property	16	(8)	(10)
Net movement in property revaluation		115	124
Other comprehensive income, net of tax		**44,436**	**(33,759)**
Total comprehensive income		**136,377**	**51,086**
Attributable to:			
Shareholder of the Group		136,376	51,081
Minority interests		1	5

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

Consolidated statement of changes in Shareholder's equity

(HUF million)

	NOTE	SHARE CAPITAL	SHARE PREMIUM	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 2022		**24,118**	**3,900**	**275,402**	**57,638**	**6,633**	**(19,564)**	**897**	**46,337**	**395,361**	**82**	**395,443**
Effect of restatement according to IAS 8 (see Note 3.1)	3			1,688								
Balance as at 1 January 2022 after restatement*		**24,118**	**3,900**	**277,090**	**57,638**	**6,633**	**(19,564)**	**897,**	**46,337**	**397,049**	**82**	**397,131**
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	19					(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	24							124		124		124
Change of non-controlling interest										–	(2)	(2)
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1,303)**	**(32,580)**	**124**	**84,840**	**51,081**	**3**	**51,084**
Transfers to statutory reserves	35			(8,864)	8,864					–		–
Transfer of realised revaluation differences on real estate to retained earnings	24			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 after restatement*		**24,118**	**3,900**	**259,483**	**66,502**	**5,330**	**(52,144)**	**1,001**	**84,840**	**393,030**	**85**	**393,115**
Balance as at 1 January 2023		**24,118**	**3,900**	**259,483**	**66,502**	**5,330**	**(52,144)**	**1,001**	**84,840**	**393,030**	**85,**	**393,115**
Net profit for the previous year		–	–	84,840	–	–	–	–	(84,840)	–	–	–
Net profit for the current year									91,940	91,940	1,	91,941
Net movement in fair value reserve of financial instruments measured at fair value through other comprehensive income	19					(4,053)				(4,053)		(4,053)
Net movement in fair value reserves of equity investments measured at fair value through other comprehensive income	22					4,452				4,452		4,452
Net movement in cash flow hedge reserves							43,922			43,922		43,922
Net movement in asset revaluation surplus	24							115		115		115
Change of non-controlling interest										–	(33)	(33)
Total comprehensive income for the year		**–**	**–**	**84,840**	**–**	**399**	**43,922**	**115**	**91,940**	**136,376**	**(32)**	**136,344**
Transfers to statutory reserves	35			(9,203)	9,203					–		–
Transfer of realised revaluation differences on real estate to retained earnings	24			31				(31)		–		–
Total transfers between components of equity		**–**	**–**	**(9,172)**	**9,203**	**–**	**–**	**(31)**	**–**	**–**	**–**	**–**
Dividend to equity holder		–	–	(50,850)	–	–	–	–	–	(50,850)		(50,850)
Total transfers to equity holders		**–**	**–**	**(50,850)**	**–**	**–**	**–**	**–**	**–**	**(50,850)**	**–**	**(50,850)**
Balance as at 31 December 2023		**24,118**	**3,900**	**284,301**	**75,705**	**5,729**	**(8,222)**	**1,085**	**91,940**	**478,556**	**53**	**478,609**

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

* Reasons for and substance of the restatements of figures for the year ended 31 December 2022 are presented in detail in Supplementary Note 3.1.

Consolidated statement of cash-flows – 31 December 2023

(HUF million)

	NOTE	2023	* RESTATED 2022
Cash flows from operating activities			
Net profit for the year		**91 941**	**84 845**
Adjustments for:			
Depreciation and amortisation	25,26	8 425	6 668
Profit on disposal of property, plant and equipment	25,26	130	3
Net loss/gain from cash flow hedging assets	42	4 107	59 095
Net impairment and losses in credit products	45	(7 545)	12 368
Fair value change of fixed assets (real estates)	25	202	212
Fair value change of investment properties	24	1 309	139
"Fair value change and foreign exchange loss/(gain) of non-operating cash flows"	22,31	(99 092)	67 727
Net gain on investment securities at FVTPL	12	(227)	–
Net loss on sale of financial assets measured at amortised cost	12	2 827	2 296
Net gain on sale of investment securities measured at Fair value through other comprehensive	12	(445)	(1 357)
Net interest income	7	(156 042)	(143 359)
Dividens on equity securities at FVTPL	9	(5)	–
Business combination		1	(5)
Tax expense	16	14 989	13 430
Change in financial assets held for trading	18	147 102	(41 875)
Change in other assets	27	(18 570)	(6 626)
Change in deferred tax assets	16	–	(1)
Change in other liabilities	32	21 343	3 980
Change in loans and advances to customers	21	(116 941)	(342 670)
Change in loans and advances to banks	17	(99 768)	241 907
Change in deposits from customers	30	153 950	95 233
Change in deposits from banks	29	(42 013)	(41 958)
Change in financial liabilities held for trading	18	(161 785)	38 510
Interest received	7	590 457	342 784
Interest paid	7	(434 415)	(199 425)
Dividends received	9	5	–
Income tax paid	16	(18 110)	(7 760)
Net cash (used in)/from operating activities		**(118 170)**	**184 161**
Cash flows from investing activities			
Proceed on sale of property, plant and equipment	25	124	22
Addition of property, plant and equipment	25	(2 643)	(1 671)
Proceeds from the sale of fixed assets held for sale	25	5	–
Addition of intangible assets	26	(4 202)	(6 148)
Acquisitions of investment securities	19	(3 812 237)	(419 099)
Proceeds from sale of investment securities	19	3 631 798	393 747
Change in non-controlling interest		(33)	3
Net cash used in investing activities		**(187 188)**	**(33 146)**
Cash flows from financing activities			
Proceeds from issue of debt securities	31	151 501	161 602
Repayment of debt securities	31	(50 202)	(4 720)
Dividend paid	35	(50 850)	(55 100)
Payments of lease liabilities	33	(1 287)	(1 268)
Proceeds from issue of subordinated liablities	31	50 986	–
Net cash from financing activities		**100 148**	**100 514**
Net (decrease)/increase in cash**		**(205 210)**	**251 529**
**of which net foreign exchange revaluation difference on cash held		4 583	(41 426)
Cash at the beginning of the year	17	667 141	415 612
Cash at the end of the year	17	461 931	667 141

The accompanying notes (1–51) form an integral part of these financial statements.
* Reasons for and substance of the restatements of figures for the year ended 31 December 2022 are presented in detail in Supplementary 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 location 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 15th of May 2024.

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 in 2017.

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, loans to customers at fair value through profit or loss, securities at fair value through profit or loss 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").

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These principles have been applied consistently for all the years concerned, with any exceptions indicated.

3 Significant accounting policies

3.1 Restatement of prior year financial statatements

In 2023, the Group restated the 2022 consolidated financial statements as described below.

Notes to the financial statements (CONTINUED)

3.1.1 Change in classification of local business tax and innovation contribution

The Group has examined the currently applicable legislation on local business tax and innovation contribution and its impact on the tax liabilities of the Group. The Group has also observed current market practices with regard to the presentation of these taxes, as well as considering the locally enacted global minimum tax legislation with respect to covered taxes.

Consequently, the Group has decided to change its accounting policy and to present local business tax and innovation contribution, which were previously accounted as other levies in accordance with IAS 37, as a current income tax in accordance with IAS 12 Income taxes. Accordingly, local business tax and innovation contribution liabilities were reclassified from Other liabilities to Current tax liabilities and the receivables from these taxes have been reclassified from Other assets to Current tax receivables in the comparative consolidated statement of financial position and the corresponding tax expense was reclassified from General operating expenses to Income tax expense in the consolidated statement of comprehensive income. The Group considers that the revised presentation provides more relevant information for the users of the financial statements due to better comparability.

Deferred taxation aspects arising from the revised classification of local business tax and innovation contribution are immaterial and therefore are recognized in the current period figures.

In accordance with IAS 8, the comparative disclosures in the notes to the consolidated financial statements as per the below table have been amended.

Notes affected by the above listed change in accounting policies:

Number of note	Description of note
14	General operating expense
16	Taxation
27	Other assets
32	Other liabilities

3.1.2 Change in presentation of certain derivative financial instruments in the statement of profit and loss

For managing its liquidity position and its short-term asset-liability mismatch in foreign currencies, besides other available instruments, the Group is also using foreign currency swaps (FX swaps). The interest income and interest expense on the underlying financial instruments is shown within Net interest income, whereas the fair value change of the derivative financial instruments entered into, in order to perform the economic hedging of foreign currency liquidity flows, has previously been shown within Foreign exchange result.

The Group has decided to change its accounting policy and to present part of the fair value change of foreign currency swaps (the calculated effect of the difference between the spot exchange rate as of the trade date and the forward exchange rate set out in the foreign currency swap contract, on the exchanged currency), that are used for managing its foreign currency liquidity flows of underlying instruments in the banking book, in Net interest income. The portion of the fair value change of the above FX swap derivatives, which the Bank does not present on the line Other interest and similar income or Interest expenses and similar charges, is shown within Foreign exchange result. The Group considers that the revised presentation provides more relevant information for the users of the financial statements.

This is because from the perspective of its real economic substance (i.e. forward exchange rates are mainly driven by interest differentials between the currencies exchanged), the Bank considers this exchange rate derived result as an interest income/expense type of result, thus it is presented linearly over time until maturity of the FX swap in the PL as “Other interest and similar income” or “Interest expense and similar charges”, depending on its direction (gain/loss). The above change in the accounting policy had no impact on the measurement of FX swaps transaction and net result for the period.

In comparative periods data on FX swaps has not been collected in a manner that allows for the clear identification of the relevant derivative financial instruments and their corresponding results, nor can such data be reasonably recreated for the purposes of adjusting comparative information in the consolidated financial statements without the application of hindsight and making assumptions and estimations about prior period events.

Therefore, in accordance with IAS 8, the comparative period in the statement of profit or loss as well as the comparative disclosures in the notes to the consolidated financial statements have not been amended. The effect of the change in policy in 2023 was to recognise in net interest income a loss of HUF 25,063 million that would have been recognised in FX gains/losses under the previous policy.

Notes affected by the above listed change in accounting policies:

Number of note	Description of note
7	Net interest income
10	Foreign exchange result and Net trading results

Notes to the financial statements (Continued)

3.1.3 Restatement of consolidated equity and other liabilities

The Group has examined the consolidation procedure with regard to its wholly consolidated investments and noted a technical error in the process of consolidation connected to its wholly consolidated subsidiaries that are not publishing their separate financial statements under IFRS.

As a result of the technical error, in the consolidated financial statements, a property revaluation reserve related to a property presented using the IAS 16 revaluation model in its wholly consolidated real estate fund has not been properly included within Valuation reserves when initially recognized, nor has it been transferred to Retained earnings when the revaluation reserve was transferred to Retained earnings in the separate financial statements of the wholly consolidated investment when the underlying property was sold in 2021. As a result of the technical error this revaluation reserve was presented in the consolidated financial statements within Other liabilities when initially recognized and remained so after the sales occurred.

The technical error has been corrected by crediting the opening balances of 2022 of Retained Earnings in the statement of changes in equity in the consolidated financial statements for 2023 and has also restated the comparative figures of Retained Earnings as of 31 December 2022, as well as Other liabilities. The Group notes that the presented adjustment has no impact on either prior or current period net results, but rather involves a reclassification between financial statement line items in the comparative statements of financial position only.

In accordance with IAS 8, the comparative disclosures in the notes to the consolidated financial statements as per the below table have been amended.

Notes affected by the above listed correction:

Number of note Description of note

Number of note	Description of note
32	Other liabilities
35	Statutory reserves

Impact of accounting policy changes (1) and the restatement of consolidation (3) on the relevant line items in the consolidated statement of financial position* as at 31 December 2023 and as at 31 December 2022

(HUF million)

FINANCIAL STATEMENT LINE ITEM	2023	RESTATED 2022	RECLASSIFICATION (1)	RESTATEMENT (3)	DISCLOSED 2022
Current tax assets	16	217	76	–	141
Deferred tax assets	903	4,943	–	–	4,943
Other assets	55,185	36,834	(76)	–	36,909
Assets other than current and deferred tax assets and other assets	5,046,754	5,010,409	–	–	5,010,409
Total assets	**5,102,858**	**5,052,403**	**–**	**–**	**5,052,402**
Current tax liabilities	3,377	6,231	1,650	–	4,581
Deferred tax liabilities	10	478	–	–	478
Other liabilities	64,498	47,593	(1,650)	(1,688)	50,931
Liabilities other than current and deferred tax liabilities and other liabilities	4,556,364	4,604,986	–	–	4,604,986
Total liabilities	**4,624,249**	**4,659,288**	**–**	**(1,688)**	**4,660,976**
Retained earnings	248,301	259,483	–	1,688	257,795
Equity other than retained earnings	194,255	133,547	–	–	133,546
Total Equity attributable to the equity holder of the Bank	**478,556**	**393,030**	**–**	**1,688**	**391,341**
Non-controlling interest	53	85	–	–	85
Total shareholder's equity	**478,609**	**393,115**	**–**	**1,688**	**391,426**

(*): Accounting policy change (3.1.2) has no impact on the consolidated statement of financial position and its effects are therefore not presented in a separate column.

Notes to the financial statements (Continued)

Impact of accounting policy changes (1) and the restatement of consolidation (3) on the relevant line items in the consolidated statement of financial position* as at 1 January 2022

(HUF million)

FINANCIAL STATEMENT LINE ITEM	RESTATED	RECLASSIFICATION (1)	RESTATEMENT (3)	DISCLOSED
Current tax assets	41	31	–	10
Deferred tax assets	1,632	–	–	1,632
Other assets	31,851	(31)	–	31,882,
Assets other than current and deferred tax assets and other assets	4,563,090	–	–	4,563,090
Total assets	**4,596,614**	**–**	**–**	**4,596,614**
Current tax liabilities	615	235	–	380
Deferred tax liabilities	277,	–	–	277
Other liabilities	46,423	(235)	(1,688)	48,346
Liabilities other than current and deferred tax liabilities and other liabilities	4,152,168	–	–	4,152,168
Total liabilities	**4,199,483**	**–**	**(1,688)**	**4,201,171**
Retained earnings	277,090	–	1,688	275,402
Equity other than retained earnings	119,959	–	–	119,959
Total Equity attributable to the equity holder of the Bank	**397,049**	**–**	**1,688**	**395,361**
Kisebbségi részesedés	82	–	–	82
Saját tőke összesen	**397,131**	**–**	**1,688**	**395,443**

(*): Accounting policy change (3.1.2) has no impact on the consolidated statement of financial position and its effects are therefore not presented in a separate column.

Impact of accounting policy changes (1) on the relevant line items in the consolidated statement of profit or loss and the consolidated statement of comprehensive income* for the year ended 31 December 2023 and for the year ended 31 December 2022

(HUF million)

FINANCIAL STATEMENT LINE ITEM	2023	RESTATED 2022	RECLASSIFICATION (1)	DISCLOSED 2022
Net interest income other than interest expense and similar charge	590,457	342,784	–	342,784
Interest expense and similar charge	(434,415)	(199,425)	–	(199,425)
Net interest income	156,042	143,359	–	143,359
Foreign exchange result	12,469	3,154	–	3,154
Other profit or loss items	**57,999**	**57,769**	**–**	**57,769**
Operating income	226,510	204,282	–	204,282
Impairment and losses on credit products	6,535	(11,600)	–	(11,600)
General operating expenses	(88,524)	(69,233)	5,009	(74,242)
Other profit or loss items	(36,311)	(30,699)	–	(30,699)
Operating costs	**(124,835)**	**(99,932)**	**5,009**	**(104,941)**
Other profit or loss items	(1,280)	5,525	–	5,525
Profit before tax	106,930	98,275	5,009	93,266
Income tax expense	**(14,989)**	**(13,430)**	**(5,009)**	**(8,421)**
Net profit for the year	91,941	84,845	–	84,845
Other comprehensive income for the year, net of tax	44,436	(33,759)	–	(33,759)
Total comprehensive income for the year	**136,377**	**51,086**	**–**	**51,086**

(*): The consolidation restatement (3.1.3) has no impact on the consolidated statement of profit or loss and the consolidated statement of comprehensive income, and its effects are therefore not presented in a separate column.

Notes to the financial statements (Continued)

Impact of accounting policy changes (1) and the restatement of consolidation (3) on the relevant line items in the consolidated statement of cash flows* for the year ended 31 December 2023 and for the year ended 31 December 2022

(HUF million)

LINE ITEM IN THE STATEMENT OF CASH FLOWS	2023	RESTATED 2022	RECLASSIFICATION (1)	DISCLOSED 2022
Net cash flow from operating activities	(118,170)	184,161	–	184,161
of which: Tax expense	14,989	13,430	5,009	8,421
of which: Change in other assets	(18,570)	(6,626)	45	(6,671)
of which: Change in other liabilities	21,343	3,980	(1,414)	5,394
of which: Income tax paid	(18,110)	(7,760)	(3,640)	(4,120)
Net cash flow used in investing activities	(187,188)	(33,146)	–	(33,146)
Net cash flow from financing activities	100,148	100,514	–	100,514
Net movement in cash	**(205,210)**	**251,529**	**–**	**251,529**
Cash and cash equivalents at the beginning of the year	667,141	415,612	–	415,612
Cash and cash equivalents at the end of the year	461,931	667,141	–	667,141

(*) The accounting policy change (3.1.2) and the consolidation restatement (3.1.3) has no impact on the consolidated statement of cash flows and their effects are therefore not presented in a separate column.

(**) This figure also includes the starting point of the statement of cash flows, net profit for the year and the amending items. In the 2022 published data, the summary of the line Total net cash flow from operating activities did not include the amount of the adjusting entries – an increase of HUF 97,053 million – which was corrected in the current year. The mathematical correction has no impact on the change in net cash.

3.2 Consolidation principles

All entities directly or indirectly controlled by the Group 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 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. 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.
The consolidation of subsidiaries begins when the Group obtains control and ceases when the Group loses control.

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 Central Bank of Hungary (CBH) and other credit institutions, and overnight deposits, which are subject to an insignificant risk of changes in fair value and which the Group 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 17).

3.5 Financial instruments

3.5.1 Classification

Financial assets

IFRS 9 contains 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.
- 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, cash and cash equivalents 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 Lakás-takarékpénztár Zrt. and Garantiqa Hitelgarancia Zrt.

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 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.

At the inception of a hedging transaction, the Bank formally documents the relationship between the hedging instruments and the hedged items, the risk management objective and strategy followed in entering into the transaction, and the method used to measure the effectiveness of the hedging relationship. The Bank assesses, both at inception of the hedging relationship and on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged items over the period for which the hedge is designated and whether the actual results of each hedge fall within the range of 80-125 per cent.

Notes to the financial statements (Continued)

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

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

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

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income from the period when the cash flow hedge was effective remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. 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, DVA, FuVA. All fair value changes related to valuation adjustments are recognised in the statement of profit and loss.

The accounting for derivative financial instruments held for hedging purposes, hedged instruments and hedge ineffectiveness is presented in Supplementary Note 42.

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 Group 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 of 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. Typically, fair value of financial instuments agree with the consideration paid.

If the Bank determines that the fair value at initial recognition differs from the transaction price (for example, loans disbursed or borrowed at below-market interest rates, so-called off-market loans), the Bank applies the following accounting treatment at initial recognition of the financial instrument:

- If the fair value of the financial instrument is evidenced by a quoted price in an active market (i.e. a Level 1 fair value input) or if the fair value measurement is based on a valuation technique that uses inputs from observable markets only, the Bank recognises the difference between the fair value and the transaction price as a gain or loss on initial recognition and immediately recognises it in profit or loss.
- In all other cases, recognition of the difference between the initial fair value and the transaction price at initial recognition through profit or loss is deferred and the calculated initial fair value difference (i.e. the first day loss) is deferred by the Bank with reference to IFRS 9 B5.1.2A (b). This means that, at inception, the initial fair value difference is separated from the receivable or payable arising from the underlying loan transaction and, at the same time, an accrual is created (as other receivable or other payable, depending on the nature of the transaction) that reverses over the life of the loan, in parallel with the amortisation of the financial instrument using the effective interest method, which means that the net result of reversing the accrual and amortising the financial instrument is zero in subsequent periods.

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 2022-2023 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;
- Commercial reason modifications, which change the basic parameters of financial instruments (e.g. maturity) by applying market conditions for customers who are not in financial difficulty and the contracts are to modify the cash flow of the contracts primarily to avoid the loss of existing customers of existing customers.

Notes to the financial statements (CONTINUED)

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 2022-2023 is presented in Supplementary Note 6;
- 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 CBH 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.

Notes to the financial statements (Continued)

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 Investment properties

The Group's investment properties are buildings held for rental or capital appreciation, or both. The Group carries investment property at fair value. Investment properties are valued periodically by an independent property valuation company in accordance with the applicable legislation. The valuation method used by the property valuation company complies with IFRS 13.

3.12 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 Group'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 Group 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 Group 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 Group 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 Group as interest-only payments on principal outstanding.
- The Group 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.

Notes to the financial statements (Continued)

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.

3.13 Provisions for impairment and loan losses

In accordance with the Group's accounting policies, the Group 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.

3.14 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.

Notes to the financial statements (Continued)

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 3.9)

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.

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.

3.15 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.

3.16 Issued debt securities and subordinated liabilities

The Group classifies its financial liabilities measured at amortised cost as bonds and subordinated liabilities issued, which are initially measured at issue value less transaction costs attributable to the transaction and subsequently measured at amortised cost using the effective interest method. In the statement of financial position, the Group presents issued bonds and subordinated liabilities as separate line items within liabilities.
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.

Notes to the financial statements (Continued)

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 2022 and 2023 had the same issue value and face value.
On 29 November 2023, the Group issued a Tier 2 bond with a nominal value of EUR 135 million, which qualifies as an additional Tier 2 capital instrument under Article 63 of Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR Regulation).
Details of the bonds issued and subordinated liabilities are disclosed in note 31.

3.17 Equity elements

3.17.1 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.

3.17.2 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.

3.18 Derivative financial instruments

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

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

Quantitative information on the hedging derivatives is presented under Note 42.

The identification of embedded derivatives always originates from a non-derivative host contract. A derivative embedded in a complex instrument (hybrid contract) is said to be embedded when part of the cash flows of the host contract behaves in a manner similar to stand-alone derivatives. This is because the embedded derivative makes (part of) the cash flows from the host contract dependent on underlying variables.

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.

There are currently structured deposits on the Group's books that include embedded derivatives. The Group carries its deposits at amortised cost and the embedded derivative is separated from the deposit. The Group measures embedded derivatives at fair value and changes in fair value recognised in the income statement.

3.19 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).

3.20 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 similar income and interest expense on interest rate swaps (IRS, CIRS) designated as hedges of the risks directly associated with its activities and on its financial instruments (trading securities and loans designated at fair value through profit or loss).
The Group also distinguishes between its derivative financial instruments (hereafter referred to as liquidity hedging FX swap derivatives) that are entered into to hedge short-term foreign exchange liquidity needs arising from financial instruments in the Group's books but are not designated as hedging instruments. For these derivative financial instruments, a portion of the change in fair value recognised in profit or loss (the effect on the foreign currency swapped of the difference between the spot rate at the time of the transaction and the forward rate fixed in the transaction) is recognised separately from the change in fair value of the FX swap derivatives held for trading, as determined by the Group, in line Other interest and similar income and Interest expense and similar charges, depending on its sign, in line Interest expense and similar charges, as well as Interest expense and similar charges, as determined by the Group. The reason for treating this exchange rate difference as interest is that it is recorded on a pro rata basis over the life of the transaction in Other interest and similar income or Interest expense and similar charges.

The portion of the change in the fair value of FX swap derivatives for liquidity hedging purposes that the Group does not recognise in the income statement in the same line as trading FX derivatives in the same line as other interest and similar income or in the same line as interest expense and similar charges is recognised in the income statement in the foreign exchange result.
Interest expenses also include interest recognised in relation to IFRS 16 leasing transactions.

3.2 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.

3.22 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 Group's fee-based services.
The Group 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 Group 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 Group typically relate to payment services, account management, investment services, custody services and documentary services and are detailed in note 8.

3.23 Foreign exchange result and Net result on financial assets held for trading

The Group includes foreign exchange gains and losses arising from the settlement of foreign currency denominated transactions and from the revaluation of financial assets and liabilities denominated in foreign currencies in the foreign exchange result. Net foreign exchange result and net result on financial assets held for trading also include the net results of interest rate swaps not designated as hedges, forward rate agreements and gains and losses on sales and changes in fair value of financial instruments held for trading carried at fair value, except for FX swap derivatives designated as liquidity hedges – included in the item 3.20 – recognised in Other interest and similar income or Interest expense and similar charges.

3.24 Net result on hedge accounting

The Group 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.

3.25 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.

3.26 Taxation

Income tax on the profit or loss for the year consists of current and deferred tax.
The Group classifies corporate income tax, local business tax and innovation contribution as income tax in accordance with IAS 12.
Current tax liabilities (tax assets) for the current and prior periods are measured at the amount expected to be payable to (or recoverable from) the tax authority, using tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The profit for the year is adjusted according to the relevant tax regulations to calculate the taxable income. The corporate income tax base is different from the local business tax and the innovation contribution.

The Group applies a temporary mandatory exemption from the deferred tax effect of the additional tax regulated under the global minimum tax regime, recognising the additional tax as current tax in the year in which it is incurred.

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.

The Group offsets its deferred tax assets and deferred tax liabilities against each other only if it has a legally enforceable right to set off its current tax assets against its current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority and on the same taxpayer.

3.27 Share-based payments

The Group is part of several incentive programmes operated by UniCredit S.p.a, applying the requirements of IFRS 2 “Share-based Payment”, stock options not provided.
The Group provides a share-based payment to certain of its employees, which is accounted as cash-settled share-based payment as it is not provided from its own funds and instead from the parent company.

The fair value of a cash-settled share-based payment, the services acquired, and the liability incurred are measured at the fair value of the liability. The fair value of the liability, as long as it has not been settled, is revalued on each balance sheet date, and all changes in the fair value are recorded in the income statement. 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.

3.28 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.

3.29 New standards and interpretations

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023.

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

- **Amendments to IAS 1 Presentation of Financial Statements** and IFRS Practice Statement 2 Disclosure of Accounting Policies - endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – Definitions of Accounting Estimates - endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 Insurance Contracts** – endorsed by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 Insurance Contracts** – Initial application of IFRS 17 and IFRS 9 – Comparative information – endorsed by the EU on 8 September 2022 (effective for annual periods beginning
- **IAS 12 “Income Taxes”** – “Deferred Tax Assets and Liabilities Arising from a Transaction” – adopted by the EU on 11 August 2022 (effective for accounting periods beginning on or after 1 January 2023).

In relation to IFRS 17 in particular, the Group has assessed whether it has any contracts to which the requirements of IFRS 17 should be applied. As a result, the Group has concluded that it recognises its obligations under issued financial guarantee contracts in accordance with IFRS 9 and therefore applies the scope exclusion of IFRS 17 to these contracts. The Group also applies a scope exclusion to its other contracts, taking into account that it does not apply a pricing methodology that takes into account the insurance risk of the individual customer for its other loan contracts. Pricing considers factors that determine the credit risk of the customer. The Group acts as an intermediary for the products of its insurance counterparties in relation to certain products but is not exposed to direct insurance risk in these cases. Therefore, the Group does not have any contracts that qualify as insurance contracts for the purposes of IFRS 17 and to which no scope exclusions apply.

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

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:
- **Amendments to IAS 1 Presentation of Financial Statements** – Classification of Current and Non-current Liabilities (effective for annual periods beginning on or after 1 January 2024),
- **IFRS 16 "Leases"** - Lease Obligations in a Leaseback Transaction – issued by the IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024),
- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments" – Vendor Financing Arrangements** (effective for reporting 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.

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.

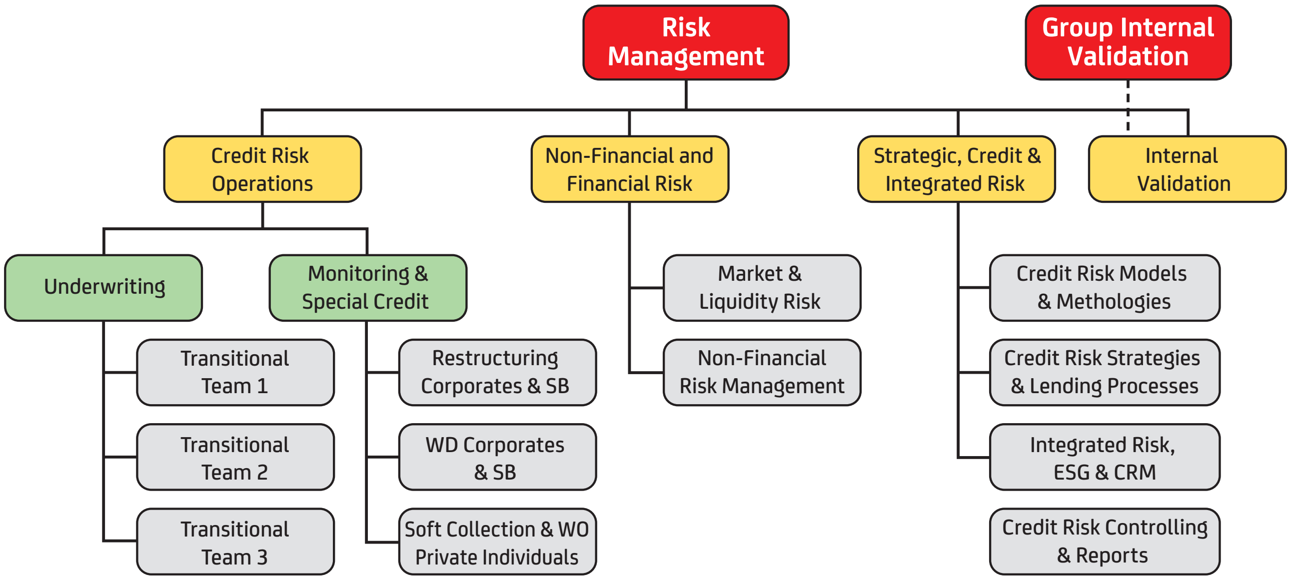
The Group has also established risk committees to monitor, manage and take decisions on risks:
- Operational Credit Committee (meets regularly, twice a week)
- CEO Credit Committee (meets regularly, twice a week)
- Financial Risk Committee (FRC), which deals with ALM, liquidity and market risk (meets 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, quarterly)
- 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.

Notes to the financial statements (CONTINUED)

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. 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 Special Credit** 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.

Stragetic, Credit & Integrated Risks 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 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.

Internal Validation is responsible for preparing independent validation activities in accordance with Group policies and external regulations according to the validation plan in the following areas: model validation, IT validation, data validation, process validation, validation of reporting systems (reports), validation of risk mitigation techniques (CRM).

Non-Financial Risk Management ensures compliance with legal and group-wide rules on operational and reputational risks and coordinates the work of operational risk network. Application Fraud Management activity for retail and small business clients is also performed.

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.

Notes to the financial statements (CONTINUED)

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.

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

Notes to the financial statements (Continued)

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.

Notes to the financial statements (CONTINUED)

- **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).

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.

4.3.5 Incorporation of forward-looking information

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 IFRS 9 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%). From the end of 2023 in case of adverse

scenario PD floor was implemented for both the local business and residential segments, derived from TTC PD level. The effect of economic scenarios on impairment can be found in additional note of 45.7.

4.3.6 Geopolitical and commercial real estate finance (CREF) overlay

As of 31 December 2023, geopolitical overlay amount to HUF 11.5 billion (2022: 13.2 billion) 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.

In the overlay calculation introduced at the end of 2022, credit exposures in the above categories are identified according to their industry specificities. On this basis, each satellite model is run using a multi-year business plan projected along macroeconomic assumptions, in a recessionary scenario, in order to determine the adjustment to be applied to the default rate. This adjusted default rate is then applied to the appropriate categories to estimate the expected new inflows of non-performing exposures, for which an impairment loss is then calculated on the basis of the average coverage ratio applied to the exposures classified as Unlikely to pay. During 2023, the overlay is adjusted in proportion to the change in the exposure value of the industries concerned and the overlays previously created on the defaulted exposures are deducted, following the group methodology.

Another argument against applying the 2022 overlay in 2023 is the energy supply problem caused by the Russian-Ukrainian crisis, the potential payment difficulties for retail customers and the effects of the introduction and withdrawal of different moratoria, which are difficult to incorporate into the impairment.

The effect of geopolitical and CREF overlay on provision can be found in additional note of 45.6.

A so-called commercial real estate finance overlay was introduced at the end of 2023 to cover the increased risks observed in the sector:
- Default risk due to the impact on debt repayment capacity due to higher interest rates, which also affects the refinancing of loans.
- Risk of default due to lower property values.

The overlay calculation logic is the same as for the geopolitical overlay, i.e. an adjusted default rate is first determined for the exposures observed in the industry in order to estimate the expected new inflow of defaulting exposures, on which an impairment loss is then calculated based on the average coverage ratio applied to the exposures rated Unlikely to pay.
The current level of the overlay is HUF 4.2 billion.

4.3.7 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.

4.3.8 Current tendencies in lending

4.3.8.1 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 CBH 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.

4.3.8.2 Corporate lending

In 2023, main objective for the corporate portfolio was to protect the quality of the existing portfolio. Regarding the corporate loan portfolio, the Group's lending policy is differentiated by sectors, requiring a selective risk approach for new transactions with the most vulnerable sectors.
The sectoral approach of the risk policy has been even more appreciated in the exceptional geopolitical situation, and our actions were also taken on a sectoral basis. Our monitoring activities have also been based on which sectors have been hardest hit by the spill-over effects of the geopolitical situation. 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 subsidized products to our clients, including the inclusion of crisis guarantees, with a view to avoiding payment difficulties.

Our new lending activities were also selected based on the crisis sensitivity or resilience of each sector. Beside the individual assessments, we have also prepared quarterly portfolio analyses on spill-over effects to assess direct and indirect risks, identify problematic clients and carry out appropriate stage classifications. In the agri-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 2023.

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 2023. 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 2022 and 2023 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 47.

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.

Notes to the financial statements (Continued)

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 48. The interest rate re-pricing analysis is presented in Note 46.

Moreover, the Group treats the preparation and compliance with new Banking Book requirements (IRRBB, CSRBB) with high priority.

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.

4.6 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 & Controls 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 Fair value measurement

Regarding 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 adjustment 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/DVA (Credit/Debit Valuation Adjustment) and FuVA (Funding Valuation Adjustment) as a fair value adjustment on its OTC derivative transactions. Both CVA/DVA and FuVA calculations are performed centrally by UniCredit Group.

5.2 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

The Hungarian Government maintained most of its regulations with the aim of protecting the economy throughout 2023. 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 Group'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 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 Group by the deadline set in the Decree.

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).

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). 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.

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.

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

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 as a contract modification event under IFRS 9.

However, a contract modification loss under IFRS 9 is recognised in the reporting period in which the contract modification occurs.

The Group did not determine provisions the loss on contract modification reversed in interest income through increased interest amortization over the remaining life of the loans in 2022 and 2023 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. At the expiry of the moratorium, the contract modification loss adjusted on the basis of

Notes to the financial statements (Continued)

the cash flows estimated at the time of the moratorium was offset against the contract modification loss calculated on the basis of the actual cash flows and only the difference arising from the estimation uncertainty was realised in the income statement.

The recognised loss on contract modification includes significant management estimates. The model aimed to identify the variables that determine the contract modification loss. For the period up to the expiry of the moratorium, the model inputs were reviewed at each period to update the moratorium portfolio, including, among other things, the fact of participation in the moratorium, the weight of accrued interest and the duration of the required maturity extension. The estimated contract modification loss per transaction is determined 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.

The loss on contract modification calculated on the basis of the model is included in the statement of financial position 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.

In 2022 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 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). 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.

The income statement does not include any amounts recognized under a significant estimation model related to payment moratoria in 2023.

Impairment of financial instruments

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

In addition to the figures presented in the table below, the gross value of the exposures that were legally withdrawn from the agricultural moratorium (targeted payment moratorium) upon its expiry as of 31.12.2023 amounted to HUF 17,231 million, and the expected credit loss recorded on the exposures amounted to HUF 792 million.

Exposures eligible for the moratorium, participating in the moratorium for a certain period of time, but exited from it voluntarily or by law (due to the expiry or reduction in scope of the measure) are presented in the table below at 31 December 2023 and 31 December 2022:

31 DECEMBER 2023	PERFORMING STAGE 1	PERFORMING STAGE 2	NON-PERFORMING STAGE 3	TOTAL
Gross book value of households	29,684	32,740	2,342	64,766
Gross book value of non-financial corporations	61,589	24,713	6,606	92,908
Gross book value total	**91,273**	**57,453**	**8,948**	**157,674**
Impairment of households	(80)	(1,102)	(1,625)	(2,807)
Impairment of non-financial corporations	(364)	(796)	(3,357)	(4,517)
Impairment total	**(444)**	**(1,898)**	**(4,982)**	**(7,324)**
Net book value of households	29,604	31,638	717	61,959
Net book value of non-financial corporations	61,225	23,917	3,249	88,391
Net book value total	**90,829**	**55,555**	**3,966**	**150,350**

Notes to the financial statements (Continued)

31 DECEMBER 2023	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**

6.2 Interest rate 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.

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 (Government Decree 415/2022 (X.26)). For this range of transactions, the legislation caps the reference rate applied at the rate applicable on 28 June 2022.

Government Decree 175/2023 (12 May 2023) extended the interest rate freeze for a further six months, until 31 December 2023, for the relevant variable and fixed-rate residential mortgage loans and variable-rate micro and small business loans and leases.

Government Decree 522/2023 (30 November 2023), which entered into force on 1 December 2023, extended the duration of the interest rate freeze until 1 April 2024 for micro, small and medium business loans, leases and until 1 July 2024 for retail loans.

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 2023 and 2022. 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	2023	2022
Modification losses recognised on loans in moratorium (1-4)	–	(36)
Modification gains/(losses) recognised on loans in agricultural moratorium	30	(140)
Modification losses recognised on loans in connection with interest freeze	(4,470)	(5,126)
Total	**(4,440)**	**(5,302)**

Notes to the financial statements (Continued)

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.

Considering the recoverability, the Group has recognised the discounted future recoverable amount as an asset, thus the discounted impact of the 2023 epidemiological tax totals HUF 38 million revenue (2022: HUF 26 million revenue). The Group recognises an asset of HUF 1,872 million (2022: HUF 2,825 million) as a future receivable in the statement of financial position at the end of 2023.

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 year 2022.

Initially, 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 the first half of 2023.

Government Decree 144/2023 of 24 April 2023 amended the basis and the rate of the extra profit tax for the second half of 2023. Accordingly, for 2023, two methods of tax assessment were in force. In the first half of the year, the tax base was 8% of the 2022 net turnover determined on the basis of the Local Tax Act, while in the second half of the year, the tax base was 50% of the pre-tax profit determined on the basis of the 2022 annual accounts, with a graduated tax rate of 13% for the part not exceeding HUF 10 billion and 30% for the part exceeding HUF 10 billion.

Accordingly, the Group was liable to pay HUF 28,610 million in tax in 2023 (2022: HUF 15,155 million) which was recognised in general operating expenses.

Government Decree 206/2023, published on 31 May 2023, contains the detailed rules for the extra profit tax payable by credit institutions in 2024.

In 2024, the tax will continue to be based on the pre-tax profit for 2022, as it will be for the second half of 2023 (or half of it) following the April amendment. The tax rate will be 13% on the part of the tax base not exceeding HUF 20 billion and 30% on the amount above thisAccording to the Decree, if the average daily stock of Hungarian government bonds maturing after 1 January 2027 increases with respect to the period between 1 January 2024 and 30 November 2024 compared to the average daily stock of Hungarian government bonds held by a credit institution with respect to the base period between 1 January 2023 and 30 April 2023, the credit institution or financial undertaking may reduce its obligation to pay the special tax due until 10 December 2024, up to the limits set out in the Decree (50% of the total initial tax burden for 2024).

6.5 Deposit interest coupon

In the framework of Government Decree 47½022 (21.11.2022), the Government introduced an interest rate cap on deposits with banks of institutional investors and retail customers with a maximum maturity of one year and demand deposits of HUF 20 million and above. According to this, the Group cannot pay interest on deposits of these customers at a rate higher than the average auction rate of the 3-month discount Treasury bill. The Decree extended the deadline several times in 2023, with an amendment effective from 1 December 2023, according to which the interest rate cap applies to deposit contracts in forint concluded until 1 April 2024. The Government measure did not have a material impact on the financial statements.

Notes to the financial statements (CONTINUED)

7 Net interest income

(HUF million)

	2023	2022
Interest and similar income		
Interest income from Central Bank	119,066	93,502
Interest income from banks	39,714	17,756
Interest income from customers	143,621	76,238
Interest income on securities at amorised cost	43,169	24,553
Interest income on securities at fair value through other comprehensive income	20,605	10,363
Other interest income with EIR method*	208	258
Interest income on customer loans at fair value through P&L	7,189	4,275
Interest income on trading financial assets	447	320
Interest income on hedge derivatives	210,363	110,935
Interest income from leasing contracts	6,520	4,584
Total	**590,902**	**342,784**
Interest expense and similar charges	**2023**	**2022**
Interest expense to Central Bank	(4,907)	(4,152)
Interest expense to banks	(11,213)	(2,793)
Interest expense related to hedge derivatives	(257,651)	(127,755)
Liquidity hedging FX swap derivatives interest expense	(25,063)	–
Interest expense to customers	(114,661)	(58,116)
Interest expense on issued bonds	(20,097)	(6,569)
Interest expense on subordinated loans	(507)	–
Other provision discount breakdown	(276)	–
Lease liability interest expense	(39)	(40)
Other financial fees and commissions	(1)	–
Total interest expense:	**(434,415)**	**(199,425)**
Net interest income	**156,042**	**143,359**

* 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 CBH. The total amount of it was HUF 99 million in 2023 and HUF 146 million in 2022. The Group meets all 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 67 million in the Financial Statements in 2022 (2022: HUF 70 million).

8 Net fee and commission income

(HUF million)

	2023	2022
Fees and commission income		
Payment transaction fees	54,534	50,410
Financial guarantee fees	3,030	2,765
Custody service fees	5,026	4,846
Investment service fees	6,625	4,706
Other financial services fees and commissions	2,912	2,718
Total	**72,127**	**65,445**
Fees and commission expense		
Payment transaction fees	(8,714)	(8,015)
Financial guarantee fees	(189)	(429)
Custody service fees	(1,195)	(1,116)
Investment service fees	(1,948)	(66)
Other financial services fees and commissions	(2,303)	(2,200)
Total	**(14,349)**	**(11,826)**
Net fee and commission income	**57,778**	**53,619**

Notes to the financial statements (Continued)

A short summary of the nature and timing of the performance obligations of the Group 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 Group 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 Group 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 Group 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 continosly 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 Group charges fees for continosly 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)

	2023	2022
Dividends on investments	5	9
Total	**5**	**9**

10 Foreign exchange result and Net trading results

10.1 Foreign exchange result

(HUF million)

	2023	2022
Gain/(Loss) on foreign exchange	12,469	3,154
Total	**12,469**	**3,154**

Notes to the financial statements (Continued)

10.2 Net trading results

(HUF million)

	2023	2022
Gain/(Loss) on trading interest rate swaps, net	2,311	3,377
Gain/(Loss) on debt securities, net	(264)	(1,465)
Gain/(Loss) on equities, net	1	2
Gain/(Loss) on trading FRA's, net	343	84
Other trading income	379	289
Total	**2,770**	**2,287**

11 Net results of hedge accounting

(HUF million)

	2023	2022
Net result on hedging IRS transactions and changes in fair value of hedged instruments	(1,041)	455
Hedging derivative transactions CVA, DVA, FuVA, FVA results	(956)	1,097
Total	**(1,997)**	**1,552**

12 Net gain and loss on non-trading financial assets

(HUF million)

	2023	2022
Gain		
Investment securities at amortised cost	1,510	50
Investment securities at fair value through other comprehensive income	15,569	13,318
Gain on sales on investments at fair value through profit and loss	227	–
Revaluation gain on investments at fair value through profit and loss	60	–
Loans at fair value through profit and loss	1,542	1,295
Gain on repurchased issued Mortgage Bonds	1	–
Total	**18,909**	**14,663**
Loss		
Investment securities at amortised cost	(4,342)	(2,346)
Investment securities at fair value through other comprehensive income	(15,124)	(11,961)
Investments at fair value through profit and loss	–	(54)
Total	**(19,466)**	**(14,361)**
Net gain from other financial investments	**(557)**	**302**

13 Personnel expenses

(HUF million)

	2023	2022
Wages and personal payments	(22,989)	(20,903)
Employer's social-security contributions	(2,862)	(2,517)
Other employee allocations/benefits	(1,739)	(1,659)
Other employer's contributions	(296)	(251)
Total	**(27,886)**	**(25,330)**

The average number of employees was 1,784.13 in 2023 (2022: 1,785.36).

Notes to the financial statements (CONTINUED)

14 General operating expenses

(HUF million)

	2023	RESTATED* 2022
Tax expense (transaction tax, bank levies, property tax, motor vehicle tax, other taxes)	(36,818)	(38,335)
Extraprofit tax**	(28,610)	(15,155)
OBA extraordinary contribution***	–	(3,387)
Return of OBA extraordinary contribution***	–	2,029
Fees to authorities	(3,528)	(4,251)
Renting costs and operating expenses of property	(2,674)	(2,188)
Advertising costs	(786)	(569)
Information technology costs	(12,602)	(9,291)
Material and office equipment costs	(322)	(284)
Other administrative costs	(3,184)	(2,811)
Total	**(88,524)**	**(69,233)**

* The restatement was made for the reasons detailed in Supplementary Note 3.1.

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

*** The Central Bank of Hungary revoked the operating licence of Sberbank Hungary Zrt. in 2022. The compensation of the credit institution's customers was carried out by the National Deposit Insurance Fund (OBA). For the compensation, the OBA required a one-off payment to the member credit institutions, which the OBA undertook to reimburse to the member institutions. The one-off payment was recognised in the Bank's profit and loss account for 2022 under general operating expenses, as its recovery was uncertain at the time of Sberbank's liquidation. In December 2022, after the completion of the liquidation, the one-off payment was partially reimbursed, while the remaining HUF 1,358 million was repaid in 2023 and recognised in other income.

The following services were provided by KPMG to the Group (fees are in net amounts):
- Audit services (audit fee) of HUF 114 million in 2023 (2022: HUF 77 million),
- Other assurance services (audit related fee) of HUF 46 million in 2023 (2022: HUF 39 million),
- Permitted non-audit services (other fees) were not provided in 2023 and 2022.

Notes to the financial statements (CONTINUED)

15 Other income and other expense

(HUF million)

	2023	2022
Other income		
Trading business sales revenue*	–	4,512
Obligations that are time-barred pursuant to Article 17 (1)-(2) of Act XL of 2014 in connection with foreign exchange settlement legislation	–	254
SLA services revenue	620	550
Revenue from services supplied by third parties	645	598
Rental income received	798	1,161
Compensation received	26	19
Recovery of the OBA extraordinary payment	1,358	–
Recovery cost	61	25
Net gain on sale of tangible fixed assets	124	65
Net gain on sale of non-current assets held for sale	5	–
Other	683	243
Total:	**4,320**	**7,427**
Other expenses		
Expenditure on damages	(59)	(53)
Compensation paid to customers for various operational risk events	(737)	(150)
Deposit breaking fee	(1,470)	–
Cost of Workout	(103)	(80)
Fine	(74)	(137)
Expenditure on services supplied by third parties	(452)	(598)
Revaluation loss on properties measured using the revaluation model	(200)	(206)
Grants to public benefit organisations under grant and cooperation agreements	–	(80)
Integration cost	(744)	–
Provisions for litigation	(309)	–
Provisions for legal risks	(328)	–
Other	(220)	(459)
Total	**(4,696)**	**(1,763)**
Other results	**(376)**	**5,664**

* In 2022, the trading business sales revenue line shows the compensation amount related to the centralisation of the treasury function at the parent company. The transferred capacity is not considered as a separate business for accounting purposes, so the compensation amount received is recognised in 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. In 2023, the corporate income tax rate will be 9 percent of the tax base (9% in 2022), the local business tax rate is 2% (2% in 2022), and the innovation contribution is 0.3% of the tax base (0.3% in 2022).
For details on actual and deferred taxation, see additional note 3.26.
The Bank's income tax expense for 2023 and 2022 is as follows:

16.1 Tax liability for the year

(HUF million)

	2023	RESTATED* 2022
Current corporate tax expense	9,006	8,190
Adjustments for prior years	(42)	–
Current local business tax	5,641	4,329
Current innovation contribution	852	680
Total current tax	**15,457**	**13,199**
Deferred tax charge	(468)	231
Total income tax expense in statement of profit or loss	**14,989**	**13,430**

Notes to the financial statements (CONTINUED)

16.2 Reconciliation of effective tax rate

	2023		RESTATED* 2022	
	%	(HUF MILLION)	%	(HUF MILLION)
Profit before tax		**106,930**		**98,275**
Expected tax calculated at tax rates considered as income tax	11.3	12,083	11.3	11,105
Impact of different tax bases for local business tax and innovation contribution	3.8	4,034	2.8	2,749
Adjustments for prior years	0.0	(41)	0.0	–
Tax base correction items	0.0	15	(0.2)	(251)
Elimination of deferred tax on Provision for exchange differences	0.0	–	0.0	(8)
Tax differential due to group corporate tax	(0.1)	(101)	(0.1)	(72)
Local business tax, innovation contribution - Profit before tax correction	(0.7)	(636)	(0.2)	(200)
Other	(0.3)	(365)	0.1	107
Total	**14.0**	**14,989**	**13.7**	**13,430**

* The data have been restated for the reasons detailed in Supplementary Note 3.1.

16.3 Balances associated with taxation

(HUF million)

	2023			RESTATED* 2022		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets/liabilities	16	(3,377)	(3,361)	217	(6,231)	(6,014)
Deferred income tax						
Securities at fair value through other comprehensive income	(104)	(122)	(226)	(166)	(382)	(548)
Cash flow hedges	813	–	813	5,157	–	5,157
Asset revaluation surplus	–	(107)	(107)	–	(99)	(99)
Property, plant and equipment	125	(393)	(268)	126	(336)	(210)
Provision	217	–	217	188	–	188
Accrued losses from previous years	(36)	–	(36)	(68)	–	(68)
Impairment	2	–	2	(3)	–	(3)
Other (accruals)	267	–	267	219	–	219
Netting effect	(381)	622,	241	(510)	339	(171)
Deferred tax assets / (liabilities) – Corporate income tax	**903**	**–**	**903**	**4,943**	**(478)**	**4,465**
Deferred tax assets / (liabilities) – Local business tax, innovation contribution						
HTCS securities - Local business tax, innovation contribution	–	(10)	(10)	–	–	–
Total deferred tax assets / (liabilities) - Local business tax, innovation contribution	–	(10)	(10)	–	–	–
Total tax assets/(liabilities) – Corporate income tax, local business tax, innovation contribution	**919**	**(3,387)**	**(2,468)**	**5,160**	**(6,709)**	**(1,549)**

* The data have been restated for the reasons detailed in Supplementary Note 3.1

Notes to the financial statements (Continued)

16.4 Movements in temporary differences during the year 2023

(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	(548)	–	312	(236)
Cash flow hedges	5,157	–	(4,344)	813
Asset revaluation surplus	(99)	–	(8)	(107)
Property and equipment	(210)	(58)	–	(268)
Effect of items, increasing/(decreasing) tax base	165	526	–	691
Total deferred tax assets/(liabilities)	**4,465**	468	**(4,040)**	**893**

16.5 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	(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**

The Group operates in Hungary, which has introduced new legislation on the introduction of a supplementary tax as part of the global minimum tax regime. It is possible that the Group will be subject to the additional tax in relation to its operations in Hungary, where the nominal corporate tax rate is 9%. However, as these new tax laws will only enter into force in Hungary from 1 January 2024, they will have no effect for the year ending 31 December 2023. If the additional tax had already been in force in 2022, the profits of the Group's Hungarian operations would not have been subject to the additional tax for the year ending 31 December 2022, as the average effective tax rate applicable to these profits would have been higher than 15% due to the total amount of taxes covered and the Italian tax on dividends paid to the ultimate parent company. The calculations for 2023 are not yet available but based on the results of the calculations for 2022, the Bank does not expect the above conclusion to change materially.

17 Cash and cash equivalent

(HUF million)

	2023	2022
Cash on hand	23,161	21,563
Unrestricted balance with the Central Bank	349,363	29,715
Nostro account balances with other banks	17,307	22,108
Overnight deposits with the Central Bank	–	532,529
Overnight deposits with the other banks	72,102	61,370
Impairment on cash and cash equivalents	(2)	(144)
Total	**461,931**	**667,141**

18 Financial instruments held for trading

(HUF million)

	2023	2022
State treasury bills	2,730	2,797
Other bonds	26	31
Financial assets held for trading total	**2,756**	**2,828**
Interest rate derivatives	109,255	217,976
Interest rate & FX derivatives (CCIRS)	1,932	6,288
FX derivatives	8,409	14,210
Commodity derivatives	10,252	38,784
Adjustments (FVA, CVA, FuVA)	(1,321)	(1,701)
Trading derivative assets total	**128,527**	**275,557**
Interest rate derivatives	98,019	217,968
Interest rate & FX derivatives	1,916	6,581
FX derivatives	7,666	17,152
Commodity derivatives	10,249	38,781
Adjustments (FVA, DVA, FuVA)	(75)	(922)
Trading derivative liabilities total	**117,775**	**279,560**

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. Further details on trading derivatives are disclosed in Note 41.

19 Hedging derivative instruments

(HUF million)

	2023	2022
Derivative assets held for risk management purposes		
Interest rate derivatives	77,380	196,688
Interest rate & FX derivatives	2,860	9,881
Adjustments (FVA, CVA, FuVA)	(828)	(406)
Total	**79,412**	**206,163**
Derivative liabilities held for risk management purposes		
Interest rate derivatives	169,209	338,534
Interest rate & FX derivatives	1,704	3,597
Adjustments (FVA, DVA, FuVA)	(190)	(498)
Total	**170,723**	**341,633**

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.

20 Placements with, and loans and advances to banks

(HUF million)

	2023	2022
Placements with Central Bank	360,855	405,885
Loans and advance to other banks	668,640	523,842
Impairment on loans and advance to banks	(176)	(250)
Total	**1,029,319**	**929,477**

Notes to the financial statements (CONTINUED)

21 Loans and advances to customers

(HUF million)

	2023	2022
Amounts receivable from leases	97,844	102,863
Loans and advances to customers at amortized cost	2,023,593	1,935,116
Provision for impairment and losses on credit products	(44,895)	(55,380)
Loans and advances to customers at fair value through profit and loss	107,515	78,678
Total	**2,184,057**	**2,061,277**

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 (further details in Note 3.12).

21.1 Analysis by industrial sector

(HUF million)

	2023		2022	
	(HUF MILLION)	%	(HUF MILLION)	%
Private clients	539,884	24.22	478,724	22.61
Real estate finance	366,582	16.44	372,846	17.61
Machine industry	176,665	7.93	186,880	8.83
Trade	210,105	9.43	217,809	10.29
Transportation*	76,822	3.45	76,456	3.61
Energy stockpiling*	121,392	5.45	124,093	5.86
Financial activities	134,853	6.05	149,879	7.08
Food processing	62,161	2.79	61,767	2.92
Metallurgy	78,296	3.51	79,095	3.74
Construction	76,624	3.44	83,794	3.96
Chemicals/Pharmaceutical	43,941	1.97	45,001	2.13
Agriculture	68,684	3.08	67,144	3.17
Electric energy industry	123,916	5.56	73,472	3.47
Community	23,865	1.07	23,482	1.11
Light industry	22,687	1.02	22,177	1.05
Catering trade	9,430	0.42	8,064	0.38
Communication	8,485	0.38	7,998	0.38
Mining	2,066	0.09	2,878	0.14
Other	82,494	3.70	35,098	1.66
Total	**2,228,952**	**100.00**	2,116,657	**100.00**

The total amount is presented gross of provision for impairment losses.

* The change in the 2022 balance of the Transport category is due to the change in the presentation of the industry separation of Energy stockpiling.
Loans and advances to customers are presented in more details in Note 45.

21.2 Amounts receivable under finance lease

Amounts receivable under finance lease in Hungarian Forint were mainly affected by the following factors in 2023:
- A significant decrease in new business in the Retail Car business,
- In the Corporate business, the postponement of the realisation of cooperation with new partners until the beginning of 2024,
- The suspension of capital and interest payment obligations in the agricultural segment due to the moratorium.

The average term of finance leases entered into is 4.88 years. Generally, these lease contracts do not include options for renewal or termination.

Notes to the financial statements (Continued)

(HUF million)

	2023	2022
Less than 1 year	46,781	48,275
1-2 years	23,361	24,954
2-3 years	17,521	18,257
3-4 years	10,589	11,028
4-5 years	5,648	5,209
Onwards	1,688	2,158
Lease payments	**105,588**	**109,881**
Unguaranteed residual values	–	–
Gross investment in the lease	**105,588**	**109,881**
Less: unearned finance income	(10,288)	(8,768)
Present value of minimum lease payments receivable	**95,300**	**101,113**
Impairment losses	(1,701)	(2,053)
Net investment in the lease	**93,599**	**99,060**

(HUF million)

	2023	2022
Items recognised in the income statement in respect of finance leases		
Results of sales	121	63
Financial income from net investment in leases	5,752	4,177
Income related to variable lease payments not included in the valuation of the net investment in leases	–	–

The Group's finance lease arrangements do not include variable payments.
The average effective interest rate contracted is approximately 5.48% per annum.

22 Investment securities

(HUF million)

	2023	2022
Investment securities at fair value through other comprehensive income		
Treasury bills	229,862	–
State bonds	144,085	172,219
Other bonds	29,537	68,970
Equities*	4,901	323
Total	**408,385**	**241,512**

* 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.

In 2023, the Group, taking into account the ongoing change in the extent of its interest in Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. and the available information about its ownership structure, concluded that cost is no longer a reasonable approximation of fair value. Consequently, the investment was remeasured during the year to fair value on an equity method using the Fundamenta Group's most recent publicly available consolidated financial statements.

(HUF million)

	2023	2022
Investment securities at fair value through profit and loss		
Equities	419	1,420
Total	**419**	**1,420**
Investment securities at amortized cost		
State bonds	535,858	425,888
Other bonds	166,422	146,159
Impairment	(1,531)	(1,439)
Total	**700,749**	**570,608**
Investment securities total	**1,109,553**	**813,540**

Notes to the financial statements (CONTINUED)

The classification of the securities presented above in the fair value hierarchy and the fair values at the balance sheet date are disclosed in Supplementary Note 41. Sales of investment securities both in 2023 and 2022 were insignificant in value and frequency.

23 Equity investments

As of 31 December 2023 and 2022 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 percentage ownership and 100 percentage 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)

	2023	2022
Investment property in usage	7,416	8,725

(HUF million)

	2023	2022
Opening on 1 January	8,725	8,864
Increases (purchase)	–	–
Decreases (sale)	–	–
Change in fair value	(1,309)	(139)
Closing on 31 December	**7,416**	**8,725**

The Group's investment properties are held within Europa Investment Fund, of which, 99,75% (2022: 99,56%) 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 659 million rental income in 2023 (2022: HUF 708 million).

Notes to the financial statements (CONTINUED)

25 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
2023								
Property and connected equipment	22,278	(4,125)	466	–	(79)	–	(668)	17,872
Office equipment	7,902	(6,569)	667	(1)	–	–	(533)	1,466
Motor vehicles	926	(569)	151	(9)	–	–	(120)	379
Investments	431	–	2,765	(2,918)	–	(204)	–	74
Right-of-use asset (**)	7,365	(3,190)	1,512	–	–	–	(1,189)	4,498
Total	**38,902**	(14,453)	**5,561**	(2,928)	**(79)**	(204)	(2,510)	**24,289**
2022* **								
Property and connected equipment	21,862	(3,548)	591	–	(78)	(45)	(629)	18,153
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 (**)	7,253	(2,221)	214	–	–	–	(1,071)	4,175
Total	**37,641**	**(12,514)**	**2,958**	**(1,312)**	(78)	(45)	**(2,201)**	**24,449**

* Reclassification is detailed in additional note 28.

** 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 amount of investments in rented real estate has been reclassified from line Right-to-use assets to line Property and connected equipment for 2022.

Impairment losses recognised on property, plant and equipment carried at cost amounted to HUF 112 million in 2023 (2022: HUF 130 million), while other impairment losses of HUF 204 million were recognised on investments during the year.
The valuation of the Group's properties recorded in the revaluation model was performed on 30 November 2023 (30 November in 2022 as well) using independent valuer documentation. At the end of December 2023, 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 2023 without the application of the revaluation model would have been HUF 16.269 million and at the end of 2022 would have been HUF 19.044 million.

26 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 & AMORTIZATION	CARRYING AMOUNT AT THE END OF THE YEAR
2023							
Rental rights	144	(142)	–	–	–	(1)	1
Licenses	6,418	(3,155)	461	–	–	(1,019)	2,705
Software	29,155	(11,213)	3,741	–	–	(4,895)	16,788
Total	**35,717**	**(14,510)**	**4,202**	**–**	**–**	**(5,915)**	**19,494**
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**

The impairment loss recognised on intangible assets in 2023 is HUF 1,444 million (2022: HUF 555 million).

Notes to the financial statements (Continued)

27 Other assets

(HUF million)

	2023	RESTATED* 2022
Trade receivables, advanced payments, other demands	6,583	6,413
Receivables from State Treasury**	13,256	9,955
Accrual of initial fair value differences on refinanced assets of CBH NHP program***	8,712	12,009
Accrual of differences in the initial fair value of refinanced assets of the EXIM program***	14,356	1,648
Accrued income and prepaid expenses	11,954	6,483
Other	385	465
Total	**55,246**	**36,897**
Impairment losses	(61)	(63)
Total	**55,185**	**36,834**

* The restatement was made for the reasons detailed in Supplementary Note 3.1.

** 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 Central Bank of Hungary (2023: HUF 10,811 million, 2022: HUF 6,812 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 2,445 million (2022: HUF 3,139 million).

*** The Group has accrued initial fair value differences as described in Supplementary Note 3.5.3 with reference to IFRS 9 B5.1.2A b).

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 of 31 December 2022.
In relation to the property held for sale, HUF 12 million was allocated to the valuation reserve for tangible assets.
The property was sold in 2023.
At the end of 2023, there were no circumstances requiring reclassification to non-current assets held for sale.

29 Deposits and loans from banks

The Group does not have past due debt.

(HUF million)

	2023	2022
Loans from Central Bank	343,223	436,831
Loans and deposits from other banks	373,870	322,275
Total	**717,093**	**759,106**

The Group has met all its payment obligations on time.

30 Deposits from customers

(HUF million)

	2023	2022
Sight deposits	2,244,716	2,156,373
Fixed-term deposits	777,676	719,511
Ongoing cash equivalents, settlement accounts	19,211	11,769
Total	**3,041,603**	**2,887,653**

Notes to the financial statements (Continued)

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 debt securities, subordinated liabilities

31.1 Issued debt securities

(HUF million)

	2023	2022
Issued mortgage bonds	186,775	171,499
Issued bonds	253,454	146,908
Total:	**440,229**	**318,407**

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

Changes in the Group's mortgage bond portfolio in 2023:
Total mortgage bond volume at nominal value changed to HUF 191.58 billion by the end of 2023 from HUF 201.33 billion at the end of 2022. The change in carrying value in 2022 was also influenced by fair value hedge valuation. At the end of 2023, the portfolio consisted of fixed-rate mortgage bonds with a nominal value of HUF 168.23 billion and variable-rate mortgage bonds with a nominal value of HUF 23.35 billion, all denominated in HUF.

At the end of 2023 the Mortgage bank had eight mortgage bond series (UCJBF 2024/A, UCJBF 2025/A, UCJBF 2027/A, UCJBV 2027/A, UCJBF 2028/A, UCJBF 2029/A, UCJBG 2029/A and UCJBG 2031/A). Fixed coupon mortgage bonds pay coupons between 1.60% and 7.50% on annual basis, while the only variable-rate mortgage bond pays coupons at 3-month BUBOR + 0.23%. The UCJBF 2023/A series matured on 24th November 2023. The Mortgage bank repaid all of its obligations regarding this series.

Gross mortgage bond issuance volume reached HUF 40.45 billion in 2023, while the maturing stock amounted to HUF 50.20 billion. Within gross issuance four auctions took place with funding purposes (UCJBV 2027/A, UCJBG 2029/A, UCJBF 2029/A), while two additional tenders aimed at providing pricing instruments for subsidized HUF loans (UCJBF 2028/A).

Changes in the Group's issued bond portfolio in 2023:
- In 2023 the Group issued its first unsecured bond series for private individuals. At the end of 2023 the portfolio consisted on nominal value HUF 1.24 billion unsecured bonds denominated in forint and EUR 6.44 million bonds denominated in euro.
  At the end of 2023 the Group had two fixed coupon unsecured bond series (UCJBK 2025/A and UCJBK 2025/B) with a coupon rate of 8.3% and 3.5%, respectively. The unsecured bond were placed to the public within the framework of subscription procedures, a total of three times.
- In 2023, the Group issued SNP (Senior Non-Preferred) notes for MREL (Minimum requirements of own funds and eligible liabilities) compliance from 2021 onwards. In 2021 in a nominal amount of EUR 30 million, in 2022 in two tranches for a total nominal amount of EUR 335 million and in 2023 for a nominal amount of EUR 280 million. The form is Classical Global Notes, under Italian jurisdiction, the notes are not introduced to any regulated market. Bonds issued in 2021 and 2022 will mature in 2027 and 2028 respectively, and bonds issued in 2023 will mature in 2029, with the option to call them back 1 year before maturity. The notes can be converted to capital during the bail-in process of Relevant Resolution Authority, according to BRRD (Directive (EU) 2019/879 of the European Parliament as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms).

31.2 Subordinated liabilities

(HUF million)

	2023	2022
Floating rate notes classified as Tier 2 capital	**52,116**	**–**

The Group issued EUR 135 million Tier2 capital (Hungarian terminology: járulékos tőkeelem) notes for regulatory capital purposes, in Classical Global Notes, under Italian jurisdiction, the notes are not introduced to any regulated market. The notes rank after unsubordinated unsecured creditors. The maturity is 2033, recallable 5-year prior maturity. While the notes are held by UniCredit S.p.A., that can be converted to capital during the bail-in process of Relevant Resolution Authority.

Notes to the financial statements (CONTINUED)

31.3 Opening and closing carrying amounts of issued debt securities and subordinated liabilities issued by the Group and a reconciliation of the related cash flows

(HUF million)

2023	SUBORDINATED LIABILITIES	ISSUED BONDS (SNP, UNSECURED BONDS)	ISSUED MORTGAGE BONDS
Opening balance as of 1 January	**–**	**146,908**	**171,499**
Cash inflow from bond issues	50,986	111,371	40,130
Repayments of bonds issued	–	–	(50,202)
Net change in cash flows from financing activities	**50,986**	**111,371**	**(10,072)**
Effect of Fx revaluation	623	(7,014)	–
Effect of interest settlements	507	2,189	455
Changes in valuation differences	–	–	24,892
Other changes total	**1,130**	**(4,825)**	**25,347**
Closing balance as of 31 December	**52,116**	**253,454**	**186,774**

2022	ISSUED BONDS (SNP)	ISSUED MORTGAGE BONDS
Opening balance as of 1 January	11,084	172,246
Cash inflow from bond issues	136,864	24,737
Repayments of bonds issued	–	(4,720)
Net change in cash flows from financing activities	136,864	20,017
Effect of Fx revaluation	(1,843)	–
Effect of interest settlements	803	739
Changes in valuation differences	–	(21,503)
Other changes total	–	(20,764)
Closing balance as of 31 December	146,908	171,499

The Group had no default on principal or interest payments or other defaults on issued bonds in 2023 and 2022.

32 Other liabilities

(HUF million)

	2023	RESTATED* 2022
Accrued expenses and prepaid income	23,693	16,943
Accrual of initial fair value differences on refinancing sources of EXIM off-market programmes****	8,712	12,009
Accrual of differences in the initial fair value of refinanced assets of the EXIM program	14,356	1,648
Settlement accounts and other liabilities	8,796	8,027
Leasing liabilities	4,740	4,715
Other taxes payable	1,481	1,240
Trade payable	2,720	3,011
Total	**64,498**	**47,593**

* The restatement was made for the reasons detailed in Supplementary Note 3.1.
** The Bank has accrued initial fair value differences as described in Supplementary Note 3.5.3 with reference to IFRS 9 B5.1.2A b).

Notes to the financial statements (Continued)

33 Leases

The Group leases several assets including buildings, office equipments. The average lease term is 3.2 years (2022: 4.8 years).

Amounts recognised in profit and loss:

(HUF million)

	2023	2022
Depreciation expense on right-of-use assets	1,189	1,164
Interest expense of lease liabilities	39	39
Expense relating to short-term leases	97	97
Expense relating to leases of low value assets	8	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)

	2023	2022
Total cash outflow for leases	1,287	1,268

As of 31 December 2023, the Group is committed to HUF 309 million (2022: HUF 299 million) for short-term leases.

Lease liabilities

(HUF million)

	2023	2022
Lease liabilities maturity analysis		
Within 1 year	1,311	1,189
1-2 years	1,257	1,058
2-3 years	744	1,023
3-4 years	591	545
4-5 years	473	368
Onwards	830	699
Total	**5,206**	**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 Group.

34 Share capital

(HUF million)

	2023	2022
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

35.1 Statutory reserves

(HUF million)

	GENERAL RESERVE	TIED-UP RESERVE	TOTAL
Balance as of 31 December 2022	**66,502**	**–**	**66,502**
Appropriation from retained earnings	9,203	–	9,203
Balance as of 31 December 2023	**75,705**	**–**	**75,705**

35.2 Dividends

Based on the Group's 2022 results, a dividend of HUF 55,100 million was declared upon approval of the 2021 financial statements, which was paid in 2022.

Notes to the financial statements (CONTINUED)

Based on Group's 2022 results, a dividend of HUF 50,850 million was declared after the balance sheet date, simultaneously with the approval of the financial statements, and was paid in 2023.
Based on Group's results for 2023 the amount of dividend expected to be paid after 2023 is disclosed in the Events after the Balance Sheet Date supplementary note 51.

35.3 Equity correlation table

The equity correlation table of the Group based on paragraph 114/B of Act on Accounting as of 31 December 2023 and 31 December 2022:

(HUF million)

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS AND OTHER RESERVE	STATUTORY RESERVE	VALUATION RESERVE	TIED-UP RESERVE	NET PROFIT	TOTAL
31 December 2023								
Shareholder's equity elements as per IFRS	**24,118**	**3,900**	**450,591**					**478,609**
Other comprehensive income	–	–	1,408	–	(1,408)	–		–
Net profit for the year	–	–	(91,940)	–	–	–	91,940	–
Statutory reserve	–	–	(75,705)	75,705	–	–		–
Shareholder's equity elements as per Act C of 2000 on Accounting	**24,118**	**3,900**	**284,354**	**75,705**	**(1,408)**	**–**	**91,940**	**478,609**

	SHARE CAPITAL	SHARE PREMIUM	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**	**365,097**					**393,115**
Other comprehensive income	–	–	45,813	–	(45,813)	–	–	–
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**	**259 568**	**66 502**	**(45 813)**	**–**	**84 840**	**393 115**

* The restatement was made for the reasons detailed in Supplementary Note 3.1.

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 2023	**1,344**	**339**	**446**	**2,129**
Additional provisions	189	480	1,056	**1,725**
Amounts utilised	(886)	–	(20)	**(906)**
Amounts released	–	(171)	(461)	(632)
Discounted breakdown of provisions*	159	42	75	**276**
31 December 2023	**806**	**690**	**1 096**	**2 592**

* 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 the current market valuation 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.

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

(HUF million)

	AMOUNT
Personnel expenses	449
Other expenses	(636)
Interest expenses	(276)
Total impact of movements in the result for the year	**(463)**

Information about provision movement on credit risk items is stated in Note 37. and 45.

Notes to the financial statements (CONTINUED)

In 2018, a provision for integration was recognised to prepare the Bank 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. This integration provision was fully used in year 2023.

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 (Central Europe & Eastern Europe) 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 Holding 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 deployment of the New Group Organizational Model UniCredit's Group Top Management set out a new mission. Our Culture is being transformed to secure this mission. It is about the synergy of our Purpose, Values and ambition. As part of the Culture Transformation plan a new set of UniCredit Values (Integrity, Ownership, Caring) were defined to ensure the success of our mission. These Group-wide organizational changes brought by Culture Transformation have a significant and direct effect at local level. In order to fulfill our mission, countries have to accurately and promptly follow these changes and transform our local operation accordingly. New Culture, Purpose and Values directly influence People & Culture processes, most of all workforce planning, since a new direction and value system requires a new approach to our workforce as well.

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

In 2023 we are on a mission to change UniCredit from one of the leading banks in Italy to one of the top tier banks in Europe. To be the better bank that our customers and investors need, we have to set up our Digital Journey. To continue the Digital Transformation is a key definer for the upcoming multiyear planning cycle 24-26 horizon. Considering the financial results of UniCredit Hungary additional focus is needed in the upcoming years to ensure a sustainable business model until Y2026 to be able to continue our excellent financial results in a continuous changing macro environment (inflation rate, unemployment rate, interest rates, pandemic). Contributing to the challenging business targets in terms of profit, return on allocated capital, cost / Income ratio etc… we continue to invest in technology to transform the way we do business and operate, as well as to reduce costs. Based on the foreseen digital evolution we detected significant capacity to be able to free up (mostly in non-client facing) and help several competence lines to achieve their Group Targets in terms of staff expenses and full-time employees (FTEs). In line with this efficiencies below Restructuring was incorporated into the multiyear planning cycle submission.

37 Commitments and contingent liabilities

As of 31 December 2023, the Group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

	2023	2022
Loan and overdraft facilities granted not disbursed	1,023,211	1,068,419
Financial guarantees	414,194	672,626
Letters of credit	3,915	12,201
FX spot sales (notional)	618,613	677,350

As at 31 December 2023, 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 11,303 million (2022: HUF 13,942 million) and the accrued guarantee fees related to guarantees amounted to HUF 1,147 million (2022: HUF 1,191 million).
As at 31 December 2023, the amount of the provision for loan and overdraft facilities not utilised amounts to HUF 2,930 million (2022: HUF 2,556 million).
As of 31 December 2023, the total face value of client assets held in safe custody by the Group was HUF 4,304,375 million (2022: HUF 4,184,538 million).

Notes to the financial statements (CONTINUED)

38 Currency structure of assets and liabilities

The currency structure of assets and liabilities as of 31 December 2023 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG/(SHORT)
Euro	1,582,651	1,674,302	90,746	(905)
Swiss Francs	1,000	14,883	13,924	41
United States Dollars	64,358	128,432	63,831	(243)
Japanese Yen	733	762	28	(1)
Polish Zloty	450	9,358	8,919	11
British Pounds	798	6,091	5,296	3
Czech Crowns	36	3,587	3,546	(5)
Other**	5,919	7,165	1,283	37
Total foreign currency	**1,655,945**	**1,844,580**	**187,573**	**(1,062)**
total net long position in foreign currency				104
total net short position in foreign currency				(1,166)
Hungarian Forint	3,446,913	3,258,278	–	188,635
Total*	**5,102,858**	**5,102,858**	**187,573**	**187,573**

The currency structure of assets and liabilities as of 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**
total net long position in foreign currency				1,420
total net short position in foreign currency				(570)
Hungarian Forint	3,486,809	3,430,928	–	55,881
Total*	**5,052,403**	**5,052,403**	**56,731**	**56,731**

* The open foreign currency position is calculated by summing up the absolute value of the short and long positions per currency denomination.
** The total net long foreign exchange positions in other currencies amounted to HUF 50 million in 2023 (2022: HUF 251 million), while the total net short foreign exchange positions amounted to HUF 13 million (2022: HUF 70 million).

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 2023							
Cash and cash equivalents	461,931	461,931	461,931	–	–	–	–
Financial assets held for trading	2,756	2,872	1	2	2,834	35	–
Investment securities	1,109,553	1,614,364	576,390	4,159	91,513	555,267	387,035
Loans and advances to banks	1,029,319	1,064,489	871,469	78,570	33,063	77,426	3,961
Loans and advances to customers	2,184,057	2,696,560	141,552	72,055	362,639	1,197,214	923,100
Total	**4,787,616**	**5,840,216**	**2,051,343**	**154,786**	**490,049**	**1,829,942**	**1,314,096**
NON-DERIVATIVE FINANCIAL LIABILITIES 31 DECEMBER 2023							
Deposits from banks	(717,093)	(999,530)	(74,857)	(365)	(10,985)	(800,891)	(112,432)
Deposits from customers	(3,041,603)	(3,111,592)	(2,952,724)	(67,582)	(65,653)	(20,445)	(5,188)
Issued debt securities	(440,229)	(548,374)	(2,482)	(2,806)	(45,174)	(429,295)	(68,617)
Subordinated liabilities	(52,116)	(75,447)	–	(1,411)	(3,912)	(70,124)	–
Issued loan commitments	2,930	(1,023,211)	(6,687)	(98,313)	(169,260)	(195,343)	(553,608)
Issued financial guarantee contracts	11,303	(418,109)	(5,175)	(17,409)	(49,467)	(74,637)	(271,421)
Total	**(4,236,808)**	**(6,176,263)**	**(3,041,925)**	**(187,886)**	**(344,451),**	**(1,590,735)**	**(1,011,266)**
CASH FLOWS FROM DERIVATIVE POSITIONS 31 DECEMBER 2023							
Trading	10,752	17,097	1,026	5,652	5,190	4,661	568
Risk management	(91,311)	(90,440)	1,674	(13,268)	(49,014)	(26,872)	(2,960)
Total	**(80,559)**	**(73,343)**	**2,700**	**(7,616)**	**(43,824)**	**(22,211)**	**(2,392)**

* Gross cash flows include future flows of principal and interest. For interest rates not yet fixed, interest is determined by forward yield curves, so the rate of interest cash flows depends on the yield curve.

(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)
Issued debt securities	(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	**(3,947,477)**	**(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)**

* Gross cash flows include future flows of principal and interest. For interest rates not yet fixed, interest is determined by forward yield curves, so the rate of interest cash flows depends on the yield curve.

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 Group 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 2023							
Cash and cash equivalents	461,931	461,931	–	–	–	–	–
Loans and advances to banks	1,029,319	892,076	123,597	282	13,361	3	–
Loans and advances to customers	2,184,057	271,777	778,293	400,093	517,260	216,580	–
Investment securities	1,109,553	213,538	215,743	45,147	415,025	220,100	–
Total	**4,784,860**	**1,839,322**	**1,117,633**	**445,522**	**945,646**	**436,683**	**–**
Deposits from banks	(717,093)	(166,725)	(22,936)	(221,957)	(286,911)	(18,564)	–
Deposits from customers	(3,041,603)	(2,841,903)	(157,762)	(23,946)	(15,576)	(2,416)	–
Issued debt securities	(440,229)	(22,871)	(249,732)	(23,588)	(112,251)	(31,787)	–
Subordinated liabilities	(52,116)	–	(52,116)	–	–	–	–
Total	**(4,251,041)**	**(3,031,499)**	**(482,546)**	**(269,491)**	**(414,738)**	**(52,767)**	**–**
Effect of derivatives held for risk management	3,136,420	62,719	(242,511)	(41,671)	140,636	79,572	–
Exposure to interest rate risk total	**3,670,239**	**(1,129,458)**	**392,576**	**134,360**	**671,544**	**463,488**	**–**

The re-pricing techniques and principles, applied for qualification by the Group are described in detail 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 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)	–
Issued debt securities	(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	–
Exposure to interest rate risk 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 detail in Note 4.

Notes to the financial statements (Continued)

41 Derivative financial instruments held for Trading

31 December 2023

(HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2023			
	LESS THAN 3 MONTHS	3 MONTHS - 1 YEAR	MORE THAN 1 YEAR	TOTAL
Interest rate derivatives				
Swap deals				
Interest rate swap (IRS)	297,000	620,853	3,345,922	4,263,775
FRA	235,000	–	–	235,000
Interest rate options	–	–	66,143	66,143
Total	**532,000**	**620,853**	**3,412,065**	**4,564,918**
Interestrate & FX derivatives				
CC Interest rate swap	–	2,861	90,032	92,893
Total	**–**	**2,861**	**90,032**	**92,893**
FX derivatives				
Forward Exchange deals				
FX Forward	530,574	1,024	182	531,780
Options				
FX Barrier (European)	657	1,970	–	2,627
FX (European) without barrier	10,880	2,492	–	13,372
Total	**542,111**	**5,486**	**182**	**547,779**
Commodity derivatives				
Commodity forward & swap	17,883	52,877	9,912	80,672
Total	**17,883**	**52,877**	**9,912**	**80,672**
Overall Total	**1,091,994**	**682,077**	**3,512,191**	**5,286,262**

31 December 2022

	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**
Interestrate & 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**
Overall Total	**1,783,810**	**1,209,536**	**3,837,953**	**6,831,299**

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/DVA**		FUVA***	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
31 December 2023								
Interest rate derivatives								
Swap deals								
Interest rate swap (IRS)	108,666	(97,574)	(46)	–	(979)	(34)	(272)	114
FRA	143	–	–	–	–	–	–	–
Interest rate options	446	(446)	–	–	–	(5)	–	–
Total	**109,255**	**(98,020)**	**(46)**	–	**(979)**	**(39)**	**(272)**	**114**
Interest rate & FX derivatives								
CC Interest rate swap (CCIRS)	395	(388)	–	–	(4)	(4)	–	–
CC Interest rate swap FX revaluation	1,537	(1,527)	–	–	–	–	–	–
Total	**1,932**	**(1,915)**	–	–	**(4)**	**(4)**	–	–
FX derivatives								
Forward Exchange deals								
FX forward	8,276	(7,534)	–	–	(1)	1	–	2
Options								
FX Barrier (European)	10	(10)	–	–	–	–	–	–
FX (European) without barrier	121	(122)	–	–	–	–	–	–
Total	**8,407**	**(7,666)**	–	–	**(1)**	**1**	–	**2**
Commodity derivatives								
Commodity forward & swap	10,253	(10,249)	–	–	(12)	–	(6)	1
Total	**10,253**	**(10,249)**	–	–	**(12)**	–	**(6)**	**1**
Overall Total	**129,847**	**(117,850)**	**(46)**	–	**(996)**	**(42)**	**(278)**	**117**

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

(HUF million)

	FAIR VALUE		FVA*		CVA/DVA**		FUVA***	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
31 December 2022								
Interest rate derivatives								
Swap deals								
Interest rate swap (IRS)	217,454	(217,446)	(10)	–	(1,232)	561	(340)	286
FRA	–	–	–	–	–	–	–	–
Interest rate options	522	(522)	–	–	–	6	–	–
Total	**217,976**	**(217,968)**	**(10)**	–	**(1,232)**	**567**	**(340)**	**286**
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**
Overall Total	**277,258**	**(280,482)**	**(10)**	–	**(1,344)**	**623**	**(347)**	**299**

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

Notes to the financial statements (Continued)

42 Derivative financial instruments held for Hedging purposes

31 December 2023

(HUF million)

	MATURITY BREAKDOWN OF NOMINAL VALUE 2023			
	LESS THAN 3 MONTHS	3 MONTHS - 1 YEAR	MORE THAN 1 YEAR	TOTAL
Risk purposes				
Interest rate derivatives				–
Fair value hedge deals	**195,236**	**410,149**	**4,253,795**	**4,859,180**
Interest rate swap (IRS)	195,236	410,149	4,253,795	4,859,180
thereof bond hedging IRS	–	85,255	857,694	942,949
average fix interest rate (%)	–	3.28	8.97	4.91
thereof deposit hedging IRS	42,981	75,207	2,360,945	2,479,133
average fix interest rate (%)	1.69	1.05	2.10	2.06
thereof loan hedging IRS	152,255	249,687	1,035,156	1,437,098
average fix interest rate (%)	0.94	1.33	6.10	4.75
Cash flow hedge deals	**39,800**	**60,000**	**713,886**	**813,686**
Interest rate swap (IRS)	39,800	60,000	713,886	813,686
average fix interest rate (%)	1.36	3.34	3.70	3.56
FRA	–	–	–	–
average fix interest rate (%)	–	–	–	–
Total	**235,037**	**470,149**	**4,967,681**	**5,672,866**
Interest rate & FX derivatives				
Fair value hedge deals				
Cash flow hedge deals CCIRS	47,716	6,979	198,835	253,530
Total	**47,716**	**6,979**	**198,835**	**253,530**
Overall Total	**282,752**	**477,1281**	**5,166,516**	**5,926,396**

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				
Fair value hedge deals				
Cash flow hedge deals CCIRS	**24,326**	**113,196**	**261,260**	**398,782**
Total	**24,326**	**113,196**	**261,260**	**398,782**
Overall Total	**714,549**	**528,973**	**5,804,717**	**7,048,239**

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/DVA**		FUVA***	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
31 December 2023								
Risk purposes								
Interest rate derivatives								
Fair value hedge deals	**66,361**	**(144,892)**	**(300)**	**–**	(128)	105	(80)	**83**
Interest rate swap (IRS)	66,361	(144,892)	(300)	–	(128)	105	(80)	83
thereof bond hedging IRS	41,960	(7,863)	(204)	–	–	(3)	–	4
thereof deposit hedging IRS	11,886	(102,775)	(43)	–	(75)	110	(67)	80
thereof loan hedging IRS	12,515	(34,254)	(53)	–	(53)	(2)	(13)	(1)
Cash flow hedge deals	**11,019**	**(24,316)**	**(266)**	**–**	**–**	**1**	**1**	**1**
Interest rate swap (IRS)	11,019	(24,316)	(266)	–	–	1	1	1
FRA	–	–	–	–	–	–	–	–
Total	**77,380**	**(169,208)**	**(566)**	**–**	**(128)**	**106**	**(79)**	**84**
Interest rate & FX derivatives				**–**				
Cash flow hedge deals (CCIRS)	2,411	–	(58)	–	2	–	1	–
Cash flow hedge deals (CCIRS) FX revaluation	449	(1,705)	–	–	–	–	–	–
Total	**2,860**	**(1,705)**	**(58)**	**–**	**2**	**–**	**1**	**–**
Overall Total	**80,240**	**(170,913)**	**(624)**	**–**	**(126)**	**106**	**(78)**	**84**

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

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

(HUF million)

	FAIR VALUE		FVA*		CVA/DVA**		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)	(277)	35	(117)	18
thereof bond hedging IRS		(106)	361	(30)	161	29	(102)	14
thereof deposit hedging IRS	116,632	6,281	(131)	(48)	19	(4)	7	(1)
thereof loan hedging IRS	2,081	(260,016)	(2)	–	(2)	364	(2)	162
Cash flow hedge deals	**60,189**	**(5,286)**	**(51)**	**–**	**(123)**	**1**	**(35)**	**–**
Interest rate swap (IRS)	17,785	(79,513)	(85)	–	3	19	–	20
FRA		1	5	–	–	–	–	–
Total	**5**	**(110,731)**	**(443)**	**(112)**	**(277)**	**78**	**(117)**	**38**
Interest rate & FX derivatives	**17,785**	**(78,380)**	**(85)**	**–**	**3**	**19**	**1**	**5**
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**	**–**
Overall Total	**206,568**	**(342,131)**	**(290)**	**(48)**	**(90)**	**380**	**(25)**	**166**

* (Fair Value Adjustment);
** (Credit /Debit 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 2023.

2023 – 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 2023	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	135,094	(2,576)	Net gain and loss on hedging instruments
Derivative liabilities held for risk management – Fair value hedge	(121,105)	1,535	Net gain and loss on hedging instruments

2023 – 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 2023	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			
10,657		Loans and advances to customers – Fair value hedge	71,538	–
1,838		Loans to banks – Fair value hedge	1,838	–
(29,530)		Investment Securities – Fair value hedge	105,221	–
	19,609	Deposits from banks – Fair value hedge	(38,735)	–
	67,472	Deposits from customers – Fair value hedge	(129,023)	–
	10,511	Issued debt securities – Fair value hedge	(25,868)	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the Group considered fair value excluding and valuation adjustments (CVA, DVA, 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, DVA and FuVA charge to the statement of profit and loss.

(**) Accumulated amount of fair value hedge adjustment included in the carrying amount of hedged instruments are presented on an accrual basis for both assets and liabilities, i.e. positive numbers represent gains (increasing assets or decreasing liabilities) and negative numbers represent losses (decreasing assets or increasing liabilities).

The following amounts have been recognised in connection with derivative financial instruments used for hedging purposes, hedged instruments and hedge ineffectiveness in 2023.

2023 – 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 2023	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	(6,979)	(6,830)	Net gain and loss on hedging instruments
Derivative liabilities held for risk management – Cash flow hedge	55,096	55,096	Net gain and loss on hedging instruments

Notes to the financial statements (Continued)

2023 – 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 2023	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	(61,396)	–
–	–	Deposits from customers – Cash flow hedge	13,130	–

(*) When calculating hedge ineffectiveness to be presented in the statement of profit and loss, the Group considered fair value excluding and valuation adjustments (CVA, DVA, 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.

(**) Accumulated amount of fair value hedge adjustment included in the carrying amount of hedged instruments are presented on an accrual basis for both assets and liabilities, i.e. positive numbers represent gains (increasing assets or decreasing liabilities) and negative numbers represent losses (decreasing assets or increasing liabilities).

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 2023	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 from banks – Fair value hedge	32,220	–
–	198,144	Deposits from customers – Fair value hedge	137,765	–
–	36,379	Issued debt securities – 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, DVA, 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, DVA and FuVA charge to the statement of profit and loss.

(**) Accumulated amount of fair value hedge adjustment included in the carrying amount of hedged instruments are presented on an accrual basis for both assets and liabilities, i.e. positive numbers represent gains (increasing assets or decreasing liabilities) and negative numbers represent losses (decreasing assets or increasing liabilities).

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	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 2023	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	(18,325)	–
–	–	Deposits from customers – CFH	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, DVA, 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.

(**) Accumulated amount of fair value hedge adjusment included in the carrying amount of hedged instruments are presented on an accrual basis for both assets and liabilities, i.e. positive numbers represent gains (increasing assets or decreasing liabilities) and negative numbers represent losses (decreasing assets or increasing liabilities).

43 Fair valuation hierarchy

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 2023					
Financial assets measured at FV					
Financial assets held for trading (bonds)					
State treasury bills	18	1,678	1,052	–	2,730
Other bonds	18	–	26	–	26
Total		**1,678**	**1,078**	**–**	**2,756**
Financial assets trading derivatives					
Interest rate derivatives	41	–	107,957	–	107,957
Interest and FX derivatives	41	–	1,928	–	1,928
FX derivatives	41	–	8,408	–	8,408
Commodity derivatives	41	–	10,234	–	10,234
Total		**–**	**128,527**	**–**	**128,527**
Financial assets hedging derivatives					
Interest rate risk	42	–	76,607	–	76,607
Interest rate and FX risk	42	–	2,805	–	2,805
Total		**–**	**79,412**	**–**	**79,412**
Non-trading financial assets at fair value through profit or loss					
Equities	22	419	–	–	419
Loans and advances to customers	21	–	–	107,515	107,515
Total		**419**	**0**	**107,515**	**107,934**
Investment securities at fair value through other comprehensive income					
Treasury bills	22	–	229,862	–	229,862
State bonds	22	143,524	561	–	144,085
Other bonds	22	3,304	10,746	15,487	29,537
Equities	22	–	–	4,901	4,901
Total		**146,828**	**241,169**	**20,388**	**408,385**
Financial assets at fair value total		**148,925**	**450,186**	**127,903**	**727,014**
Financial liabilities measured at Fair value					
Trading derivatives					
Interest rate derivatives	41	–	97,944	–	97,944
Interest and FX derivatives	41	–	1,920	–	1,920
FX derivatives	41	–	7,663	–	7,663
Commodity derivatives	41	–	10,248	–	10,248
Total		**–**	**117,775**	**–**	**117,775**
Hedging derivatives					
Interest rate risk	42	–	169,019	–	169,019
Interest rate and FX risk	42	–	1,704	–	1,704
Total		**–**	**170,723**	**–**	**170,723**
Financial liabilities at fair value total		**–**	**288,498**	**–**	**288,498**

Notes to the financial statements (Continued)

(HUF million)

	COMMENT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2022					
Financial assets measured at FV					
Financial assets held for trading (bonds)	18	54	2,743	–	2,797
State treasury bills	18	18	13	–	31
Other bonds		**72**	**2,756**	**–**	**2,828**
Total					
Financial assets trading derivatives	41	–	216,394	–	216,394
Interest rate derivatives	41	–	6,228	–	6,228
Interest and FX derivatives	41	–	14,164	–	14,164
FX derivatives	41	–	38,771	–	38,771
Commodity derivatives		**–**	**275,557**	**–**	**275,557**
Total					
Financial assets hedging derivatives	42	–	196,287	–	196,287
Interest rate risk	42	–	9,876	–	9,876
Interest rate and FX risk		**–**	**206,163**	**–**	**206,163**
Total					
Non-trading financial assets at fair value through profit or loss	22	1,420	–	–	1,420
Equities	21	–	–	78,678	78,678
Loans and advances to customers		**1,420**	**–**	**78,678**	**80,098**
Total					
Investment securities at fair value through other comprehensive income	22	160,796	11,423		172,219
Treasury bills	22	24,327	32,344	12,299	68,970
State bonds	22			323	323
Other bonds		**185,123**	**43,767**	**12,622**	**241,512**
Equities		**186,615**	**528,243**	**91,300**	**806,158**
Total					
Financial assets at fair value total					
Financial liabilities measured at Fair value	41	–	217,115	–	217,115
Trading derivatives	41	–	6,582	–	6,582
Interest rate derivatives	41	–	17,150	–	17,150
Interest and FX derivatives	41	–	38,713	–	38,713
FX derivatives		**–**	**279,560**	**–**	**279,560**
Commodity derivatives					
Total					
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**

For the Group's financial instruments at fair value through profit or loss at the end of 2023 that were measured at Level 1 at the end of the comparative period, no transfers to Level 2 were made in 2023, nor were any transfers from Level 2 to Level 1.

Notes to the financial statements (Continued)

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 rate agreement	Level 2	Discounted cash flow method is used. The two future cash flows are estimated based on forward interest rate (from observable yield curves at the end of the reporting period) and the contractual interest rate and are both discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.
Interest rate swaps (SC IRS)	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value and the accrued interest. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.
Interest rate swaps (DC IRS)	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value, the accrued interest but excludes the effect of the revalued principals (recognized as forward exchange). Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.
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.

Notes to the financial statements (Continued)

FINANCIAL ASSETS / FINANCIAL LIABILITIES	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)
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.
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 Level 3 fair value

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
Balance at 01 January 2023	**(15,273)**
Gain/loss recognised in P/L	12,866
Gain/loss recognised in OCI	–
Increases from transacrions	1,488
Decreases from transacrions	229
Transfers to Level 3	–
Transfers from Level 3	–
Balance at 31 December 2023	**(690)**

(HUF million)

	NON-TRADING FINANCIAL ASSETS MEASURED AT FVTPL
Balance at 01 January 2022	**(6,806)**
Gain/loss recognised in P/L	(6,283)
Gain/loss recognised in OCI	–
Increases from transacrions	(2,258)
Decreases from transacrions	74
Transfers to Level 3	–
Transfers from Level 3	–
Balance at 31 December 2022	**(15,273)**

Notes to the financial statements (Continued)

43.2.2 Level 3 fair value measurements – Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

TYPE OF FINANCIAL INSTRUMENT CATEGORISED AS LEVEL 3	FAIR VALUES AT 2023.12.31/ (2022.12.31)	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT	RANGE OF ESTIMATES (YEAR-END) FOR UNOBSERVABLE INPUT	FAIR VALUE MEASUREMENT SENSITIVITY TO UNOBSERVABLE INPUTS
Loans and advances to customers	2023:107,515 [2022:78,678]	Discounted Cash-Flow	Probability of default (PD) 0-5 years	2023: 0.00% – 59.16% (3.49%) [2022: 0.00% – 33.72.% (4.87%)]	A significant decrease in the probability of default (PD) would result in a higher fair value.
			Loss given default (LGD)	2023: 6.71% – 71.93% (53.04%) [2022: 5.05% – 86.34% (38.00%)]	A significant increase in the loss given default (LGD) would result in a lower fair value.
			Expected prepayment rate (Average monthly principal repayment of baby loans)	2023: 0.25% – 0.35% (0.29%) [2022: 0.18% – 0.39% (0.26%)]	A significant increase in expected prepayment rates would result in a lower fair value.
			Expected prepayment rate (CSOK, OFK loans average monthly capital repayments)	2023: 0.07% – 0.67% (0.30%) [2022: 0.25% – 0.72% (0.40%)]	A significant decrease in expected prepayment rates would result in a higher fair value.

43.3 Financial assets not measured at fair value

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)

	MEGJEGYZÉS	LEVEL 1	LEVEL 2	LEVEL 3	VALÓS ÉRTÉK ÖSSZESEN	KÖNYV SZERINTI ÉRTÉK
31 December 2023						
Financial assets not measured at fair value						
Cash and cash equivalents	17	–	461,931	–	461,931	461,931
Loans and advance to banks	20	–	1,026,593	28	1,026,621	1,029,319
Loans and advances to customers at amortized cost	21	–	1,160,805	790,707	1,951,512	1,978,698
Investments securities at amortized cost	22	551,842	77,643	65,795	695,280	700,749
Total		**551,842**	**2,726,972**	**856,530**	**4,135,344**	**4,170,697**
Financial liabilities not measured at fair value						
Sources from financial institutions	29	–	717,093	–	717,093	717,093
Customer sources	30	–	3,027,376	3,,156	3,030,532	3,041,603
Issued debt securities	31	–	55,092	392,170	447,262	440,229
Subordinated liabilities	31	–	–	54,130	54,130	52,116
Total		**–**	**3,799,561**	**449,456**	**4,249,017**	**4,251,041**
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	22	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**

Notes to the financial statements (CONTINUED)

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.

4 Balances outstanding and transactions with related parties

44.1 Balances outstanding with related parties

Assets

(HUF million)

	31 DECEMBER 2023		31 DECEMBER 2022	
	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY
Derivatives used for trading	65,450	15,748	129,277	60,066
Financial assets held to maturity	–	5,320	–	1,743
Cash and cash equivalents	66,894	5,239	62,071	8,327
Loans and receivables to banks	522,060	13,732	405,215	1,008
Loans and receivables to customers	–	41	–	54
Derivatives used for hedging	83,987	11,013	219,618	19,143
Intangible assets	2,979	1,239	3,411	1,319
Total	**741,370**	**52,332**	**819,592**	**91,660**

Notes to the financial statements (Continued)

Liabilities

(HUF million)

	31 DECEMBER 2023		31 DECEMBER 2022	
	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY
Deposits and loans from banks	102,974	12,790	109,587	13,018
Deposits from customers	–	1,222	–	3,580
Issued securities	249,732	–	146,908	–
Subordinated liabilities	52,116	–	–	–
Financial liabilities held for trading	65,638	22,536	157,641	31,808
Derivatives used for hedging	153,135	20,665	297,008	44,805
Deferred tax liability	–	82	–	4
Other liabilities	1,975	334	2,286	1,386
Other provisions	–	7	–	854
Revaluation reserve	–	4,496	–	44
Retained earnings	–	144	–	144
Total	**625,570**	**62,276**	**713,430**	**95,643**

Commitments, contingencies, derivatives

(HUF million)

	31 DECEMBER 2023		31 DECEMBER 2022	
	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY
Loan and overdraft facilities granted not disbursed	303	1,137	303	1,137
Financial guarantees	245	56,254	245	56,254
Derivatives notional amount	**3,968,151**	**1,565,804**	**4,197,336**	**1,773,438**

Income statement

(HUF million)

	31 DECEMBER 2023		31 DECEMBER 2022	
	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY	BALANCES WITH THE PARENT COMPANY	BALANCES WITH OTHER INTERCOMPANY
Interest income calculated using the effective interest method	23,476	901	880	324
Other interest and similar income	–	–	–	7
Interest expense and similar charges	(17,300)	(1,545)	(3,266)	(972)
Fee and commission income	201	**545**	225	942
Fee and commission expense	(88)	(181)	(90)	(246)
Dividend income	–	5	–	9
Net foreign exchange income	343	–	81	47
Impairment and loan loss provision	68	989	(145)	(874)
Net trading income	–	190	–	(54)
General operating expenses	(11,015)	(254)	(7,846)	(299)
Other income/(expenses)	(2,074)	148	100	4,629
Total	**(6,345)**	**754**	**(10,012)**	**3,464**

The above balances and transactions are outstanding with:

2023: Parent company: UniCredit S.p.A, Other intercompany: UniCredit Bank SA., UniCredit Bank Czech Republic and Slovakia AS., Zagrebacka Banka DD., UniCredit Bank AG., , UniCredit Bulbank, UniCredit Bank Serbia JSC., UniCredit Services GmbH., Európa Befektetési Alapkezelő Zrt., UniCredit Turn-Around Management CEE GmbH., AO UniCredit Bank, UniCredit Banka Slovenija DD, UniCredit Bank Austria AG, BAH-OMEGA Zrt. 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, UNICREDIT LEASING SLOVAKIA A.S.

2022: Parent company: UniCredit S.p.A, Other intercompany: UniCredit Bank SA., UniCredit Bank Czech Republic and Slovakia AS., Zagrebacka Banka DD., UniCredit Bank AG., 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).

Notes to the financial statements (Continued)

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)

	2023	2022
Short-term employee benefits	2,681	2,362
Share-based payments	215	163
Long-term employee benefits	(45)	232
Total	**2,851**	**2,757**

Loans granted to the key managament personnel was the following:

(HUF million)

	2023	2022
Loans granted to the key management personnel	13	15
Total	**13**	**15**

Group's key management personnel at 31.12.2023:
Supervisory Board members: Emilia Palibatchiyska Stefanova, Gianfranco Bisagni, Maria Chiara Manzoni, Emidio Salvatore.

Management Board members: Balázs Tóth (Chief Executive Officer), Giacomo Volpi (Deputy Chief Executive Officer), Nevena Nikse (Chief Financial Officer), Ivana Lonjak Dam (Head of Risk Management), Albert Hulshof (Head of Corporate Division), Réka Vörös (Head of Retail Division), Anschau János (Head of Operations Division), Svetlana Pancenko (Head of People & Culture Division) (until 31 january 2024)

Notes to the financial statements (Continued)

45 Exposure to credit risk

45.1 Credit quality analysis of the Group'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 2023						
Loans and advances to banks at amortised cost						
– Investment grade	0.001–0.305%	969,614	445	–	–	970,059
– Speculative category	0.305–99.99%	476	57,121	–	–	57,597
– Impaired	100.00%	–	–	–	–	–
Gross value	–	970,090	57,566	–	–	1,027,656
Loss allowance	–	(149)	(27)	–	–	(176)
Carrying value	**–**	**969,941**	**57,539**	**–**	**–**	**1,027,480**
Loans and advances to customers at amortised cost						
– Investment grade	0.001–0.305%	495,926	172,589	12	1	668,528
– Speculative category	0.305–99.99%	934,555	459,484	–	1,023	1,395,062
– Impaired	100.00%	–	–	45,452	994	46,446
Gross value		1,430,481	632,073	45,464	2,018	2,110,036
Loss allowance		(7,900)	(14,389)	(26,074)	3,468	(44,895)
Carrying value		**1,422,581**	**617,684**	**19,390**	**5,486**	**2,065,141**
31 December 2022						
Loans and advances to banks at amortised cost						
– Investment grade	0.001–0.305%	929,413	–	–	–	929,413
– Speculative category	0.305–99.99%	314	–	–	–	314
– Impaired	100.00%	–	–	–	–	–
Gross value	–	929,727	–	–	–	929,727
Loss allowance	–	(250)	–	–	–	(250)
Carrying value	**–**	**929,477**	**0**	**0**	**0**	**929,477**
Loans and advances to customers at amortised cost						
– Investment grade	0.001–0.305%	1,014,792	107,089	–	28	1,121,909
– Speculative category	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**

Notes to the financial statements (Continued)

(HUF million)

	AVERAGE PD	STAGE 1	STAGE 2	STAGE 3	TOTAL
31 December 2023					
Investment securities measured at amortised cost					
– Investment grade	0.001–0.305%	616,929	–	–	616,929
– Standard monitoring	0.305–99.990%	85,859	29,024	–	114,883
– Impaired	100.00%	–	–	–	–
Gross value		702,788	29,024	–	731,812
Loss allowance		(439)	(1,092)	–	(1,531)
Carrying value		**702,349**	**27,932**	**–**	**730,281**
Investment securities measured at FVtOCI					
– Investment grade	0.001–0.305%	444,279	–	–	444,279
– Standard monitoring	0.305–99.990%	32,325	1,213	–	33,538
– Impaired	100.00%	–	–	–	–
Gross value		476,604	1,213	–	477,817
Loss allowance		(217)	(22)	–	(239)
Carrying value		**476,387**	**1,191**	**–**	**477,578**
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**

Notes to the financial statements (Continued)

(HUF million)

	AVERAGE PD	STAGE 1	STAGE 2	STAGE 3	TOTAL
31 December 2023					
Commitments					
– Loans and advances to banks	0.001–20%	332	–	–	**332**
– Loans and advances to customers	0.001–100%	788,099	229,674	5,106	**1,022,879**
Gross value		788,431	229,674	5,106	**1,023,211**
Provision		(237)	(449)	(2,244)	**(2,930)**
Financial guarantee					
– Loans and advances to banks	0.001–20%	59,451	15	–	**59,466**
– Loans and advances to customers	0.001–100%	199,625	151,150	7,868	**358,643**
Gross value		259,076	151,165	7,868	**418,109**
Provision		(914)	(4,975)	(5,414)	**(11,303)**
31 December 2022					
Commitments					
– Loans and advances to banks	0.001–20%	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	0.001–20%	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)**

45.2 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. The figures presented for "Transfers" include the Loss allowance balance at the end of the comparative period for exposure whose Stage classification changed in the current year.

(HUF million)

LOANS AND ADVANCES TO BANKS AT AMORISED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as of 1 January 2023	**(250)**	**–**	**–**	**–**	**(250)**
Transfers:	**7**	**(7)**	**–**	**–**	**–**
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	7	(7)	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impact of reassessment of expected loss	87	6	–	–	93
New financial assets originated or purchased credit-impaired	(9)	(26)	–	–	(35)
Financial assets derecognized during the period	19	4	–	–	23
Write-offs	–	–	–	–	–
Unwind of discount	–	–	–	–	–
FX and other movements	(3)	(4)	–	–	(7)
Loss allowance as of 31 December 2023	**(149)**	**(27)**	**–**	**–**	**(176)**
Loss allowance as of 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 of 31 December 2022	**(250)**	**–**	**–**	**–**	**(250)**

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 of 1 January 2023	**(16,952)**	**(13,487)**	**(27,862)**	**2,921**	**(55,380)**
Transfers:	**1,676**	**(4,043)**	**2,366**	**–**	**(1)**
Transfers to Stage 1	(2,980)	2,871	108	–	**(1)**
Transfers to Stage 2	4,564	(7,204)	2,640	–	**–**
Transfers to Stage 3	92	290	(382)	–	**–**
Impact of reassessment of expected loss	6,576	4,156	(4,273)	561	**7,020**
New financial assets originated or purchased credit-impaired	(2,451)	(3,839)	(3,305)	(309)	**(9,904)**
Financial assets derecognized during the period	3,211	2,778	7,533	455	**13,977**
Write-offs	(2)	–	(282)	–	**(284)**
Unwind of discount	–	–	(707)	(164)	**(871)**
FX and other movements	42	46	456	4	**548**
Loss allowance as of 31 December 2023	**(7,900)**	**(14,389)**	**(26,074)**	**3,468**	**(44,895)**
Loss allowance as of 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 of 31 December 2022	**(16,952)**	**(13,487)**	**(27,862)**	**2,921**	**(55,380)**

(HUF million)

INVESTMENT SECURITIES MEASURED AT AMORTISED COST	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loss allowance as of 1 January 2023	**(460)**	**(979)**	**–**	**(1,439)**
Transfers:	**8**	**(8)**	**–**	**–**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	8	(8)	–	–
Transfers to Stage 3	–	–	–	–
Impact of reassessment of expected loss	80	(143)	–	(63)
New financial assets originated or purchased credit-impaired	(72)	–	–	(72)
Financial assets derecognized during the period	5	39	–	44
FX and other movements	–	(1)	–	(1)
Loss allowance as of 31 December 2023	**(439)**	**(1,092)**	**–**	**(1,531)**
Loss allowance as of 1 January 2022	**(440)**	**(566)**	**–**	**(1,005)**
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 of 31 December 2022	**(460)**	**(979)**	**–**	**(1,439)**

Notes to the financial statements (CONTINUED)

(HUF million)

INVESTMENT SECURITIES MEASURED AT FVTOCI	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loss allowance as of 1 January 2023	**(116)**	**(44)**	**–**	**(160)**
Transfers:	**1**	**(1)**	**–**	**–**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	1	(1)	–	–
Transfers to Stage 3	–	–	–	–
Impact of reassessment of expected loss	(102)	23	–	(79)
New financial assets originated or purchased credit-impaired	(20)	–	–	(20)
Financial assets derecognized during the period	20	–	–	20
FX and other movements	–	–	–	
Loss allowance as of 31 December 2023*	**(217)**	**(22)**	**–**	**(239)**
Loss allowance as of 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 of 31 December 2022*	**(116)**	**(44)**	**–**	**160**

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

45.3 Changes in impaired assets (Stage 3)

(HUF million)

	GROSS EXPOSURE	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	ALLOCATED MATERIAL VALUE*
31 December 2023				
Credit-impaired assets	**45,464**	**(26,074)**	**19,390**	**20,056**
Loans and advances to banks:	–	–	–	–
Loans to individuals:	5,263	(3,960)	1,303	2,606
– Mortgages	2,906	(1,929)	977	2,600
– Consumer Loans	1,875	(1,570)	305	–
– Current Acc. & Credit C.	372	(361)	11	–
– Other Loans	110	(100)	10	6
Loans to corporate entities:	**40,201**	**(22,114)**	**18,087**	**17,450**
– Large Corporate Customers	35,781	(20,353)	15,428	13,697
– SME corporate	680	(335)	345	327
– Other (Leasing)	3,740	(1,426)	2,314	3,426
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

* 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)

45.4 Counterparty credit protection by type of collateral*

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION AS OF 31 DECEMBER 2023	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE
– Warrant and guarantees	301,142	174,678	10,479	486,299
– Cautions	50,553	17,824	445	68,821
– Property	536,819	154,195	10,097	701,112
– Debt securities	1,776	–	–	1,776
– Equity	130	565	5	700
– Other	103,485	31,418	3,886	21,779
Total	**993,905**	**378,680**	**24,912**	**1,280,487**

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION AS OF 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**

* 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 Group by taking possession of it (by way of collateral enforcement) between 2023 and 2022 are HUF 0.

45.5 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 2023	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 of 1 January 2023	**(55,380)**	**(144)**	**(250)**	**(160)**	**(1,439)**	**(16,498)**	**(73,871)**
Loss allowance/Additional Provision:	(33,387)	–	(164)	(226)	(1,299)	(9,945)	(45,021)
Loss allowance/Reversals of Provision:	42,248	142	274	148	1,207	12,181	56,200
FX and other movements:	1,624	–	(36)	–	–	29	1,617
Loss allowance/ Provision as of 31 December 2023	**(44,895)**	**(2)**	**(176)**	**(238)**	**(1,531)**	**(14,233)**	**(61,075)**
Modification of contractual cash-flows	(4,644)	–	–	–	–	–	(4,644)
Impairment and losses on credit products recognized in the statement of profit and loss	**4,217**	142	110	(78)	(92)	2,236	6,535

* 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 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 of 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 of 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.

45.6 Geopolitical and commercial real estate financing overlay effect on provision

OVERLAY EFFECT	PROVISION AMOUNT 31.12.2023	PROVISION AMOUNT 31.12.2022
Total provision at balance sheet date	**(61,075)**	**(73,871)**
Corporate exposures	(10,925)	(12,086)
Retail exposures	(611)	(1,083)
Total geopolitical overlay	**(11,536)**	**(13,169)**
Total commercial real estate financing overlay effect	**(4,220)**	**–**
Total provision (exc. overlay effect) at balance date	**(45,319)**	**(60,702)**

45.7 Macroeconomic outlook

Baseline scenario – Mild recession

Assumption principles:
- Due to the increase in the number of gas diversification routes and the price caps imposed on Russian energy resources, we expect lower TTF price quotations compared to 2022. In the 5 months before the planning period, quotations rose significantly, which worsens our perception of the balance indicators.
- Growth in Europe has slowed due to falling demand and tightening by the European Central Bank. We expect the end of the European and American interest rate tightening cycle to come to an end this fall.
- Growth prospects continue to deteriorate even compared to the already subdued global growth in 2022. The weakening stems mainly from tightening financial conditions and the weakening economic momentum in Europe and China. In China, the so far prevailed pattern, in which slowdowns were followed by significant budgetary stimulus, will not apply in 2023 and further on. In Germany, the weak performance of energy-intensive industries was compounded by the drop in export demand for machinery, while fiscal policy is unable to stimulate the economy.
- Household savings and tight labor market soften the outcome of the recession, but at the same time make prices stickier.
- The end of the Fed's interest rate tightening cycle expected in the fall of 2023 will benefit emerging currencies and the state of budgets. Rising oil prices will not be able to break the current deflationary path.

The fallout on Hungary's macro path:
The economy may shrink by 0.7% in 2023 due to weaker global demand, negative fiscal and monetary impulses, a slowdown in household consumption, and a contraction in fixed investment. Inflation is expected to remain in double digits for most of the year, and the CBH will maintain tight monetary conditions, which will further curb economic activity.

Notes to the financial statements (Continued)

The delay in EU subsidies will keep the forint under pressure, in this regard we expect that a partial agreement can be reached between the Commission and the Hungarian Government. We expect a devaluation of the forint exchange rate, as the increased interest rate to protect the forint only partially offsets the uncertainties arising from the fiscal imbalance and geopolitical exposure.

MILD RECESSION SCENARIO 2023 (BASELINE)	2023	2024F	2025F	2026F
Real GDP, yoy change (%)	-0.7	3.3	5.1	4.7
Inflation (CPI) eop (%)	7.3	6.7	5.4	4.8
Inflation (CPI) average (%)	17.3	6.9	5.6	5.0
Monthly Wage, nominal EUR	1,494	1,561	1,664	1,758
Unemployment rate (%)	3.9	3.3	3.3	3.3
Exchange rate, EUR/HUF, eop	392.0	404.0	415.0	425.0
Exchange rate, EUR/HUF, average	383.1	398.2	410.0	420.0
Short term rate, eop (%)	11.0	6.2	5.1	4.1
Short term rate, average (%)	14.6	7.7	5.5	4.5
Long-term interest rates 10y (%)	7.5	6.8	5.6	5.1
House Price Index, yoy change (%)	2.5	4.0	4.0	4.4

Downside scenario – Severe recession

Assumption principles:
- The Russian-Ukrainian conflict continues to escalate, gas deliveries from Russia get completely shut down. Price shocks spread to the oil market, which affects other product prices, primarily food prices.
- Compared to the baseline scenario, rapid inflation reduces real incomes more drastically, and the European economy slips into recession.
- Although short-term inflation expectations rise significantly, the majority of businesses consider the impact of the energy market shock on the general price environment to be temporary, so medium- and long-term inflation expectations remain anchored. As a result, the European Central Bank will be able to implement monetary easing to support the economy amid recession.
- The ECB's inflation target will only be reached in 2025. The euro depreciates against the dollar.

The fallout on Hungary's macro path:
Due to the sharper contraction of European economies, external conditions will become less favorable for Hungary in 2023. Due to the particularly strong exposure to Russian deliveries, the Hungarian economy is hit by strong energy market and risk premium related shocks at the same time. The current account balance continues to deteriorate, contributing to the continued weakening of the forint. The intensifying global price pressure and the devaluation of the national currency led to persistently high inflation and even more restrictive monetary conditions than in the baseline scenario. However, similar to the rest of Europe, long-term inflation expectations remain anchored in Hungary as well, which help avoid a price-wage spiral to develop, and the central bank to support the economy with interest rate cuts.

RECESSION SCENARIO 2023 (WORSE CASE)	2023	2024F	2025F	2026F
Real GDP, yoy change (%)	-0.7	-1.0	3.6	5.5
Inflation (CPI) eop (%)	7.3	8.9	4.6	4.8
Inflation (CPI) average (%)	17.3	8.1	6.7	4.7
Monthly Wage, nominal EUR	1,494.5	1,449.5	1,491.2	1,720.5
Unemployment rate (%)	3.9	4.2	4.2	4.2
Exchange rate, EUR/HUF, eop	392.0	436.3	439.9	431.4
Exchange rate, EUR/HUF, average	383.1	414.2	438.1	435.6
Short term rate, eop (%)	11.0	4.6	4.4	4.9
Short term rate, average (%)	14.6	7.8	4.5	4.6
Long-term interest rates 10y (%)	7.5	7.5	5.9	5.6
Huse Price Index, yoy change (%)	2.5	0.1	3.2	4.0

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 IFRS 9 scenarios and portfolio is that for 1 point of GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +2.2%.

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 2023. These scenario weights are defined at UniCredit Group level.

Notes to the financial statements (Continued)

Beside the above-mentioned sensitivity analysis the Unicredit Group is calculating the effect of applied macroeconomic scenarios on ECL amount on group level too. At the end of 2023, assuming two scenarios with 0% and 100% weighting, the model-based impairment portfolio excluding overlays would increase by 7.1% (HUF 1,682 million) if only the negative scenario is used and decrease by 4.7% (HUF 1,114 million) if only the baseline scenario is used.

46 Exposure to market risks – trading and non-trading portfolios

46.1 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. In line with EBA and NBH guidelines, positive contribution in each currencies' result is considered with 50% weight and each scenarios' results contain the behavioural model (NMD, Prepayment) "addon" figures.

Currency-wise both HUF yield and all relevant foreign currency yield curve shocks are analyzed. However almost the whole interest rate risk position is denominated in local currency. Regarding methodology the results 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)

2023		INCOME	EQUITY	OTHERS*	TOTAL
All yields	+200bp shock	(320)	(392)	(21,537)	(22,250)
	-200bp shock	(28)	216	23,363	23,551
	shift up	(579)	(574)	(31,708)	(32,860)
	shift down	81	338	37,671	38,090
	steepening	(404)	(52)	925	469
	flattening	(659)	(66)	4,099	3,374
	short rates shock up	(813)	(297)	(17,334)	(18,444)
	short rates shock down	(360)	144	12,638	12,422
Worst of the above		**(813)**	**(574)**	**(31,708)**	**(32,860)**

(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)**

* 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.

Notes to the financial statements (Continued)

46.2 FX Sensitivity

Year-end FX open position sums up to 2 billion HUF. The total open FX position is limited at EUR 21 million .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.

47 Summary of VaR position

The internal model based VaR (1 day, confidence level of 99 %) for 2023 moved in a range of HUF 5.5 billion and HUF 9.2 billion. The average VaR was HUF 7.7 billion; 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 of 30 December 2023

(HUF million)

RISK CATEGORY	YEAR-END	AVERAGE	MINIMUM	MAXIMUM
Exchange rate risk	42	69	3	275
Interest rate risk	3,524	4,844	1,342	7,733
Credit spread	6,949	10,088	6,949	14,110
Vega risk	157	36	2	167
Equity risk	–	–	–	–
Overall	**5,451**	**7,696**	**5,451**	**9,153**

VaR as of 31 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**

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

Notes to the financial statements (Continued)

48 Summary of interest sensitivity

As at 30/31 December 2023 and 2022, 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

							ÉVES STATISZTIKAI ADATOK		
DEVIZA	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 of 30 December 2023									
CHF	(0.01)	0.01	0.00	(0.00)	0.00	0.00	0.15	(0.04)	0.02
EUR	5.09	3.48	4.76	1.60	0.43	15.35	14.93	(14.70)	5.00
GBP	(0.02)	0.00	0.00	0.00	0.00	(0.02)	0.00	(0.03)	0.01
HUF	(3.08)	(4.62)	(16.47)	(73.41)	(8.93)	(106.51)	(57.79)	(109.64)	92.06
USD	0.17	0.16	0.17	0.06	0.00	0.57	0.93	(0.75)	0.28
Total*	**2.15**	**(0.97)**	**(11.54)**	**(71.76)**	**(8.50)**	**(90.62)**			
As of 30 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)**			

* Total contains risk taking in all reported currencies

During 2023, 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.

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.

49.1 Spread Points as at 30 December 2023 (CPV)

SEGMENTS	SECTOR	CREDIT SPREAD BASIS POINTS
Spread Points as at 30 December 2023 (CPV, HUF million)		
Corporate	Energy BBB	(6.81)
Corporate	Corporate - Local	(12.49)
Corporate	Corporate - International	(8.32)
Financial	BBB banks	(34.83)
Treasury	Government bonds – Local	(299.07)
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)

Government and local mortgage banks of investment grade account for the largest part of the Group's credit spread positions.
Government bonds related credit spread exposures increased in 2023.

49.2 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 1.1 billion (in 2022 HUF 1,9 billion), the highest quarterly capital requirement was HUF 1.2 billion (in 2022: HUF 2.6 billion) mostly stemming from the counterparty risk of OTC derivatives and the position risk of bonds.

Notes to the financial statements (Continued)

49 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 1 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

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.

The 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 methodologies 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.

Notes to the financial statements (CONTINUED)

The Group's regulatory capital as of 31 December 2023 and 2022 was as follows:

(HUF million)

	2023	2022
Tier 1 Capital		
Ordinary share capital	**24,118**	**24,118**
Share premium	3,900	3,900
Retained earnings*	295,634	293,681
- of which Profit or loss attributable to owners of the parent	91,940	84,748
- of which proposal of dividend payment on profits for year 2022 and 2023	(78,149)	(50,850)
Accumulated other comprehensive income	(1,408)	(45,814)
Other reserves	75,705	66,502
Adjustments to CET1 due to prudential filters	5,241	48,514
Goodwill included in the valuation of significant investments	–	–
Intangible assets (Deduction based on CRR2)	(11,717)	(15,183)
Deferred tax liabilities associated to other intangible assets	–	–
IRB shortfall of credit risk adjustments to expected losses	(18)	–
Excess of deduction from AT1 items over AT1 Capital	–	–
Other transitional adjustments to CET1 Capital	(172)	(46)
Tier 1 Total	**391,283**	**375,672**
Tier 2 Capital		
Qualifying subordinated liabilities	51,610	–
Reserves for IRB position	4,295	4,231
Other transitional adjustments to T2 Capital	–	–
Tier 2 Total	**55,905**	**4,231**
Own Funds	**447,188**	**379,903**
RWA		
Credit risk	1,570,073	1,521,656
Total risk exposure amount for position, foreign exchange and commodities risks	11,860	15,744
Operational risk	212,040	203,013
Total risk exposure amount for credit valuation adjustment	1,331	4,475
Total RWA	**1,795,304**	**1,744,889**
Capital Adequacy (%)	**24.91**	**21.77**
Tier 1 Capital for legal limits	**391,283**	**375,672**

(*) The Retained Earnings figure in the above table corresponds to the amount of consolidated retained earnings that can be considered for the purposes of prudential reporting.

50 EU Taxonomy disclosures

The Group notes regarding the EU Taxonomy related disclosure requirements set out in Delegated Regulation EU/2021/2178 that, taking into account sections 9 and 11 of EU Commission Notice C/2023/305, its taxonomy-related disclosures are fulfilled by the inclusion of such information in the consolidated financial statements of its ultimate parent entity, UniCredit S.p.A. Therefore the Group applies the exemptions set out in the above referenced regulations with respect to taxonomy related disclosures in its financial statements.

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 78,149 million is expected to be declared with regard to 2023 and is expected to be paid in 2024.

Unlocking **transformation,** together.

For our clients, our people, and our communities.

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 till 15 February, 2023 VERONICA TOMASONI from 16 February, 2023 to 4 August, 2023 EMIDIO SALVATORE	Members

	MANAGEMENT BOARD
BALÁZS TÓTH	Chairman and CEO
GIACOMO VOLPI	Deputy Chairman, Deputy CEO
RÉKA VÖRÖS	Head of Retail
NEVENA NIKSE	Head of Finance
IVANA LONJAK DAM	Head of Risk Management Division
JÁNOS ANSCHAU	Head of Operative Division
ALBERT JOHAN HULSHOF	Head of Corporates Division
SVETLANA PANCENKO (until 31 January 2024)	Head of People & Culture

UniCredit Jelzálogbank Zrt.

MANAGEMENT BOARD

MÁRTON BÁLINT FARKAS till 8 November, 2023 ATTILA TAMÁSI from 9 November, 2023	Chairman of the Board
DR. VIKTOR JUHÁSZ	member
ISTVÁN ATTILA CSÁKY	member
BORBÉLY ÁRPÁD from 30 November, 2023	member

SUPERVISORY BOARD

GIACOMO VOLPI	Chairman
JÁNOS ANSCHAU	member
RÉKA VÖRÖS	member
IVANA LONJAK DAM	member
NEVENA NIKSE	member
ALBERT JOHAN HULSHOF	member

Unlocking **transformation**, together.

For our clients, our people, and our communities.

ESG

in Hungary

CSR Report of UniCredit Bank Hungary group in 2023

At UniCredit, we believe that we can make a positive impact by thinking in complex systems. We therefore build our corporate culture and ESG strategy to empower our internal stakeholders, our own operations, as well as our external partners and communities to progress. This is at the heart of everything we do.

Our corporate social responsibility work is framed by the UniCredit ESG Hub, which aims to organise all aspects of our ESG work in a coherent system for an ethical, responsible, and sustainable future and for the development of attitudes of different generations.

In the beginning, we focused on internal training for our colleagues, and we have continuously developed opportunities for our employees to volunteer in the company. We gradually involved external partners in the Hub's activities: we developed close partnerships with educational institutions, professional and chamber of commerce organisations, businesses, non-profit organisations, and incubators. We have delivered training for local social enterprises with the Civil Impact Academy, initiated a workshop on ESG with the Social Impact Investors Association (THBE), hosted and presented at the Responsible Community Investment workshop with the Effekt Team, and hosted and participated in the sustainable partnering workshop of The Business Council for Sustainable Development (BCSDH).

One of the significant results of the ESG Hub was that, in partnership with the Municipality of the 5th district, the rainwater on the roof of UniCredit Bank's central office building in Szabadság tér is collected and is used in a sustainable way by the district. The new, economical irrigation system will provide water for around 200 trees.

But we are also taking care of our environment in other ways: by 2024, the number of trees planted by our colleagues had increased to 5,000, helping to save a centuries-old protected wetland forest in the Danube-Ipoly nature reserve, where our colleagues planted trees for the third time.

In 2023, UniCredit Bank won the Green Bank Award of the Central Bank of Hungary for the efforts to raise awareness on sustainability and to promote green issues. The recognition is based on objective indicators that show how successful we are in incorporating the principles of sustainable operations into our work, be it in our green financing transactions, our financial education activities, or our green banking risk indicators.

Educating the future generation, sustainability and financial education are priorities for us. Our colleagues gave financial education presentations from primary schools to universities in programmes such as MoneyWeek, which reached 140,000 students in nearly 1,000 schools across the country, and in which we participated with 40 volunteers. We have built partnerships with several universities (Budapest Business School: BGE, Eötvös Loránd University, University of Győr). Our closest and most comprehensive work has been with BGE since 2019. We have set up a state-of-the-art classroom at the institution to meet the needs of all lecturers, and we have also launched UniCredit Bank's own course (Real life banking), held by our volunteer colleagues (middle and senior managers). Our partnership has been extended for another five years at the end of 2023.

UniCredit Foundation's Call for Education programme, which has been running for several years, has awarded two Hungarian NGOs working with children: the Bagázs Public Benefit Association and the Foundation for Technological Education. The competition awarded 18 projects of non-profit organisations in 10 UniCredit countries with a total of nearly 3,250,000 euro.

In an important milestone in 2023, the UniCredit Foundation also launched a new programme, “Re-power your future”, with its member Junior Achievement Europe, aiming to prevent early school leaving among 10–19 year old students. The three-year programme, worth 6.5 million euro in total, will be implemented in ten UniCredit countries to encourage young people to continue their studies and help them find the best career for them. In Hungary, the programme plans to reach and engage more than 30,000 h over the next three years.

As in previous years, our aim for 2023 was to be a responsible bank, supporting those who really need it and helping where we can.

- As part of the Hungarian Banking Association's initiative, we took part in the Bank Blood Donors' Week for the fourth time: our volunteer colleagues donated a total of 60 litres of life-saving blood to the Red Cross on this and two other occasions in 2023.
- This year, we also helped the Habitat for Humanity Hungary team to provide three needy families with decent housing through the "Second Chance" housing programme, as we contribute to decent housing not only through competitive loans but also through volunteer work. Ten of our colleagues were involved in the housing renovation, assisting with the demolition and construction work.
- In total, we held 12 volunteering and charity events during the year, with the participation of nearly 350 colleagues.
- We joined the national shoebox campaign, and we collected more than 50 gift packages, distributed by the Hungarian Baptist Aid to the families and children who needed them most.
- On several occasions, our colleagues participated in the charity cooking and baking organised by the Hungarian Food Bank Association.
- As part of our end-of-year group-wide donation programme, our colleagues raised funds to support a local non-profit organisation, which was matched by an additional grant from the UniCredit Foundation.

In 2023, we paid special attention to sensitising and engaging our employees on social issues and launched volunteering programmes in more areas than ever before. This was another way of demonstrating our commitment to a fairer and more inclusive society and an opportunity to live up to our motto: Empowering communities to progress.

Volunteering to empower local communities to progress

Volunteering is an important part of working life for our colleagues in Hungary. In 2023, as part of our commitment to a fairer and more inclusive society, we expanded our volunteering efforts to more topics and areas than before – and covered everything from financial education for young people and businesses to charity bakes and blood drives.

In March, for the ninth year in a row, we took part in MoneyWeek – volunteering to teach classes in primary and secondary schools. We helped almost 140,000 students at nearly 1,000 schools across the country to become more financially aware.

And we contributed to improving housing prospects for local people through both competitive financial loans and voluntary work. Together with our strategic partner Habitat for Humanity, our volunteers renovated social rental apartments – demolishing, concreting, and helping make the kitchen, bathroom, and living room liveable for three families in need.

"Volunteering gives us the opportunity to change lives, including our own. At UniCredit Hungary, we work with our colleagues to do as much social good as possible and change the lives of as many people as possible in a positive direction, not only with our banking work, but also with our volunteer activities."

Csilla Dudás,
Senior communications and CSR expert

Installation of an innovative tree irrigation system

Our colleagues in Hungary do everything they can to support local communities with the tools at their disposal. Together with the local municipality, we developed and implemented an irrigation system chanelling the rainwater collected on the roof of our headquarters on Szabadság tér to the cistern under Arany János Street, to water the trees on the street. Currently, we can provide the water supply for about 200 trees with the system with a water capacity of 12-15 m^3 per hour. As part of the irrigation project, we also created 27 additional bike racks next to our building, which can be used by employees as well as people working and living in the area.

"The cistern and the concept behind it are in line with our sustainability goals.

Our solution, executed in partnership with the local municipality, shows that small steps can go a long way in supporting local communities.

Sustainability is also an increasingly important issue for our customers, and we are supporting our business and reputational objectives with this solution."

János Anschau,
Head of Operations at UniCredit Hungary

Calendar

Supporting students
Dr. Szilvia Gyurkó, Hungarian children's rights expert, joined the Advisory Board of UniCredit Foundation, which aims to support Europe's youth by combating early school leaving and increasing employability.

» January

Top Employer award
In 2023, UniCredit won the Top Employer award for the seventh time in Europe, including Hungary, for its commitment to diversity, equity, and development.

Pre-qualified loans
UniCredit helps small businesses in Central and Eastern Europe with pre-qualified loans. The initiative is available in seven countries and allows businesses to access faster and easier credit.

» February

Euromoney trade finance recognitions
In the Euromoney trade finance survey, UniCredit came first in the categories "Best Service, Central and Eastern Europe" and "Market Leader, Central and Eastern Europe".

Campaign on sustainability

The Hungarian bank continued its sustainability campaign for the third year in a row in 2023, showcasing its clients with whom it shares a commitment to a sustainable future. Like UniCredit Bank, Viola Home for the Elderly and SolServices Ltd. operate along the lines of sustainable values.

mBanking mobile application on Huawei

Thanks to the new developments, UniCredit Bank's mBanking mobile application is available on Huawei devices. The app allows customers to manage their finances, complete transactions, and enjoy UniCredit's digital banking features securely.

» April

» March

Earth Hour

UniCredit participated in the Earth Hour initiative 16 times: on 25 March 2023, at 20:30 local time, UniCredit Group turned off the lights for 60 minutes in 35 buildings in 12 countries, including the headquarters of the bank in Hungary.

Digital Document Sharing solution

In April, the bank launched the Digital Document Sharing solution, enabling corporate customers to send, receive and store documents for everyday banking digitally, easily, and securely.

Fix Kamat campaign
To market the new name of the personal loan – Fix Kamat – the bank launched an online communication campaign to highlight the benefits of the personal loan, with a special emphasis on the importance of the fixed repayment.

» May

» June

“Best Deposit Bank” award
UniCredit is voted “Best Deposit Bank in Central and Eastern Europe” at the annual awards ceremony of Global Finance magazine, while the domestic bank also wins the “Best Deposit Bank” award.

Civita Group share issuance
The share issuance of Civita Group, a gluten-free corn pasta company, was executed by the bank as the leading distributor in the standard category of the Budapest Stock Exchange.

» July

Best Bank in Central and Eastern Europe
At the Euromoney Awards for Excellence, UniCredit wins the title of Best Bank in Central and Eastern Europe.

Launching the "Re-power your future" programme

In partnership with UniCredit Foundation and Junior Achievement Europe, the "Re-power your future" programme was launched to prevent early school leaving and support young people's further education and labour market integration.

Green achievement: rainwater collection

As part of the Arany János utca renovation project of the Municipality of the 5th district V, we installed a rainwater harvesting system on the roof of our Szabadság tér headquarters, which is connected to the cistern system below street level and can supply water to around 200 trees.

» September

mBanking Business

The mBanking Business service for Hungarian corporate customers is launched, making everyday banking easier.

Exclusive advisor for Richter Gedeon Nyrt.

The bank acted as exclusive advisor on the sale of Richter Gedeon's Romanian subsidiaries to the Dr. Max Group, where the advisory team played a key role in developing the details of the transaction.

Green bonds from UniCredit Jelzálogbank Zrt.

UniCredit Jelzálogbank Zrt. successfully issued its third series of green bonds for HUF 20 billion. The green mortgage bonds were launched on the Budapest Stock Exchange with the participation of a diverse range of investors.

» October

Green Bank Award

UniCredit Bank won the Green Bank Award of the Central Bank of Hungary. This professional recognition is based on objective indicators that show how successful the bank is in incorporating the principles of sustainable, green operations into its work.

UniCredit podcast

The fourth season of the UniCredit podcast was launched, with five episodes giving listeners an insight into everyday banking life.

» November

ESG leaflet

We have updated our ESG leaflet, which illustrates how we incorporate ESG values into our operation.

Paperless electronic signatures

The bank introduced paperless electronic signatures for cash withdrawals and deposit transactions up to HUF 4.5 million which helps reduce office paper waste and contribute to a sustainable environment.

» December

Introducing onemarkets Fund

UniCredit Bank offers onemarkets Fund, a unique investment product developed in-house and in cooperation with expert partners.

Business Bonus Programme

The Business Bonus Programme is launched, offering a range of discounts and benefits for Mastercard business cards.

„Call for Education 2023" programme

UniCredit Foundation announced the winners of the "Call for Education 2023" programme. In Hungary, the Bagázs Public Benefit Association and the Foundation for Technological Education have won the grant.

Global EDGE Certificate

UniCredit has been awarded the Global EDGE Certificate for Gender Equity and Inclusion. The recognition was also awarded to UniCredit Bank in Hungary.

Network units

Head Office

H-1054 Budapest, Szabadság tér 5–6.
Telephone: +36-1/301-1271
Fax: +36-1/353-4959
E-mail: info@unicreditgroup.hu
UniCredit Call Centre 0-24: +36 1/20/30/70 325 3200
www.unicreditbank.hu

As of 31 December 2023, UniCredit Bank Hungary Zrt. had 50 branches nationwide, of which 18 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 headquarters)

Boráros tér branch
1095 Budapest, Boráros tér 7.

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

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)

Pestszentimre branch
1188 Budapest, Nagykőrösi út 49.

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)

Bécsi út Partner Centrum
1023 Budapest, Bécsi út 3–5.

Infopark Partner Centrum
1117 Budapest, Infopark sétány 3.

Network units (Continued)

Branches in the country

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

Budakeszi branch
2092 Budakeszi, Fő út 139.

Budaörs branch
2040 Budaörs, Szabadság út 49.

Cegléd branch
2700 Cegléd, Kossuth tér 4.

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

Dunakeszi branch
2120 Dunakeszi, Fő út 70.

Dunaújváros branch
2400 Dunaújváros, Dózsa György út 4/D

Eger branch
3300 Eger, Törvényház u. 4.

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

Esztergom branch
2500 Esztergom, Kossuth Lajos u. 14.

Gödöllő branch
2100 Gödöllő, Dózsa György út 13.

Győr branch
9021 Győr, Árpád út 45.

Kaposvár branch
7400 Kaposvár, Dózsa György u. 1.

Kecskemét branch
6000 Kecskemét, Kisfaludy u. 8.

Miskolc branch
3530 Miskolc, Hunyadi u. 3.

Mosonmagyaróvár branch
9200 Mosonmagyaróvár, Fő u. 6.

Nagykanizsa branch
8800 Nagykanizsa, Fő út 8.

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

Pécs 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

Cover and introduction creative definition:
Message S.p.A.

Sorter pages creative definition:
Message S.p.A.

Design, graphic development and production:
Message S.p.A. – UniCredit S.p.A.

Adaptation: R.A.T. Reklám és Arculat Kft. Budapest

May 2024