

# One Bank, One Team, One UniCredit.

Capital and balance  
sheet management

Transform

Enhanced  
service model

**Ethics and Respect**

**Team 23**

Compliance

Grow and strengthen  
client franchise

Process  
optimisation

**Sustainable  
results**

Sustainability

Paperless  
bank

**2019**

Growth  
engines

**Customer  
experience**

Disciplined risk  
management

“Go-to” bank for SMEs

**“Do the right thing!”**

## Annual Report and Accounts

A bank mindenhez,  
ami számít.

 **UniCredit Bank**

# One Bank, One UniCredit.



Our strategy is clear and long-term: UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise.

# Chief Executive Officer's message

“We always favour long-term sustainable outcomes over short-term solutions. This is a key pillar of our new plan, Team 23, which will deliver €16bn of value creation.”

**Jean Pierre Mustier**  
Chief Executive Officer



Dear Shareholders,

2019 was a very important milestone for UniCredit, although tinged with sadness for all of us in the Group. Our chairman Fabrizio Saccomanni, who was integral to the success of the Group, suddenly passed away this summer. Fabrizio was a friend of great intelligence and humanity, highly competent with a fine sense of culture and wit. His premature death was a great loss for us all and he is much missed. In September Cesare Bioni was elected chairman and I am extremely grateful to him for leading the continuing constructive work of the board.

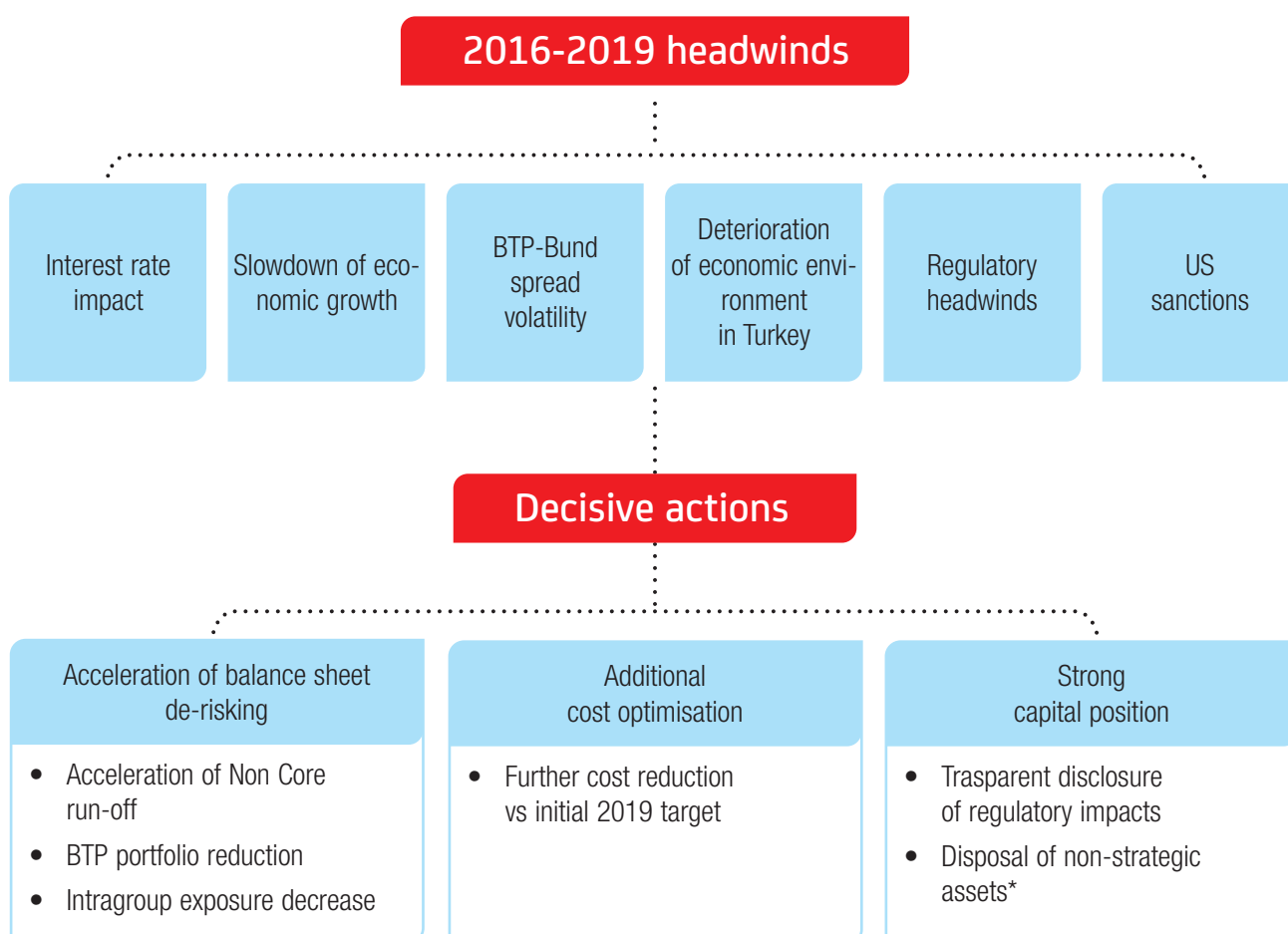
We successfully concluded our three year strategic plan, Transform 2019, launched in 2016, exceeding many of our initial targets. This success is thanks to the drive and unwavering commitment from all our team members and the support you, our shareholders, have shown us throughout the plan. This is a great achievement and I am proud of the results and the truly transformative work that has been done. To share our success and show appreciation to our shareholders, we are pleased to propose an increased capital distribution for 2019, returning 40 per cent – 30 per cent as a cash dividend and 10 per cent through a proposed share buyback.

This is double the target we set ourselves in 2016. We have shown that, no matter what, at UniCredit we say what we do and do what we say. We will apply the same mindset and dedication to our new plan, Team 23.

Although Transform 2019 was based on conservative assumptions, there were some challenges faced by the financial services sector over the past few years that could not have been foreseen.

Headwinds from unexpected geopolitical tensions, macroeconomic volatility and higher regulatory pressure added to an already testing environment.

At UniCredit, we took a series of decisive actions to counter these unforeseen events, enabling us to successfully execute our business strategy, delivering on our key targets.



\* Fineco, Mediobanca, Ocean Breeze, selected real estate.

# Transform 2019: a strategic plan delivered as promised

Transform 2019 was about restructuring and reshaping the Group, with an emphasis on strengthening capital and improving asset quality. We also strengthened our corporate governance in line with best-in-class European companies. We are the only large listed Italian company where the board of directors presents its own list of candidates. We also lifted voting restrictions and converted savings shares into common shares.

Our hard work was acknowledged by the ECB that, at the end of 2019, lowered our SREP **pillar 2 requirement by a further 25 basis points, to 175**. This is 75 basis points lower than in 2016, an achievement we are very proud of and another recognition of the outstanding work done by the team over these last three years.



## SIGNIFICANT DE-RISKING

Gross NPEs down by more than **€50bn** since 2015, to

**€25bn**

with an end 2019

Gross NPE ratio of **5.0 per cent** and a Net NPE ratio **1.8 per cent**



## MATERIAL COST REDUCTION

**€2.3bn**

net cost reduction

since 2015 with C/I ratio reduced by more than

**7 percentage points** to **52.7 per cent** in 2019



## IMPROVED ROTE

More than doubled our profitability with

underlying RoTE in 2019 of

**9.2 per cent**

up from 4 per cent in 2015



## STRONG CAPITAL POSITION

Pro forma<sup>1</sup> CET1 ratio of

**13.1 per cent**

as at the end of 2019, equivalent

to a pro forma<sup>1</sup> MDA buffer of

**300 basis points, above our 200 to 250 basis point target range**

<sup>1</sup> Pro forma 2019 CET1 ratio and MDA buffer including deduction of share buyback of €467m, subject to supervisory and AGM approval.

# Team 23: a new strategic plan, further building on our pan European strengths

While Transform 2019 represented a strong cost efficiency and de-risking effort, Team 23 focuses on strengthening and growing our customer base. All our key strategic initiatives focus on customer experience, which we will monitor precisely while making sure we increase our process optimisation. We will also continue to manage the business with tight cost discipline, focusing on high asset quality and ensuring we maintain a very strong capital level at all times. We work on this from a position of strength, thanks to Transform 2019. We will deliver a recurring dividend with a mix of cash and share buybacks.

Grow and  
strengthen client  
franchise



Transform  
and maximise  
productivity



Disciplined risk  
management  
& controls



Capital and  
balance sheet  
management



## Our strategy remains unchanged

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in Corporate & Investment Banking (CIB), delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise



## As “One Bank, One UniCredit” we will continue to build on our existing competitive advantages



Truly local with **13 leading commercial banks\*** and a unique reach through our fully plugged in CIB and international branch network



**Provide “banking that matters”** for all our 16 million clients across Europe. UniCredit is:

- Supporting our individual clients and the European mid-market corporate clients, that are the backbone of the European economy, as the second largest corporate lender in Continental Europe
- Ranked in the top three by assets in Italy, Germany and Austria and first by assets in CEE, on a consolidated basis
- We have a well-diversified business with a third of our lending coming from Italy, a third from Germany and Austria, and a third from CEE and CIB





A fully plugged-in CIB business, **focused on supporting the Group’s clients**, with top of the league tables rankings, demonstrates our strong product offer and our ability to create significant cross-selling and synergies across the Bank

\* Assuming full regulatory deconsolidation of Yapi.



## Unique network: pan European footprint

-  Commercial banks
-  International branches and representative offices\*



\* Including UC Luxembourg and UC Ireland.  
Other International branches and representative offices in Asia and Oceania, North and South America, Middle East and Africa.

## "Banking that matters" for our clients

16 m clients

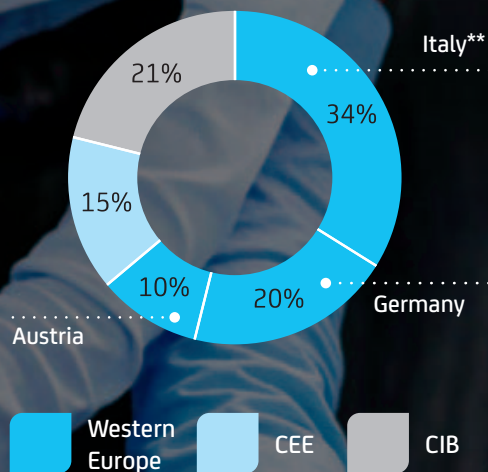
#2 for loans to corporates in Europe

#3 ranking for assets in IGA

#1 by total assets in CEE


### Well-diversified business

>430 Commercial loans, bn



\*\* Italy including Non Core and Group Corporate Centre

### Market-leading CIB

- Most active player in EUR Bonds since 2013 (cumulative)
- #1 in EUR Bonds in Italy, Germany, Austria
- 
- #1 All Covered Bonds in EUR
- #1 EMEA Corporate Loans EUR denominated
- #1 Syndicated Loans in Italy, Austria and CEE; #2 in Germany

Source: Dealogic, period: 1 Jan-31 Dec 2019



# How we achieve results in UniCredit: Do the right thing!

At UniCredit, our *corporate* culture is based on two core values: Ethics and Respect. Our commitment to always “Do the right thing!” is our guiding principle for interactions with all our stakeholders: investors, customers, colleagues and communities.

In the fourth quarter of 2019, we announced new ESG targets as part of our long-term commitment to sustainability – part of our Group's DNA and a key component of our business model. Building a sustainable future is an important challenge for both people and businesses. Every company has to do more than ‘business as usual’ – it is time to act and make an impact.

..... “Do the right thing!” to generate sustainable results .....



We adhere to the highest standards and principles with external monitoring and recognition. These include the Task Force on Climate-Related Financial Disclosures, Principles for Responsible Banking and OECD Business for Inclusive Growth Coalition. Our commitment to ESG places us in the 99th percentile of the FTSE Russell ESG ratings, a constituent of the FTSE4Good Index Series. Standard Ethics identified us as the only bank in Italy with an EE+ rating, strong compliance and the ability to manage key reputational risks.



UniCredit Leadership Team Meeting, Millennial Board presentation, Dec 2019

## Environment



Every team member of UniCredit is committed to protect the environment: the entire UniCredit team was involved in “Climate day” on Friday September 20th, submitting more than 1,200 new ideas on what UniCredit can do concretely. All these suggestions will be implemented, under the leadership of the Group “millennial board”, made of 10 millennial team members, who bring a tremendous energy and vision to our Group to “Do the right thing!”. We are committed to reducing our direct environmental impact by further cutting greenhouse gas emissions. By 2023 all electricity consumption in Western Europe will come from renewable energy sources, by when we will also remove all single-use plastic from all our headquarters. We are working to make an ever bigger difference through our indirect emissions, partnering with our customers in the shift to a low carbon economy. As already announced, we will fully exit thermal coal mining projects by 2023 and not finance any new projects in thermal coal mining or coal fired power generation. We will increase our renewable energy sector exposure, granting more energy efficiency loans to our customers.

## Social



We have committed € 1 billion to Social Impact Banking (SIB) initiatives throughout the Group between now and end 2023. This builds on our success in Italy, where we have already disbursed over 100 million euros. The programme is now being rolled out in 10 more markets. Art4Future is supporting SIB with the sale of a limited number of expensive pieces to provide the capital to extend more social loans and buy art pieces of young artists from our different countries.

In addition, we will continue to promote culture through important associations and our UniCredit Foundation will carry on addressing important social needs, while supporting study and research.

## Governance



All companies looking to grow and thrive must also focus on diversity and inclusion. Different perspectives help improve processes and behaviours, bringing more sustainable organisations. Creating a positive and inclusive workplace is key to innovation and growth. This is why UniCredit is working on different initiatives to ensure diversity and inclusion are at the forefront throughout the Group, to increase the active participation by women and minorities at all levels of the bank.



# The future: what lies ahead

UniCredit clearly shows that pan European banking is the future for our industry to support the growth of our clients, and of Europe. We are passionate Europeans, "One Bank, One UniCredit" across all our countries, combining central support and local excellence.

With Transform 2019, we have shown we always favour long-term sustainable outcomes over short-term solutions, and this is also one of the key pillars of Team 23. This is how we will deliver €16bn of value creation during our new plan, €8bn via capital distribution and €8bn from increased tangible equity. Beyond purely economic goals serving our shareholders, we will continue to "Do the right thing!" for all our other stakeholders, from our clients, our team members, to our communities and the environment.

Let me conclude by reiterating how immensely proud I am of all my UniCredit colleagues who work so hard to achieve the success of our Group, making sure we can continue to support the real economy, serve our clients, encourage growth across all our markets, transform our Group, and deliver recurring value to all our stakeholders.

Thank you!

**Jean Pierre Mustier**  
Chief Executive Officer  
UniCredit S.p.A.







“I am immensely proud of all my UniCredit colleagues, who work so hard to achieve the success of our Group.”

**Jean Pierre Mustier**  
Chief Executive Officer

# Team 23



Our new plan is called Team 23, in recognition of the outstanding work done together for Transform 2019. Team 23 is based on four strategic pillars:

- Grow and strengthen client franchise
- Transform and maximise productivity
- Disciplined risk management & controls
- Capital and balance sheet management



# Content

<b>Introduction</b>	<b>15</b>
Financial highlights	15
The management's report	16
The international economic and financial environment	16
Domestic macroeconomic developments	16
The performance of the Hungarian banking sector in 2019	17
UniCredit Bank Hungary Zrt's performance and profits in 2019	18
Corporate social responsibility	18
<hr/>	
<b>Business reports</b>	<b>21</b>
Report on the divisions	21
Corporate, Investment Banking and Private Banking Division	21
Retail Division	23
Human Resources	25
Report on UniCredit Jelzálogbank Zrt.	27
<hr/>	
<b>Financial reports</b>	<b>29</b>
Independent Auditor's report	29
Financial statements	31
Consolidated statement of financial position (Balance Sheet)	31
Consolidated Income Statement	32
Consolidated statement of comprehensive income	33
Consolidated statement of changes in Shareholder's equity	34
Consolidated statement of cash-flows	35
Notes to the financial statements	36
<hr/>	
<b>Further information</b>	<b>89</b>
Supervisory Board and Management Board	89
Calendar	91
Network units	94

# Financial highlights

## UniCredit Group Hungary – IFRS consolidated

### Profit figures

(HUF million)

	2019	2018
Operating result	55,846	60,953
Profit before taxes	56,517	61,504
<b>Profit after taxes</b>	<b>51,291</b>	<b>56,093</b>

### Balance Sheet figures

(HUF million)

	2019	2018
<b>Balance Sheet Total</b>	<b>3,380,945</b>	<b>3,054,948</b>
Loans and Advances to customers (net)	1,497,535	1,401,732
Deposits from customers	2,099,276	1,893,176
Shareholder Funds	388,066	349,712

### Indicators

	2019	2018
Return on Equity before taxes	15.32%	17.86%
Return on Equity after taxes	13.90%	16.29%
Return on Average Assets (ROA) before taxes	1.76%	2.12%
Return on Average Assets (ROA) after taxes	1.59%	1.93%
Cost Income Ratio*	51.45%	52.11%
Net fee income in percentage of Total Operating Income	36.8%	35.28%

### Indicators prescribed by CBH (Central Bank of Hungary)

(HUF million)

	2019	2018
Regulatory Capital	343,310	301,343
Risk Weighted Assets	1,721,623	1,491,638
<b>Total Capital Ratios</b>	<b>17.98%</b>	<b>20.20%</b>

### Other figures

	2019	2018
<b>Headcount (FTE)</b>	<b>1,744</b>	<b>1,748</b>
Number of locations	57	57
Number of branches	55	55

\* Based on standard of Consolidated Financial Statement

# Management report

## Macroeconomic environment and the banking sector in 2019

### International economic and financial environment

The dynamics of the global economy slowed down significantly in 2019. The roughly 3 per cent expansion of the real economy not only lagged behind the long-term average, but it was also the lowest value recorded since the 2008-2009 global financial and economic crisis. The global recession was mostly due to the slowing momentum of global trade, in which the increasing number and the size of trade restrictions and import tariffs played a decisive role. The whole year was affected by uncertainty in the macroeconomic and business environment linked to the trade war, Brexit, and the permanent presence of other economic, political, and geopolitical risks.

Another feature of last year was that several major economies had to confront country-specific challenges in addition to global trends and risks. 1) China is characterised by financial vulnerability because of its over-indebtedness. 2) The American economy is severely threatened by a slowdown as the expansionary effect of the latest fiscal stimulus runs out. 3) In the UK, the main feature of the whole year was increasing uncertainty related to Brexit. The picture started to clear up somewhat only after the general elections held in December. 4) In Germany, the risk of a technical recession due to weak internal demand linked to cautious consumer behaviour and problems affecting the automotive industry increased in the second half of 2019. 5) In 2019, many emerging and developing countries were coping with currency crises and their negative effects on the real economy.

In the US economy, the upward trend that started at the beginning of the year continued in the first half of 2019 resulting in a record-long expansionary cyclical period. However, resilience and momentum are not endless, their signs appeared in the second half of 2019. The supportive effect of the earlier fiscal stimulus and robust internal demand are less and less appropriate to offset global trends: the negative effects of decelerating global trade and trade war. Namely, trade tensions and macroeconomic uncertainty weigh on business confidence, which leads to the postponement of investment decisions in the corporate sector.

As a result of the vulnerability of the real economies, constant risks and deflationary trends, we experienced a spectacular and clear shift in the monetary policy of major central banks in 2019. In the first half of the year, US Fed continued tightening and raising interest rates in view of favourable growth and inflation data. The European Central Bank (ECB) also finished its asset purchase program, and started to prepare for the first tightening steps.

In the summer of 2019, the events took a 180-degree turn. The Fed started to ease monetary conditions again in July 2019

to offset global risks, an escalating trade war and recession fears, and reduced its reference rate from the 2.25-2.50 range to 1.50-1.75 within half a year. It is worth noting that thanks to previous years' interest rate hikes, the Fed has more room of manoeuvring to adjust than the ECB whose reference rate has been zero percent since 2016. In the light of deteriorating economic indicators, the low inflation rate of the euro area that has been far away from the ECB's 2 per cent target as well as trade tensions implying significant risks for export-oriented economies in the euro area, the ECB had to act. Accordingly, it announced a comprehensive package in September. Part of this package was the further reduction of its deposit interest rate and resumed its asset purchase program to stimulate economic growth and reach its inflation target.

### Domestic macroeconomic developments

The performance of the Hungarian economy remained robust in 2019 as well. The almost 5 per cent GDP growth is remarkable for several reasons. On the one hand, it is the third year that Hungary's GDP is rising by 4-5 percent annually. On the other hand, last year, the domestic macroeconomic growth trajectory decoupled from unfavourable external trends in a spectacular way. In the third quarter of 2019, Hungary ranked first among EU-member states in terms of annual GDP growth while Germany, the most significant economic partner country for Hungary only slightly avoided technical recession.

The positive performance was to a significant extent driven by sharp growth in domestic sectors, therefore, the dynamics of investments and private consumption offset the negative effects of the deteriorating global trade trends.

The double-digit growth rate of investments that had started in 2017 continued last year as well. Projects of municipality and the general government funded by EU transfers gave a significant impulse to construction. With significant family allowances offered by the government and the permanently low yield environment, demand for housing was kept at a high level. Due to capacity limits, supply was lagging behind demand. Part of investment-related demand in the housing market was siphoned off by the new government bond MÁP+, which was introduced in the summer as an attractive alternative investment asset class. The maternity loan programme that was launched almost simultaneously with the new government security gave another boost to demand in the housing market. The increasing inflow of foreign direct investments that started last year and is getting stronger over time, too, contributed to the surge in construction. Projects launched at the end of 2017 and in 2018 turned productive in a favourable period, and at the same time, the investment activity of foreigners remained strong

# Management report (CONTINUED)

last year as well. One of the reasons is that high productivity that generally characterises multinational companies in Hungary and the significant difference in the cost levels of the parent countries and the Central and Eastern European ones continue to make Hungary an attractive target in the decision matrix of international investors. This could also explain the seemingly contradictory fact that despite 3.5 percent unemployment rate, labour shortage and permanent double-digit gross wage growth, news appeared on investment plans of foreign companies in Hungary. In addition to housing investments, favourable labour market trends and further increasing savings encouraged private consumption as well. The momentum persisted in the whole year, which is well reflected by the fact that retail turnover was record-high during the Christmas period at the end of the year. As a result, household consumption accounted for half of GDP growth in 2019.

Foreign trade trends were characterised by a dichotomy: on the one hand, Hungarian exports were affected negatively by strengthening protectionism, escalating trade tensions, the weakness of the German economy. On the other hand, it was affected positively by investment projects of foreign companies turning productive. Exports of services continue to be robust, primarily thanks to the boom in tourism recorded in the last couple of years. With the significant expansion of domestic consumption imports, too, increased simultaneously. As a result of the contradicting factors and trends, the overall impact of the foreign trade balance on GDP growth was positive in certain quarters and negative in other ones during 2019.

Besides the favourable and stable economic performance, financial indicators provided analysts and markets with some excitement. Namely, various indicators of inflation set to pick up last year and became in line with the basic trends of the real economy. While the main index came close to the 4 percent ceiling of the Central Bank's inflation target range several times, the tax-adjusted core inflation rate monitored as high-priority by monetary policy decision makers was at a lower level. Monetary policy remained adaptive despite the 3-4 percent increase in the price level, benchmark interest rates did not change significantly, only some monetary fine tuning was carried out during the year. It was the exchange rate of the Hungarian forint to the euro that was most affected by Hungarian real interest rates sinking to more and more negative territories (as the combined result of high inflation and low nominal interest rates), as well as by Hungarian monetary policy that was extremely loose compared to the other Central and Eastern European countries. The exchange rate of the forint to the euro started to weaken significantly in spring 2019 moving from the previous HUF 315-HUF 325 range to the range of HUF 325-HUF 335.

## The performance of the Hungarian banking sector in 2019

2019 was a successful year not only for the real economy, but for the financial sector as well. Profitability was similar to 2018, while the upward trend of lending continued. Preliminary actual figures indicate that the Hungarian banking sector reported after tax profits tax (IFRS, non-consolidated) in the amount of around HUF 500 billion last year. Although this value is slightly behind the level recorded in 2018, it is still above the long-term average, therefore, the industry's return on equity remained around 10 percent in 2019.

The asymmetry in the profit structure of the past years persisted in 2019, although its size decreased. With the favourable economic environment, the cleaning of portfolios as well as the growth in the provision of new loans, most banks continued to release and write back their loan loss provisions in the first half of the year. The middle of the year saw the start of gradual normalisation, and it was the first time when provisioning took place at the level of the banking sector, albeit to a minimal extent. Accordingly, the rate of non-performing loans in the banking sector decreased to a record low level, below 3 percent by the end of the year. There were no considerable changes in traditional revenue items. According to preliminary figures, net interest income stagnated in 2019. Although the dynamic increase in new loans affect the interest income of banks positively, several factors have opposite effects. On the one hand, the permanently low interest rate environment as well as strong competition for market shares resulted in narrower margins. On the other hand, the new, state-subsidised and therefore cheaper credit products available to households have a crowding out impact on other traditional bank credit products, affecting bank profitability negatively. Expenditures of the banking sector increased significantly in 2019 as well, by more than 8 percent, well above the inflation rate. Rising wages and digitalisation-related investments contributed to the higher cost level.

Lending accelerated further in 2019. Both corporate and retail credit demand was buoyant. As a result of the strong outflow of new loans, the stock of both corporate and household loans grew by 15 per cent in line with trends in the real economy and the housing market, including state-subsidised products, the interest in which exceeded previous expectations.

# Management report (CONTINUED)

## UniCredit Bank Hungary Zrt's performance and profits in 2019

UniCredit Bank Hungary Zrt. closed a successful business year in 2019. The Bank was able to dynamically increase its client loan (+6.8 per cent) and client deposit (+10.9 per cent) portfolios, while also retaining its outstanding ROA capacity despite increasing costs of risk. As a result of changes in the client portfolio, UniCredit Bank Hungary Zrt.'s net loan to deposit ratio decreased to 71.3 per cent at the end of 2019.

Based on its consolidated balance sheet and profit & loss account prepared in accordance with the International Financial Reporting Standards (IFRS), the balance sheet total of UniCredit Bank Hungary Zrt. amounted to HUF 3,381 billion at the end of 2019, representing 10.7 per cent growth year-on-year. As a result similar to previous years the bank retained its outstanding market position.

Based on the balance sheet total, the Bank's market share reached 8.5 per cent in 2019.

The Bank's revenues increased by approximately 2.3 per cent in 2019 year-on-year, which is, taking the one-off effects realised in 2018 into consideration, an outstanding result. Interest income fell short of the level recorded in the previous year, however, commission and fee revenue increased by 7.5 per cent and trading profit by almost 11 per cent. Operating costs were 1.7 per cent higher than in 2018, and provisions also grew in the past year.

The Bank's impairment provisioning converged to 'normal' levels, which represents organic growth following the conclusion of the post-economic crisis cleansing process. On account of the outstanding quality loan portfolio, the rate of risk cost is low at 39 bp at a yearly level. The Bank also booked a one-off reversal of impairment arising from sales of the non performing retail loan portfolio.

On account of the above, UniCredit Bank Hungary Zrt.'s consolidated profit after taxes exceeded HUF 51 billion. The Bank's return on equity (ROE) was 13.9 per cent, while its cost/income ratio was 51.4 per cent in 2019, which are improvements over the preceding year.

The Bank is continuously monitoring the changes in the business and regulatory environments, as well as changes in its clients' needs, adjusting its business model and development strategy accordingly. As such, in 2019 the Bank continued to focus its activities on digitalisation, regulatory compliance and sustainable growth.

As at the end of 2019, UniCredit Bank Hungary Zrt. was serving more than 350,000 clients in its nationwide branch network of 55 units.

## Corporate Social Responsibility

In 2019, UniCredit Bank Hungary Zrt. continued to strengthen its commitment towards corporate social responsibility and supported social and economic development in accordance with its long-term strategy. It considered the development of the financial culture a priority, promoted the improvement of equal opportunity for disadvantaged groups of the society and the development of child health care, and aimed to have a positive effect with its environmental efforts.

In the autumn of 2019, our bank helped open the first Budapest Fintelligence financial education centre at the Finance and Accountancy Faculty of the Budapest Business School. The financial lab serving educational purposes is the first member of the national FINTELLIGENCE Financial Educational Network in Budapest, providing subject-specific university courses and informative lectures with modern infrastructure. From the autumn of 2019, we started a course titled "Banking in @ction – operation of a bank in practice" in the education centre together with the university. The course held in English gave students a practical knowledge during that half year and they got an insight into the bank's operation and the job of the different banking areas from the best experts and top managers of the bank in thirteen topics.

Our training material to promote the financial literacy of young people—designed by volunteering Bank employees in cooperation with a professional partner—was launched in the summer. The curriculum called "Gazdálkodj vlogosan" aims to introduce children between the ages of 9 and 13 to the ways businesses work and businesspeople make financial decisions through the popular example of a vlogger as an entrepreneur. The material uses a novel and exciting approach, relying on situation exercises to explain to children the concepts of savings, credit, and all the things that need to be considered when purposefully building a business. The material was delivered to 24 schools in 21 towns within 10 weeks, helping children grow into financially literate adults. Thanks to the programme, more than 400 little students became more financially aware, 200 of them in the subject of entrepreneurship. 150 disadvantaged student had the chance to participate in the programme. In the autumn, the material was made into a six-week mid-term course, and became available to even more children across the country.

We supported the transformation of financial awareness under the Pénz7 programme too. The twenty volunteers from our bank participated in Hungary's biggest financial education programme for the fifth time. In the course of the thematic week, our colleagues supported the work of teachers in elementary and secondary schools with real-life examples.



# Management report (CONTINUED)

UniCredit Bank Hungary Zrt. organised the “Step with us!” social innovation programme for the third time in 2019. This initiative provided material and mentoring support for the realisation and further development of projects that aimed to improve the conditions of disadvantaged communities by starting and operating a social enterprise. Thanks to the programme, a Romani-themed, paid sightseeing tour service was started in Budapest’s District 8 and in the city of Pécs. The objective was to start a conversation between the Romani people and the majority of the society in order to reduce prejudices. The expansion of the equipment of the Királyhegyes “Kanálka” food manufacture was also carried out, which increased the quantity and sale of locally purchased products. This not only created a stable workplace for local women but also contributed to the increase of retentive force of the area. An automatic briquette manufacturing plant was also established in Told, relieving the heating problems of the disadvantaged town’s residents with a cheap fuel alternative. The plant not only creates stable workplace for two of the town’s residents but can also be adapted as a example by other disadvantaged towns. Ten managers of our bank supported as volunteers the successful completion of the project and the development of entrepreneurial skills. They provided the organisations with mentoring support for a whole year. Our bank won the 2019 Business Responsibility award of CSR Hungary with this programme.

We also supported child health care with several initiatives. In the spring, we started a campaign to promote mobile application use. By downloading and using the application, our clients helped the bank donate as much as possible to the summer adventure camps of Bátor Tábör, where children recovering from serious diseases and their parents can get life-changing experiences. Thanks to the activity of the clients, the bank’s support provided the costs of family camps for four complete summer weekends. We supported the work of the Red Nose Clown Doctors for their 36 clown doctors to be able to reach as many children as possible in the child care departments of 16 hospitals nationwide, so that as many children as possible can experience the healing power of laughing. Besides our priority support, we also contributed to the work of nearly twenty foundations working in the field of child health care, integration of people with disabilities, arts and sciences during the year.

As part of our environmental protection initiatives, we joined WWF’s Earth Hour programme for the twelfth time in March. As participants of the worldwide initiative, we switched off the lights in our headquarters for an hour to draw attention to the dangers of climate change.

# Grow and strengthen client franchise.



Team 23 focuses on strengthening and growing our client franchise across all segments: SMEs, individuals and corporates.

Our strategic initiatives focus on the customer experience, to improve customer satisfaction and service quality. This is how we will increase our Net Promoter Score at Group-level.

# Report on the divisions

## Corporate and Investment Banking and Private Banking Division

Similar to the previous year, 2019 has been a year of outstanding successes and extreme challenges for the Corporate, Investment Banking and Private Banking Division. In 2019, the main feature of the corporate market was the general decrease of interest rates charged for clients and, as a result, the significant increase of the market size. To demonstrate risk awareness and protect profitability, UniCredit Hungary Zrt. was involved in these developments only moderately. As a result, growth in operating profits exceeded even the outstanding dynamics of GDP, but at the same time – despite the significant rise in our loan portfolio – the Bank suffered considerable fall in its loan market share. Operating profits increased by 6.5 percent and the loan portfolio by 3.6 percent in a year, the loan market share stood at 11.8 percent at the end of the year. The division continues to be the most significant segment of the Bank.

But it is not only our profit indicators that make UniCredit Bank Hungary Zrt. one of the most successful Hungarian corporate banks. Awards received from prestigious forums and, even more importantly, the feedback from our corporate clients confirm our excellent reputation. Based on an objective satisfaction survey conducted among our clients (NPS – Net Promoter Score- , CFI – Customer First Index – indices), UniCredit's high standard of services were recognized again by the outstanding result it achieved among the corporate and investment banks active in the Hungarian market in 2019. Built on the annual trade finance survey of Euromoney, UniCredit Bank Hungary Zrt. once again won the titles of "market leader" and "best trade finance provider". Furthermore, Euromoney recognised UniCredit Bank Hungary Zrt. as the best service provider according to its Cash Management survey.

Our successes rely on the five fundamentals of our company. They include, on the one hand, the expertise and experience of our colleagues, on the other hand, our comprehensive and sophisticated services. Similarly to the practice of prior years, in 2019, too, we continued to pay special attention to the quality of services we provide to clients, and achieved progress in several information systems to satisfy special client needs.

In structured financing, 2019 proved to be another eventful year of challenges and successes. Despite intensifying market competition and further contraction in lending margins, the Division strengthened its relationship with customers by offering them customized structured finance solutions that were ideally tailored to their needs and often involved international dimension. Among other things, our role as banking coordinator or lending agent in several high-profile transactions as well as our increasingly active presence in renewables, primarily solar power plant financing enabled us again to upgrade our market leading position in 2019. Meanwhile, we were also able to maintain the excellent quality and profitability of our loan portfolio.

The loan portfolio of the Real Estate Finance Division continued to grow dynamically in 2019. The share of investment loans in the portfolio increased. This bodes well for 2020 in terms of risk management and income producing capacity. We are proud of having become the key lender of several high-priority clients such as Graphisoft Park. We are also proud of the fact that our clients and peers recognised our performance, and UniCredit Bank Hungary Zrt. was elected to the best market participant of the industry in both the "Banking" and "Finance" categories of Euromoney.

According to the EIF InnovFin SME guarantee facility agreement concluded between the European Investment Fund (EIF) and UniCredit at the end of 2016, the EIF offers loan guarantees in the amount ranging from EUR 25,000 to EUR 7.5 million. This is an EU financed financial instrument, which benefits from the support of Horizon 2020, the EU's Framework Programme for Research and Innovation, and the European Fund for Strategic Investments (EFSI), the main pillar of the Investment Plan for Europe. At the end of 2019, the facility available to UniCredit Bank Hungary Zrt. was raised from EUR 95 million to EUR 195 million.

We continued to treat agribusiness financing as an area of strategic importance in 2019, too. There is significant growth potential in this industry because of the potential market consolidation at some later date. Partially independently thereof, perspectives are particularly favourable in terms of investments in future technologies.

In 2019, the continued trend of low interest rates was the biggest challenge of the year; it required heightened flexibility and adaptability from the GTB (Global Transaction Banking) Cash Management Department. Despite a low interest rate environment, the Bank continued to enhance its client base. This is clearly evidenced by the significant increase in the volume of cash turnover and sight deposits.

As a result of our reliable service level and high-quality client service, the coverage of our card acceptance services expanded further. Our market share, too, continued to rise: the number of our POS terminals exceeded 6,000 units by the end of the year. Online retail sales volumes continued to increase in 2019. This, too, boosted online card transactions significantly, as demonstrated by our Bank's rising vPOS turnover figures. In response to customer feedback, we continuously improve the quality of our services and broaden our product range. Several projects were accomplished in 2019 as a result of which clients can carry out bank card transactions in EUR and USD in addition to HUF at our POS and vPOS terminals. We launched our innovative QR code-based Alipay acceptance service as well. We hope that the new functions introduced will be to our customers' satisfaction.

# Report on the divisions (CONTINUED)

The Trade Finance Division of UniCredit Bank Hungary Zrt. closed another successful year in 2019. The stock of guarantees in trade finance portfolio reached record highs, furthermore, the structured working capital financing solutions adjusted to the clients' needs expanded significantly. The awards received at Euromoney's Trade Finance Survey are prominent acknowledgements of UniCredit Bank Hungary Zrt's trade finance performance.

As a member of Factors Chain International (FCI) and the Hungarian Factoring Association, UniCredit Bank Hungary Zrt. continued to increase its factoring activity in 2019. As in prior years, our Bank was able to maintain its prestigious second place in terms of turnover.

2019 was a profitable year for the Global Securities Services (GSS) Business Division of UniCredit Bank Hungary Zrt. It reinforced its position, retained its role as market leader and extended its client base even further. The results of GSS demonstrate that the division provides its clients with high-quality custody services that are sustainable in the long term. The GSS division of UniCredit Bank Hungary Zrt. won Global Finance magazine's award for best sub-custodian in 2019. This is awarded to financial institutions that reliably provide the best service, taking into account clients' feedbacks as well. The division develops its services to meet the unique needs of its institutional clients, to comply with the continually tightened legal requirements and to respond to changes in the capital market. It pays special attention to keeping clients satisfied, operating with a focus on customers, and complying with legislative requirements.

In 2015, the Central Bank of Hungary decided to add the Hungarian forint to the group of currencies settled in the CLS (Continuous Linked Settlement) system. The Bank acquired a leading market share regarding the number of mandates in the area of "Forint account manager bank for CLS settlements" in the Hungarian market. UniCredit Bank Hungary Zrt. managed to keep this position in 2019 as well.

After the reorganisation of 2018, the Capital Market Consulting Division closed a successful year in 2019 with increasing revenues and profitability. UniCredit Bank Hungary Zrt. was involved as associate organiser and distributor in the first bond issue of HUF 24.7 billion of the International Investment Bank in Hungary, then it was also partially commissioned with the organisation of the issue and the distribution during the second, autumn transaction. As exclusive organiser and distributor, our Bank carried out the second bond issue in the framework of the Growth Bond Program started by the Central Bank of Hungary in the summer of 2019. The value of the bond series issued by MOL Nyrt. amounted to HUF 28.4 billion.

Corporate treasury sales achieved a successful year in 2019 with elevating its income by about 5 percent compared to 2018. We increased the number of personal meetings, and continued organising client events where we helped our clients manage market price movements. Currency deals represented the largest volume of transactions with our customers. The number of FX options transactions increased in 2019. We continued managing interest rate exposures in 2019, based on which we accomplished complex interest rate swap transactions. Sales of commodity hedging products went up significantly in 2019 (+62 percent turnover year-on-year).

The Trading Division of our Bank accomplished 2019, a year full of volatile market movements, with good results. The key goals of our trading area are to maintain a wide-range presence in the interbank market and to take over market risks from our clients. Interest rate and currency products dominated in risk taking in 2019. Our Bank is among the first three participants regarding interbank foreign exchange trading, and a major player in bond market as well.

UniCredit Private Banking closed an especially successful business year in 2019. As of the end of the year, we managed savings in the amount of nearly HUF 317 billion of more than 1,800 private banking clients. After the significant downswing that took place in the last quarter of 2018, the markets showed an outstanding positive performance in the yield of different investment assets in 2019, exceeding even that of 2018. Our Bank's global investment strategy continued to play a leading role in the management of long-term savings. Our consultants advised the Bank's clients in their financial decisions in line with the strategy. In addition, investors' attention were caught by the new retail sovereign debt instruments. Significant amount of assets moved from other investment products to sovereign debt instruments. Increasing the number of advisors in its private banking team from 13 to 16, the Bank made further strategic investments. As a result, based on competitor figures published in the financial press, UniCredit Private Banking once again turned out to be the fastest growing private bank in terms of client base, and reached the second biggest increase in terms of managed assets in Hungary in 2019.

UniCredit Leasing Group, owned by UniCredit Bank Hungary Zrt., maintained its fourth place in the market with a market share of 7 per cent in 2019. The Group's revenue grew by 14.7 per cent, the financed portfolio surged by 19.5 percent. This growth was associated with financing passenger and light commercial vehicles as well as agricultural and construction industry machinery and equipment, but other machinery (including IT and medical equipment) also remained an important segment. As a member of UniCredit Group, UniCredit Biztosításközvetítő Kft. sells insurance services primarily in relation to leased assets, to the banking clientele as well.

# Report on the divisions (CONTINUED)

## Retail and Small Business Division

In 2019, UniCredit Bank Hungary Zrt.'s Retail and Small Business Division continued to place priority emphasis on flexibly adapting to market changes and on customer satisfaction in an economic environment of constant challenges.

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

In line with its internal guidelines, the Division paid attention to continuously improve the quality of its services, the professional training and support of branch network personnel and to the development of sales and, as a result, it achieved a high degree of client satisfaction. Client satisfaction with UniCredit Bank Hungary Zrt. has been remarkably strong for years, allowing the Bank to remain a market leader in this regard. According to surveys regarding the services provided at our branches, our clients are continuously satisfied with service quality, the advisors of UniCredit, the financial advice tailored to the client's financial needs and with the consultations on the next steps to be taken. New clients expressed great satisfaction with the helpfulness of our advisors and the atmosphere of our branches. The surveys found that our clients' willingness to recommend our Bank is high and that they are happy to recommend the Bank to their acquaintances, family members and business partners.

As a result, the Division currently serves almost 339,000 clients, including 45,000 small businesses.

The Division held a loan portfolio of HUF 302 billion in 2019, representing a 4.1 per cent share of the retail lending market as at the end of 2019. The volume of new retail loan disbursements was 16 per cent higher than in 2018, primarily due to the more than 2.5-fold increase in personal loan disbursements and to the new childbirth incentive loan product. In the latter two areas, the market share of new disbursements increased constantly during the year. This share reached 2.5 per cent in December for personal loans—representing an improvement of almost 1.5 per cent year-on-year—and 4.5 per cent for childbirth incentive loans.

A number of positive changes took effect in respect of mortgage loan products in 2019, enabling our Bank to further improve its competitiveness across the entire retail segment. On 21 June 2019,

the Bank introduced its Qualified Consumer-Friendly Housing Loan available for “refinancing loans with a certified housing purpose” in addition to its loans already available for purchasing second-hand residential houses/apartments. In line with the possibility set out by the legal regulation, on 15 July 2019 the Bank launched the UniCredit Childbirth Incentive Loan with a general purpose as per the conditions specified in the applicable legal regulation, and as of 1 August 2019 with a loan refinancing purpose as well, and on 24 October 2019 it rolled out the interest-subsidised loan for families with several children available for second-hand housing purposes.

In 2019, small business lending grew by 7 per cent, which was primarily attributable to our overdraft facility products and investment loans. The review of products and the streamlining of the product range has commenced in the spirit of transparency, and, as a result, we have suspended the sale of some of our loan products.

In 2019, the savings portfolio of the Retail and Small Businesses Division increased by HUF 82 billion, closing the year at HUF 1,046 billion. The growing number of private individuals and active small business clients with income transferred to their accounts made a major contribution to the 11% increase in the portfolio of sight deposits.

The Bank ended the year with a 4.8 per cent market share in terms of deposits and securities held by private individuals.

Mindful of the significant changes in client needs and habits, we pay special attention to the development of client-focused digital solutions, whereby we create value for our clients. In addition to client-focused developments, enhancements of the Bank's digital channels relating to statutory amendments were also assigned priority importance in 2019.

In 2019, the Bank published its new personal loan calculator on its website, enabling visitors to the site to make even more detailed and precise calculations concerning the Bank's personal loan products. In 2019 Q2, the Bank published information for clients on its website concerning the expected amendments of the PSD2 (the second Payment Service Directive) and instant payment, and embarked on preparing clients for the imminent changes. In part for this reason, in 2019 we registered 1,830,595 individual visits on the unicreditbank.hu website, which is a 13 per cent growth compared to the same period in 2018. 2.8 per cent more inquiries were submitted in 2019 than in 2018. As a result of the website's mobile optimisation, 39.4 per cent of client inquiries came from mobile devices.

Over 90 per cent of the clientele of the Retail and Small Business Division can still transact their finances via the Telephone Banking channel. Improvements in the standard of our services to clients played a significant role in achieving a client call response ratio of over 82 per cent.



## Report on the divisions (CONTINUED)

By the end of 2019 Q2, the Bank concluded the introduction of its new internet banking service (eBanking) among its private individual clients, as well as the delivery of communication messages and training material to banking clients. As at the end of 2019, 240,000 clients gained authorisation to use the eBanking system. In order to comply with the law, in 2019 the Bank completed its developments made necessary by the amended PSD2, and published them through the above-mentioned digital channel by the statutory deadline. In addition to promoting the mToken service, the Bank continued the replacement of physical token devices among its retail clients. Moreover, the Bank also successfully implemented voluntary and compulsory tests relating to the introduction of instant payment.

In line with its Mobile First strategy, the Bank worked on enhancing its Mobile Banking application. It did so by prioritising customer focus and the development of financial culture in the client base. The Bank offers the following features to clients after they log in using biometric identification: use the application to activate their new or renewed debit cards, set up new standing orders and manage existing ones, make convenient credit card repayments, check their reserved debit and credit card transactions and create new orders from past payment orders specified and booked before. The mToken service developed in line with the PSD2 allows

clients to authenticate transactions initiated through the eBanking online platform after receiving push messages. The cardless cash withdrawal service (mCash) is still available in the mobile application, allowing for cash withdrawals from any Hungarian UniCredit ATM without the use of a bank card. This is an innovative solution in the domestic market. Starting from 2019 Q4, the Bank continued widespread communication among its clients regarding the automatic notification function on funds credited. It also introduced a biometric identification option to authenticate transactions on mobile devices with fingerprint scanning capability. In the application version published at the end of the year, it introduced a setting where clients using the activated Mobile Banking application receive push card transaction notifications concerning operations executed with debit and credit cards as well. Almost 100,000 customers use our Mobile Banking service at least once a month.

In order to allow customers to deposit cash at any time of the day regardless of the opening hours of the branch offices, the Bank has continuously maintained the number of ATMs suitable for cash deposits. This convenience function was available at 83 ATMs at the end of 2019. Environmental protection is a key priority for our Bank, and an increasing number of customers are choosing e-statements instead of paper-based bank account statements. At the end of 2019, 68 per cent of our retail clients used this service.

# Report on the divisions (CONTINUED)

## Human Resources

### Strategy and participation

The HR department supports the Bank with solutions that are innovative, sustainable over the long term and always focused on the value of human capital by maintaining and improving employee commitment and motivation, outstanding talent management schemes and stringent staff management.

In 2019 the HR department leveraged on the new service model kicked off in 2018, in order to enhance our strategic partnership with the different business and competence lines. The new structure is a leaner, more agile one that can respond to business needs swiftly. Flexibility in the HR department supports also allocation of resources consistent with short term priorities and market challenges like high turnover in specific business areas.

2019 challenges were mainly related to low unemployment rate, high turnover in retail network and difficulties to retain people in order to increase market competitiveness.

### Supporting business processes

The HR Business Partner Model enables the thorough understanding and client-centered servicing of specific areas and activities in the Bank in terms of attraction, acquisition, onboarding, assessment and development, engagement and retention, and off boarding.

HR Business Partners are our relationship managers and they are end to end responsible in achieving a good understanding of business needs (business acumen), to support organization in change management activities (change agent) and partner HR head and the business leaders in taking decision with a data driven approach (data driven champions).

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

The selection of our employees is assisted by a wide range of tools supporting in-depth assessment; examples include competence-based and behavioral interviews, professional assignments and tests as well as personality, motivation and work attitude tests. During 2019 we have also piloted "new digital tools" like video interview.

We decided to apply marketing strategy to our recruitment process, segmenting our candidates by Mass Market, Expert and Scarce profiles. Segmentation and a deep analysis of our internal processes

supported us to pilot the new fast track process in retail, which allowed us to half the time to hire during the last quarter 2019. In 2019, the Bank hired 304 new FTEs, annual bank turnover was 15,5 percent vs 19% related to the Hungarian market. A part from improving recruiting process, several initiatives were launched to boost cooperation with universities, increase our sources creating better working flexibility to attract moms and retired people. Relationship with universities and investments in young student allowed us to have approx. 70 trainees working in our organization during the year.

Employee satisfaction surveys and the implementation of the subsequent action plans are of key importance not only for the Group but for UniCredit Bank Hungary Zrt. as well. In 2019 the Group didn't perform any Survey but the Bank decided to have a light version, before our Unicredit Day event.

The survey was characterized by good level of participation since 80 per cent of employees expressed their opinion; and the engagement index was 73 per cent. The Bank is currently working to overcome the development areas highlighted in the survey mainly related to the staffing of the network, the improvement in the training journey, the simplification of the processes etc. with concrete actions.

### Training and development, succession management

The HR department continues to support the regular training of employees, contributes to keeping their knowledge up to date, and knowledge sharing and helps the career management of employees in the Bank. The latter is implemented on the basis of the annual appraisal system and the talent management and manager training programs.

Talent management is one of the most important elements of UniCredit Group's human resource strategy. The talent management program is a group-level initiative that was adopted by UniCredit Bank Hungary Zrt. more than ten years ago. Its objective is to identify in the organization people with outstanding potential, skills and professional knowledge, and ensure that their career plans be implemented at both the national level and the international one. In 2019 we continued our progress towards our chosen aims. In addition to innovative training methods, we retained all the elements such as the Mentoring Program that had proved to be successful.

Furthermore, the role of Talent Account launched in 2018, with the responsibility to stimulate the transformation of colleagues to a talent organization, contributed to succession pipeline, enhanced cross-divisional and international moves, strengthened our employer brand, recruitment strategy and onboarding procedures.

# Report on the divisions (CONTINUED)

Our digitalization drive included the introduction and the development of a new onboarding application for our new hires that helps us to engage our new colleagues even before they join our organization. With the same technology a digital onboarding tool was launched for expats to properly welcome and facilitate their start in Hungary.

Leadership training is just as important as the retention and training of employees who regularly perform at a high quality. In 2019 UniCredit Bank Hungary Zrt. launched its manager of employees' year-long leadership program based on a digital platform and coaching session; this program was focused on retail network. We continue the "First time manager" program launched in 2017 by offering a regional training opportunity to our newly promoted managers.

All employees are given the opportunity to participate in the training courses developed by the Bank's internal team of trainers. Primarily in response to the development needs of the organization, these training courses are focused on skills development and are very popular among employees. The internal team of trainers support the training offer with specific sessions.

In addition to talent management and succession planning, knowledge sharing is one of the key values of UniCredit Bank Hungary Zrt. An increasing number of employees are given the chance of participating in international and national development programs ranging from project work of a few months to assignments spanning several years. In this respect during 2019, our campaign to boost the use of Group Marketplace created several opportunities to our colleagues to contribute to projects from abroad.

## Equal opportunity

Since Hungary joined the international Gender Balance Initiative, we adapted our Gender Balance Policy in 2013. The Policy is aimed at enforcing the principle of equal treatment in employee selection and promotion and the work-life balance. Changes implemented at the local level under the Policy continue to be monitored internationally. Reports of these indicators that are defined at the Group level, are regularly presented to the senior management as well. During 2019 our attention were focused on Same Role Pay Gap, that achieved a level lower by 4% at the end of the year.

## What to expect in 2020?

2020 is the first year of our new Team2023 Plan. HR strategy has to be our compass to properly partner the business in achieving bank and group targets. Main areas of attention are:

- Strategic workforce planning, to understand demographic trends, niches, areas where to invest or decommission, skills of the future and reskilling /upskilling strategy
- Attraction and acquisition, to reinforce our market positioning and win "the battle for talents".
- Learning & Development to have well-trained colleagues and right leadership skills also thanks to innovative Group journey, digital platform like LinkedIn Learning and new products like EtoE Academy.
- Engage and Retain, reinforcing employee commitment thanks to specific initiatives aim at sharing the "why", the purpose and the vision of the bank (see Ceo on Tour), transparent development paths, up to date rewarding strategy including competitive perks and benefits, and specific initiatives to improve the wellbeing and work life balance of our colleagues.

# Report on UniCredit Jelzálogbank Zrt.

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

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

In order to improve efficiency, UniCredit Jelzálogbank Zrt. has gradually outsourced some of its support activities (such as banking administration, human resources, IT, accounting etc.) to UniCredit Bank Hungary Zrt. since 2008.

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

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

In the current business and market environment, the frequency and volume of mortgage bond issues depend primarily on the

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

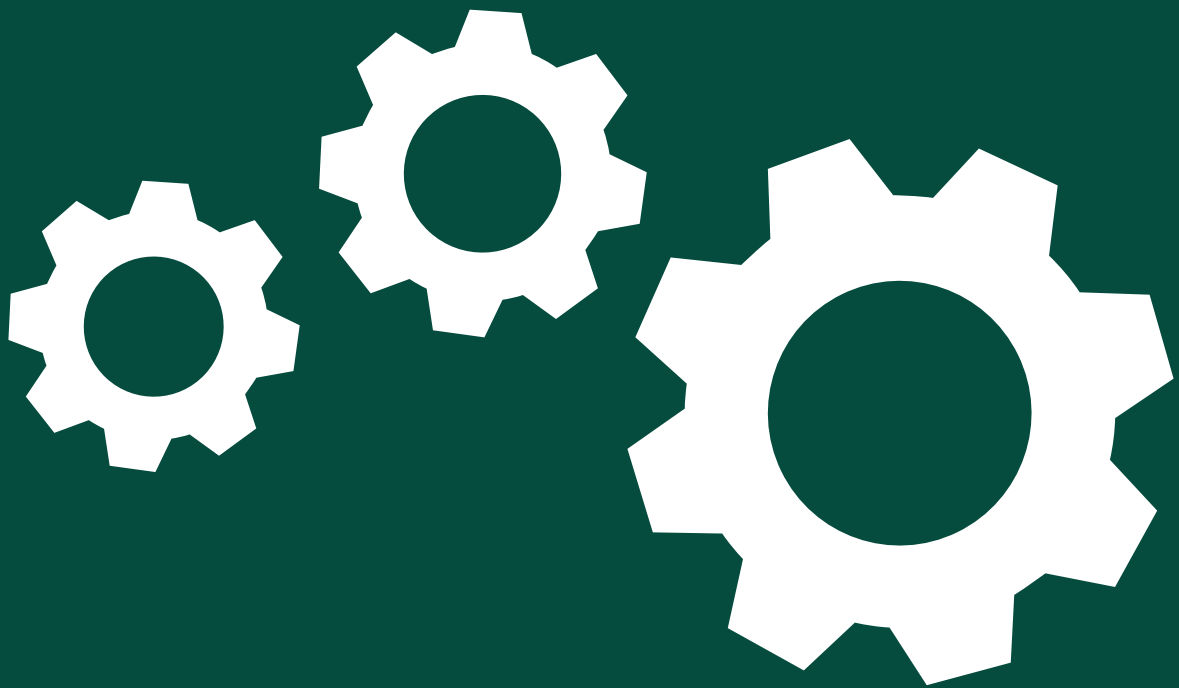
In November 2017 UniCredit Jelzálogbank Zrt. signed a joint and several guarantee agreement with UniCredit Bank Hungary Zrt. regarding the payment obligations relating to securities of the former.

UniCredit Jelzálogbank Zrt. commissioned the rating of its mortgage bonds from international credit ratings agency Moody's Investors Service. Accordingly, the mortgage bonds issued by UniCredit Jelzálogbank Zrt. on 12 January 2018 received the long-term credit rating of Baa1, which is in the investment category under the ratings agency's methodology.

Under the Mortgage Bond Purchase Programme announced by the Central Bank of Hungary (CBH), related to the market of domestic mortgage bonds, including primary and secondary-market purchases, the Central Bank purchased mortgage bonds with a total nominal value of HUF 37.8 billion at UniCredit Jelzálogbank Zrt's auctions under its primary programme and mortgage bonds for a total of HUF 37.4 billion in its secondary-market programme.

Based on its balance sheet drawn up according to the International Financial Reporting Standards (IFRS), UniCredit Jelzálogbank had HUF 271.5 billion balance sheet total and HUF 2517 million profit after taxes as at the end of the fiscal year 2019.

# Transform and Maximise Productivity.



Our customer focus drives the right process optimisation, leading to new ways of working. We will continue to maximise productivity across the value chain, improving processes and products while minimising operational risk. A great example of our transformation is the paperless bank, currently being rolled out across our networks.



# Independent Auditor's report



Deloitte Auditing and Consulting Ltd.  
H-1068 Budapest,  
Dózsa György út 84/C, Hungary  
H-1438 Budapest,  
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800  
Fax: +36 (1) 428-6801  
www.deloitte.hu

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

## INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder of UniCredit Bank Hungary Zrt.

### *Opinion*

The summary consolidated financial statements included on pages from 31 to 87 in the annual report for 2019 of UniCredit Bank Hungary Zrt. (the "Bank"), which comprise the summary consolidated statement of financial position as at December 31, 2019, the summary consolidated income statement, the summary consolidated statement of comprehensive income, the summary consolidated statement of changes in Shareholder's equity and summary consolidated statement of cash flows for the year then ended, and related notes ("summary consolidated financial statements") are derived from the consolidated financial statements of UniCredit Bank Hungary Zrt. 2019.

In our opinion the accompanying summary consolidated financial statements of UniCredit Bank Hungary Zrt. are consistent, in all material respects, with the underlying consolidated financial statements for 2019.

### *Summary consolidated financial statement*

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards as adopted by the European Union. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank and the auditor's report thereon for 2019. The summary consolidated financial statements and the audited consolidated financial statements for 2019 do not reflect the effect of the events occurred subsequent to the date of our report on the consolidated financial statements.

### *The audited consolidated financial statements and our report thereon*

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated January 29, 2020. The auditor's report on the audited consolidated financial statements also contains the key audit matters identified during the audit of consolidated financial statements for 2019.

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

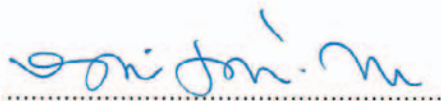
Management is responsible for the preparation of the summary consolidated financial statements in the annual report for 2019 in accordance with relevant information included in the audited consolidated financial statements.

# Independent Auditor's report (CONTINUED)

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

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements for 2019 based on our procedures, which were conducted in accordance with National Standard on Auditing 810 "Engagements to Report on Summary Financial Statements".

Budapest, May 29, 2020



.....  
Nagyváradiné Szépfalvi Zsuzsanna  
on behalf of Deloitte Auditing and Consulting Ltd.  
and as a statutory registered auditor

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

Registration number of statutory registered auditor: 005313

# Financial statements

## Consolidated statement of financial position (Balance Sheet) – 31 December 2019

### Assets

	NOTE	2019	2018
		HUF MILLION	HUF MILLION
Cash and unrestricted nostros with Central Bank	15	23,834	20,362
Financial assets held for trading	16	19,938	26,024
Trading derivative assets	16	65,250	50,702
Hedging derivative assets	17	57,189	33,403
Placements with, and loans and advances to banks	18	800,018	645,060
Loans and advances to customers	19	1,497,535	1,401,732
Investment securities	20	842,991	814,565
Equity investments	21	1,006	685
Investment properties	22	11,108	10,820
Property, plant and equipment	24	25,974	21,117
Intangible assets	25	13,569	10,796
Deferred tax assets	14	96	122
Other assets	26	22,437	19,560
<b>Total assets</b>		<b>3,380,945</b>	<b>3,054,948</b>

### Liabilities

	NOTE	2019	2018
		HUF MILLION	HUF MILLION
Deposits and loans from banks	26	599,344	544,508
Deposits from customers	27	2,099,276	1,893,176
Issued bonds	28	148,281	150,547
Trading derivative liabilities	29	71,011	57,201
Hedging derivative liabilities	17	29,509	18,811
Other provisions	33	4,096	3,475
Deferred tax liability	14	3,556	1,562
Other liabilities	29	37,596	35,618
<b>Total liabilities</b>		<b>2,992,669</b>	<b>2,704,898</b>

### Equity

	NOTE	2019	2018
		HUF MILLION	HUF MILLION
Share capital	31	24,118	24,118
Capital reserve		3,900	3,900
Retained earnings		218,758	195,845
Statutory reserves	32	49,798	44,640
Other reserves		–	–
Valuation reserves		40,217	25,116
<b>Net profit for the year</b>		<b>51,275</b>	<b>56,071</b>
<b>Total Equity attributable to the equity holder of the Bank</b>		<b>388,066</b>	<b>349,690</b>
Minority interest		210	360
<b>Total Equity</b>		<b>388,276</b>	<b>350,050</b>
<b>Total Liabilities and Equity</b>		<b>3,380,945</b>	<b>3,054,948</b>

The accompanying notes (1-50) form an integral part of these financial statements.

# Financial statements (CONTINUED)

## Consolidated Income Statement – 31 December 2019

	NOTE	2019	2018
		HUF MILLION	HUF MILLION
Interest and similar income	6	87,583	84,755
Interest expense and similar charges	6	(25,715)	(20,774)
<b>Net interest income</b>	<b>6</b>	<b>61,868</b>	<b>63,981</b>
Fee and commission income	7	57,431	52,713
Fee and commission expense	7	(10,447)	(8,991)
<b>Net fee and commission income</b>	<b>7</b>	<b>46,984</b>	<b>43,722</b>
Dividend income	8	189	188
Net trading income	9	99	(1,962)
Net gain and loss on other financial instruments	10	14,929	14,371
Net gain and loss on foreign exchange	9	1,626	2,607
<b>Operating income</b>		<b>125,695</b>	<b>122,907</b>
Impairment and losses on credit products	44	(4,895)	2,026
<b>Net financial activity result</b>		<b>120,800</b>	<b>124,933</b>
Personnel expenses	11	(19,514)	(19,411)
General operating expenses	12	(43,320)	(43,676)
Other provision	33	(1,258)	(419)
Depreciation on property, plant and equipments	24	(1,709)	(1,029)
Amortization and impairment on intangible assets	25	(1,147)	(471)
<b>Operating costs</b>		<b>(66,948)</b>	<b>(65,006)</b>
Other income	13	1,994	1,026
<b>Other results</b>		<b>1,994</b>	<b>1,026</b>
Gain / (losses) on disposal of fixed assets and other assets		30	48
Gain / (losses) on investment properties		641	503
<b>Profit before tax</b>		<b>56,517</b>	<b>61,504</b>
Income tax expense	14	(5,226)	(5,411)
<b>Net profit for the year</b>		<b>51,291</b>	<b>56,093</b>
<b>Attributable to:</b>			
Shareholder of the Group		51,275	56,071
Minority interests		16	22

The accompanying notes (1-50) form an integral part of these financial statements.

# Financial statements (CONTINUED)

## Consolidated statement of comprehensive income – 31 December 2019

(HUF million)

	NOTE	2019	2018
<b>Net profit for the year</b>		<b>51,291</b>	<b>56,093</b>
<b>Other comprehensive results that will be subsequently reclassified to profit or loss:</b>			
IFRS 9 transition		–	420
Movement in fair value reserve of financial instruments measured at fair value through other comprehensive income		9,676	(10,628)
Deferred income tax on movement of fair value reserve of financial instruments measured at fair value through other comprehensive income	14	(880)	910
<b>Net movement in fair value reserves</b>		<b>8,796</b>	<b>(9,718)</b>
Movement in cash flow hedge reserves		5,244	(5,478)
Income tax on movement in cash flow hedge reserves	14	(472)	493
<b>Net change in cash flow hedge reserves</b>		<b>4,772</b>	<b>(4,985)</b>
<b>Other comprehensive results that will not be subsequently reclassified to profit or loss:</b>			
Asset revaluation surplus		–	420
Deferred income tax on asset revaluation surplus	14	–	420
Net movement in asset revaluation surplus		–	420
<b>Other comprehensive income for the year, net of tax</b>		<b>15,101</b>	<b>(14,703)</b>
<b>Total comprehensive income for the year</b>		<b>66,392</b>	<b>41,390</b>

The accompanying notes (1-50) form an integral part of these financial statements.

# Financial statements (CONTINUED)

## Consolidated statement of changes in Shareholder's equity – 31 December 2019

(HUF million)

	ORDINARY SHARES	CAPITAL RESERVE	RETAINED EARNINGS	STATUTORY RESERVES	VALUATION RESERVES			NET PROFIT	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
					Fair value Reserve	Hedging Reserve	Asset revaluation surplus				
<b>Balance as at 1 January 2018</b>	<b>24,118</b>	<b>3,900</b>	<b>181,629</b>	<b>38,707</b>	<b>20,102</b>	<b>19,297</b>	<b>–</b>	<b>51,091</b>	<b>338,844</b>	<b>192</b>	<b>339,036</b>
IFRS 9 Transition adjustment	–	–	(5,443)	–	420	–	–	–	(5,023)	–	(5,023)
<b>Balance as at 1 January 2018 after IFRS 9 transition and merge adjustments</b>	<b>24,118</b>	<b>3,900</b>	<b>176,186</b>	<b>38,707</b>	<b>20,522</b>	<b>19,297</b>	<b>–</b>	<b>51,091</b>	<b>333,821</b>	<b>192</b>	<b>334,013</b>
Net profit for the previous year	–	–	51,091	–	–	–	–	(51,091)	–	–	–
Total comprehensive income for the year	–	–	–	–	(9,718)	(4,985)	–	56,071	41,368	22	41,390
Dividend to equity holder	–	–	(25,500)	–	–	–	–	–	(25,500)	–	(25,500)
Change of non-controlling interest	–	–	–	–	–	–	–	–	–	146	146
Business combination	–	–	–	–	–	–	–	–	–	–	–
"Appropriations Transfer to retained earnings"	–	–	(5,933)	5,933	–	–	–	–	–	–	–
<b>Balance as at 31 December 2018</b>	<b>24,118</b>	<b>3,900</b>	<b>195,845</b>	<b>44,640</b>	<b>10,804</b>	<b>14,312</b>	<b>–</b>	<b>56,071</b>	<b>349,690</b>	<b>360</b>	<b>350,050</b>
<b>Balance as at 1 January 2019</b>	<b>24,118</b>	<b>3,900</b>	<b>195,845</b>	<b>44,640</b>	<b>10,804</b>	<b>14,312</b>	<b>–</b>	<b>56,071</b>	<b>349,690</b>	<b>360</b>	<b>350,050</b>
Net profit for the previous year	–	–	56,071	–	–	–	–	(56,071)	–	–	–
Total comprehensive income for the year	–	–	–	–	8,796	4,772	1,533	51,275	66,376	16	66,392
Dividend to equity holder	–	–	(28,000)	–	–	–	–	–	(28,000)	–	(28,000)
Change of non-controlling interest	–	–	–	–	–	–	–	–	–	(166)	(166)
Business combination	–	–	–	–	–	–	–	–	–	–	–
"Appropriations Transfer to retained earnings"	–	–	(5,158)	5,158	–	–	–	–	–	–	–
<b>Balance as at 31 December 2019</b>	<b>24,118</b>	<b>3,900</b>	<b>218,758</b>	<b>49,798</b>	<b>19,600</b>	<b>19,084</b>	<b>1,533</b>	<b>51,275</b>	<b>388,066</b>	<b>210</b>	<b>388,276</b>

The accompanying notes (1-50) form an integral part of these financial statements.



# Financial statements (CONTINUED)

## Consolidated statement of cash-flows – 31 December 2019

### Cash flows from operating activities

(HUF million)

	NOTE	2019	2018
<b>Profit before tax</b>		<b>56,517</b>	<b>61,504</b>
Items not involving movement of cash:			
Depreciation and amortisation	24, 25	2,856	1,500
Scrapped and transferred fixed assets		–	–
Profit on disposal of property, plant and equipment		2,677	(35)
Net loss/gain from cashflow hedging assets		(7,844)	(7,686)
Net impairment and losses in credit products		1,885	(13,751)
Unrealised changes in fair value of financial assets held for trading and investment securities		–	(10,628)
Foreign exchange loss on subordinated loans		–	–
Foreign exchange loss/(gain) on investment properties		–	–
Fair value change of fixed assets (real estates)		(1,374)	–
Fair value change of investment properties		(288)	(490)
Business combination		(16)	(22)
Income tax paid	14	(5,226)	(5,411)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>49,187</b>	<b>24,981</b>
Change in financial assets held for trading		(8,462)	35,869
Change in current tax assets		26	24
Change in other assets		(2,877)	(6,251)
Change in asset held for sale		–	(545)
Change in current tax liabilities		1,973	(161)
Change in deferred tax liabilities		(1,504)	1,403
Change in other liabilities		(666)	10,517
Change in loans and advances to customers		(94,315)	(180,923)
Change in deposits with other banks		(155,055)	(37,494)
Change in deposits from customers		206,100	249,350
Change in deposits from other banks		54,836	(10,643)
Change in subordinated loans		–	–
Change in financial liabilities held for trading		13,810	(8,224)
<b>Net cash from operating activities</b>		<b>13,866</b>	<b>52,922</b>

### Cash-flows from investing activities

(HUF million)

	NOTE	2019	2018
Proceeds on sale of property, plant and equipment		24	47
Addition of property, plant and equipment		(6,208)	(972)
Addition of intangible assets		(3,920)	(4,457)
Change in equity investments		(321)	(829)
Change in held-to-maturity investments		34,824	(28,299)
Change in available-for-sale financial assets		(53,564)	(91,676)
Change in investment properties		–	–
Change in minority interest		(150)	168
<b>Net cash used in investing activities</b>		<b>(29,315)</b>	<b>(126,018)</b>

### Cash-flows from financing activities

(HUF million)

	NOTE	2019	2018
Change in issued bonds		(2,266)	72,322
Dividend paid		(28,000)	(25,500)
<b>Net cash from financing activities</b>		<b>(30,266)</b>	<b>46,822</b>
<b>Net Increase in cash</b>		<b>3,472</b>	<b>(1,293)</b>
Cash and cash equivalents at the beginning of the year	15	20,362	21,655
<b>Cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>23,834</b>	<b>20,362</b>

The accompanying notes (1-50) form an integral part of these financial statements.

# Notes to the financial statements

## 1. General

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

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

The statutory auditor of UniCredit is Deloitte Auditing and Consulting Ltd ("Deloitte"), the responsible registered auditor is Zsuzsanna Nagyváradiné Szépfalvi (registration number: 005313).

The responsible chief accountant is András Tornay-Csomor.

The consolidated financial statements were approved by the Supervisory Board on 29 January 2020.

## 2. Basis of preparation

### a.) Statement of compliance

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

### b.) Basis of measurement

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

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

## 3. Significant accounting policies

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

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

### a.) Consolidation principles

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

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

# Notes to the financial statements (CONTINUED)

Investments in shares in companies, which are not consolidated are classified as available for sale investments and recognised at their fair values, when that fair value is reliably measurable. Changes in fair values are thus directly recognised in consolidated other comprehensive income. In cases where the fair value cannot be reliably determined, shares are carried at cost. When there is objective evidence that a financial asset is impaired, a loss is recorded in the consolidated statement of profit or loss. As soon as the circumstances which led to the impairment cease to exist, the recovery in the fair value of the impaired available-for-sale equity security is recognised directly in equity.

## b.) Consolidation procedures

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

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

## c.) Comparatives

Certain items previously reported in the prior years' financial statements are restated and reclassified to provide consistency for presentation purposes, if applicable.

Due to the first adoption of IAS 16 revaluation model from 31 December 2019 results in limited comparability as the comparative numbers are based on IAS 16 cost model.

## d.) Cash and cash equivalents

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

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

## e.) Financial instruments

### i) Classification

#### Financial assets

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

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

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

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

The business model assessment reflects the expectations of the Group, not just its intention but its ability to manage its financial assets. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. Therefore if the Group plans to sell a certain portfolio or financial assets in a 'stress case' scenario, it does not affect the business model assessment, if the Group does not reasonably expect it to occur.

# Notes to the financial statements (CONTINUED)

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

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

## ***Financial assets at amortised cost:***

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

## ***Financial assets at fair value through other comprehensive income ("FVOCI"):***

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

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

## ***Financial assets at fair value through profit and loss ("FVTPL")***

The Group measures those financial assets under this category which were classified under OTHER business model, or those financial assets which are under HTC or HTCS, however they do not meet the SPPI condition that contractual terms give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding.

Furthermore the Group measures those equity instruments under IFRS 9 as OTHER category which were not designated by the Group as FVOCI.

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

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

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

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

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

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income from the period when the cash flow hedge was effective remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss. In a fair value hedge relationship, any adjustment to a hedged item for which the effective interest method is used, is amortised to profit or loss as part

# Notes to the financial statements (CONTINUED)

of the recalculated effective interest rate of the item over its remaining life. However, if amortizing using a recalculated effective interest rate is not practicable, the adjustment shall be amortized using the straight-line method.

## **Financial liabilities**

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

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

## **ii) Recognition and de-recognition**

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

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

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

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

## **iii) Measurement**

### **Initial measurement**

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

### **Subsequent measurement**

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

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

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

### **Fair value measurement principles**

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

### **Gains and losses on subsequent measurement of FVTPL and FVOCI assets**

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

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

# Notes to the financial statements (CONTINUED)

## f.) Transactions in foreign currency

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

## g.) Equity investments

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

## h.) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, except for class of properties which are measured at fair value less accumulated depreciation and impairment losses. More information detailed in point 3.(z.). The property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if necessary.

## i.) Intangible assets

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

## j.) Depreciation and amortisation

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

Depreciation Rate (%)	
Buildings	2 – 6
Property rights	10
Office equipment	14,5 – 33
Hardware	25
Motor vehicles	20
Rental rights	10
Licenses	10
Software	20

## k.) Impairment on non-financial assets

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

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



# Notes to the financial statements (CONTINUED)

## l.) Investment properties

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

The fair value was determined in accordance with the requirements set forth by the IFRS 13 "Fair Value Measurement". The valuation premise used to measure the fair value of the income generating properties is the highest and best use. Valuation techniques applied are the market sales comparison and/or the income approach to value the real estate properties. The applied technique depends on the type of the property.

The inputs to valuation techniques are of the level 3 in the fair value hierarchy for real estate, therefore sensitivity analyses were performed during the valuation.

The capitalisation rate adopted is made by reference to the yield rates observed by the market players for similar properties or by using the build-up method based on a risk-free return, e.g. the long-term Hungarian Treasury bond, and adding risk premiums related to macro- and microeconomics, the general and specific real estate market, location and actual usage of the properties.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

## m.) Loans and advances

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

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

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

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

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

## n.) Leasing

### The Group as lessor

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

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

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

### The Group as lessee

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

# Notes to the financial statements (CONTINUED)

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

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

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

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

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

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

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

There are practical expedients available to entities applying this approach:

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

## Recognition of lease liabilities

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

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

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset (such as office equipment, phones and other equipment which are required for Group's operation) other has a low value (less than EUR 5,000, equivalent amount in HUF 1.65 million at year-end CBH rate) and for which agreements it will not recognise financial liabilities nor any respective right-to-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

## Recognition of right-to-use assets

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

# Notes to the financial statements (CONTINUED)

The cost of a right-of-use asset comprises:

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

## Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-to-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

## Impact on the statement of financial position

The Group presents the following right-of-use assets in the statement of financial position as at 1 January 2019:

	(HUF million)
	<b>01/01/2019</b>
Right-of-use asset	2,735
Lease liability	2,709
Cumulative impact recognized as an adjustment to the equity at the date of initial application	—

The value of right-to-use assets are linked to lease liabilities, the difference caused by prepaid amounts which consist of prepaid invoices at the date of transition.

Estimated annual cost related to short-term lease agreements: HUF 297 million.

Estimated annual cost related to lease agreements of low-value assets: HUF nil.

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: 1.85%.

	(HUF million)
	<b>2019.01.01</b>
Operating lease commitment at 31 December 2018	3,258
– Recognition exemption for:	—
– short-term leases	(297)
– leases of low-value assets	—
– Extension and termination options reasonably certain to be exercised	52
Leasing liabilities in IFRS 16 scope	3,012
Discounted using the incremental borrowing rate at 1 January 2019	2,709
Accruals and prepayments	0
<b>Total discounted operating lease commitment</b>	<b>2,709</b>
Finance lease liabilities recognized as at 31 December 2018	—
– Variable lease payments based on an index or a rate	—
– Residual value guarantees	—
<b>Lease liabilities recognized at 1 January 2019</b>	<b>2,709</b>

## o.) Impairment and losses on credit products

It is the policy of the Group to review periodically its portfolio of loans and advances to make provisions for impairment, where necessary.

Impairment is based on an individual assessment of the recoverability of outstanding amounts. Increases and decreases in the provisions for impairments are charged to the statement of profit or loss; in case of assets at fair value through other comprehensive income the changes are reclassified to equity. Further details on loan assessment are provided under the Risk Management Policies.

## p.) Deposits from banks and customers

Deposits are cash amounts, accepted by the Group from other banks and its customers, and they serve as funds to the active side of the business.

Deposits are initially measured at fair value, and subsequently at their amortised cost. The Group does not classify or designate any deposits as financial liability at fair value through profit and loss.

# Notes to the financial statements (CONTINUED)

## q.) Issued bonds

UniCredit Jelzálogbank Zrt.'s primary source of funds is generated from the issuance of mortgage bonds. Mortgage bonds are secured bonds. The Mortgage bank may issue such bonds only if it has sufficient collateral, which may include independent mortgage rights and other securities such as government bonds and treasury bills.

Issued bonds are classified as financial liabilities, initially recognised at issue price, plus directly attributable transaction costs and subsequently measured at amortised cost.

## r.) Equity elements

### i) Statutory reserves

#### General reserve

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

#### Tied-up reserve

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

### ii) Revaluation reserves

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

## s.) Derivative financial instruments

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

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

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

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

## t.) Financial Guarantees

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

## u.) Income

### Net Interest income

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

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

# Notes to the financial statements (CONTINUED)

## **Dividend income**

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

## **Net fee and commission income**

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

## **Net trading results**

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

## **Net gain and loss on other financial instruments**

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

## **Gains and losses on other equity investments**

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

## **v.) Taxation**

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

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

Deferred tax is provided using the balance sheet method, in respect of which temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are recognised in full. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the difference between the carrying amounts of assets and liabilities in the IFRS statement of financial position and in the balance sheet for local tax purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets and liabilities are offset in the statement of financial position after the analysis, carried out according to IAS 12 "Income taxes".

## **w.) Share-based payments**

The Group is part of several incentive programmes operated by UniCredito Italiano S.p.a, applying the requirements of IFRS 2 "Share-based Payment".

The Group provides cash-settled share-based payments to certain employees.

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

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

## **x.) Events after the reporting date**

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

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

# Notes to the financial statements (CONTINUED)

## y.) Segment reporting

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

The Group's format for segment reporting is based on business segments and the Group's management and internal reporting structure.

The Group separates the following main business segments:

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

The result of each segment also includes the head office costs (indirect and overhead) allocated on a reasonable basis. The business segment report is presented in Note 43.

## z.) Changes in accounting policies

The Group elected to use the revaluation model for the class of properties in accordance with IAS 16 "Property, Plant, Equipment". The Group changed the accounting policy with respect to the measurement of properties as at 31 December 2019 on a prospective basis. The Group initially measured the assets at cost model, stated at historical cost less accumulated depreciation and accumulated impairment losses. After initial recognition, the properties are carried at a revalued amount, being their fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably.

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

The accumulated depreciation is revised in line with the change in the gross book value ensuring that after revaluation the carrying value equals with revalued amount.

Revalued assets are depreciated in the same way as under the cost model, see in point 3.(j).

If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised in profit or loss.

A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.

For more details see Note 18.

## aa.) New standards and interpretations

### *The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2019*

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

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),



# Notes to the financial statements (CONTINUED)

- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019).

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

## ***New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective***

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Group has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

## ***Standards and Interpretations issued by IASB, but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

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

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements, if applied as at the balance sheet date.

## 4. Risk Management Policies

### ***i) Risk strategy and risk management policies***

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

# Notes to the financial statements (CONTINUED)

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

## **ii) Credit risk**

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

## **Debtor rating**

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

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

## **Collateral**

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

General principle is that the collateral:

- shall be legally binding and recoverable;
- shall be directly accessible and;
- appropriate to be liquidated in time.

The Group accepts and registers in its system the following types of collateral:

- Financial collateral held at own bank;
- Financial collateral held with other institutions;
- Insurance;
- Personal collateral – direct;
- Personal collateral – indirect;
- Real estate collateral;
- Assignment of receivables, pledge on receivables;
- Movable property collateral;
- Other collateral.

According to Hpt. 99§ Group does not accept

- a) self-issued securities representing membership rights, including shares in cooperatives;
- b) securities representing membership rights that have been issued by an enterprise with close links to the credit institution, including shares in cooperatives;
- c) the shares of a limited company that is controlled by an enterprise - holding a qualified majority as defined in the Civil Code - with close links to a credit institution that is subject to supervision on a consolidated basis.

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

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

Base value for collateral valuation could be:

- a) market value in case of reliable active market,
- b) value based on independent appraisal, if there is no reliable active market for this collateral type.

## **Market value:**

In case of real estate market value can be only market value calculated by appraisers accepted by the Group.

# Notes to the financial statements (CONTINUED)

In case of other collateral type market value is:

- listed value (vehicles, works of art, ships, aircraft);
- stock market price in case of product listed on stock exchange;
- in case of other products value based on appraisal

The basis for the valuation of collateral is the market value adjusted by the following factors:

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

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

The Group is continuously monitoring existence, value and enforceability of collaterals, frequency of monitoring is based on type of the collateral. The value of real estate shall be reviewed regularly, in compliance with the legal provisions: at least once a year for non-residential real estate and once every 3 years for residential real estate. In case of residential real estate the Group applies statistical revaluation.

The price/value of financial collateral is updated daily in the collateral system.

Eligibility of guarantees and surety is subject to proper evaluation of the guarantor according to the respective internal rules.

## **Loan classification, Impairment**

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

According to the accounting and the regulatory requirements the provision calculation is based on the expected credit loss approach. At the reporting date the financial instrument should be evaluated with the 12 month expected credit loss if significant increase in the credit risk of the unit cannot be observed since the initial recognition. If the credit risk increases significantly full lifetime expected credit loss recognized in the profit and loss calculation and in case of the purchased or originated credit impaired assets (POCI) as well. Mathematical/Statistical approach defined for the lifetime parameter estimations considering the characteristics of different sub-portfolios and the changes of the observed default rates. In line with the UniCredit Group approach the lifetime probability of default curves are segmented based on the rating grades – the rating grade profile derived from the internal rating scales used by the UniCredit Hungary. According to the IFRS 9 standards, the current and expected macroeconomic trends are taken into account as well, meaning that the first several years of the lifetime PD profiles are adjusted with the forward-looking information. This PIT rescaling factor – delivered by the UniCredit Group – is denoted the forward default rates and utilized to adjust the estimated TTC PD curves in order to reflect the short-term macroeconomic impacts. After the PIT adjustment the so-called punctual PD curves are calculated on transaction level combining with the regulatory/managerial probability of defaults.

According to the IFRS 9 standards at the reporting date the Group is evaluating whether the credit risk has significantly increased since the initial recognition or not in case of financial assets where credit risk is relevant. Based on the UniCredit Group Guidelines both quantitative and qualitative triggers could take into account during the valuation. The quantitative approach is based on the comparison of the one year IFRS 9 probability of defaults related to the origination date and the current one: if the probability of default of the financial asset is higher than the PD threshold – estimated by a statistical model – than significant increase is assessed. The sub-portfolio characteristics are considered as well, when the statistical parameters are estimated. Not only this approach but qualitative information are taken into account as well. According to the UniCredit Group approach and the recommendations of the Central Bank of Hungary the following qualitative triggers are considered:

- 30 day past due
- Restructuring: Restructuring is to be considered distressed (and thus resulting in a default event) in case of restructuring of principal and interest which is necessary because of the client's poor financial situation, and which results in a certain degree of debt forgiveness (that of principal, interests or fees, deferred payments), i.e. if the net present value of the loan is negatively affected by the restructuring, and if without the restructuring the customer would have got defaulted with high probability. Restructuring or re-aging for business considerations (e.g., the adjustment of the repayment schedule to the cash flow of the client) does not constitute a default signal.
- Clients on watch list. Regulation on monitoring activities cover early warning signals of increase of credit risk published by Central Bank of Hungary.
- Special treatment on performing clients
- According to the recommendation of the Central Bank of Hungary, those commitments have to be considered as well where the loan to value (LTV) is higher than 95% and the loan start day is after 01 January 2015.
- POCI must not be stage 1 deal.

# Notes to the financial statements (CONTINUED)

With the consideration of the significant increase of the credit risk the Group is classifying the performing portfolio to two sub-segments and the non-performing assets are assigned to the third one.

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

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

The IFRS 9 loss given default (LGD) parameters are derived from the managerial LGD parameters combined with the following adjustments to suit the IFRS 9 standards:

- Removing the downturn components.
- Removing the indirect costs.
- Removing the margin of conservatism add-ons.
- PIT adjustments have to be considered as well.
- Considering all the available collateral.
- The discounted value based on the effective interest rate (EIR).

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

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

On the other hand, several factors affecting the cash flow which ones are taken into account, for example the prepayment risk.

According to the IFRS 9 standards, the forward-looking macroeconomic information was considered in the loan-loss provision calculation. Based on projections provided by the group, a weighted expected credit loss is calculated in case of the collective impairment where the scenario weights are defined by the UniCredit Group.

## **Write-off policy**

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

## **Current tendencies in lending**

The industrial sector analysis of loan portfolios are presented in Note 19; collateral details and exposure of credit risk are presented in Note 44.

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

The Group lays strong emphasis on all elements of collection and – in addition to the programs prescribed by law or recommendation (e.g. recommendation of the Central Bank of Hungary Nr. 1/2016 (11 March) for payment of past due mortgage loans restoration) – it continuously offers the possibility of renegotiation to its private individual clients in payment delay due to financial problems (e.g. termination of employment) or unfavourable economic conditions. The Group fulfilled the CBH recommendations Nr. 14/2012 (XII.13.) and the 1/2016. (III.11.) recommendations and implemented them in the processes.

The Group maintained actively its contract signed in 2012 with the National Asset Management Company (Nemzeti Eszközkezelő, NET) and in 2018 as well allowed debtors fulfilling the criteria set forth in the respective legal regulations to participate in the program whereby the NET purchases the mortgaged real estate, pays the purchase price to the Group as repayment to the outstanding loan and the Group releases the rest of the loan, with the debtor continuing to remain in the property as tenant.

Based on Government decree 212/2018. (XI. 20.) regarding National Asset Management Program the Group accepted related requests until 22 November 2018.

# Notes to the financial statements (CONTINUED)

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

In 2019, the Group – as in the previous year – focused on decreasing the non-performing private portfolio and sold those loans in a package. The sales were successfully finalized in 2<sup>nd</sup> and 4<sup>th</sup> Quarter.

In the corporate segment in 2019 the strengthening of our financing activity was still in focus. Parallel we continued to lay special emphasis on the monitoring, restructuring and collection activity. In case of corporate portfolio the Group's lending policy is differentiated by sectors and it defines a selective risk approach for new transactions in the most endangered sectors. Thanks to the successful collection activity real estate deals has drastically decreased in the problem loans portfolio in 2019. Thanks to our prudent risk taking policy the portfolio composition in the other sectors is still balanced regarding both the problem-free exposures and transactions handed over to special treatment in 2018.

### iii) *Liquidity risk*

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

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

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

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

Short-term and structural liquidity limits of the Group were observed continuously in 2019. The degree to which accumulated liquidity outflows are covered by accumulated inflows within the following month and year is determined on an ongoing basis. It was used as a key figure in managing the Group's liquidity and funding. Beyond the limits on ratios, absolute gap limits are in place to decrease central funding and liquidity dependency.

The liquidity structure of statement of financial positions for 2018 and 2019 are represented in Note 36 and the maturity analyses of derivative financial instruments are represented in Notes 38 and 39.

### iv) *Market risk*

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

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

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

Internal risk model is used for computing economic capital, but the Pillar 1 capital requirement is calculated by the regulatory standard method. The economic capital model comprises all relevant risk categories. The VaR position of the Group is presented in Note 46.

# Notes to the financial statements (CONTINUED)

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

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

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

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

In the interest rate risks, for example, basis point limits per currency and re-pricing band, basis point totals per currency and/or per re-pricing segment (total of absolute Basis Point Values - BPV) are used for risk management. By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by issue and re-pricing band. The BPV and credit spread points analysis are presented in Note 47. The interest rate re-pricing analysis is presented in Note 37.

## **Asset Liability Management**

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

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

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

## **Foreign exchange rate risk**

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

The statement of foreign exchange exposures (currency structure of assets and liabilities) is presented in Note 35.

## **v) Compliance with CRD IV/CRR (Basel III)**

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

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

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

The Group is responsible for the use and development of methods and local models, and the compliance to local regulatory requirements, while for UniCredit Group wide models it is the task of UniCredit Group.

The approval of the developed models and methods under IRB have to be confirmed (by a non-binding opinion), and the processes and data quality has to be validated by unit independent from the business, and are audited by Internal Audit as well.

## **vi) Operational risk**

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



# Notes to the financial statements (CONTINUED)

Operational risk events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, client claims, products distribution, fines and penalties due to regulation breaches, damage to Group's physical assets, business disruption and system failures, process management.

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

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

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

The Group's Management Board ensures that:

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

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

In the Group, the Operational and Reputational Risk Committee shall act as a decision-making body for issues arising from and connected with operational and reputational risks.

Members of the Committee are

- the Chief Risk Officer,
- the Divisional Operational Risk Managers, and
- the Head or deputy Head of Identity & Communication.

Permanent invitees of the Operational and Reputational Risk Committee meetings are: the Head of Organization, the representative(s) of Internal Audit, the internal auditor of UniCredit Jelzálogbank Zrt. (concerning Mortgage bank issues of the agenda), resp. the Operational Risk Manager of UniCredit Leasing Hungary Zrt. and UniCredit Operatív Lízings Kft. (concerning leasing companies' issues of the agenda).

The Operational and Reputational Risk Committee ("OpRRiCo") holds its meeting regularly, once a quarter. The extraordinary meeting of the Committee may be summoned by any of the members as required or initiated by Operational and Reputational Risk Controlling and Internal Audit with the specification of the associated reasons.

Detection, monitoring, and mitigation of operational risk, and set up of action plans are supported by the Permanent Workgroup having its sessions quarterly, as well. Topics and proposals discussed in the Workgroup are the base for presentations towards OpRRiCo and ICBC.

Internal Audit is responsible for evaluating periodically (annually) the operational risk management system and measurement functionality and effectiveness, as well as its compliance with the regulatory requirements. Internal Audit monitors also the process of data collection and data management.

The centralized Operational and Reputational Risk Controlling unit has to operate the framework and to coordinate the decentralized activity of operational risk management, carried out by the nominated (divisional and administrative) operational risk managers in each business unit.

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

# Notes to the financial statements (CONTINUED)

## 5. Use of estimates and judgements

These disclosures supplement the commentary on risk management policy.

### ***i.) Impairment for credit losses***

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

### ***ii.) Determining fair value***

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices observed in non-active markets) or indirectly (i.e. derived from prices observed for similar assets or liabilities);

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

The classification of financial instruments is described in Note 40.

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

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

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

### ***iii.) Fair value measurement principles***

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

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

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

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

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

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

### ***iv.) Effects of sovereign debt crisis and earlier credit crunch in valuations***

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

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

c) The Group is exposed towards the Hungarian Government, the vast majority of those exposures are liquid government bonds, and are key to operational liquidity.

# Notes to the financial statements (CONTINUED)

## 6. Net interest income

(HUF million)

	2019	2018
<b>Interest and similar income</b>		
Interest income from Central Bank	501	374
Interest income from banks	1,503	1,154
Interest income from customers	37,051	34,442
Interest income on customer loans at fair values through profit and loss	123	157
Interest income on trading financial instruments	581	838
Interest income on hedge derivatives	29,237	25,041
Interest income on securities at fair value through other comprehensive income	15,544	14,683
Interest income on securities at amortized cost	2,471	906
Interest income other	572	7,160
<b>Total</b>	<b>87,583</b>	<b>84,755</b>
<b>Interest expense and similar charges</b>		
Interest expense to Central Bank	220	210
Interest expense to banks	(591)	(388)
Interest expense related to hedge derivatives	(19,543)	(16,477)
Interest expense to customers	(2,870)	(2,048)
Interest expense on subordinated loans	–	–
Interest expense on issued bonds	(2,912)	(2,071)
Other financial fees and commissions	(19)	–
<b>Total</b>	<b>(25,715)</b>	<b>(20,774)</b>
<b>Net interest income</b>	<b>61,868</b>	<b>63,981</b>

Other interest income contains incomes from government grants, which related to both HIRS (cross-currency IRS linked to credit activity) and those preferential deposits that meets the condition of credit activity as part of PHP Program disclosed by CBH. The total amount of it was HUF 502 million in 2019 and HUF 465 million in 2018. The Group meets all of the criteria. The Group accounts for government-related grants as income in the average periods of loans in which the criteria are met. This amount also contains unconditional grants relating to MIRS (cross-currency IRS which has monetary political aim) that is qualified as a grant from accounting point of view based on IAS 20 in the amount of HUF 70 million in the Financial Statements in 2019 (2018: HUF 6,694 million).

## 7. Net fee and commission income

(HUF million)

	2019	2018
<b>Fees and commission income</b>		
Payment transaction fees	44,924	41,882
Financial guarantee fees	2,180	1,842
Custody service fees	3,633	3,780
Investment service fees	3,820	3,282
Other financial services fees and commissions	2,874	1,927
<b>Total</b>	<b>57,431</b>	<b>52,713</b>
<b>Fees and commission expense</b>		
Payment transaction fees	(7,238)	(7,216)
Financial guarantee fees	(546)	(351)
Custody service fees	(895)	(828)
Investment service fees	(59)	(44)
Other financial services fees and commissions	(1,709)	(552)
<b>Total</b>	<b>(10,447)</b>	<b>(8,991)</b>
<b>Net fee and commission income</b>	<b>46,984</b>	<b>43,722</b>

## Notes to the financial statements (CONTINUED)

## 8. Dividend income

(HUF million)

	2019	2018
Dividends on trading securities	1	—
Dividends on investments	188	188
<b>Total</b>	<b>189</b>	<b>188</b>

## 9. Net trading

(HUF million)

	2019	2018
Gain/(Loss) on foreign exchange	14,929	14,371
Gain/(Loss) on trading interest rate swaps, net	(1,314)	(269)
Gain/(Loss) on debt securities, net	1,043	(1,833)
Gain/(Loss) on equities, net	—	—
Gain/(Loss) on trading FRA's, net	55	(7)
Other trading income	315	147
<b>Total</b>	<b>15,028</b>	<b>12,409</b>

## 10. Net gain and loss on other financial instruments

(HUF million)

	2019	2018
<b>Gain</b>		
Securities at fair value through other comprehensive income	7,730	6,552
Financial instruments at fair value through profit and loss	424	2,362
Gain on repurchased issued Mortgage Bonds	462	298
<b>Total</b>	<b>8,616</b>	<b>9,212</b>
<b>Loss</b>		
Debt securities at fair value through other comprehensive income	(6,518)	(5,533)
Financial instruments at fair value through profit and loss	-	27
Loss on repurchased issued Mortgage Bonds	(472)	(1,099)
<b>Total</b>	<b>(6,990)</b>	<b>(6,605)</b>
<b>Net gain from other financial investments</b>	<b>1,626</b>	<b>2,607</b>

In 2019 and 2018 no sales transaction incurred in respect of financial instruments at amortised costs.

## 11. Personnel expenses

(HUF million)

	2019	2018
Wages and salaries	(15,402)	(14,866)
Statutory social-security contributions	(2,678)	(2,610)
Other employee benefits	(1,250)	(1,515)
Employer's contributions	(184)	(420)
<b>Total</b>	<b>(19,514)</b>	<b>(19,411)</b>

The number of employees (in full time equivalent) was 1,743.85 on 31 December 2019 (2018: 1,747.7).

# Notes to the financial statements (CONTINUED)

## 12. General operating expenses

(HUF million)

	2019	2018
Indirect tax expense and fees to authorities	(28,878)	(30,867)
Fees to authorities	(2,271)	–
Renting costs and operating expenses of property	(1,562)	(2,253)
Advertising costs	(649)	(952)
Information technology costs	(6,854)	(6,076)
Material and office equipment costs	(295)	(382)
Other administrative costs	(2,811)	(3,146)
<b>Total</b>	<b>(43,320)</b>	<b>(43,676)</b>

The following services were provided by Deloitte to the Group (fees are in net amounts):

- Audit services (audit fee) of HUF 107 million in 2019 (2018: HUF 96 million),
- Other assurance services (audit related fee) were not provided in 2019 (2018: HUF 17 million),
- Permitted non-audit services (other fees) were not provided in 2019 (2018: HUF 10 million).

## 13. Other results

(HUF million)

	2019	2018
<b>Other income</b>		
Renting activity	1,190	1,163
Service transfer fees received	–	253
Income on non-reclaimable receivable	–	50
Gain on sale of leasing assets	–	46
Income on leasing contracts	–	44
Indemnity received	–	4
Other	1,744	409
<b>Total</b>	<b>2,934</b>	<b>1,969</b>
<b>Other expenses</b>		
Impairment loss related to other receivables	–	(377)
Expenses related to rented investment properties	(85)	(205)
Indemnity paid	–	(121)
Cost of Workout	–	(62)
Damage	–	(57)
Expense related to termination of leasing contract	–	(48)
Miscellaneous tax expense	–	(34)
Other	(855)	(39)
<b>Total</b>	<b>(940)</b>	<b>(943)</b>
<b>Other results</b>	<b>(1,994)</b>	<b>1,026</b>

## Notes to the financial statements (CONTINUED)

## 14. Taxation

The tax charge for the year is based on the profit for the year according to the statutory accounts of the Group as adjusted for relevant taxation regulations. The corporate income tax rate was 9% for the year of 2019 in Hungary.

## 14.1 Tax liability for the year

(HUF million)

	2019	2018
Current tax expense	4,710	5,022
Adjustments for prior years	0	17
<b>Total</b>	<b>4,710</b>	<b>5,039</b>
Deferred tax charge	516	372
<b>Total income tax expense in statement of profit or loss</b>	<b>5,226</b>	<b>5,411</b>

## 14.2 Reconciliation of effective tax rate

	2019		2018	
	%	(HUF MILLION)	%	(HUF MILLION)
Profit before tax		56,517,		61,504
Income tax using the domestic corporate tax rate	9,0	5,087,	9,0,	5,535,
Supplementary corporate tax for banks	–	–	–	–
Adjustments for prior years	–	–,	(0,1),	(73)
Tax effects of income/expenses exempt from corporate tax	(0,2)	(104)	–,	(14)
Changes in tax rates	–	–	–	–
Other	0,4	243,	(0,1),	(37)
<b>Total</b>	<b>9,2</b>	<b>5,226,</b>	<b>8,8</b>	<b>5,411,</b>

## 14.3 Balances associated with taxation

(HUF million)

	2019			2018		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets/(liabilities)	457	(11)	446	118	(32)	86
<b>Deferred income tax</b>						
Securities at fair value through other comprehensive income	(18)	(1,941)	(1,959)	(18)	(1,060)	(1,078)
Cash flow hedges	–	(1,887)	(1,887)	–	(1,415)	(1,415)
Asset revaluation surplus	–	(152)	(152)	–	–	–
Property and equipment from tied up capital	6	(154)	(148)	60	(59)	1
IFRS 9 – Impact on equity	619	(60)	559	565	(7)	558
IFRS 9 – Impact on profit or loss	(619)	60	(559)	(648)	289	(359)
IFRS transition adjustment	–	–	–	210	(32)	178
Effect of items, increasing/(decreasing) the local tax base	686	–	686	675	–	675
Netting effect	(578)	578	–	(722)	722	–
Total deferred tax assets/(liabilities)	96	(3,556)	(3,460)	122	(1,562)	(1,440)
<b>Total tax assets/(liabilities)</b>	<b>553</b>	<b>(3,567)</b>	<b>(3,014)</b>	<b>240</b>	<b>(1,594)</b>	<b>(1,354)</b>

## 14.4 Movements in temporary differences during the year 2019

(HUF million)

	OPENING BALANCE	RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS	RECOGNISED IN OCI	CLOSING BALANCE
Securities at fair value through other comprehensive income	(1,078)	–	(881)	(1,959)
Cash flow hedges	(1,415)	–	(472)	(1,887)
Asset revaluation surplus	–	–	(152)	(152)
Property and equipment from tied up capital	1	(149)	–	(148)
IFRS 9 – Impact on equity	558	–	1	559
IFRS 9 – Impact on profit or loss	(359)	(200)	–	(559)
IFRS transition adjustment	178	(178)	–	–
Effect of items, increasing/(decreasing) the local tax base	675	11	–	686
<b>Total deferred tax assets/(liabilities)</b>	<b>(1,440)</b>	<b>(516)</b>	<b>(1,504)</b>	<b>(3,460)</b>



## Notes to the financial statements (CONTINUED)

## 14.5 Movements in temporary differences during the year 2018

(HUF million)

	OPENING BALANCE	IFRS 9 TRANSITION – 01.01.2018	RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS	RECOGNISED IN OCI	CLOSING BALANCE
Securities at fair value through other comprehensive income	(1,988)	–	–	910	(1,078)
Cash flow hedges	(1,908)	–	–	493	(1,415)
Property and equipment from tied up capital	106	–	(105)	–	1
IFRS 9 – Impact on equity	–	558	–	–	558
IFRS 9 – Impact on profit or loss	–	–	(359)	–	(359)
IFRS transition adjustment	183	–	(5)	–	178
Effect of items, increasing/(decreasing) the local tax base	578	–	97	–	675
<b>Total deferred tax assets/(liabilities)</b>	<b>(3,029)</b>	<b>558</b>	<b>(372)</b>	<b>1,403</b>	<b>(1,440)</b>

## 15. Cash and unrestricted balance with the Central Bank

(HUF million)

	2019	2018
Cash on hand	22,302	14,731
Unrestricted balance with the Central Bank	1,532	5,631
<b>Total</b>	<b>23,834</b>	<b>20,362</b>

## 16. Financial instruments held for trading

(HUF million)

	2019	2018
<b>Financial assets held for trading</b>		
State treasury bills	104	691
State bonds	18,802	23,664
Other bonds	1,031	1,668
<i>Positive fair value of derivatives</i>		
FX derivatives	6,388	5,836
Interest rate derivatives	47,618	39,373
Commodity derivatives	11,245	5,494
<b>Total</b>	<b>85,188</b>	<b>76,726</b>
<b>Financial liabilities held for trading</b>		
<i>Negative fair value of derivatives</i>		
FX derivatives	(4,287)	(7,674)
Interest rate derivatives	(55,502)	(44,035)
Commodity derivatives	(11,222)	(5,492)
<b>Total</b>	<b>(71,011)</b>	<b>(57,201)</b>

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

# Notes to the financial statements (CONTINUED)

## 17. Hedging derivative instruments

(HUF million)

	2019	2018
<b>Derivative assets held for risk management purposes</b>		
Interest rate swaps	57,189	33,403
<b>Total</b>	<b>57,189</b>	<b>33,403</b>
<b>Derivative liabilities held for risk management purposes</b>		
Interest rate swaps	29,509	18,811
<b>Total</b>	<b>29,509</b>	<b>18,811</b>

Further details on hedging derivatives are disclosed in Note 39.

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

## 18. Placements with, and loans and advances to banks

(HUF million)

	2019	2018
<b>Placements with, and loans and advances to banks at amortized cost</b>		
Placements with Central Bank	247,306	142,190
Nostros at other banks	7,709	21,756
Loans and advance to other banks	545,677	481,683
Impairment on loans and advance to other banks	(674)	(569)
<b>Total</b>	<b>800,018</b>	<b>645,060</b>

## 19. Loans and advances to customers

(HUF million)

	2018	2017
Loans and advances to customers at amortized cost	1,521,446	1,428,490
Provision for impairment and losses on credit products	(29,579)	(30,818)
Loans and advances to customers at fair value through profit and loss	5,668	4,060
<b>Total</b>	<b>1,497,535</b>	<b>1,401,732</b>

The Group classifies the loans and advances to customers at amortised costs.

Those loans and advances to customers are classified at fair value through profit and loss, which failed the SPPI test.

# Notes to the financial statements (CONTINUED)

## A. Analysis by industrial sector:

(HUF million)

	2019		2018	
	HUF MILLION	%	HUF MILLION	%
Private clients	288,051	18.87	254,074	17.74
Real estate finance	244,356	16.00	208,355	14.54
Machine industry	143,855	9.42	173,052	7.92
Trade	195,647	12.81	113,502	11.51
Transportation	131,220	8.59	164,924	12.08
Financial activities	129,475	8.48	123,976	8.65
Food processing	55,491	3.63	59,908	4.18
Other	66,817	4.38	56,379	3.19
Metallurgy	55,108	3.61	53,959	3.77
Construction	55,878	3.66	50,647	1.89
Chemicals/Pharmaceutical	29,318	1.92	45,647	3.54
Agriculture	43,038	2.82	41,581	2.90
Electric energy industry	28,125	1.84	27,909	1.49
Community	28,046	1.84	27,092	1.95
Light industry	21,958	1.44	21,288	0.38
Catering trade	4,958	0.32	5,511	0.30
Communication	4,344	0.28	4,298	0.03
Mining	1,429	0.09	448	3.94
<b>Total</b>	<b>1,527,114</b>	<b>100.00</b>	<b>1,432,550</b>	<b>100.00</b>

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

Loans and advances to customers are presented in more details in Note 44.

## B. Amounts receivable under finance lease:

Amounts receivable under finance lease increased due to the rise in the leasing market, the sales volume in the vehicle market in 2019 was the highest in the last 10 years, the brands financed by the Group represented a major share from the market growth. On top of these, a high amount factory lease contract also increased the receivables balance.

The average term of finance leases entered into is 4.47 years. Generally, these lease contracts do not include extension or early termination options.

(HUF million)

<b>B. Amounts receivable under finance lease:</b>		<b>2019</b>
Less than 1 year		41,244
1-2 years		29,950
2-3 years		21,146
3-4 years		12,358
4-5 years		4,319
Onwards		1,426
<b>Lease payments</b>		<b>110,443</b>
Unguaranteed residual values		—
<b>Gross investment in the lease</b>		<b>110,443</b>
Less: unearned finance income		(5,064)
<b>Present value of minimum lease payments receivable</b>		<b>105,379</b>
Impairment losses		(1,065)
<b>Net investment in the lease</b>		<b>104,314</b>

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

(HUF million)

	<b>2019</b>
Selling profit/loss for finance leases	52
Finance income on the net investment in finance leases	2,754
Income relating variable lease payments not included in the net investment in finance leases	—

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

The average effective interest rate contracted is approximately 2.81% per annum.

# Notes to the financial statements (CONTINUED)

## 20. Investment securities

(HUF million)

	2019	2018
<b>Investment securities at fair value through other comprehensive income</b>		
State treasury bills	1,000	–
State bonds	552,324	550,237
Other bonds	143,631	171,786
Other investments	323	323
<b>Total</b>	<b>697,278</b>	<b>722,346</b>
<b>Investment securities at amortized cost</b>		
Mortgage bonds	146,087	92,522
Impairment	374	(303)
<b>Total</b>	<b>145,713</b>	<b>92,219</b>
<b>Total investment securities</b>	<b>842,991</b>	<b>814,565</b>

The total market value of investments securities at amortized cost was HUF 125,407 million as at 31 December 2019 (HUF 94,909 million as at 31 December 2018). No sales of investment securities at amortized cost took place in 2019 and in 2018.

## 21. Equity investments

As at 31 December 2019 investments in consolidated subsidiaries were as follows:

(HUF million)

NAME OF INVESTMENT	GROSS BOOK VALUE	SHAREHOLDER'S EQUITY
UniCredit Jelzálogbank Zrt.	3,761	22,287
Arany Pénzügyi Lízing Zrt.	672	925
Sas-Reál Kft.	3	22
UniCredit Biztosításközvetítő Kft.	41	277

All above investments are in companies incorporated in Hungary. Apart from these investments, the Group holds majority interest in an SPV, Europa Investment Fund.

The Fund is consolidated in these financial statements, since the Group has the power to govern it, and is exposed to the volatility of its returns.

## 22. Investment properties

(HUF million)

	2019	2018
Investment property in usage	11,108	10,820

The Group's investment properties are held within Europa Investment Fund, of which, 98.79% (2018: 97.8%) of the units is owned by the Group. The investment properties are regularly valued by an independent real estate appraiser company, as required by the respective law. The valuation methods, applied by the appraiser company are compliant with the regulations in IFRS 13.

The investment properties, in usage are valued at fair market value.

These properties earned HUF 1,353 Million rental income in 2019 (2018: HUF 999 million).

## Notes to the financial statements (CONTINUED)

## 23. Property, plant and equipment

## A. Tárgyi eszközök mozgástáblája

(HUF million)

	COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	REVALUATION ADJUSTMENT (B.)	OTHER MOVEMENT	DEPRECIATION & AMORTIZATION	CARRYING AMOUNT AT THE END OF THE YEAR
<b>2019</b>									
Land and buildings	21,967	(2,308)	–	103	(1)	3,059	(364)	(532)	21,924
Office equipment	7,494	(6,449)	–	471	(22)	–	5	(331)	1,168
Motor vehicles	751	(358)	–	124	(17)	–	–	(108)	392
Investments	20	–	–	1,157	(668)	–	–	(57)	452
Right-of-use asset (*)	–	–	–	5,061	(17)	–	(2,325)	(681)	2,038
<b>Total</b>	<b>30,232</b>	<b>(9,115)</b>	<b>–</b>	<b>6,916</b>	<b>(725)</b>	<b>3,059</b>	<b>(2,684)</b>	<b>(1,709)</b>	<b>25,974</b>
<b>2018</b>									
Land and buildings	25,901	(6,806)	–	754	–	–	427	(617)	19,659
Office equipment	7,029	(6,233)	–	500	–	–	58	(309)	1,045
Motor vehicles	796	(355)	–	76	(21)	–	–	(103)	393
Investments	15	–	–	964	(959)	–	–	–	20
<b>Total</b>	<b>33,741</b>	<b>(13,394)</b>	<b>–</b>	<b>2,294</b>	<b>(980)</b>	<b>–</b>	<b>485</b>	<b>(1,029)</b>	<b>21,117</b>

(\*) Including properties

## B. Revaluation of properties

The Group has changed its accounting policy to measure properties at revalued amount in accordance with IAS 16 Revaluation model as at 31 December 2019 on a prospective basis.

The fair value of the properties was determined by independent valuers appointed by the Group. The valuations have been performed by the valuers who have valuation experience for similar properties.

The fair value was determined in accordance with IFRS 13 Fair Value Measurement. Valuation techniques applied are the market sales comparison and/or the income approach to value the real estate properties.

## Reconciliation of carrying amount at change accounting policy:

(HUF million)

	<b>31.12.2019</b>
Carrying amount	18,865
Revaluation gain/(loss)	3,059
Carrying amount after revaluation	21,924

The net gain from the revaluation of properties was recognised in Other comprehensive income, the net loss from the revaluation was recognised in the statement of profit or loss.

If the properties were measured using cost model, the carrying amounts would be, as follows:

(HUF million)

	<b>31.12.2019</b>
Cost	21,705
Accumulated depreciation and impairment	(2,840)
Net carrying amount	18,865

## Notes to the financial statements (CONTINUED)

## 24. Intangible assets

## Movement in intangible assets

(HUF million)

	COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	OTHER MOVEMENT	DEPRECIATION & AMORTISATION	CARRYING AMOUNT AT THE END OF THE YEAR
<b>2019</b>								
Rental rights	656	(407)	–	1	(241)	–	(4)	5
Licenses	2,034	(376)	–	1,644	–	–	(287)	3,015
Software	17,911	(9,022)	–	2,520	(4)	–	(856)	10,549
<b>Total</b>	<b>20,601</b>	<b>(9,805)</b>	<b>–</b>	<b>4,165</b>	<b>(245)</b>	<b>–</b>	<b>(1,147)</b>	<b>13,569</b>
<b>2018</b>								
Rental rights	616	(304)	–	41	(1)	–	(103)	249
Licenses	1,613	(251)	–	376	–	43	(123)	1,658
Software	13,930	(8,798)	–	4,041	–	(39)	(245)	8,889
<b>Total</b>	<b>16,159</b>	<b>(9,353)</b>	<b>–</b>	<b>4,458</b>	<b>(1)</b>	<b>4</b>	<b>(471)</b>	<b>10,796</b>

## 25. Other assets

(HUF million)

	2019	2018
Trade receivables, advanced payments, other demands	13,420	14,367
Accrued income and prepaid expenses	10,071	6,479
Current tax asset	457	118
Other	224	342
<b>Total</b>	<b>24,172</b>	<b>21,306</b>
Impairment losses	(1,735)	(1,746)
<b>Total</b>	<b>22,437</b>	<b>19,560</b>

Other demands contain unconditional grants relating to MIRS (cross-currency IRS which has monetary political aim) that is qualified as a grant from accounting point of view based on IAS 20. The amount of demand regarding MIRS was HUF 5,470 million (2018: HUF 6,246 million).

## 26. Deposits and loans from banks

(HUF million)

	2018	2017
Loans from Central Bank	79,119	74,026
Loans and deposits from other banks	520,225	470,482
<b>Total</b>	<b>599,344</b>	<b>544,508</b>

## 27. Deposits from customers

(HUF million)

	2019	2018
Fixed-term customer sources	1,879,675	1,698,923
Ongoing cash equivalents, settlement accounts	18,383	57,985
Illiquid customer sources	201,218	136,268
<b>Total</b>	<b>2,099,276</b>	<b>1,893,176</b>

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



# Notes to the financial statements (CONTINUED)

## 28. Issued mortgage bonds

(HUF million)

	2019	2018
Issued mortgage bonds	148,281	150,547

## 29. Other liabilities

(HUF million)

	2019	2018
Accrued expenses and prepaid income	15,781	13,125
Provision on guarantees and unutilised loans	6,605	3,899
Trade payable	6,230	2,047
Other taxes payable	3,226	2,702
Items in transit	1,944	10,815
Current tax liability	11	32
Leasing liabilities	2,078	—
Other	1,721	2,998
<b>Total</b>	<b>37,596</b>	<b>35,618</b>

## 30. Leases

The Group leases several assets including buildings, office equipment. The average lease term is 6 years (2018: 7 years).

### Amounts recognised in profit and loss:

(HUF million)

	2019
Depreciation expense on right-of-use assets	682
Interest expense of lease liabilities	61
Expense relating to short-term leases	107
Expense relating to leases of low value assets	—
Expense relating to variable lease payments not included in the measurement of the lease liability	—

### Amounts recognised in the consolidated statement of cash flow:

(HUF million)

	2019
Total cash outflow for leases	976

At 31 December 2019, the Group is committed to 337 million for short-term leases.

### Lease liabilities

#### Maturity analysis:

(HUF million)

	2019
Within 1 year	157
1-2 years	120
2-3 years	101
3-4 years	95
4-5 years	69
Onwards	150
<b>Total</b>	<b>692</b>

# Notes to the financial statements (CONTINUED)

## 31. Share capital

(HUF million)

	2019	2018
Authorised and issued share capital	24,118	24,118

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

## 32. Statutory reserves

(HUF million)

	GENERAL RESERVE	TIED-UP RESERVE	TOTAL
Balance at 31 December 2018	44,640	–	44,640
Appropriation from retained earnings	5,158	–	5,158
Appropriation to retained earnings	–	–	–
Balance at 31 December 2019	49,798	–	49,798

## 33. Other provision

(HUF million)

	PROVISION MOVEMENT ON NON-CREDIT RISK
Balance at 31 December 2018	3,475
Amounts utilised	(98)
Amounts released	937
Additional provisions	1,648
Effect of FX rate	8
Balance at 31 December 2019	4,096
Net movement in provision	623
Amounts utilised	80
Net amount charged to the statement of profit or loss	703

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

Information about provision movement on credit risk items is stated in Note 44.

## 34. Commitments and contingent liabilities

At 31 December 2019, the Group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

	2019	2018
Loan and overdraft facilities granted not disbursed	860,405	865,207
Financial guarantees	535,057	431,233
Letters of credit	20,999	42,734
FX spot sales (notional)	240,375	140,668
Other contingent liabilities	620	8,144

As at 31 December 2019, the total face value of client assets held in safe custody by the Group was HUF 5,850,400 million (2018: HUF 4,205,432 million).

# Notes to the financial statements (CONTINUED)

## 35. Currency structure of assets and liabilities

The currency structure of assets and liabilities as at 31 December 2019 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG / (SHORT)
Euro	1,236,569	902,234	(323,829)	10,506
Swiss Francs	3,314	4,177	951	88
United States Dollars	39,382	102,885	63,142	(361)
Japanese Yen	170	335	157	(8)
Polish Zloty	2,378	5,719	3,237	(104)
British Pounds	1,342	4,901	3,595	36
Czech Crowns	719	1,116	313	(84)
Other	4,374	5,995	1,794	173
<b>Total foreign currency:</b>	<b>1,288,248</b>	<b>1,027,362</b>	<b>(250,640)</b>	<b>10,246</b>
Hungarian Forint	2,092,697	2,353,583	249,536	(11,350)
<b>Total</b>	<b>3,380,945</b>	<b>3,380,945</b>	<b>(1,104)</b>	<b>(1,104)</b>

The currency structure of assets and liabilities as at 31 December 2018 is as follows:

CURRENCY	ASSETS	LIABILITIES AND EQUITY	OFF BALANCE SHEET NET	TOTAL NET F/X EXPOSURE LONG / (SHORT)
Euro	1,209,036	968,650	—	240,386
Swiss Francs	3,368	3,625	413	156
United States Dollars	64,444	87,058	22,848	234
Japanese Yen	281	243	—	38
Polish Zloty	310	8,520	8,284	74
British Pounds	1,283	4,256	(233,608)	(236,581)
Czech Crowns	68	365	—	(297)
Other	4,550	9,439	200,963	196,074
<b>Total foreign currency:</b>	<b>1,283,340</b>	<b>1,082,156</b>	<b>(1,100)</b>	<b>200,084</b>
Hungarian Forint	1,771,608	1,972,792	(219)	(201,403)
<b>Total</b>	<b>3,054,948</b>	<b>3,054,948</b>	<b>(1,319)</b>	<b>(1,319)</b>

## Notes to the financial statements (CONTINUED)

## 36. Residual contractual maturities of financial assets and liabilities

31 December 2019

(HUF million)

	CARRYING AMOUNT	GROSS NOMINAL INFLOW / (OUTFLOW)	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS
<i>Non-derivative assets</i>							
Cash and cash equivalents	23,834	23,834	23,834	–	–	–	–
Trading securities	19,938	22,108	90	116	1,030	12,683	8,189
Investment securities	842,991	880,413	248	28,980	46,884	601,651	202,650
Loans and advances to banks	800,018	841,681	519,404	4,954	224,407	62,431	30,485
Loans and advances to customers	1,497,535	1,661,256	389,483	44,634	150,366	651,498	425,275
<b>Total</b>	<b>3,184,316</b>	<b>3,429,292</b>	<b>933,059</b>	<b>78,684</b>	<b>422,687</b>	<b>1,328,263</b>	<b>666,599</b>
<i>Non-derivative liabilities</i>							
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	(599,344)	500,965	133,323	872	(1,851)	211,184	157,437
Deposits from customers	(2,099,276)	2,098,906	1,968,910	52,223	76,179	1,498	96
Debt securities	(148,281)	188,500	–	2,782	4,411	142,309	38,998
Subordinated liabilities	–	–	–	–	–	–	–
<b>Total</b>	<b>(2,846,901)</b>	<b>2,788,371</b>	<b>2,102,233</b>	<b>55,877</b>	<b>78,739</b>	<b>354,991</b>	<b>196,531</b>
<i>Cash flows from derivative positions</i>							
Trading:	(5,761)	(1,869)	69	574	(2,036)	(2,441)	1,965
Risk management:	27,680	48,854	3,637	2,807	1,599	33,289	7,522
<b>Total</b>	<b>21,919</b>	<b>46,985</b>	<b>3,706</b>	<b>3,381</b>	<b>(437)</b>	<b>30,848</b>	<b>9,487</b>
<b>Unrecognised loan commitments</b>	<b>–</b>	<b>(1,423,319)</b>	<b>(5,095)</b>	<b>(56,715)</b>	<b>(387,761)</b>	<b>(217,607)</b>	<b>(756,141)</b>

31 December 2018

(HUF million)

	CARRYING AMOUNT	GROSS NOMINAL INFLOW / (OUTFLOW)	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS
<i>Non-derivative assets</i>							
Cash and cash equivalents	20,362	20,362	20,362	–	–	–	–
Trading securities	26,024	28,418	42	39	1,159	18,837	8,341
Investment securities	814,565	867,046	13,424	2,632	92,217	607,538	151,235
Loans and advances to banks	645,060	693,412	323,744	12,557	287,307	41,631	28,173
Loans and advances to customers	1,401,732	1,566,026	324,117	30,871	174,092	686,301	350,645
<b>Total</b>	<b>2,907,743</b>	<b>3,175,264</b>	<b>681,689</b>	<b>46,099</b>	<b>554,775</b>	<b>1,354,307</b>	<b>538,394</b>
<i>Non-derivative liabilities</i>							
Trading liabilities	–	–	–	–	–	–	–
Deposits from banks	(544,508)	681,139	86,554	742	56,128	369,765	167,950
Deposits from customers	(1,893,176)	1,893,336	1,818,711	44,335	26,377	3,642	271
Debt securities issued	(150,547)	188,148	–	32	14,691	112,796	60,629
Subordinated liabilities	–	–	–	–	–	–	–
<b>Total</b>	<b>(2,588,231)</b>	<b>2,762,623</b>	<b>1,905,265</b>	<b>45,109</b>	<b>97,196</b>	<b>486,203</b>	<b>228,850</b>
<i>Cash flows from derivative positions</i>							
Trading:	(6,499)	414	(411)	(373)	(3,017)	1,224	2,991
Risk management:	14,592	29,527	3,123	2,369	531	23,374	130
<b>Total</b>	<b>8,093</b>	<b>29,941</b>	<b>2,712</b>	<b>1,996</b>	<b>(2,486)</b>	<b>24,598</b>	<b>3,121</b>
<b>Unrecognised loan commitments</b>	<b>–</b>	<b>(1,360,392)</b>	<b>(4,796)</b>	<b>(92,983)</b>	<b>(264,152)</b>	<b>(269,116)</b>	<b>(729,345)</b>

## Notes to the financial statements (CONTINUED)

## 37. Exposure to interest rate risk – non-trading portfolios

(HUF million)

	CARRYING AMOUNT	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	NOT INTEREST RATE SENSITIVE
<b>28 December 2019</b>							
Cash and cash equivalents	23,834	23,834	–	–	–	–	–
Loans and advances to banks	800,018	735,128	37,909	52,598	52,165	(77,782)	–
Loans and advances to customers	1,497,535	578,926	121,867	631,362	93,072	72,308	–
Investment securities	842,991	25,396	30,829	4,010	549,858	195,252	37,646
<b>Total</b>	<b>3,164,378</b>	<b>1,363,284</b>	<b>190,605</b>	<b>687,970</b>	<b>695,095</b>	<b>189,778</b>	<b>37,646</b>
Deposits from banks	(599,344)	(462,154)	(59,049)	(41,534)	17,480	(54,087)	–
Deposits from customers	(2,099,276)	(1,973,070)	(51,300)	(74,443)	(441)	(22)	–
Debt securities issued	(148,281)	(4,890)	(2,649)	–	(120,369)	(20,373)	–
Subordinated liabilities	–	–	–	–	–	–	–
<b>Total</b>	<b>(2,846,901)</b>	<b>(2,440,114)</b>	<b>(112,998)</b>	<b>(115,977)</b>	<b>(103,330)</b>	<b>(74,482)</b>	<b>–</b>
Effect of derivatives held for risk management	2,776,193	(40,337)	34,364	(143,943)	(338,544)	485,689	–
<b>Total</b>	<b>3,093,670</b>	<b>(1,117,167)</b>	<b>111,971</b>	<b>428,050</b>	<b>253,221</b>	<b>600,985</b>	<b>37,646</b>

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

(HUF million)

	CARRYING AMOUNT	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS	NOT INTEREST RATE SENSITIVE
<b>29 December 2018</b>							
Cash and cash equivalents	20,362	20,362	–	–	–	–	–
Loans and advances to banks	645,060	518,458	30,099	123,053	40,668	(67,218)	–
Loans and advances to customers	1,401,732	397,411	272,110	596,824	87,071	48,314	2
Investment securities	814,565	19,652	11,721	58,111	570,841	135,010	19,230
<b>Total</b>	<b>2,881,719</b>	<b>955,883</b>	<b>313,930</b>	<b>777,988</b>	<b>698,580</b>	<b>116,106</b>	<b>19,232</b>
Deposits from banks	(544,508)	(378,729)	(86,969)	(39,804)	(10,384)	(28,622)	–
Deposits from customers	(1,893,176)	(1,822,482)	(44,327)	(23,874)	(2,318)	(175)	–
Debt securities issued	(150,547)	(5,343)	(2,649)	(9,814)	(92,369)	(40,372)	–
Subordinated liabilities	–	–	–	–	–	–	–
<b>Total</b>	<b>(2,588,231)</b>	<b>(2,206,554)</b>	<b>(133,945)</b>	<b>(73,492)</b>	<b>(105,071)</b>	<b>(69,169)</b>	<b>–</b>
Effect of derivatives held for risk management	2,973,627	16,630	15,099	(77,596)	(218,189)	264,425	–
<b>Total</b>	<b>3,267,115</b>	<b>(1,234,041)</b>	<b>195,084</b>	<b>626,900</b>	<b>375,320</b>	<b>311,362</b>	<b>19,232</b>

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

## Notes to the financial statements (CONTINUED)

## 38. Derivative financial instruments held for Trading

31 December 2019

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES (NET)	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	OVER 1 YEAR			
<b>Interest rate derivatives</b>						
Forward Rate Agreements (bought)	–	50,000	95,000	145,000	(220)	–
Forward Rate Agreements (sold)	–	–	75,000	75,000	126	–
Interest Rate Swaps (SC IRS)	12,500	337,837	1 827,739	2,178,076	892	(38)
Interest Rate Swaps (DC IRS)	139,084	–	44,072	183,156	(549)	–
Multicallable swap	–	–	–	–	–	–
<b>Forward Exchange&amp;Swap*</b>	<b>1,070,873</b>	<b>747,123</b>	<b>467,922</b>	<b>2,285,918</b>	<b>(679)</b>	<b>–</b>
<b>Options (sold amounts)</b>						
<b>Barrier (European)</b>						
Long Call	–	9,398	19,477	28,875	492	–
Short Call	–	9,404	19,571	28,975	(492)	–
Long Put	–	7,801	18,827	26,628	258	–
Short Put	–	7,773	18,723	26,496	(258)	–
<b>FX (European)*</b>						
Long Call	–	2,091	–	2,091	11	–
Long Call (embedded)	1,153	–	–	1,153	1	–
Long Put	–	2,083	–	2,083	3	–
Long Put (embedded)	2,008	–	–	2,008	22	–
Short Call	1,131	2,082	–	3,213	(12)	–
Short Put	2,020	2,037	–	4,057	(25)	–
<b>IR Options</b>						
CAP (bought)	–	–	7,378	7,378	–	–
CAP (sold)	–	–	7,378	7,378	–	–
FLOOR (bought)	–	–	–	–	–	–
FLOOR (sold)	–	–	–	–	–	–
<b>Equity Options</b>						
<b>Commodity</b>						
Commodity forward&swap (bought)	47,573	13,961	33,098	94,632	(7,872)	–
Commodity forward&swap (sold)	47,578	13,961	33,093	94,632	7,894	–

\*: without HUF and delta option



## Notes to the financial statements (CONTINUED)

31 December 2018

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	OVER 1 YEAR		(NET)	
<b>Interest rate derivatives</b>						
Forward Rate Agreements (bought)	–	250 000	90 000	340 000	(296)	–
Forward Rate Agreements (sold)	–	190 000	140 000	330 000	177	–
Interest Rate Swaps (SC IRS)	111 003	188 512	1 485 439	1 784 954	2 594	(35)
Interest Rate Swaps (DC IRS)	206 412	–	363 730	570 142	(539)	–
Multicallable swap	–	–	–	–	–	–
<b>Forward Exchange&amp;Swap*</b>	<b>3 167 416</b>	<b>737 792</b>	<b>17 356</b>	<b>3 922 564</b>	<b>(1 682)</b>	<b>–</b>
<b>Options (sold amounts)</b>						
<b>Barrier (European)</b>						
Long Call	–	8 126	27 315	35 441	648	–
Short Call	–	8 070	26 975	35 045	(648)	–
Long Put	–	8 070	26 975	35 045	422	–
Short Put	–	8 126	27 315	35 441	(422)	–
<b>FX (European)*</b>						
Long Call	65	1 305	366	1 736	25	–
Long Call (embedded)	990	–	–	990	–	–
Long Put	–	1 286	–	1 286	5	–
Long Put (embedded)	338	–	–	338	1	–
Short Call	1 023	1 286	385	2 694	(25)	–
Short Put	337	1 280	–	1 617	(6)	–
<b>IR Options</b>						
CAP (bought)	–	–	3 037	3 037	1	–
CAP (sold)	–	–	3 037	3 037	(1)	–
FLOOR (bought)	–	–	–	–	–	–
FLOOR (sold)	–	–	–	–	–	–
<b>Equity Options</b>						
<b>Commodity</b>						
Commodity forward&swap (bought)	12 209	6 717	504	19 430	429	–
Commodity forward&swap (sold)	12 209	6 717	504	19 430	(429)	–

\*:without barrier options

## 39. Derivative financial instruments held for Hedging purposes

(HUF million)

	NOTIONAL AMOUNT WITH REMAINING LIFE OF			TOTAL	FAIR VALUES	FVA
	LESS THAN 3 MONTHS	3 MONTHS – 1 YEAR	OVER 1 YEAR		(NET)	
<b>31 December 2019</b>						
Interest Rate Swaps (SC IRS)	32,965	508,230	1,848,390	2,389,585	27,526	(239)
Interest Rate Swaps (DC IRS)	89,447	41,091	258,840	389,378	1,161	–
Forward Rate Agreements (bought)	–	–	–	–	–	–
Forward Rate Agreements (sold)	–	–	–	–	–	–
<b>31 December 2018</b>						
Interest Rate Swaps SC IRS)	75,879	213,047	2,247,270	2,536,196	15,437	(444)
Interest Rate Swaps (DC IRS)	16,731	44,594	340,030	401,355	3	–
Forward Rate Agreements (bought)	–	–	–	–	–	–
Forward Rate Agreements (sold)	–	–	–	–	–	–

# Notes to the financial statements (CONTINUED)

## 40. Fair valuation hierarchy<sup>1</sup>

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
	28.12.2019	29.12.2018				
Forward Rate Agreements	Trading purpose: (94) Hedging purpose: –	Trading purpose: (119) Hedging purpose: –	Level 2	Discounted cash flow method is used. The two future cash flows are estimated based on forward interest rate (from observable yield curves at the end of the reporting period) and the contractual interest rate and are both discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Unicredit Group own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Interest rate swaps (SC IRS)	Trading purpose: 892 Hedging purpose: 27,526	Trading purpose: 2,594 Hedging purpose: 15,437	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value and the accrued interest. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Unicredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Interest rate swaps (DC IRS)	Trading purpose: 549 Hedging purpose: 1,161	Trading purpose: (539) Hedging purpose: 3	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted. The FV includes both the market value, the accrued interest but excludes the effect of the revalued principals (recognized as forward exchange). Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Multicallable swap	–	–	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rate and are discounted, taking into account the Bermudan option feature of the product. The FV includes both the market value and the accrued interest. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none

<sup>1</sup> FV of derivatives does not contain the Fair Value corrections (FVA; CVA), FV of securities does not contain the accrued interest.

## Notes to the financial statements (CONTINUED)

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
	28.12.2019	29.12.2018				
Forward Exchange & Swap	(679)	(1,682)	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates and are discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Unicredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
FX Options	–	–	Level 2	The European options calculation uses the standard Garman-Kohlhagen form of the Black-Scholes formula, Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit Group own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
IR Options	–	–	Level 2	The options calculation uses the Black-Scholes model.	none	none
Equity Options	–	–	Level 2	The options calculation uses the Black-Scholes model.	none	none
Commodity forward & swap	22	1	Level 2	Discounted cash flow method is used. The future cash flows are estimated based on forward commodity rates (from observable commodity index curve at the end of the reporting period) and contractual commodity price and are discounted, Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well.	none	none
Bonds	606,196	566,103	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Reuters). Liquidity and close-out fair value adjustments apply.	none	none
Bonds	35,160	29,191	Level 2	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjustments apply.	none	none
Corporate bonds	23,063	19,362	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Reuters). Liquidity and close-out fair value adjustments apply.	none	none
Corporate bonds	79,976	105,387	Level 2	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjustments apply.	none	none
Corporate bonds	1,015	–	Level 3	Marked-to-model valuation based on a curve consisting of liquid bonds of the same sector or sovereign. Liquidity and close-out fair value adjustments apply.	none	none
Investment certificates	18,631	16,918	Level 2	Marked-to-market valuation based on NAV published by Association of Hungarian Investment Fund and Asset Management Companies.	none	none

# Notes to the financial statements (CONTINUED)

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE IN HUF MILLION AS AT		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE
	28.12.2019	29.12.2018				
Equities	1,006	685	Level 1	Marked-to-market valuation based on quotation prices observed in active markets (e.g. Budapest Stock Exchange).	none	none
Equities	323	323	Level 3	Based on cost model.	none	none
Mortgage bonds	113,112	110,891	Level 2	Marked-to-model valuation based on a curve consisting of liquid covered bonds. Liquidity and close-out fair value adjustments apply.	none	none
Loans and advances to banks	777,870	641,008	Level 2	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation. For non-performing loans, fair value is calculated by estimating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to banks	19,336	1,047	Level 3	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation. For non-performing loans, fair value is calculated by estimating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to customers	1,298,788	880,313	Level 2	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation. For non-performing loans, fair value is calculated by estimating expected loss, the expected recovery and risk premium.	none	none
Loans and advances to customers	206,524	496,679	Level 3	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation. For non-performing loans, fair value is calculated by estimating expected loss, the expected recovery and risk premium.	none	none
Deposits and loans from banks	599,316	544,401	Level 2	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits and loans from banks	-	-	Level 3	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits from customers	2,154,353	1,883,795	Level 2	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none
Deposits from customers	2,030	871	Level 3	Discounted cash flow method is used. Credit risk parameters and all expected provisions are included in the fair value calculation.	none	none

# Notes to the financial statements (CONTINUED)

## Reconciliation of Level 3 fair value measurements

(HUF million)

	CORPORATE BONDS	MORTGAGE BONDS	FORWARD EXCHANGE&SWAP	OTHERS	TOTAL
<b>28 December 2019</b>					
Opening balance	–	–	–	323	323
<b>Total gains or losses:</b>					
– profit or loss	–	–	–	–	–
– in other comprehensive income	–	–	–	–	–
<b>Transactions:</b>	1,015	–	–	–	1,015
– purchases	1,015	–	–	–	1,015
– output	0	–	–	–	–
– disposals/settlements	0	–	–	–	–
Transfer to level 3	0	–	–	–	–
Transfers out of level 3	0	–	–	–	–
<b>Closing balance</b>	<b>1,015</b>	<b>0</b>	<b>0</b>	<b>323</b>	<b>1,338</b>
<b>29 December 2018</b>					
Opening balance	–	–	–	323	323
<b>Total gains or losses:</b>					
– profit or loss	–	–	–	–	–
– in other comprehensive income	–	–	–	–	–
<b>Transactions:</b>					
– purchases	–	–	–	–	–
– iss output ues	–	–	–	–	–
– disposals/settlements	–	–	–	–	–
Transfer to level 3	–	–	–	–	–
Transfers out of level 3	–	–	–	–	–
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>323</b>	<b>323</b>

## Notes to the financial statements (CONTINUED)

## 41. Balances outstanding and transactions with related parties

(HUF million)

	2019	2018
<b>Assets</b>		
Financial assets held for trading	41,268	33,320
Financial assets held to maturity	323	323
Loans and receivables to banks	453,587	436,411
Loans and receivables to customers	3,452	4,759
Equity investments	1,006	685
Derivatives used for hedging	53,794	30,609
Intangible assets	5,281	3,634
Other assets	2	36
<b>Total</b>	<b>558,713</b>	<b>509,777</b>
<b>Liabilities</b>		
Loans and receivables to banks	253,863	216,352
Loans and receivables to customers	7,815	8,553
Financial liabilities held for trading	48,490	34,787
Derivatives used for hedging	28,596	16,373
Deferred tax liabilities	4	—
Other liabilities	1,589	1,392
Other provisions	49	16
Revaluation reserve	44	44
Retained earnings	144	144
<b>Total</b>	<b>340,594</b>	<b>277,661</b>
<b>Commitments, contingencies, derivatives</b>		
Loan and overdraft facilities granted not disbursed	—	15
Financial guarantees	58,791	34,255
Derivatives notional amount	<b>5,063,084</b>	<b>5,345,661</b>
<b>Statement of profit and loss</b>		
Interest and similar income	881	1,338
Interest expense and similar charges	(874)	(826)
Fee and commission income	716	529
Fee and commission expense	(1,209)	(1,172)
Dividend income	189	188
Net FX income	(4)	—
Impairment and loan loss provision	22	(234)
Net trading income	279	140
General operating expenses	(5,865)	(5,363)
Other income/(expenses)	284	202
<b>Total</b>	<b>(5,581)</b>	<b>(5,198)</b>

The above balances and transactions are outstanding with:

UniCredit Bank SA., UniCredit Bank Czech Republic and Slovakia AS., Zagrebacka Banka DD., UniCredit Bank AG., UniCredit SPA., UniCredit Bulbank, UniCredit Bank Serbia JSC., UniCredit Services SCPA., UniCredit Services GmbH., Európa Befektetési Alapkezelő Zrt., UniCredit Turn-Around Management CEE GmbH., UniCredit Leasing Hungary, UCTAM Hungary Kft., AO UniCredit Bank, YAPI VE KREDİ BANKASI, UniCredit Banka Slovenija DD, UniCredit Bank Austria AG, UCTAM Retail Hungary Kft., UniCredit Leasing Immotruck Zrt., UniCredit Leasing Kft., Fundamenta-Lakáskassza Zrt., Garantiqa Hitelgarancia Zrt., VISA Inc., CA-ZETA Real Estate Development Limited Liability Company, FMZ Savaria Kft., FMC Leasing Ingatlanhasznosító Kft., UniCredit Leasing Luna Kft., UniCredit Leasing Uranus Kft., UniCredit Leasing Mars Kft., Bank Austria Hungária Béta Leasing Kft., HVB-Leasing Jupiter Ingatlanhasznosító Kft., HVB-Leasing Rocca Ingatlanhasznosító Kft.



## Notes to the financial statements (CONTINUED)

## 42. Fair value information

(HUF million)

	2019		2018	
	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT
Cash and unrestricted nostros with Central Bank	23,834	23,834	20,362	20,362
Financial assets held for trading	85,188	85,188	76,726	76,726
Investment securities	842,086	842,991	848,612	814,565
Loans and advances to banks	797,206	800,018	642,055	645,060
Loans and advances to customers	1,505,313	1,497,535	1,376,992	1,401,732
Hedging derivatives assets	57,189	57,189	33,403	33,403
Equity investments	1,006	1,006	685	685
<b>Total financial assets</b>	<b>3,311,822</b>	<b>3,307,761</b>	<b>2,998,835</b>	<b>2,992,533</b>
Loans and advances to banks	599,316	599,344	544,401	544,508
Loans and advances to costumers	2,156,383	2,099,276	1,884,666	1,893,176
Issued bonds	154,561	148,281	150,603	150,547
Financial liabilities held for trading	71,011	71,011	57,201	57,201
Hedging derivative liabilities	29,509	29,509	18,811	18,811
<b>Total financial liabilities</b>	<b>3,010,780</b>	<b>2,947,421</b>	<b>2,655,683</b>	<b>2,664,243</b>

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

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

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

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

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

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

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

## Notes to the financial statements (CONTINUED)

## 43. Segment report

(HUF million)

	TOTAL BANK		RETAIL		PRIVATE BANKING	
	2019	2018	2019	2018	2019	2018
<b>Total Net Interest Income</b>	<b>62,057</b>	<b>64,169</b>	<b>13,828</b>	<b>12,387</b>	<b>582</b>	<b>473</b>
Net fee and commission income	46,984	43,722	21,328	20,028	1,153	898
Trading profit	16,654	15,016	3,687	5,694	116	89
Other operating income/expenses	1,994	1,026	3	(262)	–	(4)
<b>Total non-interest income</b>	<b>65,632</b>	<b>59,764</b>	<b>25,018</b>	<b>25,460</b>	<b>1,269</b>	<b>983</b>
<b>REVENUES</b>	<b>127,689</b>	<b>123,933</b>	<b>38,846</b>	<b>37,847</b>	<b>1,851</b>	<b>1,456</b>
<b>Direct Expenses</b>	<b>(65,690)</b>	<b>(64,587)</b>	<b>(22,666)</b>	<b>(22,843)</b>	<b>(788)</b>	<b>(682)</b>
Indirect and overhead expenses	–	–	(7,697)	(7,374)	(234)	(192)
<b>OPERATING EXPENSES</b>	<b>(65,690)</b>	<b>(64,587)</b>	<b>(30,363)</b>	<b>(30,217)</b>	<b>(1,022)</b>	<b>(874)</b>
<b>GROSS OPERATING RESULT</b>	<b>61,999</b>	<b>59,346</b>	<b>8,483</b>	<b>7,630</b>	<b>829</b>	<b>582</b>
Provision for risk and charges	(1,258)	(419)	(123)	1,332	(1)	4
<b>Result and impairment on loans</b>	<b>(4,895)</b>	<b>2,026</b>	<b>4,081</b>	<b>757</b>	<b>15</b>	<b>(37)</b>
Gain/ (losses) on other equity investments	671	551	–	–	–	–
Integration costs	–	–	–	–	–	–
<b>RESULT BEFORE TAXES</b>	<b>56,517</b>	<b>61,504</b>	<b>12,441</b>	<b>9,719</b>	<b>843</b>	<b>549</b>
Income taxes	(5,226)	(5,411)	–	–	–	–
<b>NET PROFIT FOR THE YEAR</b>	<b>51,291</b>	<b>53,093</b>	–	–	–	–
Customer loans net	1,497,535	1,401,732	300,327	265,543	8,241	2,561
Deposits from Customers	2,099,276	1,893,176	647,533	600,737	55,990	48,867

(HUF million)

	CORPORATE AND INVESTMENT BANKING		LEASING		OTHERS	
	2019	2018	2019	2018	2019	2018
<b>Total Net Interest Income</b>	<b>23,645</b>	<b>23,731</b>	<b>2,502</b>	<b>2,255</b>	<b>21,500</b>	<b>25,323</b>
Net fee and commission income	24,992	22,339	114	120	(603)	337
Trading profit	12,226	11,835	(43)	1	668	(2,603)
Other operating income/expenses	205	8	190	82	1,596	1,202
<b>Total non-interest income</b>	<b>37,423</b>	<b>34,182</b>	<b>261</b>	<b>203</b>	<b>1,661</b>	<b>(1,064)</b>
<b>REVENUES</b>	<b>61,068</b>	<b>57,913</b>	<b>2,763</b>	<b>2,458</b>	<b>23,161</b>	<b>24,259</b>
<b>Direct Expenses</b>	<b>(26,682)</b>	<b>(25,660)</b>	<b>(1,651)</b>	<b>(1,662)</b>	<b>(13,903)</b>	<b>(13,740)</b>
Indirect and overhead expenses	(6,777)	(6,318)	–	–	14,708	13,884
<b>OPERATING EXPENSES</b>	<b>(33,459)</b>	<b>(31,978)</b>	<b>(1,651)</b>	<b>(1,662)</b>	<b>805</b>	<b>144</b>
<b>GROSS OPERATING RESULT</b>	<b>27,609</b>	<b>25,935</b>	<b>1,112</b>	<b>796</b>	<b>23,966</b>	<b>24,403</b>
Provision for risk and charges	129	120	(2)	(5)	(1,261)	(1,870)
<b>Result and impairment on loans</b>	<b>(8,652)</b>	<b>1,873</b>	<b>(366)</b>	<b>(173)</b>	<b>27</b>	<b>(394)</b>
Gain/ (losses) on other equity investments	(11)	–	–	–	682	551
Integration costs	–	–	–	–	–	–
<b>RESULT BEFORE TAXES</b>	<b>19,075</b>	<b>27,928</b>	<b>744</b>	<b>618</b>	<b>23,414</b>	<b>22,690</b>
Income taxes	–	–	–	–	–	–
<b>NET PROFIT FOR THE YEAR</b>	<b>19,075</b>	<b>27,928</b>	<b>744</b>	<b>618</b>	<b>23,414</b>	<b>22,690</b>
Customer loans net	1,069,108	1,035,377	116,363	97,345	3,496	906
Deposits from Customers	1,356,392	1,180,061	867	632	38,494	62,879

## Notes to the financial statements (CONTINUED)

## 44. Exposure to credit risk

## 44.1

(HUF million)

LOANS TO CUSTOMER	STAGE 1	STAGE 2	STAGE 3	POCI (FLAG)	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	PURCHASED OR ORIGINATED CREDIT-IMPAIRED	
<b>Loss allowance as at 1 January 2019</b>	<b>(3,452)</b>	<b>(2,342)</b>	<b>(29,351)</b>	<b>4,327</b>	<b>(30,818)</b>
Transfers	(856)	416	440	–	–
Transfers from Stage 1 to Stage 2	273	(273)	–	–	–
Transfers from Stage 1 to Stage 3	27	–	(27)	–	–
Transfers from Stage 2 to Stage 1	(1,156)	1,156	–	–	–
Transfers from Stage 2 to Stage 3	–	109	–109	–	–
Transfers from Stage 3 to Stage 2	–	(576)	(576)	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	2,002	(1,709)	640	137	1,070
Changes to model assumptions and methodologies	(2,604)	–	–	–	(2,604)
Financial assets derecognised during the period	–	–	2,704	(29)	2,675
Write-offs	–	–	870	(2)	868
Unwind of discount	–	(22)	(499)	–	(521)
FX and other movements	(22)	(16)	(215)	4	(249)
<b>Loss allowance as at 31 December 2019</b>	<b>(4,932)</b>	<b>(3,673)</b>	<b>(25,411)</b>	<b>4,437</b>	<b>(29,579)</b>

## 44.2

(HUF million)

LOANS TO BANKS	STAGE 1	STAGE 2	STAGE 3	POCI (FLAG)	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	PURCHASED OR ORIGINATED CREDIT-IMPAIRED	
<b>Loss allowance as at 1 January 2019</b>	<b>(554)</b>	<b>(15)</b>	<b>–</b>	<b>–</b>	<b>(569)</b>
Transfers	(15)	15	–	–	–
Transfers from Stage 1 to Stage 2	–	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–	–
Transfers from Stage 2 to Stage 1	(15)	15	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Changes in PDs/LGDs/EADs	57	(154)	–	–	(97)
Changes to model assumptions and methodologies	–	–	–	–	–
Financial assets derecognised during the period	–	–	–	–	–
Write-offs	–	–	–	–	–
Unwind of discount	–	–	–	–	–
FX and other movements	(8)	–	–	–	(8)
<b>Loss allowance as at 31 December 2019</b>	<b>(520)</b>	<b>(154)</b>	<b>–</b>	<b>–</b>	<b>(674)</b>

## Notes to the financial statements (CONTINUED)

## 44.3

(HUF million)

LOAN COMMITMENTS, FINANCIAL GUARANTEES TO CUSTOMERS	STAGE 1	STAGE 2	STAGE 3	POCI (FLAG)	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	PURCHASED OR ORIGINATED CREDIT-IMPAIRED	
<b>Provision as at 1 January 2019</b>	<b>(566)</b>	<b>(141)</b>	<b>(3,183)</b>	<b>—</b>	<b>(3,890)</b>
Transfers	(6)	(41)	47	—	—
Transfers from Stage 1 to Stage 2	4	(4)	—	—	—
Transfers from Stage 1 to Stage 3	—	—	—	—	—
Transfers from Stage 2 to Stage 1	(10)	10	—	—	—
Transfers from Stage 2 to Stage 3	—	—	—	—	—
Transfers from Stage 3 to Stage 2	—	(47)	47	—	—
New financial assets originated or purchased credit-impaired	—	—	—	—	—
Changes in PDs/LGDs/EADs	(706)	(659)	(1,251)	—	(2,616)
Financial assets derecognised during the period	—	—	—	—	—
Write-offs	—	—	—	—	—
FX and other movements	7	(3)	(34)	—	(30)
<b>Provision as at 1 January 2019</b>	<b>(1,271)</b>	<b>(844)</b>	<b>(4,421)</b>	<b>—</b>	<b>(6,536)</b>

## 44.4

(HUF million)

LOAN COMMITMENTS, FINANCIAL GUARANTEES TO BANKS	STAGE 1	STAGE 2	STAGE 3	POCI (FLAG)	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	PURCHASED OR ORIGINATED CREDIT-IMPAIRED	
<b>Provision as at 1 January 2019</b>	<b>(19)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(19)</b>
Transfers	—	—	—	—	—
Transfers from Stage 1 to Stage 2	—	—	—	—	—
Transfers from Stage 1 to Stage 3	—	—	—	—	—
Transfers from Stage 2 to Stage 1	—	—	—	—	—
Transfers from Stage 2 to Stage 3	—	—	—	—	—
Transfers from Stage 3 to Stage 2	—	—	—	—	—
New financial assets originated or purchased credit-impaired	—	—	—	—	—
Changes in PDs/LGDs/EADs	(50)	—	—	—	(50)
Financial assets derecognised during the period	—	—	—	—	—
Write-offs	—	—	—	—	—
FX and other movements	(1)	—	—	—	(1)
<b>Provision as at 31 December 2019</b>	<b>(70)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(70)</b>

## 44.5

(HUF million)

LOANS TO CUSTOMERS AT AMORTISED COST NET OF ALLOWANCE	STAGE 1	STAGE 2	STAGE 3	POCI (FLAG)	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	PURCHASED OR ORIGINATED CREDIT-IMPAIRED	
<b>Net outstanding amount as at 1 January 2019</b>	<b>1,239,982</b>	<b>136,919</b>	<b>14,064</b>	<b>6,709</b>	<b>1,397,674</b>
Transfers	(17,222)	6,439	10,783	—	—
Transfers from Stage 1 to Stage 2	(59,054)	59,054	—	—	—
Transfers from Stage 1 to Stage 3	(8,361)	—	8,361	—	—
Transfers from Stage 2 to Stage 1	717	(3,516)	2,799	—	—
Transfers from Stage 2 to Stage 3	—	287	(287)	—	—
Transfers from Stage 3 to Stage 2	49,476	(49,386)	(90)	—	—
Financial assets derecognised during the period other than write-offs	(63)	(94)	(382)	(289)	(828)
New financial assets originated or purchased credit-impaired	—	—	—	—	—
Write-offs	(33)	(1)	(10)	(47)	(91)
FX and other movements	136,769	(30,912)	(10,462)	(283)	95,112
<b>Net outstanding amount as at 28 December 2019</b>	<b>1,359,433</b>	<b>112,351</b>	<b>13,993</b>	<b>6,090</b>	<b>1,491,867</b>

## Notes to the financial statements (CONTINUED)

## 44.6

(HUF million)

LOANS TO BANKS AT AMORTISED COST NET OF ALLOWANCE	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
<b>Net outstanding amount as at 1 January 2019</b>	<b>644,699</b>	<b>349</b>	<b>–</b>	<b>–</b>	<b>645,048</b>
Transfers	349	(349)	–	–	–
Transfers from Stage 1 to Stage 2	–	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	349	(349)	–	–	–
Financial assets derecognised during the period other than write-offs	–	–	–	–	–
New financial assets originated or purchased credit-impaired	–	–	–	–	–
Write-offs	–	–	–	–	–
FX and other movements	140,123	14,847	–	–	154,970
<b>Net outstanding amount as at 31 December 2019</b>	<b>785,171</b>	<b>14,847</b>	<b>–</b>	<b>–</b>	<b>800,018</b>

## 44.7

(HUF million)

	GROSS EXPOSURE	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	ALLOCATED MATERIAL VALUE
<b>Credit-impaired assets (stage 3)</b>				
Loans to banks	–	–	–	–
Loans to individuals	4,217	(2,775)	1,442	3,084
– Mortgages	3,406	(1,996)	1,410	3,051
– Consumer Loans	177	(163)	14	–
– Current Acc. & Credit C.	513	(500)	13	–
– Other Loans	121	(116)	5	33
Loans to corporate entities	36,178	(22,636)	13,542	10,822
– Large Corporate Customers	34,769	(22,078)	12,691	9,902
– Small and medium-sized enterprises (SMEs)	707	(451)	256	269
– Other (Leasing)	702	(107)	595	651

## 44.8

(HUF million)

LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	ALLOCATED MATERIAL VALUE
– Warrant and guarantees	202,910	18,329	4,049	225,288
– Cautions	49,655	1,207	827	51,689
– Property	387,027	25,581	9,968	422,576
– Debt securities	19,653	39	–	19,692
– Equity	1,269	30	18	1,317
– Other	152,998	12,584	1,466	167,048

## Notes to the financial statements (CONTINUED)

44.9

(HUF million)

ASSETS MEASURED AT AMORTISED COST AND AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI PURCHASED OR ORIGINATED CREDIT-IMPAIRED	TOTAL
<b>Gross carrying value per asset type</b>					
Cash and balances with central banks	23,834	–	–	–	23,834
– Investment Grade	23,834	–	–	–	23,834
– Standard monitoring	–	–	–	–	–
– Impaired	–	–	–	–	–
<b>Loans and advances to banks</b>	<b>785,691</b>	<b>15,001</b>	<b>–</b>	<b>–</b>	<b>800,692</b>
– Investment Grade	762,209	15,001	–	–	777,210
– Standard monitoring	23,482	–	–	–	23,482
– Impaired	–	–	–	–	–
<b>Loans and advances to customers</b>	<b>1,364,365</b>	<b>116,025</b>	<b>38,978</b>	<b>2,078</b>	<b>1,521,446</b>
– Investment Grade	678,853	32,972	–	50	711,875
– Standard monitoring	685,512	83,053	20	1,282	769,867
– Impaired	–	–	38,958	746	39,704
<b>Debt securities</b>	<b>828,557</b>	<b>14,151</b>	<b>–</b>	<b>–</b>	<b>842,708</b>
– Investment Grade	815,150	–	–	–	815,150
– Standard monitoring	13,407	14,151	–	–	27,558
– Impaired	–	–	–	–	–
<b>Total gross carrying value</b>	<b>3,002,447</b>	<b>145,177</b>	<b>38,978</b>	<b>2,078</b>	<b>3,188,680</b>
<b>Loan commitments and financial guarantee contracts</b>					
Loans and advances to banks (loan commitments)	67	10,000	–	–	10,067
Loans and advances to banks (financial guarantees)	41,673	369	–	–	42,042
Loans and advances to customers (loan commitments)	804,160	47,536	3,534	–	855,230
Loans and advances to customers (financial guarantees)	218,254	10,912	2,159	–	231,325
<b>Total Loan commitments and financial guarantee contracts</b>	<b>1,064,154</b>	<b>68,817</b>	<b>5,693</b>	<b>–</b>	<b>1,138,664</b>

## 45. Exposure to market risks – trading and non-trading portfolios

## Exposures to interest rate risk

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

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

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

## Notes to the financial statements (CONTINUED)

(HUF million)

	INCOME	EQUITY	OTHER (NOTES ONLY)	TOTAL
<b>2019</b>				
	+200bp shock	976	(9,543)	(26,680)
	-200bp shock	(1,015)	3,470	7,890
	shift up	620	(11,785)	(33,034)
	shift down	(1,013)	3,470	7,892
	turn up	(117)	483	(1,550)
	turn down	15	(3,615)	(7,554)
	short rates shock up	256	(7,563)	(19,193)
	short rates shock down	(373)	2,846	6,094
<b>Worst of the above</b>	<b>(1,015)</b>	<b>(11,785)</b>	<b>(21,869)</b>	<b>(33,034)</b>
<b>2018</b>				
	+200bp shock	315	(14,173)	(25,249)
	-200bp shock	(287)	15,771	30,850
	shift up	380	(20,691)	(37,148)
	shift down	(191)	24,236	45,789
	turn up	1,049	(450)	2,029
	turn down	(928)	(3,956)	(11,786)
	short rates shock up	(691)	(11,660)	(25,449)
	short rates shock down	962	12,660	25,645
<b>Worst of the above</b>	<b>(928)</b>	<b>(20,691)</b>	<b>(16,837)</b>	<b>(37,148)</b>

Fair value fluctuations in both the Available for Sale portfolio and the Cash Flow Hedge derivatives affect Equity directly; while trading position and other derivatives affect Statement of Profit or Loss. NPV changes of positions booked against Equity will migrate to Statement of Profit or Loss as their Cash Flows mature. General interest rate positions and HTM bond holdings do not impact Income or Equity, their effect is shown under Other.

### FX Sensitivity

Year-end FX open position sums up to 0.63 bn HUF. The total open FX position is limited at 60mn EUR, ca. 19 bn HUF. On-balance FX position ratio (DEM) was 8.8%.

Positions reported as they are managed and show the bank's overall risks including all on-balance and off-balance items, underlying and derivatives.

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

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

## 46. Summary of VaR position

The internal model based VaR (1 day, confidence level of 99 %) for 2019 moved in a range of HUF 1.373 million and HUF 2.187 million, following a low volatility path during the year. The average VaR was HUF 1,704 million; more than a year before. Credit spread risk and Interest rate risk were the main drivers of the VaR. The FX risk was far below the other components although also contributed the total market risk of the Group.

(HUF million)

RISK CATEGORY	YEAR-END	AVERAGE	MINIMUM	MAXIMUM
<b>VaR as at 31 December 2019</b>				
Exchange rate risk	4	26	4	85
Interest rate risk	1,321	1,593	1,258	1,906
Credit spread	1,646	2,098	1,605	2,265
Vega risk	2	2	1	3
Equity risk	–	–	–	3
<b>Overall</b>	<b>1,623</b>	<b>1,704</b>	<b>1,373</b>	<b>2,187</b>



# Notes to the financial statements (CONTINUED)

VaR as at 31 December 2018				
Exchange rate risk	19	69	–	155
Interest rate risk	1,358	1,634	270	2,688
Credit spread	1,828	2,010	–	2,254
Vega risk	2	1	–	3
Equity risk	–	–	–	–
<b>Overall</b>	<b>1,484</b>	<b>1,673</b>	<b>1,404</b>	<b>2,073</b>

In addition to VaR, risk positions of the Group are limited through volume & sensitivities limits. As part of the daily risk reporting, detailed Market Risk Reports are prepared for all risk-taking departments, with updated and historical information made available to all risk-takers and the respective heads of department.

## 47. Summary of interest sensitivity

As at 31 December 2019 and 2018, the entire interest rate position of the Group (trading and investment) for major currencies was composed as follows: **Basis Point Value ("BPV") for main currencies**

CURRENCY						ANNUAL STATISTICS			
	LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 YEARS TO 10 YEARS	OVER 10 YEARS	TOTAL	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE
<b>As at 31 December 2019</b>									
CHF	(0.04)	0.01	–	(0.04)	–	(0.07)	(0.01)	(0.09)	0.05
EUR	(0.13)	(5.70)	6.67	(0.21)	(0.77)	(0.15)	41.47	(6.08)	9.09
GBP	–	(0.02)	–	–	–	(0.02)	0.01	(0.16)	0.05
HUF	(6.33)	(0.58)	(44.35)	(89.72)	(0.99)	(141.98)	(109.29)	(157.89)	133.12
USD	(0.29)	0.39	(0.06)	(0.11)	–	(0.07)	9.05	(10.82)	0.92
<b>Total*</b>	<b>6.85</b>	<b>6.71</b>	<b>51.09</b>	<b>90.08</b>	<b>1.76</b>	<b>142.35</b>			
<b>As at 31 December 2018</b>									
CHF	(0.05)	0.02	(0.01)	(0.02)	–	(0.05)	0.02	(0.09)	0.04
EUR	(3.21)	5.34	0.10	11.61	0.34	14.18	19.62	(14.45)	6.12
GBP	–	0.01	–	–	–	0.01	0.02	–	0.01
HUF	(5.24)	(14.15)	(33.61)	(79.09)	(1.16)	(133.24)	(111.04)	(170.06)	144.57
USD	(0.70)	(0.74)	0.12	0.02	–	(1.30)	0.99	(4.09)	2.31
<b>Total*</b>	<b>9.25</b>	<b>20.27</b>	<b>33.84</b>	<b>90.74</b>	<b>1.50</b>	<b>148.85</b>			

\*Total contains risk taking in all reported currencies

During 2019, the Group had major interest rate exposures in HUF.

BPVs melted for 2019 year-end mainly due to the decreased risk taking positions and not purely stemming from the changing market environment. Risk-taking departments and the management are daily informed about the development of the interest rate risks from the BPV monitoring reports.

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

# Notes to the financial statements (CONTINUED)

(HUF million)

SEGMENTS	SECTOR	CREDIT SPREAD BASIS POINTS
<b>Spread Points as at 31 December 2019</b>		
Corporate	Energy BBB	(10.12)
Financial	Corporate - Local	(0.64)
Financial	BB banks	–
Financial	A banks	–
Financial	BBB banks	(39.41)
Treasury	Treasuries – Local	(259.38)
<b>Spread Points as at 31 December 2018</b>		
Corporate	Energy BBB	(8.03)
Financial	BB banks	–
Financial	A banks	–
Financial	BBB banks	(48.40)
Treasury	Treasuries – Local	(211.87)

Government and local mortgage banks of investment grade account for the largest part of the Group's credit spread positions.

Government bonds related credit spread exposures slightly changed in 2019, less bank papers were purchased which were reflected in the year-end CPV figures.

Credit spread positions are also limited on a total level of about HUF 359 million.

## Capital requirements for market risk

Market risk, counterparty- and settlement risk of trading positions have to be reported together. The quarterly average capital requirement of the trading book was HUF 5.3 billion (in 2018 HUF 4.1 billion), the highest quarterly capital requirement was HUF 5.9 billion (in 2018: HUF 4.5 billion) mostly stemming from the counterparty risk of OTC derivatives and the position risk of bonds.

## 48. Compensation of key management personnel

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

(HUF million)

	2019	2018
Short-term employee benefits	2,375	2,306
Share-based payments	187	271
Long-term employee benefits	–	–
<b>Total</b>	<b>2,562</b>	<b>2,577</b>

Loans granted to the key management personnel was the following:

(millió Ft)

	2019	2018
Loans granted to the key management personnel	113	56
<b>Total</b>	<b>113</b>	<b>56</b>

## 49. Regulatory capital

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

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

# Notes to the financial statements (CONTINUED)

The most significant risks to which the Group is exposed are credit, liquidity, market (including interest and foreign exchange rate risks) and operational risk. Integrated and on-line systems ensure constant, timely monitoring of risk. The Group's policies and processes for managing the major financial risks are reviewed regularly by the respective business areas, internal audit, senior management and the Board of Directors. From the 1st July 2011 UniCredit Bank Hungary Zrt. switched to internal rating based IRB method in its capital requirement calculation in case of Hungarian medium and large enterprises, multinational large enterprises and commercial banks.

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

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

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

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

## Own funds components:

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

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

## Capital Management

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

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

# Notes to the financial statements (CONTINUED)

The Group's regulatory Capital position at 31 December 2019 and 2018 was as follows:

(HUF million)

	2019	2018
<b>Tier 1 Capital</b>		
Ordinary share capital	24,118	24,118
Share premium	3,900	3,900
Retained earnings	219,823	224,979
P/L according to the statement of financial position	33,800	28,342
Accumulated other comprehensive income	40,217	25,116
Other reserves	49,798	44,640
Adjustments to CET1 due to prudential filters	(19,964)	(15,124)
Intangible assets	(13,557)	(10,734)
IRB shortfall of credit risk adjustments to expected losses	–	–
<b>Tier 1 Total</b>	<b>304,335</b>	<b>296,895</b>
<b>Tier 2 Capital</b>		
Reserves for IRB position	5,175	4,448
<b>Tier 2 Total</b>	<b>5,175</b>	<b>4,448</b>
<b>Guarantee capital</b>	<b>309,510</b>	<b>301,343</b>
<b>RWA</b>		
Credit risk	1,489,533	1,299,072
Total risk exposure amount for position, foreign exchange and commodities risks	72,228	48,325
Operational risk	158,108	138,324
Total risk exposure amount for credit valuation adjustment	1,754	5,917
<b>RWA Total</b>	<b>1,721,623</b>	<b>1,491,638</b>
<b>Capital adequacy (%)</b>	<b>17.98</b>	<b>20.20</b>
<b>Guarantee capital for legal limits</b>	<b>309,510</b>	<b>301,343</b>

## 50. Events after the reporting date

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

Budapest, 29 January 2020

# Disciplined risk management. & controls



We run the business with disciplined origination, enhanced business accountability and in-depth monitoring by control functions. Our reinforced governance and steering ensure targeted actions wherever necessary. A Group culture driven by the principle: “Do the right thing!” means that each employee is part of the first line of defense.

# Supervisory Board and Management Board

## UniCredit Bank Hungary Zrt.

### SUPERVISORY BOARD

SILVANO SILVESTRI

**Chairman**

TATJANA ANTOLIC JASNIC

**Members**

ANDREA DIAMANTI

EMILIA STEFANOVA PALIBATCHIYSKA

IVAN VLAHO – till 2019.09.05

DR. PETTKÓ-SZANDTNER JUDIT – till 2019.11.30

BOLYÁN RÓBERT – till 2019.11.30

BERKI ANDRÁS RÓBERT – till 2019.11.30

### MANAGEMENT BOARD

DR. PATAI MIHÁLY – till 2019.04.

**Chairman**

TÓTH BALÁZS – as of 2019.04

**Members**

MARCO IANNACCONE – till 2019. 05.31.

**Deputy CEO**

IVAN VLAHO – as of 2019.09.06

VÖRÖS RÉKA

**Head of Retail and Small Business Division**

LJILJANA BERIC

**Chief Financial Officer,  
Head of Financial Division**

ALEN DOBRIĆ

**Chief Risk Officer,  
Head of Risk Management Division**

ANSCHAU JÁNOS

**Head of Global Banking Services Division**

SOÓS GÁBOR

**Head of Corporate, Investment  
and Private Banking Division**

# Supervisory Board and Management Board (CONTINUED)

## UniCredit Jelzálogbank Zrt.

### BOARD OF DIRECTORS

FARKAS BÁLINT MÁRTON	Chairman
KECSKÉSÉ PAVLICS BABETT MÁRIA AGNIESZKA FRANECZEK	Members

### SUPERVISORY BOARD

MARCO IANNACCONE – till 2019.05.31	Chairman
ANSCHAU JÁNOS LJILJANA BERIC VÖRÖS RÉKA ALEN DOBRIC TÓTH BALÁZS SOÓS GÁBOR	Members



# Calendar

## January 2019

UniCredit was ranked first in 28 categories of Euromoney's 2019 Trade Finance survey. Among the awards there are global first places in five categories as well as recognition as a market leader in 11 countries. UniCredit is the **Best Global Service Provider** in the following categories: "All Services", "Advice", "Financing/Payments", "General Execution", and "Products".

Thanks to the outstanding opportunities offering to its employees, similarly to last year, UniCredit received the **European Top Employer 2019** award this year too.

## February 2019

In Hungary, UniCredit Bank Hungary Zrt. was the first to launch the **mCash service**, i.e. cash withdrawal without bank card to its clients. A mobile phone is enough for using the service: to withdraw cash, the unique code received on the mobile phone through the mobile application of the Bank has to be entered to the ATM.

UniCredit Bank Hungary Zrt. provided funding to the establishment of a briquette plant in Told, a village in deep poverty, under the corporate social responsibility program called Step with us! The project of **Igazgyöngy Foundation** enables the local production of cheap fuel with special technology. Employees of the Bank voted for further support in the value of EUR 5,000 in addition to EUR 15,000 envisaged for the implementation.

Euromoney's Private Banking and Wealth Management survey recognized UniCredit as the **leading private banking service provider and wealth manager** of 2019.

## March 2019

UniCredit executed a successful **Alipay transaction** in Hungary. UniCredit Bank Hungary Zrt. was the first to provide the financial infrastructure for China's prevalent mobile payment service.

UniCredit joined WWF's "**Earth Hour**" initiative for the twelfth time. The initiative's objective is to raise awareness of the climate change that seriously threatens our planet. UniCredit Group switched off the lights for 60 minutes in 74 of its buildings, including Szabadság tér, Budapest.

UniCredit Bank launched an integrated campaign debuting on television and online platforms in which it sends the message to try to notice every day the moments that really count. In the **campaign for introducing our Stable interest rate personal loan**, offering predictable fix monthly instalments, some of the colleagues working in the Bank, too, appeared.

Júlia Romhányi, UniCredit Bank Hungary Zrt.'s manager responsible for the custody division was awarded the **Global Custodian Legend award**. Thereby she was approved of by the elite of the custodian profession.

## April 2019

**Balázs Tóth** was promoted to Chairman and CEO of UniCredit Bank Hungary Zrt. Balázs Tóth has been working for the Bank for 24 years, including more than 10 years as member of the Board of Directors, and has been the Head of Corporate, Investment Banking and Private Banking Division since 2017.

The Bank donated HUF 10 million to the summer adventures of the children camping in Bátor Tábör under a charity campaign to promote the use of mobile application. By downloading and using the application, clients helped the Bank donate as much money as possible to the summer adventure camps of the foundation, where children recovering from serious diseases and their parents can get life-changing experiences. Thanks to the activity of the clients, the funds of the Bank covered the costs of family camps for four complete summer weekends.

As a proof of its commitment to Italian culture, UniCredit Bank Hungary Zrt. supported the opening of the exhibition entitled the *Triumph of the Body, Michelangelo and Sixteenth-century Italian Draughtsmanship* in the Museum of Fine Arts.

The Budapest Education and Training Centre, flagship of Hungarian **Fintelligence** centres was opened at the Budapest Business School (BBS) with the support of UniCredit Bank Hungary Zrt. The objective is to develop the financial awareness of students, therefore, the Bank's leading managers give lectures on different banking topics for BBS students from 2019.

## Calendar (CONTINUED)

### May 2019

"The Group of 20+1" journalist organisation elected Jean Pierre Mustier, UniCredit S.p.A.'s chief executive officer the **European banker of the year** 2018.

**Ivan Vlaho** was promoted to deputy CEO of UniCredit Bank Hungary Zrt.

As main sponsor of the **Forbes Country Tour** event series, three expert colleagues of the Bank met local entrepreneurs in three provincial towns to discuss possibilities of international expansion and the macroeconomic conditions.

UniCredit Bank Hungary Zrt. became one of the financial intermediary partners recognised at the **EXIM Awards gala**. EXIM Hungary and MEHIB awarded the prestigious prizes based on the results of 2018, of which we received the award for the institution with the biggest loan portfolio refinanced by EXIM.

### June 2019

Reaffirming its commitment to secure digital communication, UniCredit Group **suspended its presence on Facebook, Messenger and Instagram** channels. UniCredit Bank Hungary Zrt. is still available on LinkedIn and YouTube.

Global Finance magazine acknowledged UniCredit as the **best sub-custodian of 2019** in Central and Eastern Europe. In addition, UniCredit Bank won national "Best custodian" awards in Austria, Bulgaria, the Czech Republic, Hungary, Serbia, and Slovenia.

A new curriculum to improve financial awareness was prepared for children aged 9 to 13 with the help and ideas of volunteer UniCredit Bank colleagues. The **"Gazdálkodj vlogosan!"** training material helps children get acquainted with the operation of enterprises and financial concepts in a playful manner. At an interactive press event, UniCredit Bank Hungary Zrt. presented the new curriculum, developed together with Bridge Budapest and also available in summer camps and autumn school-year courses of Bridge Bizniscool.

UniCredit achieved a podium finish in the Universum Global **"Most Attractive Employers"** ranking in Italy. The marketing research company announced the results based on the answers of 40,000 university students.

### July 2019

Prestigious appointments were announced by UniCredit Bank Hungary Zrt. As of July, the Corporate, Investment Banking and Private Banking Division is led by **Gábor Soós**, former manager of UniCredit Leasing Hungary Zrt. The chairman and CEO position of the latter was taken over by **Róbert Vasadi**.

UniCredit **won five respectable awards** from Euromoney, the leading international business magazine. UniCredit was voted the best bank in Italy, Croatia, and Serbia as well as the best asset manager and transaction services provider in Central and Eastern Europe.

UniCredit Bank Hungary Zrt. **sold a non-performing loan portfolio** to EOS Faktor Zrt for HUF 9 billion. The portfolio consists completely of Hungarian loans. The transaction is part of the strategic process comprising the whole UniCredit Group the objective of which is to reduce the non-performing credit portfolio.

### August 2019

UniCredit Group's net profits increased by more than 80 per cent in the second quarter year-on-year.

### September 2019

UniCredit was at the top of several categories in Euromoney's **Real Estate** survey. It achieved the best result in the aggregate "Bank" category in Central and Eastern Europe, particularly in the Czech Republic and Hungary. In addition, the Bank was praised in the "Financing" category in Austria, Hungary, and Serbia as well as the "Capital Financing" category in Austria and Slovakia.

UniCredit joined the **Global Week of Climate Action** program because it considers the approach of sustainable future important for companies and the whole society from a new perspective.

UniCredit was acknowledged as the best service provider in nine countries in Euromoney's 2019 **Cash Management** survey. The Bank is market leader in this service segment in Central and Eastern Europe and in 11 countries.

The Bank launched a course entitled **Banking in @ction** – operation of a bank in practice at BBS. The Bank's leading managers gave lectures during the autumn semester. The lectures were held at the Fintelligence Financial Education and Training Centre developed with the support of UniCredit Bank Hungary Zrt.

## October 2019

The business potential-focused representative survey of UniCredit Bank Hungary Zrt. and Inspira Research analysed the most dynamic small and medium-sized enterprises for the second time. Altogether, 600 company managers were asked about their business and innovation plans in this nationally representative survey. According to the results of the survey, the SME sector is driven by service providers and construction firms, whereas companies carrying out agricultural activities strive harder.

## November 2019

Balázs Tóth won the **Banker of the Year** award in 2019. The prestigious recognition was awarded to the Chairman and CEO of UniCredit Bank Hungary Zrt. by leaders of Hungarian financial institutions under the Mastercard – Bank of the Year program.

The **Stable Interest Rate Loan** of UniCredit Bank Hungary Zrt. ranked second in the "Retail Credit of the Year" category of the Mastercard – Bank of the Year 2019 competition.

Members of UniCredit Group **protested** against all forms of **violence against women**. The bank group also joined the OrangeTheWorld campaign. They provide their employees with a peaceful working environment taking into consideration the "Do the right thing!" principle.

75 initiatives in 15 countries: this was the balance of the **Diversity and Inclusion week** in UniCredit Group where people put together action plans on the culture of diversity and inclusion in discussions and workshops.

Ten years have passed since UniCredit Bank had such a strong third-quarter **profit**, the Bank reported net profits valued at EUR 1.1 billion in the third-quarter flash report. This exceeds the results of last year's same period by nearly 26 percent.

UniCredit won the **World's Best Private Bank 2020** award and the Best Private Bank for Entrepreneurs title in Central and Eastern Europe in Global Finance magazine's World's Best Private Banks Awards 2020 competition.

## December 2019

UniCredit Bank Hungary Zrt. is the proud owner of the **Business Responsibility 2019 award of CSR Hungary** in the "Common Affairs – Common Responsibility" category, which recognises responsible business projects. The Bank's Step with us! social innovation program won thanks to the professional support of NESST Magyarország and the devoted work of our colleagues doing business mentoring.

UniCredit Group presented its **new strategic plan, Team 23** for the period until the end of 2023.

UniCredit Bank Hungary Zrt. joined the **week of awareness related to disability** as well as the purple lantern campaign. In accordance with the "Do the right thing!" approach and the basic values of "Ethics and respect", the Bank promotes diversity and positive environment.

# Network units

## Head Office

H-1054 Budapest, Szabadság tér 5–6.

Telephone: +36-1/301-1271

Fax: +36-1/353-4959

E-mail: [info@unicreditgroup.hu](mailto:info@unicreditgroup.hu)

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

[www.unicreditbank.hu](http://www.unicreditbank.hu)



On 31 December 2019 UniCredit Bank's network consisted of 55 units throughout Hungary, from which 22 branches were located in Budapest, while 33 in the country.

## Network units (CONTINUED)

### Branches in Budapest

**Bécsi úti branch**

1023 Budapest, Bécsi út 3-5.

**Mammut II. branch**

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

**Pesthidegkúti branch**

1028 Budapest, Hidegkúti út 167. (Széphalom Üzletközpont)

**Törökvésvi branch**

1022 Budapest, Bérg u 3-5.

**Lajos utcai branch**

1036 Budapest, Lajos u. 48-66.

**Ferenciek tere branch**

1053 Budapest, Ferenciek tere 2.

**Alkotmány utcai branch**

1054 Budapest, Alkotmány u. 4.

**Szabadság téri branch**

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

**Boráros téri branch**

1095 Budapest, Boráros tér 7.

**Lurdy Ház branch**

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

**Fehérvári úti branch**

1117 Budapest, Fehérvári út 23.

**Infopark branch**

1118 Budapest, Infopark sétány 3.

**Lágymányosi úti branch**

1111 Budapest, Lágymányosi u. 1-3.

**Alkotás úti branch**

1123 Budapest, Alkotás u. 50.

**Duna Plaza Branch**

1138 Budapest, Váci út 178. (Duna Plaza)

**Gateway branch**

1138 Budapest, Dunavirág utca 2.

**Szent István körúti branch**

1137 Budapest, Szent István körút 16.

**Örs vezér téri branch**

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

**Mátyásföldi branch**

1165 Budapest, Veres Péter út 105-107.

**Pestszentlőrinci branch**

1182 Budapest, Üllői út 455.

**Shopmark branch**

1191 Budapest, Üllői út 201. (Shopmark)

**Campona branch**

1222 Budapest, Nagytétényi út 37-43. (Campona)

# Network units (CONTINUED)

## Branches in the country

### Békéscsaba branch

5600 Békéscsaba, Andrásy út 37-43. (Csaba Center)

### Budakeszi branch

2092 Budakeszi, Fő út 139.

### Budaörs branch

2040 Budaörs, Szabadság út 49.

### Cegléd branch

2700 Cegléd, Kossuth tér 4.

### Debrecen branch

4024 Debrecen, Kossuth Lajos u. 25-27.

### Dunakeszi branch

2120 Dunakeszi, Fő út 70.

### Dunaújváros branch

2400 Dunaújváros, Dózsa György út 4/D

### Eger branch

3300 Eger, Törvényház u. 4.

### Érd branch

2030 Érd, Budai út 13. (Stop.Shop)

### Esztergom branch

2500 Esztergom, Kossuth Lajos u. 14.

### Gödöllő branch

2100 Gödöllő, Dózsa György út 13.

### Gyöngyös branch

3200 Gyöngyös, Péter Kis Szaléz u. 22.

### Győr branch

9021 Győr, Árpád út 45.

### Kaposvár branch

7400 Kaposvár, Dózsa György u. 1.

### Kecskemét branch

6000 Kecskemét, Kisfaludy u. 8.

### Miskolc branch

3530 Miskolc, Hunyadi u. 3.

### Mosonmagyaróvár branch

9200 Mosonmagyaróvár, Fő u. 6.

### Nagykanizsa branch

8800 Nagykanizsa, Fő út 8.

### Nyíregyháza branch

4400 Nyíregyháza, Dózsa György út 1-3.

### Pécs – Árkád Üzletház branch

7621 Pécs, Rákóczi út 58. (Árkád Üzletház)

### Salgótarján branch

3100 Salgótarján, Rákóczi út 13.

### Siófok

8600 Siófok, Fő u. 174-176.

### Sopron branch

9400 Sopron, Várkerület 1-3.

### Szeged branch

6722 Szeged, Kossuth Lajos sugárút 18-20.

### Székesfehérvár branch

8000 Székesfehérvár, Budai út 1.

### Szekszárd branch

7100 Szekszárd, Arany János u. 15-17.

### Szentendre branch

2000 Szentendre, Dobogókői út 1. (Városkapu Üzletház)

### Szigetszentmiklós branch

2310 Szigetszentmiklós, Bajcsy-Zsilinszky u. 26.

### Szolnok branch

5000 Szolnok, Baross Gábor út 27.

### Szombathely branch

9700 Szombathely, Kőszegi út 30-32.

### Tatabánya – Vértess Center branch

2800 Tatabánya, Győri út 7-9. (Vértess Center)

### Veszprém branch

8200 Veszprém, Ady E. u.1.

### Zalaegerszeg branch

8900 Zalaegerszeg, Kovács Károly tér 1/a

# Capital and balance sheet management.



We will continue to take decisive actions to increase our flexibility, with a proactive approach to capital allocation, both top down and bottom up. In Team 23, one key commitment is to maintain a CET1 MDA buffer between 200 to 250 basis points.



Sorter pages: UniCredit  
Creative concept: M&C Saatchi

Graphic development and Composition:  
**UNICREDIT** – Milan

Adaptation: R.A.T. Reklám és Arculat Kft. Budapest  
May 2020

A bank mindenhez, |  **UniCredit Bank**  
ami számít.

[www.unicreditbank.hu](http://www.unicreditbank.hu)