

# **UNICREDIT BANK HUNGARIAN GROUP PILLAR 3 DISCLOSURE REPORT FOR 2023**

**Compliance with the disclosure requirements laid down in Part VIII of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms**

**The data contained in this document  
reflect the situation as at 31.12.2023**

**Applicable laws and regulations<sup>1</sup>:**

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter: “CRR”)
- Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC (“CRD IV”, Hungarian version)
- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (“Hpt.”)
- Act C of 2000 on Accounting
- Recommendation of the Magyar Nemzeti Bank (National Bank of Hungary) No 6/2022 (IV.22.) on the temporary treatment of unrealised gains and losses on government securities measured at fair value through other comprehensive income and on the transitional rules for the uniform disclosure to mitigate the impact of the introduction of IFRS 9 on own funds<sup>2</sup>
- Recommendation No 6/2022. (IV.8.) of the Magyar Nemzeti Bank (National Bank of Hungary) on the application of the remuneration policy according to the Act on Credit Institutions and Financial Enterprises
- Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards for the disclosure by institutions of information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295
- Commission Implementing Regulation (EU) No 2021/763 of 23 April 2021 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council and Directive 2014/59/EU of the European Parliament and of the Council as regards the application of minimum requirements for the reporting and disclosure of information by supervisors on own funds and on transferable and convertible debt
- Recommendation No. 7/2022 (IV.22.) of the Magyar Nemzeti Bank (National Bank of Hungary) on the general requirements of disclosure practices under the Act on Credit Institutions and Financial Undertakings and the CRR
- Recommendation No. 1/2023. (I.13.) of the Magyar Nemzeti Bank (National Bank of Hungary) on the disclosure requirements related to non-performing and restructured exposures in case of credit institutions not in scope for the Commission Implementing Regulation (EU) No 2021/763

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<sup>1</sup> The Pillar 3 disclosure report is based on the laws and regulations effective in 2023, and references are also made to such laws and regulations.

<sup>2</sup> The Bank Group does not apply IFRS 9 transitional measures in own funds.

## List of abbreviations and short references

**AFR:** Available Financial Resources

**Bank Group:** A collective reference to the Hungarian Bank and group members subject to consolidated supervision. Consolidated legal entities are listed in Appendix 1, LI3 quantitative table.

**Bank:** UniCredit Bank Hungary Zrt.

**BFM:** Interbank financing ratio

**BPV:** Basis Point Value

**CRO:** Chief Risk Officer

**CPV:** Creditspread Point Value

**CRR:** Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

**DE&I:** Diversity, Equity and Inclusion

**LTI:** Long Term Incentive

**EAD:** Exposure at Default, the expected value of risk exposure upon insolvency

**EBA:** European Banking Authority

**ECB:** European Central Bank

**ESG:** Environmental, Social, and Governance

**EVA:** Economic Value Added

**FFAR:** Foreign Exchange Funding Adequacy Ratio

**FRC:** Financial Risk Committee

**FTP:** Funds Transfer Pricing

**FX:** Foreign exchange rate

**GEC:** Group Executive Committee

**Hpt:** Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises

**ICAAP:** Internal Capital Adequacy Assessment Process

**ILAAP:** Internal Liquidity Adequacy Assessment Process

**IFRS:** International Financial Reporting Standard

**IRB:** Internal Ratings Based approach

**Jelzálogbank/Mortgage Bank:** UniCredit Jelzálogbank Zrt.

**KPI:** Key Performance Indicator

**KYC:** Know Your Customer

**LCR:** Liquidity Coverage Ratio

**LGD:** Loss given default

**LTI:** Long term incentive

**MFAR:** Mortgage Funding Adequacy Ratio

**MREL:** minimum requirement for own funds and eligible liabilities

**NBH:** National Bank of Hungary

**NPL:** Non-Performing Loan

**NSFR:** net stable funding ratio

**PD:** Probability of Default

**P&C:** People and Culture

**Retail:** Retail clients and small business clients treated as retail for the purposes of capital requirement calculations

**REV-LLPs costs:** Revenues-Loan Loss Provisions costs

**ROAC:** Return on Allocated Capital

**ROTE CET1:** Return on Tangible Equity Common Equity Tier 1

**TLAC:** Total Loss Absorbing Capacity

**TUB:** Testo Unico Bancario ~ Italian Banking Act

**UniCredit Group:** an international bank group, of which the Bank is a member

**VaR:** Value at risk

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## 1 Disclosure requirements

This specific document is intended by UniCredit Hungary Bank Zrt. (“the Bank”) to ensure compliance with the disclosure requirements under Pillar 3 as defined in the CRR and in Article 122 of the Credit Institutions Act.

This document contains individual and consolidated data relating to UniCredit Bank Hungary Zrt. Within the Bank Group, it covers the activities of UniCredit Bank Hungary Zrt. and UniCredit Jelzálogbank Zrt in detailed manner.

The Bank Group complies with the disclosure requirements prescribed by the legislation; and meets the annual disclosure requirements by publishing its consolidated Pillar 3 report no later than seven days after the publication of the Annual Reports.

At its discretion, the Bank Group may assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its business such as scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems.

Within the framework of such disclosure the Bank Group publishes the information on its own website ([https://www.unicreditbank.hu/hu/rolunk/befektetok/kockazati\\_jelentes.html](https://www.unicreditbank.hu/hu/rolunk/befektetok/kockazati_jelentes.html)) and, simultaneously, sends its individual and consolidated report to the Supervisory Authority.

Pursuant to CRR Article 432, the Bank is not obliged to disclose any information it deems insignificant or protected or confidential (in accordance with the criteria laid down in Article 122 of the Credit Institutions Act).

In the document below, the Bank primarily presents data and information as at 31 December 2023, as defined in CRR Part VIII and approved by the management board.

## **2 Risk management objectives and policies (Article 435)**

This Chapter includes the general principles and practices applied in the Hungarian UniCredit Bank Group, in case there are any special operations for a group member, it is highlighted in the sub-chapters.

The Bank as well as other group members subject to consolidated supervision (collectively “the Bank Group”) have designated their risk strategy at an average (that is, maturely cautious and selectively competitive and at the same time, supportive) level, formulating their risk exposure principles accordingly. As a member of the international UniCredit Group, the Bank shall adhere to all principles devised by the UniCredit Group and incorporate them into its risk assumption processes.

The risk exposure principles and the risk strategies are approved by the Management Board. The Management Board receives, on a regular basis, reports on the risk composition of the Bank’s portfolio, based on which it evaluates the implementation of the risk strategy.

The core of the Bank Group’s risk policy is a commitment to the principle of best practice while adhering to the competitive environment and complying with prudential requirements.

On an annual basis, the Bank prepares a document describing its risk appetite with a top-down and bottom-up alignment process conducted in the framework regulated by the UniCredit Group. The document sets specific targets for a number of risk dimensions in accordance with the risk strategy. In addition to targets, the Bank also defines trigger and limit values, which it monitors on a monthly basis, implementing targeted action plans in the event of a breach. Such values are defined for a number of market risk, liquidity, Credit risk, non-financial risks, capital adequacy and profitability indicators.

The ‘risk appetite’ framework is closely linked to the operative lending and business strategy, defining the Credit Risk Strategy for 2023 (in alignment with long-term strategic planning). Through the operative strategy, the risk appetite is incorporated into the Bank’s daily operations and monitoring process.

The internal regulations of the Bank Group members describe the procedures applicable to client segmentation, conclusion of contracts on exposures, client and debtor rating, decision-making procedures on exposures, coverage valuation and monitoring as well as impairment and provisions.

The Bank Group’s risk-taking process is comprised of the identification, measuring, management and strict monitoring of risks. Of all possible measurement methods, the Bank aims to select the best methodology that duly reflects its risk profile and is the best possible tool for estimating potential risk-induced losses.

Efficient risk management includes the definition of an acceptable level of exposure required for business success, the establishment of a monitoring system for limit maintenance, as well as the selection of tools applicable for active risk management.

### **2.1 Credit risk**

According to the Bank’s definition, credit risk in a narrow sense refers to the risk of the other party’s inability to perform according to the contract terms its payment obligations arising from any credit, deferred financial performance or other type of credit relationship, which is why the institution may incur a loss. In a broader sense, credit risk also means all risks related to default, including risks arising from the non-performance of purchase contracts (settlement risk, free delivery risk), and risks arising from the future performance of purchase contracts (replacement risk).

Given its core activity, lending is the main risk for the Bank, which is managed by means of properly established debtor rating systems, and the Bank also tries to mitigate credit risk by optimising its coverage portfolio.

The credit policy of the Bank (as well as its whole operation) aimed at sustainable growth in 2023, and the same will also be continued.

As for new retail loans, the Bank Group applies selectivity, meaning more focus on products and segments with a lower risk profile, in accordance with UniCredit Group Guidelines and UniCredit Group-level principles and with the EBA Guidelines on Loan Origination and Monitoring, the legal provisions implemented in 2010 on responsible lending, as well as the central bank decree implemented in 2015 and amended in 2016 and in 2018 on instalment-to-income and loan-to-value ratios, owing to which the quality of the newly placed portfolio is solid.

The Bank lays strong emphasis on all elements of collection and – in addition to the programs prescribed by law or recommendation (e.g. recommendation of the National Bank of Hungary Nr. 5/2022 22 April for financial institutions on the consumer protection principles expected when handling retail credit, loan and financial leasing contracts affected by payment delay) – it continuously offers the possibility of renegotiation to its private individual clients in

payment delay due to financial problems or unfavourable economic conditions. The Bank fulfilled the NBH recommendations 39/2016 (X. 11.), 2/2019 (II.13) recommendations and implemented them in the processes.

After a successful tender process, the Bank concluded a new 3 years' Forward Flow contract in 2022 to sell future non-performing PI loans in a pre-defined and determined pace and price.

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.

Owing to the prudent risk assumption policy, the composition of the loan portfolio is balanced both in terms of performing deals and deals transferred to special credit management in 2023.

Each client towards whom the Bank assumes any risk shall have a rating performed by the Bank. The Bank employs strict guidelines for the scope and evaluation of acceptable collateral as well as for the coverage ratio.

Client and counterparty ratings must be performed for each client prior to any exposure (and at least once a year during the review); the purpose of the rating procedure must be to ensure that the creditworthiness of the particular client or counterparty can be established clearly. The Group applies the principle of 'one date – one rating': one client may only have one valid client rating at a given date.

The client relationship manager and the risk manager keep the client rating up to date. Any change in the data and information relevant to solvency always triggers a new rating assignment process.

The Bank classifies its clients into risk segments (categories) and applies different client rating systems and rating criteria to the different client categories. Contracts involving an exposure towards clients may be concluded following specific rating, loan assessment and credit decision procedures.

A decision is required on the assumption of the risk prior to any business offer that entails a commitment for the Bank. Valid risk-taking is subject to a joint decision by the respective business unit (retail or corporate) and Risk Management on the transaction involving the exposure.

The Bank applies a group level PD scale to its counterparties. The client rating scale applied by the Bank contains eight categories (23 sub-categories) for performing clients and three categories for non-performing clients. For group level models, separate rating scales have been designed, which are different from the generally used 26-grade scale.

Pursuant to the provisions of the Credit Institutions Act, the Bank values its assets, commitments and other loans at least on a quarterly basis. In addition to the provisions of the Credit Institutions Act, performing clients may be rated on a daily basis as part of the Early Alert / Watch List process in light of the warning signals received. In the case of Large, Medium and Small/Micro corporates, above a certain exposure, individual monitoring is prepared too. Decisions on transferring clients to Monitoring and Special Credit are adopted by Monitoring. In respect of transferred clients, Monitoring and Special Credit adopts decisions or prepares decision planning materials and proposals on whether to grant a performing rating or otherwise.

The Bank applies the Implementing Technical Standard issued in 2014 by the European Banking Authority (EBA) on the management and reporting of forbearance and non-performing exposures. The Bank follows the principles laid down in the ITS to include forbearance and non-performing exposures in IFRS reports.

UniCredit Jelzálogbank – in line with its risk policy – does not grant any new loan to customers, small business or corporate clients, focuses exclusively on financing of banks and financial institutions and on issuances of mortgage bonds. The current retail mortgage loan portfolio is managed in accordance of the above detailed principles.

Rating assignment of private individuals is based on an expert scoring using payment and default history of the clients. PD assignment of non-performing clients is performed according the same methodology as in UniCredit Bank Hungary.

In 2023 non-performing loans were not sold by Jelzálogbank.

Overdue and non-performing loans - restructuring, collection and workout activity - are managed by UniCredit Bank Hungary on the basis of an agency agreement.

## **2.2 Market risk**

In order to assess market risks, the Bank employs a VaR-based model, and also operates an internal comprehensive limit system. The Bank establishes applicable limits in accordance with the UniCredit Group guidelines.

Of market risk factors, priority is given by the Bank to interest rate risk, securities spread risk and FX risk. A fundamental aim is to keep the bank book portfolio free of open interest rate positions and FX positions other than the long-term strategic position. The interest risk limit system is in line with the regulations of the UniCredit Group and restricts the exposures that may be assumed by the Bank and are measured in basis points by currency and maturity band.

The risk assessment of positions where risk profiles cannot be determined based on contract terms is performed through the establishment and continuous assessment of so-called model portfolios.

## **2.3 Operational risk**

The Bank has established and operates its framework of operational risk based on group level standards, which include the continuous collection of loss data, the definition and monitoring of key risk indicators, the formulation and collection of proposals on risk mitigation and the monitoring of the implementation of such measures, regular self-assessment and, as a result of all this, the improvement of processes.

The Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The operational risk events are coming from internal or external fraud, employment practices and workplace safety, clients, products, and business practices such as issues arising from the features of a product or improper business or market acts, due to negligent application of current laws, damages to physical assets, business disruption and IT system failures and execution, delivery and process management like the events are mainly related to human/manual mistakes.

For operational risk management, the primary goal is proactivity, i.e. the prevention and mitigation of risks. Within the framework of operational risk management, the Bank proceeds in order to achieve the objectives of the UniCredit group and local risk mitigating strategies.

For UniCredit Jelzálogbank Zrt. the operational risk controlling function is outsourced to UniCredit Bank Hungary Zrt.

## **2.4 Counterparty Credit Risk**

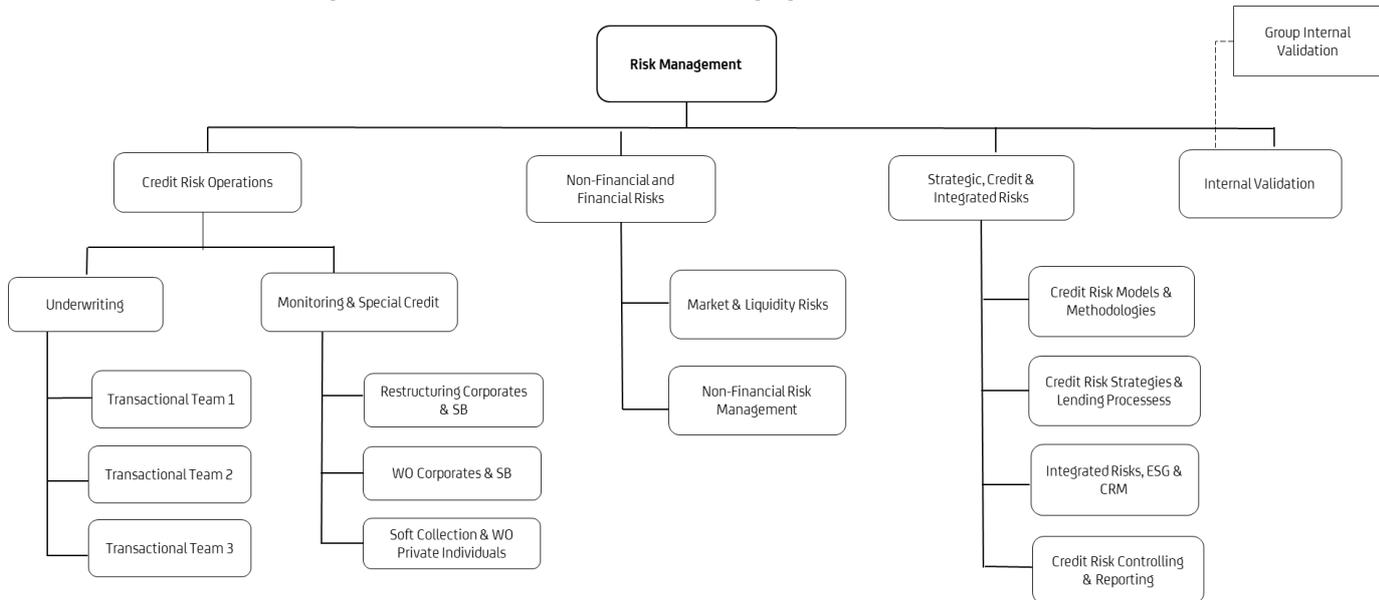
Counterparty risk refers to the economic loss that the institution suffers in the event of non-performance by the contractual partner on transactions that have a positive economic value for it. The bank has established and operates an internal limit system for the continuous monitoring of counterparty risk. Trade can be concluded with respecting the established limits.

During Counterparty Credit Risk calculation, received collateral are taken into consideration. Collateral management is taken place based on the Credit Support Annex (CSA) contract concluded with customers and the Exposure Management Annexes.

## 2.5 Organisational units and functions of risk management

In terms of organisation, the Risk Management Division is completely separated from other business areas. The Division Manager is a member of the Management Board and reports directly to the President-CEO. The tasks and competences of the Head of the Risk Management Division, of the managers and employees reporting to the Chief Risk Officer (CRO) as well as of certain committees are laid down in the currently effective Code of Organisation and Operation, the Competence Regulations and the Regulations on the Procedures related to Commitments.

The structure of the Risk Management Division is shown in the following figure valid on 31.12.2023.



## 2.6 Components of Risk Management

### Underwriting

Underwriting is responsible for credit risk assessment of corporate and retail clients with standard and watch list managerial classification, underwriting of credit files as well as approval of credit decisions and monitoring of credit decisions in business competence. Underwriting Function is also responsible for assessing early warning signals and proposing re-classification. With these activities Underwriting continuously and in time identifies risks on client and clientgroup level and makes proposal for its management. Underwriting provides input to elaboration of risk management strategy and contributes to risk taking strategy and policy. In case of introduction of new products or amendment of currently existing one Underwriting provides input for elaboration of risk processes. Underwriting takes pro-active role in projects and initiatives aiming simplification of underwriting processes.

**Monitoring & Special Credit tasks:** management of overdue debts transferred by the Monitoring unit in the case of corporate clients (corporate, real estate, structured finance) and small business clients, elaboration and execution of action plans for managing matured/defaulted loans, forbearance and work-out activities and (for corporate and small business clients) supervision of the collection phase.

**Monitoring tasks:** mitigation of the risks and potential loss of the performing credit portfolio by recognizing early and managing proactively any deterioration in creditworthiness, through interventions in performing loans prior to default that are aimed at controlling the amount of exposure (limitation or reduction) in order to reduce the EAD (exposure at default) and at optimizing/improving the collateral structure in order to reduce the LGD (loss given default).

Additional tasks include the regulation of handling overdue debts of private individuals, furthermore, implementation and documentation of collection activities, management of requests for the renegotiation of debts, termination of contracts, and contact keeping with external partners involved in the collection activities.

In the case of introduction of new products or amendment of currently existing one Monitoring and Special Credit provides input for elaboration of risk processes.

Organisational units:

- Restructuring Corporates & SB
- WO Corporates & SB
- Soft Collection & WO Private Individuals
- Monitoring

**Strategic, Credit & Integrated Risks** Tasks: the Credit Risk Controlling & Reporting unit is responsible to provide a regular and ad hoc internal and external information on the portfolio, furthermore, for the coordination and preparation of reports on the allocation of provisions and impairment settlement on a monthly and quarterly basis. The Credit Risk Models and Methods unit ensures compliance with the provisions of Basel for credit risk measurement, monitors and supervises credit risks, identifies required developments, develops and validates local models used for estimating risk parameters, coordinates the implementation process of group level models and also prepares the respective reports. The tasks of integrated risk management include the coordination of complex projects of the division and this unit is responsible for the Bank's internal capital adequacy assessment process (operation of ICAAP, reporting, organisation and conduct of committee meetings, coordination of the comprehensive stress test), as well as the establishment and updating of the recovery plan.

Credit Risk Strategies & Lending Processes participates in the development of loan products, in the establishment and review of the loan assessment processes and systems, and in the development of the client rating systems applied. This unit is responsible for the development and compliance with the credit risk strategies.

The responsibilities of property valuation and advice (Valuation Desk) include the valuation of bank collateral, verification of the condition of buildings and the utilisation of assets, property market data research and market reports, projections, monitoring the real estate market processes, data collection and analyses by market segment, preparing property expert opinions.

Organisational units:

- Credit Risk Models & Methodologies
- Credit Risk Strategies & Lending Processes
- Integrated Risks, ESG & CRM
- Credit Risk Controlling & Reporting

## **Non-Financial and Financial Risks**

### Market & Liquidity Risks

Tasks: regular monitoring of market and liquidity risks, preparation and submission to the decision-making bodies of risk reports.

### Non-Financial Risk Management

Non-Financial Risk Management ensures compliance with the legislation and group level regulations pertaining to operational and reputation risks and coordinates and supervises decentralised operational risk management.

### **Internal Validation**

Performance of 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)

## UniCredit Jelzálogbank

For UniCredit Jelzálogbank Zrt. the restructuring, collection, work-out, operational risk controlling, market and liquidity risk management and credit risk controlling functions are outsourced to UniCredit Bank Hungary Zrt.

### 2.7 Risk committees

For managing, monitoring of risks and decision making the Bank founded the risk committees below:

- Operative Credit Committee (meets regularly, twice a week)
- Management Credit Committee (meets regularly, twice a week)
- Financial Risk Committee (meets regularly, once a month)
- Non-financial Risk and Control Committee (meets quarterly)
- Risk Committee (Risk Taking and Managing Committee) (meets as required, but at least quarterly)

Regular members of these committees are the leaders of the affected areas. They are informed through these committees directly about the risks.

Other members of the Bank Group have similar structured committees depending on the complexity of their activity. Several activities arising at the members of the Group are covered by the responsible units of UniCredit Bank and they are securing the compliance with the Group principles.

The Board is responsible for the approval of the risk principles and risk management methods of the local Group.

UniCredit Jelzálogbank's credit risk committees:

- Founder Credit Committee (equivalent of Management Credit Committee of UniCredit Bank - in Jelzálogbank),
- Credit Risk and Cover Committee (equivalent of Operative Credit Committee of UniCredit Bank with a lower competency limit),

The competence of the other committees covers Jelzálogbank's activities as well.

### 2.8 Reporting systems

The Bank receives regular statements and reports on the quality and transactions of the portfolio as well as on the rating systems, which are used as governance inputs and for making the process of business decisions faster and more accurate.

The individual units of the Bank prepare monthly and quarterly reports through the management information system. Units responsible for preparing the individual reports:

- Planning
- Strategic, Credit & Integrated Risks
- Underwriting
- Monitoring
- Non-Financial and Financial Risk Management

The reports are presented below:

#### Reports prepared by Planning:

- Monthly consolidated performance of the Bank and the monthly performance of the consolidated subsidiaries, presenting in detail the revenues / expenses / portfolios of each segment. Apart from the monthly actual data, comparison with the budget and the actual data of the previous year is also part of the report.
- Monthly presentation of the development of consolidated profit and loss items / portfolios according to key performance indicators (KPIs). (FLASH Report)
- Monthly year-to-date (YTD) comparison of detailed budget and actual segment / sub-segment data.

(Segment Report)

#### **Reports prepared by Strategic, Credit & Integrated Risks**

- On the quality of the Bank's consolidated loan portfolio including provisioning, NPE development, expected loss per segments. (Monthly Risk Report)
- A monthly presentation of the completeness and accuracy of ratings and accuracy of the applied rating model (Rating Quality Report)
- Industry Credit Risk Strategy quarterly monitoring report, including movements in the corporate portfolio belonging to each industry, compliance with industry strategic objectives, and the required measures.
- Monthly analysis of retail risk KPIs per product including vintages, NPE, CoR, arrears, recoveries (Retail risk KPI dashboard)
- ICAAP Risk Report: This report summarises the ICAAP results quarterly, and presents the capital requirement under Pillar 1 and according to ICAAP by risk type as a comparison of the current quarter and the annual plan, describes capital adequacy under Pillars 1 and Pillar 2, a time line based comparison of the results of internal capital calculation, the current risk appetite indicators, defined within the risk strategy and compares them to the targets and limits. It also contains information on the concentration indicators and regional concentrations of the corporate credit portfolio and individual concentration risks of the credit portfolio, and the sectoral credit limits defined for the subsequent quarter, on the capital requirement for operational risk, on the changes in EVA and ROAC, aggregated at Bank Group level, and on the capital requirement of the high-risk portfolios. (ICAAP Risk Report)

#### **Reports prepared by Underwriting:**

- Significant Transaction Report: quarterly reporting about approved exposures in case of problem-free clients higher than 10% of supervisory capital of UniCredit Bank Hungary or higher than EUR 25mn in case of MSC clients.
- Commercial Real Estate Report: ad hoc reports on the Bank's income producing real estate portfolio.

#### **Reports prepared by Monitoring:**

- Regular report is prepared (for Management monthly, for Group Risk Management quarterly) for the clients with more than EUR 1,000 outstanding in total and expired review date.
- A report is prepared on quarterly basis on the Watch list portfolio covering the most important characteristics and tendencies (e.g. stock and changes, details on largest WL clients, reasons for SC transfers, number and efficiency of the warning signals) of that portfolio.

#### **Reports prepared by Financial Risk Management:**

- The Bank measures its market risks against a number of risk factors and benchmarks, limiting such risks using the associated limit system in respect of both the Bank as a whole and specific business units.
- Daily information about VaR, BPV, CPV, FX and Equity exposures and limit utilisation is given to senior management and to the business units concerned, with an escalation sent in the event of a limit breach.
- The Bank also monitors the alignment of liquidity risks within limits on a daily basis and has processes in place to ensure prudential liquidity management.

#### **Reports prepared by Non-Financial Risk Management:**

Application Fraud Report (for Management): prepared after each quarter containing private and micro loan portfolio volumes impacted by Fraud events.

## **2.9 Main principles of regulations on risk mitigation and credit risk coverage, risk mitigation strategies and processes**

The Coverage Assessment Regulation defines the principles and methods for the valuation of collateral securing the Bank's transactions representing risks, furthermore, the legislative provisions on collateral and the principles of monitoring collateral applied by the Bank, in accordance with the respective legal environment and the provisions of the UniCredit Group on risk mitigating techniques.

There is no clear equivalence between client rating, the amount of exposure, the extent of coverage and the duration of the exposures as they are always subject to the decision of the given decision maker, but the collateral structure of the particular deal(s) shall be in line with the creditworthiness of the client, and the type and tenor of the underlying deal. The rules concerning the suggested minimum coverage for each exposure class are included in the Regulations on Client and Counterparty Rating. In the case of certain products and schemes, other requirements set out in specific regulations regarding coverage must also be observed.

The correlation between the value of the provided collateral and the debtor's credit rating must not be high.

Prior to making a decision on lending/exposure, the Bank ascertains the availability, fair value and enforceability of the coverage and collateral as well as any material information and risks relating to their values and enforceability. The existence and value of tangible collateral must be established by site inspections involving a separately designated valuation expert. The person conducting the valuation of the collateral may not be a party to the decision on the exposure. Prior to the conclusion of the agreements on exposures and/or their entry into force/disbursement, the Bank verifies the availability of the collateral structure approved in the proposal as well as the fulfilment of the conditions for its enforceability, otherwise the exposure may not take place. The verification process is regulated in the administrative regulations for preparing contracts. The Bank regularly monitors the availability and value of collateral.

The application of credit risk mitigation instruments generates new types (e.g. concentration, residual, etc.) of risks, which the Bank takes into account when considering the impact of credit risk mitigation (collateral deduction). Apart from the haircuts depending on the collateral type, the Bank applies also further deductions in accordance with the CRR in collateral valuation. In the case of currency mismatch, the Bank applies currency haircut to take into account the exchange rate risk, while it applies maturity haircut to coverage provided for a period shorter than the full tenor of the exposure. Collateral with maturity mismatching may only be accepted in exceptional cases with the authorization of Risk Management, and only for collateral maturing over one year.

The Bank also accepts collateral which are not eligible for reducing the capital requirement to mitigate risks arising from the transaction. Zero collateral value is assigned to such collateral.

## 2.10 Corporate governance

### Membership and composition of governing bodies

#### Headcount

The Bank's Management Board comprised of eight members at the end of 2023, each controlling one division.

Name	Function	Number of other management board positions (based on board members' statements)
Balázs Tóth	Chairman and CEO	-
Giacomo Volpi	Vice Chairman and Deputy CEO	-
János Anschau	Member, Head of Operations	-
Nevena Nikse	Member, Head of Finance	-
Ivana Lonjak Dam	Member, Head of Risk Management	-
Albert Johan Hulshof	Member, Head of Corporates	-
Réka Vörös	Member, Head of Retail	-
Svetlana Pancenko	Member, Head of People and Culture	-

Pursuant to Article 152(2) of the Credit Institutions Act, the Supervisory Board is a body comprised of a minimum of 3 and a maximum of 9 members, who, except for the persons in charge of employee representation, shall not be employed by the financial institution.

The Bank's Supervisory Board with end of 2023 was comprised of 4 members, who are not employed by the financial institution.

Name	Function
Emilia Stefanova Palibatchiyska	Chairman
Gianfranco Bisagni	Vice Chairman
Emidio Salvatore	Member
Maria Chiara Manzoni	Member

#### Structure

With a view to ensuring effective and efficient internal dialogue, it is recommended that as far as possible, in addition to an appropriate representation of social diversity and gender balance, the governing body should have:

- “external representatives”, i.e. individuals who are not employed by the Group on a continuous basis (or might be completely independent of the Group as the case may be), and have specific skills relating to the economic/financial sectors, or are experts of the business sector concerned, and whose presence in the governing body may further strengthen the Group's brand and management both locally and internationally;
- “internal representatives” (Group employees), representing various operational/business functions of the Group, who are to be selected on the basis of their professional expertise and the nature of the company concerned.

In terms of their roles and statuses, Governing Body members who do not hold executive positions at the company may be the following:

- non-executive members assigned with well-defined roles and responsibilities, who provide for an effective counterbalance against executive and management members of the company, and promote internal dialogue within the governing body, especially where the governing body is in charge of several functions (strategic supervision, governance and control);

- non-executive and independent members, who are responsible for supervising the independence of decisions concerning governance of the company, and for contributing to ensuring that such decisions are adopted in the interest of the company in accordance with the objective of prudential and rational governance.

#### *Gender balance*

In order to increase the number of female members in the Boards of key Group members and to ensure that at least one third of the membership in governing bodies are women, the Parent Company encourages the appointment of female members to company Boards as a best practice across the Group.

For the Bank's Management Board, the ratio of men to women is 50-50%, so the above objective is achieved, and for the Supervisory Board, the ratio of men to women is 50-50%, so the objectives in this respect are also considered to have been achieved.

The Group publishes its diversity policy on its website in accordance with Article 435(2)(c) of the CRR:

[https://www.unicreditbank.hu/hu/rolunk/befektetok/hpt123\\_szerinti\\_kozzetetel.html](https://www.unicreditbank.hu/hu/rolunk/befektetok/hpt123_szerinti_kozzetetel.html)

#### **Criteria for the appointment of officials**

##### *General principles*

In order to carry out their tasks, officials must meet the following general requirements in addition to the local and sector-specific rules as applicable from time to time:

- considerable professional experience in the sector concerned (based on their CVs),
- appropriate professional experience and integrity.
- Additionally, the maximum age is 75 for appointments as Board Members and 65 for appointments as chief executive officer. In exceptional cases, exceptions to the above may be made in the interest of the Group.

##### *Professional requirements*

The composition of governing bodies is essential for the efficient implementation of the tasks set out in legal regulations, supervisory provisions and company procedures. The division of tasks and responsibilities within a given Board must be consistent with the role played by each member in the general framework of governance and supervision.

From a quality perspective, members of the governing bodies shall have a level of professional experience that is appropriate to the operational complexity and size of the company in addition to compliance with the requirements set out for the officials of financial institutions in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Credit Institutions Act") and in other sector-specific legislation, and are required to allocate the time and energy required to carry out their tasks.

##### *Sector-specific legal requirements*

Under the Credit Institutions Act, the appointment of executive officers requires prior authorisation from the National Bank of Hungary ("MNB" or "Supervisory Authority"), applications for which are submitted to the Supervisory Authority by legal entities according to the Supervisory Authority's Authorisation Guidelines as in effect from time to time. Where the statutory requirements are met, the Supervisory Authority may not decline the authorisation, which it shall grant in an administrative resolution.

#### *Group-level requirements for professional experience*

It is recommended that in addition to meeting the requirements for professional experience as set out in the relevant sector-specific policies as well as the requirements subject to the type of the company concerned (in which the position is filled or is to be filled), officers should have in-depth knowledge in preferably two or more of the following areas:

- Knowledge of the banking sector and of the management techniques and risks relating to financial activities: several years of experience gained in the financial sector through management, governance and control activities;
- Experience in business management and corporate planning: several years of experience gained in a large company or group of major economic weight through management, governance and control activities;
- Ability to read and understand financial reports of financial institutions: several years of experience gained in the financial sector through governance and control activities, through the professional activity concerned, or in university education;
- Corporate experience (auditing, legal, governance, etc.): several years of experience gained in a large enterprise through auditing or management control activities, through the professional activity concerned, or in university education;
- Knowledge of the legal framework of financial activities: several years of specific experience gained in a financial enterprise or a supervisory authority, through the professional activity concerned, or in university education;
- International experience and knowledge in the field of foreign markets: several years of experience gained through business or professional activities in a foreign institution or agency, or in a company or group engaged in international activities;
- Knowledge of the global processes of the economic/financial system: considerable experience gained in a research institute, the analysis department of a company, an international organisation or supervisory authority;
- Knowledge of the social and political environment and market mechanisms of countries where the UniCredit Group has a strategic presence: several years of experience gained in a company or in a public or private institution or research institute through studies and surveys.

#### *Integrity and good business reputation*

Having regard to the importance of integrity requirements in the field of reputation, it is strongly recommended that, in addition to compliance with the integrity requirements set out in specific legislation applicable to the sector concerned, the prospective member of the governing body is prevented from being involved in any situation that results in the prospective member's suspension from their responsibilities and office, and that they may not be accountable for actions which, although not considered to be criminal actions, are inconsistent with appointment to governing body membership at the credit institution/company concerned, or may involve consequences for the credit institution/company that poses a major risk to its reputation.

Good business reputation: executive officers of the financial institution must meet the conditions of their suitability for the management of the financial institution. The verification of a good business reputation is a prerequisite for the Supervisory Authority's resolution granting authorisation for the appointment of executive officers.

#### *Conflict of interest*

Nominees are required to issue a statement of acceptance and eligibility, as provided for in the relevant internal policy, to verify compliance with the personal requirements set out in the local legislation in effect, and the non-existence of grounds for disqualification.

Additionally, in the course of the identification and management of conflicts of interest potentially arising following the appointment of company officers, consideration shall be given to the principles on conflicts of interest set out in the Global Policies issued by Compliance, particularly the 'Conflict of Interest Global Policy', which has been implemented as the Bank's Conflict of Interest Policy.

This applies both to relationships existing at the time of the appointment and to those subsequently established. In addition to other types of conflicts of interest set out in legislation, UniCredit Group is incompatible with any political or trade union appointment.

#### *Eligibility of bodies*

In addition to the suitability of the individual, the suitability of the governing bodies must also be examined in connection with an appointment and, in the case of both the Management Board and the Supervisory Board with the Fit and Proper collective evaluation.

#### Subcommittees

In order to comply with the legal requirements, the Company has set up the following corporate committees with advisory and proposing functions, which function as sub-committees of the Supervisory Board and whose members are appointed from among the members of the Supervisory Board:

- Audit Committee
- Risk Undertaking and Risk Management Committee
- Remuneration and Nomination Committee

#### **UniCredit Jelzálogbank Zrt.**

#### *Headcount*

The Mortgage Bank's Board comprised of four members at the end of 2023.

Name	Funcion	Number of other functions (based on declarations of board members)
Tamási Attila	Chairman, CEO	-
Dr. Juhász Viktor	Board Member (internal)	-
Csáky Attila István	Board Member (external)	Hungarian Forex Association (Member of the Board of Directors) Association of Investment Service Providers (Member of the Board of Directors)
Borbély Árpád	Board Member (external)	

#### *Supervisory Board*

The Supervisory Board currently consists of seven members who are not employed by the credit institution.

Name	Function
Giacomo Volpi	Chairman
Tóth Balázs	Member
Anschau János	Member
Nevena Nikse	Member
Ivana Lonjak Dam	Member
Albert Johan Hulshof	Member
Vörös Réka	Member

### 3. Disclosure of liquidity requirements

#### 3.1 Qualitative/quantitative information of liquidity risk in accordance with Article 435(1) of th CRR

CRR reference	Comment
<p>Strategies and processes in the management of the liquidity risk including policies on diversification in the sources and tenor of planned funding.</p>	<p>The processes and strategies of liquidity risk management are an essential part of the whole risk management structure of UniCredit Bank and are in line with the international banking standards and regulatory guidelines. UniCredit Bank Hungary is a part of the UniCredit Group, the parent bank is under the direct supervision of ECB.</p> <p>The Bank has detailed rules for identification, measurement, management and reporting of liquidity risks, including responsibilities.</p> <p>The NSFR ratio limits the degree of maturity transformation, and NBH (National Bank of Hungary) prescribes further requirements for establishing and maintaining prudent funding, among others restricts excessive reliance on interbank funding (BFM), and the difference in denomination of asset and liability side (FFAR and MFAR).</p> <p>Parts of the diversification of fundings are: acquiring funds in line with international capital regulations (TLAC, MREL), regular mortgage bond issuance, funding from UniCredit SPA, and the efforts to diversify deposit sources. The bank aims to keep stable corporate and retail customer deposits. The bank is primarily focused on corporate segment, which is also reflected in the structure of deposits, but the retail deposit volume is also significant. The liquidity ratios are persistently and significantly over the requirements of regulations, maintaining of this liquidity buffer is a part of the strategy of liquidity risk management also in the future.</p>
<p>Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)</p>	<p>The liquidity risk management methodologies, the related responsibilities and controls are prescribed by the Liquidity Policy, while the applicable liquidity limits are set out in the Policy for Liquidity Risk Management. Treasury manages daily liquidity. Daily monitoring, forecast and monthly reporting of liquidity coverage ratio, and management of liquidity of the Bank and Mortgage Bank belongs to ALM and Funding. Market &amp; Liquidity Risk is responsible for methodological questions and stress test modelling.</p>
<p>A description of the degree of centralisation of liquidity management and interaction between the group's units</p>	<p>For liquidity management, steering or reporting purposes, the UniCredit Group is organized in Liquidity Reference Banks (LRB): they are Legal Entities with a Treasury activity, which is empowered to directly access to both the wholesale/interbank market and the UniCredit Group on behalf of its own or of the LEs within their Country. Each Liquidity Reference Bank monitors and has oversight over the liquidity positions of the LEs it refers to and ensures that each Legal Entity, falling within its perimeter, has enough liquidity to meet its individual and joint obligations as they come due. UniCredit Bank Hungary is acting as the LRB for Hungary. Liquidity management, financial planning and liquidity reporting are centralised within the</p>

	LRB and the ALM & Funding organisational unit is responsible for performing these tasks. The Financial Risk Committee (FRC) is regularly informed of the evolution of liquidity both on individual LE and sub-consolidated level.
Scope and nature of liquidity risk reporting and measurement systems	The liquidity risk reporting and measurement systems are in line with the liquidity management guidelines and limits defined by UniCredit Group. UniCredit Group set up its short-term and structural liquidity models, liquidity stress tests and contingency funding plan based on the recommendations of the Basel Committee on Banking Supervision.
Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	The Bank monitors the liquidity risks on a daily basis to ensure compliance with the liquidity risk limits; prudent liquidity management is ensured through processes. Liquidity risks are thus managed not by additional capital requirement but by ensuring compliance with a limit structure for maturity mismatch.
An outline of the bank's contingency funding plans.	In case of an emergency situation, in order to improve liquid asset portfolio, the Bank would pledge corporate loans to increase CB eligible collateral. Further measures would be issuance of covered bonds, discouraging the renewal of revolving loans through interest rate increase, close the unused committed lines and then close uncommitted lines. After that the Bank would take effort to sell loan portfolio of both Real Estate Financing deals and Structure Finance deals, and attract corporate deposits in EUR and in HUF.
An explanation of how stress testing is used.	<p>Stress testing is a risk management technique used to evaluate the potential effects on an institution's financial condition of a specific event and/or movement in a set of financial variables. As a forward-looking tool, liquidity stress testing diagnostics the institution's liquidity risk.</p> <p>The Bank, as the member of UniCredit Group, uses dedicated Group system for liquidity stress testing purpose. The liquidity stress testing exercise is taken place based on predefined scenarios under the coordination of Group.</p> <p>Three different types of potential liquidity crisis are defined:</p>

	<ul style="list-style-type: none"> <li>• Market downturn scenario. This scenario consists of a sudden turmoil in a monetary and capital market, which may be caused by closure (or limited access) to market/settlement system, critical political events, country crisis, credit crunch, etc.;</li> <li>• Idiosyncratic (name crisis) scenario: the assumptions could be operational risk, events relating to the worsened perception of the Group reputational risk and a downgrade in UniCredit S.p.A. rating or another Group Legal Entities</li> <li>• Combined scenario: a combination of market and specific crisis.</li> </ul>
<p>A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy</p>	<p>The liquidity risk management structure, the related guidelines and limits are reviewed on a yearly basis and approved by the Financial Risk Committee (FRC) as management body. Also, the Bank carries out a yearly ILAAP self-assessment and compiles a comprehensive ILAAP documentation, which is submitted to the Regulator for the ILAAP audit.</p>
<p>A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body.</p>	<p>UniCredit regards liquidity risks as one of the main risks of banking operations, and continuously monitors its short- and mid-term liquidity requirements. The Bank's regular reports such as the Pillar 3 Disclosure (Risk Management) Report cover also the Bank's liquidity risks and are made available to external stakeholders.</p>

Exposure within the Group is governed by internal policies and supervisory regulations, taking into account liquidity management and credit risk mitigation aspects.. A significant part of this exposure took the form of collateralised interbank deposits.

### 3.2 Quantitative information on the liquidity coverage ratio

*The quantitative information on liquidity risk required by the regulation is provided in the Appendix 1, LIQ1 - LIQ2 tables.*

### 3.3 Qualitative information on LCR, which complements template EU LIQ1

CRR reference	Comment
Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	The Hungarian consolidated LCR rose from 147,8% as of 31/12/2022 to 160% 31/12/2023. Liquidity buffer was and according to our forecast will be significantly exceeding the 30 calendar-day net liquidity outflow. High quality liquid assets were increasing during the year due to the reasons described in next point.
Explanations on the changes in the LCR over time	The main drivers of LCR change were the incoming profit during the year, dividend payment, decrease of securities encumbrance at NBH due to increased collateral values thanks to general HUF yield decrease, bond issuance to meet MREL requirements.
Explanations on the actual concentration of funding sources	The Bank is characteristically focused on corporate segment. Its volume of corporate deposits is significantly higher than of retail deposits. Funding sources are properly diversified, typically only the deposits of one group is exceeding 1% of total deposits permanently and significantly that is taken into account in liquidity management.
High-level description of the composition of the institution's liquidity buffer	The liquidity buffer composed of high quality liquid assets. It consists of government bonds, reserves placed at NBH and cash in a smaller scale.
Derivative exposures and potential collateral calls	The net effect of liquidity in- and outflows from derivative exposures is insignificant. The calculation of potential collateral calls is based on HLBA method and the outflow from negative market scenario is included in LCR outflow.
Currency mismatch in the LCR	The Bank reports individual currency LCR in HUF, EUR and USD. Its liquidity buffer significantly exceeds the net liquidity outflow in the two most important currencies, in EUR and HUF.

## **4. Capital requirements (Article 438)**

### **4.1 Summary of the Bank's approach to assessing the adequacy of its internal capital to support current and future activities**

As part of internal capital calculations, the Bank prepares an AFR (Available Financial Resources) report in order to align its risk tolerance with the level of capital required to hedge losses.

The calculation is based on the following model:

Common Equity Tier 1 (CET1) capital

+/- Interim profit/loss after the deduction of the projected dividend

- Shortfall in provision calculated under Pillar 2 compared to the expected loss within the amount of shortfall calculated under Pillar 1

Additional Tier 1 (AT1) capital

+ portfolio provision surplus calculated under Pillar 2 compared to the expected loss

+/- Expected profit or loss before tax

Total AFR

As part of the annual business planning process, the Bank also prepares an AFR plan. The annual AFR plan takes into account the effects of the next year's expected financial transactions and is consistent with the Bank's budget.

In accordance with its policies, the Bank conducts regular stress tests, which involve the calculation of available financial resources in stress situations. Stress tests are designed at least for two scenarios, (a baseline and a more severe scenario). Stress tests have a time horizon of at least 2 years.

Tier 2 capital instruments are not included in AFR, in accordance with UniCredit Group guideline (and ECB Guide to ICAAP Nov. 2018), as these components would have loss-absorption capacity only in the case of non-continuation of the institution. Nevertheless, in order to assure compliance with Total Capital requirements coming from SREP evaluation whereby sizable percentage refers to T2 capital as well as iMREL requirements, the Bank issued in Q4 2023 EUR 135mn T2 capital note (XS2726385516) fully subscribed by the parent company.

### **4.2 The institution's internal capital adequacy assessment process**

In its internal capital adequacy UniCredit Group allocates capital not only to the credit, market and operational risks which need to be calculated also in the supervisory capital adequacy ratio, but also to its real estates and model risks and reputation risk; furthermore, it generates a capital reserve for its business and strategic risk in order to smoothen and dampen the cyclicity of events. The quantified risks also include liquidity risk, but in the course of internal capital adequacy the Bank Group manages the liquidity risk with limit systems aimed at a maturity match instead of allocating any capital reserve. Capital is planned and allocated, and the risk appetite and target figures of the Bank Group for the year are established by analysing dividend payment and capital raising alternatives based on the economic value added (EVA), which contains also the risk costs.

## **5. Exposure to counterparty credit risk (Article 439)**

### **5.1 The methodology used to assign internal capital and credit limits for counterparty credit exposures**

Counterparty risks are measured and monitored in an independent risk management unit on a daily basis, and the capital requirement is defined according to Standard Method (SA-CCR) described in the CRR II.<sup>3</sup>

The internal model for the measurement of limit utilisation is based on a Monte Carlo simulation; it calculates the actual exposure aggregated to counterparties and portfolio segments based on the replacement costs of the existing positions and it also calculates potential future exposures above the costs of exclusion based on unexpected changes in the risk factors. The future unexpected loss is defined by the Monte Carlo simulation for exchange rate, interest rate, share and credit derivatives and by an add-on calculated by the Group for commodity exchange and repo transactions. In simulation, all positions are revalued according to the effective maturity bands, taking into account the impacts of netting and other collateral agreements, according to the Basel III maturities.

The counterparty risk limits are monitored according to individual partners and product categories (spot currency, derivative products, money market transactions, securities and repo transactions). The exposures to counterparties are accessible online in the Treasury system.

### **5.2 Policies for securing collateral and establishing credit reserves**

The Bank accepts only cash to hedge counterparty risks; it does not use any personal collateral or securities.

### **5.3 Policies with respect to Wrong-Way risk exposures**

With regard to cash accepted to hedge counterparty risks and government securities coverage relating to repo transactions wrong-way risks may arise through the currency of the collateral as exchange rate, or through its issuer as country risk premium. With regard to the Hungarian State, except for the MNB, no margins are applied in connection with exposure counterparty risk, while the Group has no relationship with any other state or central banks of other countries resulting in any counterparty risk.

### **5.4 Impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating**

In the event of a downgrade, the amount of collateral provided by the Bank remains unchanged, since it is influenced by counterparty credit risk (replacement cost and future credit exposure), i.e. the transaction with the bank and market factors.

The Bank only accepts and provides HUF, EUR and USD account money to reduce counterparty credit risk exposure, but no securities coverage.

### **5.5 Exposures to Exposures to central counterparties (CCPs)**

In line with the Group guidelines, the Group did not have any transactions with CCPs in 2023.

### **5.6 Credit derivatives**

In compliance with the Group Guidelines, as in previous years, the Bank did not have any credit derivative transactions in 2023.

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<sup>3</sup> According to Regulation (EU) No 876/2019 of the European Parliament and of the Council from June, 2021.

## 6. Capital buffers (Article 440)

In addition to the institution-specific countercyclical capital buffer requirement presented below, the capital conservation (2.5%) and O-SII (0,50%) buffer requirement were applied in 2023 in case of UniCredit Bank Hungary Zrt. The NBH has decided to lift the capital buffers for domestic systemically important credit institutions as of 1 July 2020 in view of the exceptional circumstances caused by the coronavirus epidemic. The gradual reapplication of the O-SII buffer started in 2022 and the Banks should comply with the fully loaded capital buffer requirement from 2024.

In case of UniCredit Jelzálogbank Zrt., in addition to the institution-specific countercyclical capital buffer requirement presented below, the capital conservation buffer requirement (2.5%) was applied in 2023.

Quantitative information on capital buffers is provided in the Appendix 1, CCYB1 - CCYB2 tables.

## 7. Indicators of global systemic importance (Article 441)

Not relevant either at an individual or consolidated level.

## 8. Credit risk adjustments (Article 442)

### 8.1 Definitions for accounting purposes of 'past due' and 'impaired'

When defining **past due** for accounting purposes, UniCredit Banking Group uses the term as defined in the context of non-performing and/or defaulted categorisation. In addition, the Group applies the definitions of non-performing, defaulted as well as impaired in full consistency with each other. Although legal requirements theoretically allow the above described categories to be different, in the Bank's daily practice, these terms are synonymous due to the above criteria.

Our non-performing definition is in line with the EBA-ITS and CBH's regulaton. The default definition is in line with CRR, whilst the impaired definition is in line with the IFRS9 standard.

The non-performing status of a given client is to be regarded as having occurred if one or both of the following conditions prevail(s):

- a) based on available information, the Bank assumes that it is unlikely that the client will fully repay its debt towards the Bank, its parent company or any of its subsidiaries, without the enforcement of the collateral;
- b) the client's material credit obligation towards the Bank, its parent company or any of its subsidiaries is more than 90 days past due.

The Bank has defined two types of materiality thresholds, which are set as follows.

- for private clients and micro-enterprises: EUR 100 (absolute threshold) and 1% (relative threshold) of the amount of the Bank's gross claims on the counterparty calculated on the balance sheet excluding exposures to which the Bank has an ownership interest, whichever is higher.
- for small, medium and large corporate clients: EUR 500 (absolute threshold) and 1% (relative threshold) of the amount of the Bank's gross claims on the counterparty calculated on the balance sheet excluding exposures to which the Bank has an ownership interest, whichever is higher.

#### Calculation of days overdue

From a definition of 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 prevailing, possibly modified, maturity schedule, exceeds the above thresholds. If within 90 days - *prior to the occurrence of the 90-days' past due default event* - the amount of the overdue debt falls below the materiality thresholds set out above, the counting of overdue days will stop and be reset to zero. The counting of overdue days will restart if the amount of overdue debt exceeds the materiality thresholds again later. A *90-days' past due default event* is deemed to have occurred once the number of days in arrears exceeds 90 days without interruption.

If the amount owed falls below the materiality threshold after the occurrence of the said default event (i.e. after at least 90 days of delay), the default event in question will be terminated, the re-ageing period will start and the calculation of days overdue will be frozen until the re-ageing period is completed.

However, if the amount in arrears during the re-ageing period exceeds the materiality thresholds again, then the re-ageing period will be stopped, the 90-days' past due default event will be considered to have occurred again and the calculation of days in arrears will resume from the number of days previously frozen.<sup>4</sup> If the debt ceases to exist (i.e. get repaid), the re-ageing period starts, taking into account 0 days of delay. During the re-ageing period, the client remains in defaulted status.

**Exceptions:** the above rules on the calculation of days overdue should be waived in the cases specified in the relevant MNB Recommendation<sup>5</sup>, i.e. the calculation of days overdue should be suspended. These are the following:

- An agreement between the Bank and the obligor expressly allows the debtor to modify the loan repayment schedule, suspend or defer payments, under specific conditions, and the debtor exercises these contractual rights. The calculation of the number of days overdue should then be based on the approved new schedule
- Repayment of the debt is suspended due to a statutory option, or other legal restrictions, in which case the calculation of the number of days overdue for the period concerned is also suspended

Credit-impaired financial asset, according to the IFRS 9 standard:

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted a concession(s) to the borrower that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a financial asset because of its issuer's financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused a financial assets to become credit-impaired

## **8.2 Description of the approaches and methods adopted for determining specific and general credit risk adjustments**

The Bank regularly values and rates its assets (financial investments, receivables, securities, cash and inventories), its commitments and other loans pursuant to the provisions of Act CXII of 1996<sup>6</sup>, Act C of 2000 and EU Regulation No. 575/2013.

From 2017 the Bank prepares its annual accounts only according to the international financial reporting standards (IFRS), including the appropriate allocation of expected credit losses and provisions. The rating process, the generation and settlement of expected credit loss amounts take place each month, in line with IFRS requirements.

Allocation and reversal of expected credit loss, or respectively, the allocation and release or the use of provisions are determined primarily on the basis of the estimated recovery and the future payment obligations constituting a loss. If the estimated recovery is lower than the carrying amount of the asset, then the Bank accounts for any credit, investment and country risk relating to assets in the form of impairment allocated to the respective asset in the balance sheet and in the profit and loss account.

The Bank rates its overdue receivables and recognises expected credit losses and provisions on them on individual basis or in a group. Where the level of client-level exposure specified in the relevant internal policy is exceeded, a

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<sup>4</sup> During this re-ageing period, in the event of a new threshold crossing, it is possible - subject to regulatory approval - to include a grace period to deal with cases that are resolved in a relatively short period of time, where the reason for the delay is not due to fundamental credit risk problems and during this grace period, the number of days of the re-ageing period will be frozen, thus, avoiding the re-ageing period to start again.

<sup>5</sup> Recommendation 9/2022 (13 May) of Magyar Nemzeti Bank on the application of the concept of default under Article 178 of Regulation (EU) No 575/2013

<sup>6</sup> According to Act CCXXXVII of 2013 as of 2014.

**specific assessment** is required. (The specific assessment may also cover items below the threshold where the aggregate assessment would not provide an accurate picture of the quality of the asset). In the course of an individual rating procedure, the appropriate level of expected credit losses/provisions is determined by discounting the expected cash flow values of the transaction with the internal rate of return (EIR). Cash-flows based on different scenarios are discounted and weighted when making this determination.

**Where the group rating procedure is applied** the Bank calculates the expected credit loss using its internal parameters uniformly to various loan groups.

For pre-defined sub-portfolios, expected loss is determined using the following formula:

$$EL = EaD * PD * LGD * CCF * overlay$$

where

EL = expected loss,  
EaD = exposure at default,  
PD = probability of default,  
LGD = loss given default,  
CCF = credit conversion factor, and  
Overlay = multiplier representing management assessment.

## **9. Use of External Credit Assessment Institutions (ECAI) (Article 444)**

### **9.1 External recognised credit rating organisation used by the Bank for defining the risk weights and its credit rating**

For certain portfolios, the Bank used the Standardised Approach to calculate the capital requirement for credit risk. In that method the external ratings of Standard and Poor's (S&P) and Fitch Ratings were used to define the risk weights. Where there were several ratings available for the same client, the second best rating was applied in the establishment of the risk weight.

### **9.2 Exposure classes for which each ECAI is used**

The Bank's portfolio includes a negligible number of clients with external credit rating that are not treated under the IRB Approach; consequently, the Bank considers their rating confidential information and does not disclose them separately in this report.

### **9.3 Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book**

In terms of the external ratings relating to an issuer and issues, the Bank acts in compliance with the provisions of Section 3, Chapter 2, Title II, Part 3. of the CRR.

### **9.4 Association of the external rating of each nominated ECAI with the credit quality steps prescribed in CRR Part 3, Title II, Chapter 2**

The Bank observes the ratings published by external credit rating organisations and aligns with them during its internal rating process. Thus, the ratings published by external credit rating organisations can be clearly mapped with the rating scale applied by the Bank.

### 9.5 Exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in CRR Part 3, Title II, Chapter 2 as well as those deducted from own funds

The Bank's portfolio includes a negligible number of clients with external credit rating that are not treated under the IRB Approach; consequently, the Bank considers their rating confidential information and does not disclose them separately in this report.

## 10. Exposure to market risk (Article 445)

Market risk refers to profit or loss impacts triggered by price fluctuation which originate from positions held in the Bank's own books (both the Banking Book and the Trading Book). Those positions typically reflect the Bank's investment strategies and include all money market and capital market transactions at both the individual and consolidated levels. Within the Bank Group, Jelzálóbank do not have a Trading Book, and the capital requirement for market risk is calculated at the consolidated level of the Bank Group.

The Bank calculates the capital requirement for the trading book in compliance with Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank calculates the capital requirement of the position risk inherent in the Trading Book by applying the Standardised Approach. The Bank has chosen the following methods in relation to risks specified in the Regulation: tenor-based method for interest rate risk, delta-plus method for the capital requirement of options, 32% method for collective investment undertakings, and reserving 3% of the gross position for commodity risk. Based on the Bank Group's methodology, the Bank measures the position risk of the trading book and the bank book also by means of an internal model, according to which the Bank's exposures are further restricted by applying limits to VaR, sensitivity indicators (BPV) and maturity band mismatch. In the course of its internal capital adequacy assessment process, the Bank measures the economic capital requirement of its market risk with VaR, which includes both the position risk of the trading book and the interest rate risk of the bank book.

*UniCredit Bank Hungary Zrt consolidated figures*

Exposure to market risk (31.12.2023)	Capital requirement (HUF million)
Traded debt instruments	949
Equity	-
Currency	-
Commodities	-

## 11. Operational risk (Article 446)

Until 30 June 2009 the Bank used the Standardised Approach to calculate the capital requirement for operational risks.

The Hungarian Financial Supervisory Authority approved the operational risk framework system of the Bank Group, which was the second approved system of that kind in Hungary. Accordingly, since 1 July 2009 the Bank has used the Advanced Measurement Approach (AMA) to calculate the capital requirement for operational risks.

Pursuant to the Resolution issued by the National Bank of Hungary, as of 30 June 2014 the Bank has been authorised to determine its capital requirement for operational risks using UniCredit's Group level AMA model, which includes major revisions.

For the subsidiaries subject to consolidated supervision, UniCredit Jelzálogbank's operational risk capital requirement is determined using the standardised method, while for UniCredit Leasing Hungary Zrt., UniCredit Független Biztosításközvetítő Kft. and UniCredit Operative Lízing Kft. the basic indicator method is used.

When applying the Advanced Measurement Approach, the capital requirement is calculated by the UniCredit Group for the entire banking group.

The UniCredit Group allocates the capital requirement to the individual subsidiary banks of the Group based on the methodology approved by the management of the UniCredit Group and the supervisory authority responsible for the UniCredit Group. The relevant indicator of the allocation mechanism is the operating revenues of the subsidiaries, supplemented with individual calculations and also backtesting since December 2010.

The capital requirement for the operational risk of the Bank Group in 2023 in a quarterly breakdown is as follows:

HUF million	31.03.2023	30.06.2023	30.09.2023	31.12.2023
UniCredit Bank Hungary Zrt.	15.342	15.289	15.647	16.130
Consolidated	16.079	16.026	16.384	16.963

## 12. Exposures in equities not included in the trading book (Article 447)

As at 31 December 2023, UniCredit Bank Hungary Zrt. did not have any equity exposures in the non-trading book.

Data on UniCredit Bank Hungary Zrt.'s long-term investments

Participations whose carrying amount is zero or lower than HUF 1 million are not listed.

All companies support the Bank's operations in the long term. The Bank/Bank Group measures its bank book participations at their fair values if that fair value is reliably measurable. In cases where the fair value cannot be reliably determined, shares are carried at cost. Such participations are rated on a quarterly basis, and allocations are made for impairment as required. There was no result on disposal of shares in the trading book in 2023.

On 31.12.2023 UniCredit Bank Zrt. held the following investments:

Name	31.12.2023	
	(Gross) carrying amount in HUF thousands, or USD	Participation (%)
Garantiqa Hitelgarancia Zrt.	20 000	0,21%
Fundamenta-Lakaskassza Zrt.	4 880 984	7,38%
UniCredit Jelzálogbank Zrt.	3 760 668	100%
UniCredit Biztosításközvetítő Kft.	41 260	100%
UniCredit Operatív Lízing Kft.	3 000	100%
UniCredit Leasing Hungary Zrt.	3 494 144	100%
VISA Inc	1 210 425 USD	0,00%
<b>Total</b>	<b>12 200 056</b>	
	<b>1 210 425 USD</b>	

Consolidated data

Name	31.12.2023	
	(Gross) carrying amount in HUF thousands, or USD	Participation (%)
Garantiqa Hitelgarancia Zrt.	20 000	0,21%
Fundamenta-Lakaskassza Zrt.	4 880 984	7,38%
VISA Inc.	1 210 425 USD	0,00%
<b>Total</b>	<b>4 900 984</b>	
	<b>1 210 425 USD</b>	

The Bank allocates capital under Pillar 1 in the framework of its capital adequacy assessment process to participations not included in the Trading Book in order to cover the risk of financial investments. The table below summarises the capital requirement allocated to the various exposures:

Shareholdings – 31.12.2023	Gross exposure	Cap. req.
		Pillar 1
In HUF thousands		
Garantiqa Hitelgarancia Zrt.	20 000	5 920
Fundamenta-Lakaskassza Zrt.	4 880 984	1 444 776
UniCredit Jelzálogbank Zrt.	3 760 668	1 113 158
UniCredit Biztosításközvetítő Kft.	41 260	12 213
UniCredit Operatív Lízing Kft.	3 000	888
UniCredit Leasing Hungary Zrt.	3 494 144	1 034 267
Visa Inc	1 210 425 USD	358 286
<b>Total</b>	<b>12 200 056</b>	<b>3 611 217</b>
	<b>1 210 425 USD</b>	<b>358 286</b>

### 13. Exposure to interest rate risk on positions not included in the trading book (Article 448)

#### 13.1 Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk

The interest rate risk refers to changes in yields and interest income resulting from interest rate fluctuation, i.e. changes in the Bank's income and the variations in the net present value of the Bank's assets and liabilities during daily revaluation.

Among the market risks the Bank measures and monitors the interest rate risk daily pursuant to its bank book interest risk policy, which defines methods and limits for maximising the sensitivity of margins and value creation of the Bank, which are then reflected in the Bank's strategic investment decisions and operation as well.

The sources of interest rate risk are the repricing risk, which originates from the repricing (basic risk) and interest rate fixing differences (yield curve risk) of assets and liabilities.

The measures used for the limit systems are the VaR figures, the sensitivity indicators (BPV), and the repricing gap metrics.

According to the Group's structure, the KPIs, responsibility levels and hedging functions are defined at several levels of aggregation according to the complexity of operation of the individual units. The Bank monitors and manages VaR, BPV and spread points and their limits on a daily basis. BVP sensitivities are broken down by currency and time bucket, and therefore any shift in parts of the yield curve can also be monitored.

#### 13.2 Variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency

The banking book interest rate risk refers to the possibility that the income from the bank book positions and/or the economic capital value of the institution changes adversely as a result of changes in the market interest rates. The group measures and monitors the bank book interest rate risk on the basis of the European Banking Authority (EBA) relevant standards and MNB ICAAP-ILAAP-BMA methodology manual.

##### *Risk assessment and management*

In terms of the effect on the income, the Bank regularly measures the net interest income and uses various scenarios to quantify it.

The Bank's economic value of equity (EVE) is the net present value of the total cash flows of the assets, liabilities and off-balance sheet items constituting the banking book where each item is taken into account with the prefix indicating the direction of the position.

NII and EVE sensitivity of UniCredit Group Hungary as at 31 December 2023:

	31.12.2023
<b>NII sensitivity (%)</b>	-4.5%
<b>EVE sensitivity (%)</b>	-9.1%

In the case of NII, the shock is based on the projected 2023 NII budget, while the EVE is based on the Tier 1 capital of third quarter of 2023.

##### *Sensitivity test*

The Group conducts consolidated sensitivity tests between the parallel movements and twists of yield curves and shareholder values. The sensitivity test covers impacts affecting the interim profit and loss account and the total economic effect as well. The examined scenarios are a 200 basis points increase and decrease, parallel upward and downward movements programmed according to the recommendations of the EBA and the MNB, upward and downward turns, and short-term ups and downs.

The presented scenarios reflect the flooring effect, i.e., in the case of the affected segments (e.g., customer exposures), the +/- shock was applied to the exposures only to the flooring. In other words, the yield level after the shock cannot be lower than the predefined floor, so in certain cases only part of the shock can be applied up to the extent of the floor.

The presented shocks represent an immediate and lasting effect, which are immediately priced on the market with net present value approach and, upon fair valuation, they appear in the right line items corresponding to the accounting treatment; not only for the specific period, but regarding future interest incomes as well.

Stress test of interest rate risks (HUF million)

31.12.2023 (HUF million)		Income	Capital	Other*	Total
<b>Total returns</b>	200bp increase	(320)	(392)	(21,537)	<b>(22,250)</b>
	200bp decrease	(28)	216	23,363	<b>23,551</b>
	moves upward	(579)	(574)	(31,708)	<b>(32,860)</b>
	moves downward	81	338	37,671	<b>38,090</b>
	turns upward	(404)	(52)	925	<b>469</b>
	turns downward	(659)	(66)	4,099	<b>3,374</b>
	short side rise	(813)	(297)	(17,334)	<b>(18,444)</b>
	short-term decline	(360)	144	12,638	<b>12,422</b>
<b>Worst case</b>		<b>(813)</b>	<b>(574)</b>	<b>(31,708)</b>	<b>(32,860)</b>

\*Included only in supplementary information. Items except which are kept at Fair Value either against Income or Capital.

#### 14. Exposure to securitisation positions (Article 449)

Not relevant, the Bank Group does not apply securitisation.

## 15. Remuneration policy (Article 450)

Remuneration policy applies to the Bank Group and all group members included in the scope of consolidation. The Bank Group publishes its remuneration policy on its website in accordance with local regulations: ([Remuneration policy 2023](#))

### Qualitative disclosures

(a) Information relating to the bodies that oversee remuneration. Disclosures shall include:	
1. Name, composition and mandate of the main body (management body or remuneration committee as applicable) overseeing the remuneration policy and the number of meetings held by that main body during the financial year.	<p>At the end of 2023, the Remuneration Committee was composed of members: Emilia Palibatchyska, Gianfranco Bisagni, Maria Chiara Manzoni, Emidio Salvatore.</p> <p>All members of the Committee in its current composition are independent according to the article 117 § (7) of Act CXII of 1996 on Credit Institutions and Financial Enterprises</p> <p>In order to foster an efficient information and advisory system to enable the Supervisory Board to better assess the topics for which it is responsible, in compliance with article 250 § -252 § of Act CXII of 1996 on Credit Institutions and Financial Enterprises the Remuneration Committee has been established by the Supervisory Board, vested with research, advisory and proposal-making powers.</p> <p>In particular, the Remuneration Committee is entrusted with the role of providing advice and opinions on the proposals submitted to the Supervisory Board regarding the remuneration strategy.</p> <p>In 2023 the Remuneration Committee met 11 times (incl per-rollam).</p>
2. External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework.	No external consultant
3. description of the scope of the institution's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to subsidiaries and branches located in third countries.	<p>The principles of the Remuneration Policy apply across the organization and shall be reflected in all remuneration practices applying to the several employee categories across businesses, including staff belonging to external distribution networks, considering their remuneration peculiarities.</p> <p>With specific reference to Material Risk Takers, the People &amp; Culture function establishes guidelines and coordinates a centralized and consistent management of compensation and incentive systems. In compliance with Remuneration Policy and local regulation, Legal Entities, countries and divisions apply compensation framework for all employees, with local adaptations based on specific regulations and/or business specifics.</p>
4. A description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile.	<p>As a result of the analysis on Material Risk Takers and as approved by the Supervisory Board, upon Remuneration Committee proposal and in compliance with Delegated Regulation (EU) n. 923/2021 issued by the European Commission, the following categories of employees have been defined for 2023 as Material Risk Takers:</p> <ul style="list-style-type: none"> <li>- All members of the management body, including the CEO, DCEO and all Management Board Members,</li> <li>- as well as Senior Management who exercise executive functions within an institution and who are responsible, and accountable to the management body, for the day-to-day management of the institution.</li> <li>- Moreover, additional positions with managerial responsibility over the institution's control functions (Audit, Risk Management, Compliance)</li> <li>- or material business units were identified, as well as other roles responsible for the Group's decisions which may have a relevant impact on the Bank's risk profile.</li> <li>- Finally, other specific roles of the legal entities have been defined as Material Risk Takers according to regulatory provisions.</li> </ul> <p>For further details, please refer to the paragraph 3.2.4 Group Material Risk Takers identification process within the 2023 Group Remuneration Policy.</p>

(b) Information relating to the design and structure of the remuneration system for identified staff. Disclosures shall include:	
<p>1. An overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders.</p>	<p>UniCredit's compensation governance model aims at assuring clarity and reliability of remuneration decisional processes by controlling group-wide remuneration practices and ensuring that decisions are made in an independent, informed and timely manner at appropriate levels, avoiding conflicts of interest and guaranteeing appropriate disclosure in full respect of the general principles defined by regulators.</p> <p>Relying on the governance model, the Remuneration Policy sets the framework for a coherent and consistent design, implementation and monitoring of compensation practices across the entire Bank.</p> <p>Within this common policy framework, guidelines are defined to implement compensation programs and plans that reinforce sound risk management policies and the long-term strategy and generally pursue long-term value creation and sustainability of the company. In doing so, UniCredit effectively meets the specific and evolving needs of the different businesses, market contexts and employee populations while ensuring that business and people strategies are always appropriately aligned with the remuneration approach, including external networks and agents, where applicable, as foreseen by regulation.</p> <p>On an annual basis, the Remuneration Policy is drawn up by the People &amp; Culture function with the involvement of the Risk Management and other relevant functions (e.g. Legal) and is validated by the Compliance function for all compliance related aspects, before being submitted to the Remuneration Committee. After its review, the document is submitted to the Supervisory Board for approval, in line with regulatory requirements.</p>
<p>2. Information on the criteria used for performance measurement and ex ante and ex post risk adjustment.</p>	<p>The 2023 Group Incentive System is based on a bonus pool approach, compliant with the most recent national and international regulatory requirements and links bonuses with company results at Group and country/division level, ensuring a strong connection between profitability, risk and reward, combining annual goals with additional long-term conditions to steer the performance management measurement towards sustainable results over time.</p> <p>In order to align to regulatory requirements, specific indicators measuring annual profitability, capital and liquidity results have been set at Group level as Entry Conditions. The evaluation of the Entry Conditions at Group level and after the cascading process at local level defines possible scenarios that allow the confirmation to increase, reduce or cancel the bonus pool. The ex ante malus condition (Zero Factor) applies in case the specific metrics on profitability, capital and liquidity are not achieved at Group level. Entry conditions are verified also during the cascading at local level where applicable. Specifically, the Zero Factor is applied to the Material Risk Taker population, whereas for the non-Material Risk Taker population, a significant reduction will be applied.</p> <p>More in general, the Group reserves the right to activate ex post malus and claw-back mechanisms, namely the reduction/cancellation and the return respectively of any form of variable compensation in case of verification of behaviors adopted by the employees as described in the Focus "Compliance Breach, Malus and Claw-back".</p> <p>For details on the criteria used for performance measurement, please refer to the item e)1. of this same table as well as directly to the 2023 Group Remuneration Policy content, paragraphs 3.5.1 2023 Group Incentive System and 3.5.2 Performance Management framework.</p>

<p>3. Whether the management body or the remuneration committee where established reviewed the institution's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.</p>	<p>In 2023, the Remuneration Committee reviewed the institutions' Remuneration Policy.</p> <p>Main changes of the 2023 Group Remuneration Policy compared to the previous year were driven by the aim to ensure the remuneration strategy may attract Directors, Executives and key people for the long-term objectives of the Group, while complying with the latest regulatory updates. These changes included, among others: review of the Group Incentive System in alignment with the Group strategic direction, including a) update of performance conditions, targets and payout curve for short-term and long-term scorecard of CEO and Executives with strategic responsibilities, in line with the Strategic Plan;b) full variable remuneration paid-out in shares for CEO, GEC members and Group CAE to further enhance investors' alignment; c) share conversion price calculation based on the market share price at the beginning of the performance period (average price from the beginning of the year until AGM approving incentive system to reduce the possible volatility stemming from a shorter observation period), adjusted to take into account availability constraints during deferral period, as per regulatory requirements 2) share-ownership: enhancement of the requirements for CEO (from 2x to 3x base salary) and GEC members not belonging to control functions (from 1x to 1.5x base salary) alongside the update of criteria to identify the population in scope; 3) restoring of the wider application of the 2:1 ratio between variable and fixed remuneration to the whole population, excluding Corporate Control Functions and staff for whom more stringent local regulatory cap apply.</p>
<p>4. Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee.</p>	<p>The KPI Bluebook, framework that supports the definition of Scorecards providing a set of performance indicators and guidelines, provides specific guidelines related to the selection of goals for the Corporate Control Functions, in order to ensure their independence (e.g. avoid KPIs linked to economic measure, use KPIs independent of results of monitored areas to avoid conflict of interests).</p> <p>To support the design of remuneration and incentive systems, also the following "compliance and sustainability drivers" have been defined, in line with applicable regulation to also address the independency of Corporate Control Functions.</p> <ul style="list-style-type: none"> <li>- design incentive systems to set minimum performance thresholds below which zero bonus will be paid. In order to maintain the adequate independence levels for Corporate Control Functions, for People&amp;Culture, provide a maximum threshold for the progressive reduction of the bonus pool, which can be phased out to zero only in presence of exceptionally negative situations with an approval process including a governance step by the Supervisory Board;</li> <li>- avoid bonuses linked to economic results for Corporate Control Functions, for People&amp;Culture and set, for the employees in these functions, individual goals that shall reflect primarily the performance of their own function and that will be independent of results of monitored areas, in order to avoid conflict of interest.</li> </ul>
<p>5. Policies and criteria applied for the award of guaranteed variable remuneration and severance payments.</p>	<p>The guaranteed variable remuneration is a non-standard compensation and as such, the compensation elements are considered as exceptions and limited only to specific situations, as appropriate based on the regulation in force from time to time (e.g. recruitment of new staff and limited to the first year of employment and cannot be awarded more than once to the same person). Non Standard Compensation are managed by People&amp;Culture function with the involvement of Compliance function and are approved according to the internal P&amp;C Delegation of Powers.</p> <p>With regards to severance payments, according to the regulatory requirements, a specific Policy on payments to be agreed in case of early termination of a contract was firstly submitted for approval to the 2015 Annual General Meeting of UniCredit Group. Subsequently, updates were submitted for approval to the Annual General Meetings of April 11, 2019 and April 15, 2021. For further details, please refer to Remuneration Policy available on the corporate website.</p>

(c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures shall include an overview of the key risks, their measurement and how these measures affect remuneration.		
		<p>The Group Incentive System is based on a bonus pool approach. In order to ensure consistency with the Group Risk Appetite Framework, the bonus pool may be revised up/downwards, on the basis of the overall "quality of performance".</p> <p>The methodology envisages the assessment performed by Risk Management based on specific dashboards at Group and local level.</p> <p>The CRO dashboards include indicators covering all relevant risks, such as credit, market and liquidity and the risk position assumed, the adherence to regulatory requirements and the relationship between risk and profitability. The specific metrics are measured with reference to the respective relevant thresholds (limit, trigger and target), established in line to the Risk Appetite Framework.</p> <p>The CRO function provides an overall assessment on the dashboard and the evaluation leads to the definition of a "multiplier" in order to define the adjustment of the bonus pool, which could fall in the range of 50%-120%. Negative and neutral "multipliers" (i.e. 50%, 75% and 100%) are directly applied to bonus pool funding. Positive "multipliers" (i.e. 110% and 120%) are representing the upper bound of the bonus pool theoretical value and subject to managerial evaluation, considering the broader context of the company.</p>
(d) The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD.		
		<p>In compliance with applicable regulations for UniCredit Hungary, it is established a maximum ratio between variable and fixed remuneration of 2:1 for the whole population, excluding the Corporate Control Functions and other Functions for which a more stringent regulatory cap applies.</p> <p>For Corporate Control Functions (Internal Audit, Risk Management and Compliance) and for People &amp; Culture the fixed remuneration is the predominant component of the total remuneration, and the variable remuneration is equal or lower than 80% of the fixed one.</p>

(e) Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration. Disclosures shall include:	
<p>1. An overview of main performance criteria and metrics for institution, business lines and individuals.</p>	<p>The 2023 Group Incentive System, as approved by UniCredit Board of Directors on February 26st, 2023, is based on a bonus pool approach, similarly to last years, which is compliant with the most recent national and international regulatory requirements and links bonuses with company results at Group and country/division level, ensuring a strong connection between profitability, risk and reward. The bonus pool is set at Group level and then cascaded down for each division following the external reporting structure. It is initially proposed during the budgeting phase as a percentage of the pre-defined Funding KPI (i.e. Operating EVA1 pre-bonus). In such a definition, the following elements are considered: business context and perspectives, previous years amount and forecasts of profitability. The budget is submitted to the approval of UniCredit Board of Directors.</p> <p>Furthermore, bonus pool size takes into consideration any recommendation issued by European or local regulators on variable remuneration. Individual bonus will be allocated managerially, considering the individual performance appraisal and the Reference Value (considering the internal and/or external benchmarking analysis on similar roles, the seniority, the maximum ratio between variable and fixed compensation), adjusted according to the actual available bonus pool. At individual level it will be also considered the respect of provisions of law, Group's compliance rules, Company policies or integrity values, Code of Conduct and the application of claw-back clauses, as legally enforceable.</p> <p>Moreover, each participant has to complete the mandatory trainings courses and, for impacted roles, the customer due diligence periodic review (Know Your Customer), within a predefined threshold in order to be entitled to the bonus.</p> <p>Individual performance appraisal is based on an overall outcome that reflects the deterministic evaluation of the financial KPIs and the qualitative assessment of non-financial goals including the behaviors adopted to achieve them. The setting of the annual objectives (known as Goal Setting) is supported by a structured framework that includes a catalogue of performance indicators (the "KPI Bluebook") annually certified by relevant Group key functions (i.e. People &amp; Culture, Finance, Risk Management, Compliance, Group Strategy &amp; ESG). The different categories of the KPI Bluebook represent financial and non-financial goals and are mapped into clusters of business, to help identifying the most relevant standardized KPIs (all certified by relevant functions), with specific focus on risk-adjusted, sustainability-driven metrics and economic measures.</p> <p>In particular, to the Group Material Risk Takers it is possible to assign from four to eight goals with an adequate financial/non-financial mix, also in terms of number of objectives assigned and the weight given to each cluster (financial/non-financial). The goals are mandatorily selected from the KPI Bluebook. Corporate Values and behaviors considered as relevant are taken into account by the manager for the overall performance appraisal.</p> <p>For the Executives with Strategic Responsibilities, according to their roles, the 2023 goals were considering the following drivers for performance: Net Revenues; Net Profit; Costs (C/I and Opex); Organic Capital generation; UniCredit Unlock Transformation; Winning the right way together (related to Corporate Values, conduct and compliance/risk culture). Amongst the additional LT performance conditions (applicable for selected individuals excluding corporate control functions, People&amp;Culture and Dirigente Preposto): Sustainability (e.g. ESG volumes, DE&amp;I ambitions, Climate-risk), and RoTE with CET1.</p>
<p>2. An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance.</p>	<p>Individual variable remuneration is driven primarily by institution-wide performance, in order to determine the size of the available bonus pool (the larger the profitability level of the institution, the higher the available bonus pool), and secondly by individual performance considering individual Pay-for-Performance principles (the higher the individual performance rating, the higher the variable remuneration awarded to individuals).</p> <p>The bonus pool may be revised up/downwards, on the basis of the overall "quality of performance", in order to ensure consistency with the Risk Appetite Framework and the economic sustainability of the Group's and country/division results over time. The methodology envisages the assessment performed by Risk Management based on specific dashboards at Group and local level.</p>

<p>3. Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments.</p>	<p>The individual bonus is composed of 60% in shares CEO, DCEO and Management Board Members and of 50% cash and 50% shares for the remaining Group Material Risk Takers. It is paid out over a period up to 6 years, ensuring alignment with shareholders' interests and malus and claw-back conditions, as legally enforceable.</p> <p>The balance between shares and cash is guided by the specific regulatory requirements on the matter.</p>
<p>4. Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.</p>	<p>The Incentive System methodology foresees specific "Entry Conditions" set at both Group and country/division level that impact bonus pool size. The evaluation of the Entry Conditions at Group level first and local level afterwards (also depending on weak performance metrics) defines three possible scenarios that allow the confirmation to increase, reduce or cancel the bonus pool for each cluster.</p> <p>A. In case Capital or Liquidity "entry conditions" are not met at Group level, the malus condition is activated, triggering the application of Zero Factor on both current year bonus and previous years deferrals. For the other employees, a significant reduction will be applied.</p> <p>B. In case only the Profitability Entry Conditions are not met at Group level, the gate is "partially open" and a reduced bonus pool scenario is activated triggering a reduction of 50% of pool generation for Group material risk takers on both current year bonus and previous years deferrals. For the other employees, a sizeable reduction will be applied.</p> <p>C. In case the Entry Conditions at Group level are met, the gate is "fully open" meaning the Bonus Pool may be fully confirmed or even increased, in case of positive performance on Risk &amp; Sustainability dashboard. The entry conditions of each year act as ex ante malus for the deferrals in payment in the year and, in case the entry conditions are not met both at Group and local level activating the Zero Factor, the deferrals are cancelled.</p>
<p>(f) Description of the ways in which the institution seeks to adjust remuneration to take account of longterm performance. Disclosures shall include:</p>	
<p>1. An overview of the institution's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff.</p>	<p>With reference to the payout structure of the Group Incentive System, the Material Risk Takers population will be differentiated into three clusters, using a combined approach of position and compensation:</p> <ul style="list-style-type: none"> <li>- for CEO, DCEO 6-year deferral schemes are applied, consisting in a payout structure of 6 years in total;</li> <li>- for other Senior Management (Management Board Members except CEO, DCEO) 6-year deferral schemes are applied, consisting in a payout structure of 6 years in total; a higher deferral percentage is applied in case of variable remuneration &gt; HUF 114 mln</li> <li>- for other Material Risk Takers 5-year deferral schemes are applied, consisting in a payout structure of 5 years in total; a higher deferral percentage is applied in case of variable remuneration &gt; HUF 114 mln.</li> </ul> <p>The payout of incentives will be done through upfront and deferred installments, in cash or in UniCredit ordinary shares or phantom shares, up to a multi-year period.</p> <p>Each share tranche is subject to a 1 year retention period for both upfront and deferred shares, as foreseen by regulation.</p> <p>All the installments are subject to the application of claw-back conditions, as legally enforceable.</p> <p>On the other hand, the 2020-2023 Group Long Term Incentive Plan - which provides for the allocation of UniCredit free ordinary shares - foresees:</p> <ul style="list-style-type: none"> <li>- 4 years deferral period (from the date of the award of the LTI Plan) subject to "malus" conditions and</li> <li>- additional compulsory holding year (after which the shares become free to sell, only if the share ownership guidelines are respected).</li> </ul>
<p>2. Information of the institution' criteria for ex post adjustments (malus during deferral and clawback after vesting, if permitted by national law).</p>	<p>Malus and claw-back mechanisms may apply in the case of verification of behaviors adopted in the reference period (performance period), for which the employee:</p> <ul style="list-style-type: none"> <li>- contributed with fraudulent behavior or gross negligence to the Group incurring significant financial losses, or by his/her conduct had a negative impact on the risk profile or on other regulatory requirements at Group or country/division level;</li> <li>- engaged in misconduct and/or fails to take expected actions which contributed to significant reputational harm to the Group or to the country/division, or which were subject to disciplinary measures by the Authority;</li> <li>- is the subject of disciplinary measures and initiatives envisaged in respect of fraudulent behavior or characterized by gross negligence during the reference period;</li> <li>- infringed the requirements set out by articles 26 TUB and 53 TUB, where applicable, or the obligations regarding the remuneration and incentive system.</li> </ul> <p>Malus mechanisms are also applied to take into account the performance net of the risks actually assumed or achieved, the performance related to the balance sheet and liquidity situation.</p>

	<p>3. Where applicable, shareholding requirements that may be imposed on identified staff.</p>	<p>Share ownership guidelines set minimum levels for company share ownership by relevant Executives(1), aiming to align managerial interests to those of shareholders by assuring appropriate levels of personal investment in UniCredit shares over time.</p> <p>The Board approved at the end of 2011 the share ownership guidelines applied to the Chief Executive Officer, to General Manager and Deputy General Manager roles, if any, starting from 2023, in line with the current organisational structure, the share ownership guidelines are applicable to the members of the Group Executive Committee (GEC) and their first reporting line, the so-called GEC-1, with managerial responsibilities:</p> <ul style="list-style-type: none"> <li>- 3 x annual base salary for Chief Executive Officer;</li> <li>- 1,5 x annual base salary for Group Executive Committee (GEC) Members</li> <li>- 0,5 x annual base salary for GEC-1 with managerial responsibilities</li> </ul> <p>The established levels should be reached, as a rule, within five years from the appointment to the above indicated Executives categories within the scope of the guidelines and should be maintained until the role is held. The achievement of the share ownership levels should be accomplished through a pro-rata approach over a 5-year period, granting the minimum amount of shares each year, taking into consideration potential vested plans.</p> <p>Involved Executives are also expected to refrain from entering into schemes or arrangements that specifically protect the unvested value of equity granted under incentive plans (so called "hedging").</p> <p>Such clauses are contained in all relevant incentive plan rules and apply to all beneficiaries, since involvement in such schemes undermines the purpose of limiting the risk.</p> <p>Any form of violation of share ownership guidelines as well as any form of hedging transaction shall be considered in breach of Group compliance policies with such consequences as provided for under enforceable rules, provisions and procedures.</p>
<p>(g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR. Disclosures shall include:</p>		
	<p>1. Information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded, including shares, equivalent ownership interests, share-linked instruments, equivalent non cash-instruments, options and other instruments.</p>	<p>The variable component of remuneration is mainly determined by the Operating EVA as performance indicator of operative performance.</p> <p>The Group Incentive System provides for a balanced structure of upfront (following the moment of performance evaluation) and deferred payments, in cash and/or shares for Material Risk Takers.</p> <p>The distribution of share payments takes into account the applicable regulatory requirements regarding the application of share retention periods.</p> <p>For Group and Local Material Risk Takers, the annual variable remuneration has to be deferred if it:</p> <ul style="list-style-type: none"> <li>- is above 17 500 000 HUF</li> <li>- represents more than one third of the total annual remuneration.</li> </ul> <p>Below this threshold no deferral mechanisms will be applied, according to relevant regulatory indications.</p> <p>The individual bonus is composed of 60% in shares for CEO, DCEO and Management Board Members and of 50% cash and 50% shares for the remaining Group and Local Material Risk Takers. It is paid out over a period up to six years, ensuring alignment with shareholders' interests and malus and claw-back conditions, as legally enforceable.</p> <p>The balance between shares and cash is guided by the specific regulatory requirements on the matter.</p>
<p>(h) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.</p>		
		<p>Due to local regulations publication needed only at aggregated level</p>
<p>(i) Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR.</p>		
	<p>1. For the purposes of this point, institutions that benefit from such a derogation shall indicate whether this is on the basis of point (a) and/or point (b) of Article 94(3) CRD. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable remuneration.</p>	<p>No derogation</p>
<p>(j) Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR.</p>		
		<p>Please refer to REM1, REM3, REM5 tables of Pillar 3 disclosure</p>

## 16. Leverage (Article 451)

### 16.1 Amount of derecognised fiduciary items

The Bank has no derecognised fiduciary items.

### 16.2 Processes used to manage the risk of excessive leverage

The Bank monitors its leverage ratio on a quarterly basis, whether the indicator reaches the target, trigger (early warning) or limit (action level) values specified as part of the Risk Appetite Framework (RAF). When the indicator reaches the trigger level, the Bank takes measures to manage the risks arising from excessive leverage.

### 16.3 Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

UniCredit Bank Hungary Zrt.'s consolidated leverage ratio was 7,92% at 2023 year-end (vs 7,90%<sup>7</sup> at YE 2022). The leverage ratio of the UniCredit Jelzálogbank Zrt. was 4,62% at 2023 year-end compared with 5,42% at the end of 2022, which is mainly due to the significant increase in the Institutions asset category. The leverage ratio of UniCredit Bank Hungary Zrt. was 6,98% at the end of 2023 compared with 7,04% at the end of 2022. These values indicate the stable capital position of both institutions, as the values of the indicator are much higher than the regulatory requirement.

## 17. Use of the IRB Approach to credit risk (Article 452)

### 17.1 The competent authority's permission of the approach or approved transition

On 1 July 2011 the Bank received permission to apply the IRB Approach to the following portfolios:

- Hungarian medium and large enterprises
- multinational large enterprises
- commercial banks

The introduction of the internal ratings-based approach to various portfolios has been temporarily suspended by UniCredit Group. A new roll-out plan is being elaborated.

### 17.2 Structure of internal rating systems and relation between internal and external ratings

The Bank applies internal rating systems to measure risks in the following exposure classes.

Exposure classes managed by applying the IRB Approach, and their sub-portfolios	Medium and large corporate rating model	Multinational corporate rating model	Bank rating model
Credit institutions and investment firms			x
Corporates			
<i>Large companies</i>	x	x	
<i>Small and medium enterprises</i>	x		

The rating systems used by the Bank were developed in line with the group guidelines of the UniCredit Group and with the Hungarian regulations. The ratings are established in electronic systems. The yearly validation activities on the Medium and large corporate rating model are performed by the independent Local Internal Validation function in line with group guidelines on validation. The Group Internal Validation performs quality assurance on the validations performed by local function. The yearly validation activities on the Multinational corporate rating model and Bank rating model are performed by the independent Group Internal Validation function in line with group guidelines on validation. The compliance of model development, model validation and the application model with the internal and external regulation is regularly reviewed by Local Internal Audit and Group Internal Audit.

<sup>7</sup> Restated value from audited COREP report as of 31.12.2022. The value of 6.71% from Pillar 3 disclosure report as of 31.12.2022 was recalculated in the audited COREP report.

The Bank rates all clients towards whom any risk has been assumed by applying its own rating systems even if external rating is available.

The Bank uses external ratings only from the credit rating companies Standard&Poors, Moody's, and Fitch Ratings. If a client has an external rating and, in particular, if the rating agency has access to a wider range of information, then the client's rating may be modified by taking into account the external rating.

### **17.3 Application of an internal estimate for purposes other than establishing the risk weighted exposure value**

The Bank calculates the risk parameters established by applying internal estimates not only for the purposes of calculating the capital requirement, but they are important, i.e. they are integrated into the internal bank processes. The rating results affect the following components of the corporate lending process:

- credit proposal,
- approval levels,
- collateral structure/coverage,
- pricing (pricing strategy),
- monitoring and review,
- expected credit loss allocation (IFRS 9),
- sector and customer limits

### **17.4 Process for the recognition and management of credit risk mitigation**

In the course of calculating the capital requirement, the Bank uses the complex method of collateral for financial collateral in order to mitigate credit risks and applies the volatility correction factors specified by law. The guarantees are calculated by applying the simple replacement method. The Bank does not have any credit derivative transactions.

### **17.5 Control mechanisms for rating systems**

The Bank complies with the corporate governance and control requirements needed for applying the internal rating-based method in terms of its exposures managed by means of internal rating, which the Bank had certified in the HFSA validation process prior to receiving the IRB permission, including a description of independence, accountability, and rating systems review.

### **17.6 Description of the internal ratings process**

The Bank uses separate rating systems to credit institutions as well as large and medium enterprises. The rating systems assess quantitative and qualitative criteria, but the final rating of the client may be modified by warning signals, expert overrides and group relations.

All ratings are established in compliance with the four eyes' principle; the rating prepared by the business is checked and may be approved by Risk Management. The account manager and the risk manager update the client rating regularly. Any change in the data and information relevant to solvency always triggers a new rating assignment process.

The following models are used for rating clients falling into categories of exposure to credit institutions or investment firms and corporates.

#### *Bank rating model*

For exposures to commercial banks, the bank rating model developed by the UniCredit Group shall be used for client rating. The rating system is a statistical model based on the combination of quantitative, qualitative and country risk criteria. The rating result is shown on a scale of 18. The individual categories correspond with the ratings of Standard&Poors, an external credit rating agency.

Depending on the client relationship management, either UniCredit Group or Bank Austria is responsible for establishing the rating. The Bank is not involved directly in the rating.

#### *Multinational enterprise rating model*

It is a rating system developed and used by the UniCredit Group for companies if based on the consolidated (or if it is not available, then on the standalone) financial statements of the company, the sales revenues are higher than EUR 500 million. The rating system is a statistical model based on a combination of quantitative and qualitative components. Similarly to the Bank rating model, the rating result is also shown on a scale of 18, where the individual categories correspond with the ratings of Standard&Poors, an external credit rating agency.

Within the UniCredit Bank Group, the client rating is performed by the subsidiary responsible for the customer group.

#### *Medium and large enterprise rating model*

It is a local rating model for companies having their registered seats in Hungary and keeping their books according to the rules of double entry bookkeeping if the annual net individual or consolidated net sales revenues of the company exceed HUF 500 million but are lower than EUR 500 million in two consecutive years. The model consists of a financial, quality and behavioural module. The financial module is based on the assessment of the customer's financial data, which are estimated on statistical basis. The qualitative module assesses the company with respect to the business environment and the organisational efficiency of the business model, considering factors (soft facts) which are not included in the former financial data. The behavioural module assesses the behaviour of companies with at least 1 year history in the Bank.

The balance sheet, quality and behavioural module results are combined, but if any warning sign or negative information occurs, the rating must be downgraded in compliance with the provisions of the internal regulations. The final client rating may be modified by other overruling reasons and ownership relations or economic dependencies.

The stand-alone client rating is submitted by the account manager to the risk manager (proposed rating).

The rating scale consists of 10 rating groups and contains altogether 26 rating categories, of which 23 refer to performing companies and 3 refer to companies to be classified into the default category according to the relevant definition.

#### *Participations*

In the participations exposure class, the Bank applies the simple weighting method for calculating the value of the risk weighted exposure.

### **17.7 Description of other factors influencing expected credit losses in the reference period**

The following main methodological changes were implemented in 2023:

- Application of overlay on Commercial Real Estate Financing portfolio
- Application of specific overlay by applying Basel PDs (TTC) as a floor for IFRS9 1Y PDs in the negative scenario.

In addition to the change listed above, the macroeconomic and risk parameters related to forward-looking information have also been updated.

Moreover, the allocation of expected credit losses has been in line with the applicable laws and regulations and regulatory expectations.

## **18. Use of credit risk mitigation techniques (Article 453)**

### **18.1 The policies and processes for on- and off-balance sheet netting**

In calculating the capital requirement and the exposure used for internal limit management, contractual netting may be recognised as risk mitigation, the criteria for which are set out in the CRR. The Bank meets these criteria, typically mitigating counterparty credit risk through off-balance sheet netting. Depending on the type of customer, ISDA or local treasury framework agreements are established. Market Risk Management gains assurance of the customers eligible for netting and then sets up the netting in the Legal Database. This provides the basis for the systems used for internal limit management and capital requirement calculations.

Annually and in the event of legislative changes, the Legal Department reviews and reissues its written legal opinion on the validity and enforceability of contractual netting agreements.

The Bank also uses on-balance sheet netting as a risk mitigating tool.

### **18.2 Policies and processes for collateral valuation and management**

In contracts concluded for active and certain off-balance sheet transactions (involving exposure), the Bank may order its clients to provide collateral for the purpose of risk mitigation and for ensuring the recovery of the loans.

The principles and methods used to evaluate coverage accepted by the Bank to secure its transactions representing risk, the legal provisions concerning collateral and monitoring principles are set out in an internal policy which is harmonised with the local legal environment and UniCredit's group level risk mitigation techniques.

All collateral must be legally binding and collectible, and they must also be suitable for liquidation and direct access in time. In order to ensure enforceability, the Legal Department reviews the collateral agreement templates each year. The Bank applies standard collateral agreements for collateral items, individual collateral agreements may be signed subject to the legal opinion of the Bank's lawyers or an individual legal opinion prepared by an external law office acceptable to the Bank.

Collateral agreements applied by the Bank allow the Bank to keep or liquidate the collateral, i.e. to enforce its claim directly and obtain the counter-value for the collateral within a reasonable time in case the debtor goes into default, becomes insolvent, or goes bankrupt. It is a general requirement set by the Bank for collateral that they shall also cover counterparty risk and country risk. The exceptions from this rule include certain export credit insurance policies during the valuation of which the covered risks shall be analysed.

The Bank takes into account collateral only for those exposures, the contracts for which have been assigned to the transactions.

It is a general principle that the Bank assigns each collateral to each exposure (i.e. preference is given to the establishment of collateral on a blanket basis, unless it clearly does not serve the Bank's interests).

The collateral structure of a given transaction must be in line with the client's credit rating and with the type and tenor of the underlying transaction. The rules of minimum coverage for the specific exposure category are described in internal regulations. In the case of certain products and schemes, other requirements set out in specific regulations regarding coverage must also be observed.

During loan assessment the Bank obtains all documents/deeds necessary for defining the value and verifying the enforceability of the coverage. The correlation between the value of the provided collateral and the debtor's credit rating must not be high.

Before the decision on a loan/exposure or the entry into force of the contract, in relation to assets and rights concerned and the individuals undertaking commitments, the following are reviewed by the Bank:

- existence in legal terms
- whether it physically exists;
- whether the asset is provided by the owner and/or the person jointly authorized to dispose thereof;
- whether the obligor is a person of legal capacity and is entitled to make the given legal statement;
- whether the collateral is freely enforceable.

The Bank regularly checks and assesses the existence of the collateral specified in the collateral agreement (value preservation, enforceability), the debtor's solvency and performance according to the loan agreement within the framework of regular monitoring and on a regular basis within the framework of annual reviews during the tenor of the loan.

For tangible collateral, the Bank establishes the existence and value of the collateral by site inspection involving a separately empowered valuation expert. The person conducting the valuation of the collateral may not be a party to the decision on the exposure. The value used for the valuation of the coverage may be:

- (a) the market value if it has a market value reflecting a fair value judgement,
- (b) a value established by applying a general valuation procedure or method and reviewed by a valuation expert or an appraisal company if the collateral does not have a market price reflecting a fair value judgement.

In the Bank's interpretation, the market value may only be the market value established by an appraisal company acceptable to the Bank. For other assets, the market price means the following:

- the listed value or the value stated in the catalogue of registered assets (vehicles, pieces of arts, ships, airplanes);
- the price estimated by an expert or appraisal company;
- for products listed on the stock exchange, the price listed on one of the recognised stock exchanges;
- for commodities not listed on the exchange, and for semi-finished and finished inventories, an estimate prepared by an expert or an appraisal company.

In the case of guarantee, joint and several guarantee or deposited security, the valuation of the collateral is attached to the rating of the guarantor, joint and several guarantor or issuer. In the case of bail deposited in another financial institution, the rating of the credit institution shall be taken into account, and the deposit shall be charged to the free limit of the institution.

Should the joint and several guarantee or the guarantee appearing as a joint and several guarantee not cover the full exposure, during the valuation of additional collateral account is taken of the fact that upon the enforcement of the guarantee or joint and several guarantee, the recovery from the additional collateral will be divided between the guarantor/joint and several guarantor and the credit institution in proportion to the claim.

The acceptance values defined for the valuation of certain tangible collateral items basically apply to collateral items located in Hungary. In the case of a personal collateral situated outside the European Union, a foreign legal opinion shall be obtained in regard to the enforceability of the statement.

The Bank applies the following haircuts in the valuation of collateral items:

- Collateral haircut: the expected loss in the market value from the realisation by the Bank of the collateral provided.
- Currency mismatch haircut: there is a currency mismatch if the exposure, the amount charged to the collateral (pledge) and the currency of the liquid market of the collateral, or two of these three factors are different. The currency of the collateral must essentially be the same as the currency of the exposure.
- Maturity mismatch haircut: The collateral shall exist during the entire tenor of the exposure. A maturity mismatch occurs if the tenor of the collateral/collateral agreement is shorter than that of the agreement for the commitment.

### **18.3 A description of the main types of collateral taken by the Bank**

A. Collateral provided in advance: by nature, they are such collateral in relation to which the institution may obtain the asset forming the collateral or may satisfy its claim from the proceeds from the sale of the asset if a risk event occurs. The coverage provided in advance must be liquid and its value must be stable.

- Financial collateral
- Tangible collateral
- Assignments
- Insurance policies

B. Collateral not provided in advance: they represent risk mitigation techniques where the institution may satisfy its claim from amounts paid by independent third parties if a risk event occurs. In the case of collateral not provided in advance, the party granting protection shall be reliable and shall fall within the scope of contractual law.

- Direct personal collateral
- Indirect personal collateral
- Credit derivatives (within the UniCredit Group the Bank is currently not entitled to enter into credit derivative transactions on its own)

The Bank applies the simple replacement method to the recognition of guarantees. Prior to the acceptance of any collateral not provided in advance, the Bank rates the guarantors and joint and several guarantors according to its internal regulations and according to the requirements of the law.

Certain members of the local group apply a smaller group of the above categories due to their limited activities.

The Bank accepts surety bonds or guarantees from the following collateral providers:

- Central governments and central banks
- Regional governments and local authorities
- Multilateral development banks and international organisations assigned a risk weight of 0% when calculating the regulatory capital requirement
- Public sector entities whose receivables are classified as receivables from sovereigns or sovereign institutions when calculating the regulatory capital requirement
  - Banks
  - Enterprises
  - Natural persons

#### **18.4 The main types of guarantor and credit derivative counterparty and their creditworthiness**

The Bank Group does not apply credit derivatives as collateral securing credit risks

### **19. Use of the Advanced Measurement Approaches to operational risk (Article 454)**

The more advanced the method used by a credit institution, the more accurately it can define the capital requirement, because the risk sensitivity of the individual methods increases in parallel with the complexity of the methodology. The application of the Advanced Measurement Approach (AMA) covers both the expected and the unexpected risks<sup>8</sup> although an unreasonably high capital requirement, resulting in additional cost for the Bank, should be avoided. The less advanced methods (basic indicator, standard, alternative standard) provide a conservative and, therefore, in principle higher estimates for the capital requirement.

Since 1 July 2009 UniCredit Bank Hungary Zrt. has calculated the operational risk capital requirement by applying the Advanced Measurement Approach (AMA). For the subsidiaries included in the Bank's scope of consolidation, UniCredit Jelzálogbank's operational risk capital requirement is determined using the standardised method, while for UniCredit Leasing Hungary Zrt., UniCredit Független Biztosításközvetítő Kft. and UniCredit Operatív Lízing Kft. the basic indicator method is used.

With the AMA method, the capital requirement is calculated by UniCredit Group for the whole UCI Group, which is then allocated to each subsidiary. For standalone capital requirement the UniCredit Group uses also the gross income, because it is one of the basic parameters of the allocation of capital requirement to the individual group members. The Bank takes into account the following factors, with different weights, for the calculation of the capital requirement:

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<sup>8</sup> at a specific significance level

- the operational risk events of the Bank Group booked in the previous ten years and retrieved from the internal loss database,
- loss data of international data consortium summarising operational risk events between banks (ORX),
- estimated scenario analyses prepared for potential operational risk events,
- key risk indicators.

For the allocation of AMA capital requirement to subsidiaries, the Parent Company uses the following elements:

- gross income
- data of operational loss events (frequency, severity)
- scenario estimations

For subsidiaries in the Hungarian UC Group, with both the standard and basic indicators method, capital requirement is based on only the gross income.

## **20. Use of Internal Market Risk Models (Article 455)**

The Bank Group does not apply an internal market risk model.

## **21. Disclosure of environmental, social and governance (ESG) risks (Article 449a)**

UniCredit Group has decided to publish the Sustainability Report (Integrated report) at the aggregate group level, and the subsidiaries in each country, such as the Hungarian Banking Group, do not publish an Integrated report independently. The UniCredit Group Sustainability Report has been published on the following website for the year 2023: [UniCredit 2023 Financial reports](#).

## **22. Disclosure of quantitative information (Implementing Regulation (EU) 2021/637)**

Quantitative information not included in this document is provided in Annex 1. The quantitative information is based on Implementing Regulation (EU) 2021/637.