# One Bank, One UniCredit.

2018

## Annual Report and Accounts

A bank mindenhez, ami számít.

UniCredit Bank

# Chairman's message

"Thanks to the support of both our shareholders and stakeholders, I am confident that UniCredit will meet its goals ensuring sustainable profitability and an ever increasing high level of service."

**Fabrizio Saccomanni**
Chairman

# Dear Shareholders,

I have greatly enjoyed my first year as chairman of UniCredit. Over the course of 2018, there have been many opportunities to admire the group's incredible potential, thanks to the unique European positioning and high levels of professional and personal excellence of everyone in the group.

The financial community shares this positive view. The solidity of our governance system, which guarantees the quality and integrity of our decision-making processes, is widely recognised. UniCredit will continue to invest in ensuring transparency and in maintaining an open dialogue with all of our stakeholders.

The past year has also confirmed the increasing challenges that our sector faces. Firstly, a more complex macroeconomic context. Secondly, a continuously evolving regulatory environment. Last, but not least, growing competitive pressures, mainly from digitalisation. These trends are driving transformation in banking business models.

The UniCredit board of directors, who I represent, is very focused on these topics. Renewed in April, they bring diverse professional experiences, including vast economic and financial knowledge at both national and international levels. Their active involvement, through new insights and ideas, allow our excellent management team, expertly led by our CEO, Jean Pierre Mustier, to keep making UniCredit a successful pan-European bank.

Our results demonstrate that we have made the right choices. Where necessary, the group has taken decisive actions, especially related to non-recurring events, without compromising on stability. We are optimistic for the future.

Progress on our strategic plan is ahead of schedule. We are protecting the bank's capital position and have accelerated the de-risking process, which will allow us to complete the rundown of non-performing legacies in three years. We have achieved important results on efficiency, risk management, process simplification and the digitisation of services we provide to customers – all through significant investments.

To continue our progress in the transformation of the bank, we will leverage on the new transformation & innovation advisory board, which gives us access to thought leaders in technology and innovation. This team will regularly debrief the UniCredit board of directors.

Looking to 2019, we will continue to support the "real economy" in the countries in which we operate. As a simple, successful pan-European commercial bank, UniCredit is dedicated to supporting customers, contributing to Europe's economic and social development. For example, we will remain focused on supporting the growth of SMEs, the backbone of the European economy, and our social banking initiatives.

UniCredit is characterised by solidity, credibility and a clear outlook on our future, distinguishing the group in a challenging competitive landscape. Thanks to the support of both our shareholders and stakeholders, I am confident that UniCredit will meet its goals, ensuring sustainable profitability and an ever increasing high level of service.

Sincerely,

**Fabrizio Saccomanni**
Chairman
UniCredit S.p.A.

# Chief Executive Officer's message


"We are focused on sustainable business growth, based on ethics and respect, to ensure UniCredit remains a pan-European winner."

**Jean Pierre Mustier**
Chief Executive Officer

# Dear Shareholders,

Thank you for your valuable, ongoing support. We have closed a second, successful year of our Transform 2019 strategic plan. UniCredit is a solid bank with strong capital ratios and an unstinting focus on value creation for all of its stakeholders through innovative commercial actions, digital transformation, enhanced risk management, transparent corporate governance and key social impact banking initiatives – based on ethics and respect. For us this means doing the right thing.

As the banking industry continues to evolve, UniCredit will stay focused on "what matters" – the changing needs of our customers – to protect the value of our business and ensure sustainability.

Our strategy is One Bank, One UniCredit: we are and will remain a simple, successful, pan-European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive and growing client franchise.

The combined energy, commitment and hard work of all UniCredit team members is what allows us to deliver tangible results. We confirm our Transform 2019 targets: net profit target of 4.7 billion Euro and a RoTE of above 9 per cent, with our Group Core RoTE above 10 per cent.

We will maintain a **strong capital position** by generating solid profits and ensure we have a comfortable MDA buffer. Our CET1 capital ratio is fully loaded and compliant with all regulatory requirements. The UniCredit Group fared well in the EBA stress test results, with one of the highest CET1 ratios compared to Eurozone peers.

In terms of **asset quality**, we have decisively continued to de-risk our balance sheet, completing the final phase of Project FINO. Our disciplined risk management strategy is ensuring improved asset quality as well as high quality origination across the Group. We are fully on track for the accelerated rundown of our Non Core portfolio, brought forward by four years to 2021.

We are leveraging on digitalisation to **transform our operating model**, with an improved cost reduction. We will continue to enhance the customer experience through simpler processes, ensuring greater efficiency and effectiveness.

We continue to **maximise commercial bank value** thanks to a renewed and dynamic focus on our clients, pursuing a multichannel strategy with best-in-class products and services. Our CIB is fully plugged into the Group's strong commercial banking and focused on supporting the real economy.

Finally, I extend a warm welcome to Fabrizio Saccomanni, our new Chairman. Fabrizio's significant experience in international monetary and financial cooperation, particularly in terms of supervisory and regulatory knowhow, brings great value to our Group.

Together we have started to actively prepare for the next strategic cycle. We will focus on the development of our business activities and the continued optimisation of our processes, while providing all colleagues with a best in class work environment and experience, to continue to attract the right people. This begins with an even more energised leadership team, and a changed leadership structure, that will bring this new strategy to fruition.

We will keep working hard to ensure that UniCredit remains a true pan-European winner.

Sincerely,

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

# One Bank, One UniCredit.

Our strategy is clear and long-term. We are transforming the Group to build the bank of tomorrow for our extensive client franchise. Everything we do is designed to make UniCredit a true pan-European winner.

# Ethics and respect: Do the right thing!

UniCredit's Board and Senior Management consider that the way in which results are achieved is as important as the actual results. Therefore, the following Group Principles[1] should guide all employees' decisions and behaviors irrespective of seniority, responsibility and geographical area: **"Ethics and respect: Do the right thing!"**

Group Principles are designed to help all UniCredit employees, to guide their decision-making and their behaviours towards all stakeholders in their day to day activities.

In particular, such Principles require:
- compliance with the highest ethics standards - beyond banking regulation and beyond the law - in relationships with clients, colleagues, environment, shareholders and any other *stakeholders*;
- fostering a respectful, harmonious and productive workplace;

to best protect the Bank, its reputation and to be an employer and a counterparty of choice.

Group Principles underpin a set of core guidelines that further clarify expectations about the way to work as **One Team, One UniCredit** and support employees in the fulfillment of UniCredit *Five Fundamentals*. The spirit of each of these principles is extremely important and it will be the subject of more detailed policies that will be developed or updated in the coming months.

## Group principles in day to day activities

- **Ethics as a guiding principle of fairness and respect towards all stakeholders in order to achieve sustainable results.**
  UniCredit colleagues, irrespective of seniority, responsibility and geographical area, are expected to do the right thing in their daily activities and to be fair towards all stakeholders to gain and retain their trust.

- **"Ethics and respect" is a guiding principle which applies to all Group policies.**
  The "Ethics and respect" principle is based on a long term view of the Group business activities and relationships with stakeholders as well as a comprehensive view of the internal and external working environment. Business policies require care to ensure that responsible sales approach work in harmony with balanced, fair and respectful customer interactions, enabling the achievement of sustainable business success and long-term targets. Targets and other business results are not considered achieved if they are not met in compliance with the Group Principles, related policies and the requirements that flow from them.

- **"Ethics and respect" is a guiding principle for interactions amongst all Group employees.**
  UniCredit colleagues are expected to contribute in their daily activities toward creating and maintaining a work environment that is as respectful and harmonious as possible, eliminating intimidating, hostile, degrading, humiliating or offensive behaviors and words. UniCredit must contribute to assuring the respect for the rights, value and dignity of people and the environment. All forms of harassment, bullying and sexual misconduct are unacceptable.

- **"Ethics and respect" is a guiding principle for the promotion of diversity and work life balance which are considered valuable assets.**
  UniCredit colleagues are expected to assure a workplace where all kinds of diversity (e.g. age, race, nationality, political opinions, religion, gender, sexual orientation) are not only respected, but also proactively promoted as well as to contribute to an environment in which respect for, and attention to, colleagues' needs, health, work-life balance and well being are deemed essential to achieving sustainable results.

- **"Ethics and respect" is a guiding principle underpinning the reinforcement of a "Speak-up culture" and anti-retaliation protection.**
  UniCredit is firmly committed to promoting an environment in which colleagues and third parties feel comfortable engaging in open and honest communication. UniCredit encourages colleagues and third parties to speak up and raise promptly good-faith concerns without fear of retaliation relating to any situation that may involve unethical or illegal conduct or inappropriate interactions with others.

The Principles will be consistently enforced at all levels throughout the Group, starting with a proper and focused communication to all employees. Management sets the "*Tone from the Top*", is held to account and holds others to account for working in alignment with the Principles, for their own behavior or for any decision to be taken. Management will accordingly reward outstanding behaviors and enforce the Principles in cases of failure to respect them and related policies as well as requirements that flow from them.

1. Which substitute the former group values.

# Content

# Financial highlights

## UniCredit Group Hungary – IFRS consolidated

### Profit figures

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Operating result | 60,953 | 56,344 |
| Profit before taxes | 61,504 | 56,532 |
| **Profit after taxes** | **56,093** | **51,099** |

### Balance Sheet figures

(HUF million))

| | 2018 | 2017 |
|---|---|---|
| **Balance Sheet Total** | **3,054,948** | **2,746,775** |
| Loans and Advances to customers (net) | 1,401,732 | 1,204,959 |
| Deposits from customers | 1,893,176 | 1,643,826 |
| Shareholder Funds | 349,712 | 338,844 |

### Indicators

| | 2018 | 2017 |
|---|---|---|
| Return on Equity before taxes | 17.86% | 17.72% |
| Return on Equity after taxes | 16.29% | 16.02% |
| Return on Average Assets (ROA) before taxes | 2.12% | 2.06% |
| Return on Average Assets (ROA) after taxes | 1.93% | 1.86% |
| Cost Income Ratio* | 52.11% | 51.70% |
| Net fee income in percentage of Total Operating Income | 35.28% | 34.50% |

### Indicators prescribed by NBH

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Regulatory Capital | 301,343 | 289,676 |
| Risk Weigthed Assets | 1,491,638 | 1,223,927 |
| **Total Capital Ratios** | **20.20%** | **23.67%** |

### Other figures

| | 2018 | 2017 |
|---|---|---|
| **Headcount (FTE)** | **1,748** | **1,756** |
| Number of locations | 57 | 56 |
| Number of branches | 55 | 54 |

* Based on standard of Consolidated Financial Statement

# Management report

## Macroeconomic environment and the banking sector in 2018

### International economic and financial environment

Global economic output continued to improve in 2018, with global GDP growth of 3.6 percent in which foreign trade was a significant factor following an especially dynamic two years. Intensifying protectionism on a global level constituted the greatest challenge and risk last year and the various trade restrictions and import tariffs exerted a major influence on business confidence indicator trends throughout the year.

In another important development, growth was less aligned across the large national economies in 2018 following a year of overall equilibrium in 2017. The performance of advanced economies stabilized in general, whereas the performance of emerging countries accelerated further. Differentiation characterized both entire groups of countries and the individual economies within such categories. For example, while economic growth was up 2.9 percent in the United States it decreased to 1.8 percent in the euro area last year.

The current growth cycle of the USA, lasting since 2010, is expected to be the longest economic boom of all times before a probable correction will take place around 2020. Operating with a closed output gap and full employment, the American economy is already in the late stage of the business cycle. The natural deceleration inherent in cyclical processes was, however, not simply postponed by a badly timed fiscal stimulus via tax cuts last year; but this gave a further boost to the economy. The overheating generated by the additional demand greatly increases the likelihood of a major correction over the next year or two. In any case, the Fed continued monetary tightening in 2018 in response to the favourable real economic figures, a low rate of unemployment and accelerating inflation. As a result, the US base rate stood at 2.50 percent at the end of the year, following four rate rises.

In contrast to the American economy, the dynamism of the euro area deflated considerably last year. GDP growth fell from 2.4 percent in 2017 to 1.8 percent. And while there are one-off and temporary factors behind this deteriorating dynamics, some fundamentals also played a significant role in this deceleration of growth. For example, favourable financial conditions and global trade had a much lower impact in boosting growth than in 2017. The USA's protectionist trade policy is exerting a negative influence on global trade and the ongoing trade tensions are increasing uncertainty, which is weakening European business confidence even if the recently imposed American tariffs apply to only a modest proportion of European Union products. The changes in oil prices and exchange rates last year had an undoubtedly negative impact on the performance of the real economy in the euro area. As expressed in euros, oil prices rose by approximately 80 percent in the past year and a half, which has considerably damaged the real income of households and the profitability of companies. In view of weakening performance in the real economy and a rate of inflation that has remained below the 2 percent target, the monetary policy of the European Central Bank (ECB) was characterized by caution last year. Although the ECB continued to phase out its asset purchase programme, it did not raise interest rates, as predicted.

### Domestic macroeconomic developments

In 2018 the performance of Hungarian economy achieved its peak within the economic cycle; the growth rate of the performance of real economy exceeding 4.9 percent has been unprecedented since the middle of the 2000s. This also means, however, that the GDP growth rate is likely to fall from this point onwards, both as a result of cyclical processes and the global outlook.

Overall, the structure of this growth has been balanced, even though its main driving forces were domestic demand and the services sector profiting most from this demand, due to the weakening external boom and the intensifying risks. Thus it was the sustained boom in household consumption and capital investments that contributed the most to the outstanding rate of GDP growth.

Capital investment volumes grew by 16.5 percent in 2018, with contributions from the state as well as the private sectors. This is attributable to the fact that pre-financing by the state allowed the real economic impacts of EU funding to shape investment figures largely in 2017 and 2018, even though the actual funds inflows were low for a large part of the year, with higher sums received from the EU only towards the end of the year. The property market boom also continued in 2018. Although supply struggled to match demand in spite of the new projects, prices continued to rise on the housing market, in which the rise in labour and material costs were also a factor. The corporate segment also exhibited significant investment activity last year, as new capacity expansion projects were launched regularly in addition to the ongoing ones.

Good consumer confidence was underpinned by the general cyclical processes as well as the wage dynamics. It should be noted, however, that there are no signs of overheating in spite of the GDP growth of around 5 percent, because household consumption continues to remain below the long-term trend as well as the level justified by real wages. The double-digit growth in gross wages over the last two years is mostly attributable to the tight conditions on the labour market. Acute labour shortages continued to intensify last year, without any substantive solutions to the problem. With a tighter labour supply and further intensification in economic activity, the key labour market indicators reached new heights: employment rose to 4.5 million, while unemployment fell to 3.6 percent.

# Management report (Continued)

The HUF exchange rate was relatively stable in the first half of the year, as it remained around HUF 310 with minimal volatility. The subsequent market turbulence in the spring and the global capital flight from emerging markets hurt the HUF exchange rate too, which weakened to the historic low of HUF 330 in July. Market sentiment subsequently improved, and the National Bank of Hungary gave a verbal reaction to these processes. But as monetary conditions did not change overall, the HUF exchange rate was unable to return to its prior levels and the currency has been traded in a band between HUF 320 and HUF 325 since the summer. Although the macroeconomic fundamentals support the forint, gradually increasing inflationary pressures, the annual average rate of inflation approaching the central bank's target of 3 percent and the global monetary trends towards tightening are increasing the pressure on the Hungarian monetary conditions, which are, for the time being, stable.

## The performance of the Hungarian banking sector in 2018

Besides the real economy, 2018 was a successful and stable year for the financial sector as well. Profitability was outstanding and lending processes solidified further. Actual figures indicate that the Hungarian banking sector reported HUF 537 billion in profit after tax in 2018. This also means that the profitability of the banking system may approximate its record performance in 2017.

In a less welcome development, which suggests the eventual necessary contraction in profits, profitability is still largely shaped by one-off factors as well as income items not inherently related to the operations of Hungarian banks, such as provisioning and net profits from portfolio sales on a seller's market. Last year, 7 percent of profit before taxes originated from the write-back and release of provisions and risk reserves. In another contributing factor, client performance improved in alignment with the economic cycle, while portfolio cleansing and the rise in new lending resulted in a contraction of non-performing portfolios. On the longer term, however, provisions are expected to normalize, in view of the economic cycle and the tighter requirements under IFRS 9. Traditional revenue items such as interest income did not shine: net interest income in the banking industry stagnated compared to the previous year, when excluding positive impact from one-off factors. In spite of the further increase in new lending in 2018, the intensifying price competition among market players further tightened margins in an environment of low interest rates.

The expenditures of the banking industry increased considerably last year. This is attributable partly to the considerable investments necessitated by digitalization. Personnel expenditures also rose significantly in the sector. The labour shortage characteristic of the entire country and in almost all sectors has entered the financial sector, so that the competition for human resources and the wage pressures in other sectors of the economy are making it essential to raise pay in the financial industry as well. On the longer term, however, digital solutions and more efficient operations may help reduce the ratio of operating costs to assets.

The correlation between GDP growth and rising loan volumes intensified further last year. This trend is likely to continue, and the weight of domestic bank financing is also increasing all the time. The favourable real economic environment, the persistent low interest rates and the borrowing appetite all contribute to the continued growth in lending. This has been especially manifested in new lending volumes. With a boom in home construction and the rise in consumer confidence, new lending rose by around 30 percent on the retail market last year. Corporate borrowing increased by 15 percent, underpinned by government programmes as well as strong investment activity. In spite of these favourable trends, however, the deleveraging in prior years, the settlement of currency-denominated loans and the impact of write-offs and portfolio disposals are clearly reflected in the loan to GDP ratio, which is among the lowest in Hungary compared to Central and Eastern Europe. For this reason, further significant rises in lending would be possible without generating a credit bubble.

## UniCredit Bank Hungary Zrt's performance and profits in 2018

2018 was the most successful year in the history of UniCredit Bank Hungary Zrt., characterized by outstanding profitability, a dynamic increase in customer volumes and a reduction in risk costs. In terms of size, the Bank has maintained its third place within the Hungarian banking industry.

Based on its consolidated balance sheet and profit & loss statement prepared in accordance with the International Financial Reporting Standards (IFRS), the balance sheet total of UniCredit Bank Hungary Zrt amounted to HUF 3,055 billion at the end of 2018, representing 11.2 percent growth year-on-year.

Based on its balance sheet total, the Bank's market share reached 8.3 percent in 2018.

Interest rates remained at the same levels in 2018, which tightened margins further as older contracts with higher margins matured. This was offset in part by programmes announced by the National Bank of Hungary and the further improvements in the quality of the loan portfolio. This contributed to the fact that UniCredit Bank Hungary Zrt's consolidated profit after taxes exceeded HUF 56 billion, which is the best performance within the last 28 years. The Bank's Return on Equity (ROE) rose to 16.3 percent, while its cost/income ratio was

# Management report (Continued)

52.1 percent in 2018, due primarily to the labour market situation and the tax impacts of the rising transaction volumes (financial transaction tax).

Due to the aforementioned MNB programmes and the dynamically growing loan and deposit portfolios net interest income increased significantly and it was 9.7 percent higher in 2018 than a year ago. Net loan volumes rose by 16.3 percent and the deposit portfolio grew by 15.2 percent in the past year. Fee income increased by 5.2 percent, mostly as a result of higher transaction volumes, and the Bank's trading profit rose by 6.5 percent.

The Bank continually monitors the changes in its business environment and its clients' needs and it adjusts its business model accordingly. As a result, the Bank continued to focus on digital banking in 2018, and combined this with a series of developments aimed at providing a positive customer experience. Digital signatures and online queue management at its branches are examples of the solutions. The online banking system (eBanking) was also placed on a new foundations.

Allocation of loan loss provision were fully offset by released impairment on loans recategorized as performing, so that risk costs had an overall positive impact on profits in 2018.

As a result of the aforementioned changes in the client volumes, UniCredit Bank Hungary Zrt's net loan to deposit ratio was 68,6 percent at the end of 2018.

As of the end of 2018, UniCredit Bank was serving approximately 400,000 clients in its nationwide branch network of 55 units.

## Corporate Social Responsibility

In 2018 UniCredit Bank Hungary Zrt. continued in its commitment to support the development of society and the economy. It reaffirmed its commitment to corporate social responsibility and, in accordance with its long-term strategy, it supported child healthcare and greater equality for the disadvantaged groups of society. It carried on with its work in culture and the development of financial culture, and also sought to have a positive impact on its wider environment through its environmental initiatives.

In April the Bank selected the winners of its social innovation programme "Step with us!", now announced for the third time. Three organizations were granted non-refundable donations for a total of fifty five thousand euros. The Bank awarded non-profit organizations that offer long-term sustainable and innovating solutions with a commercial element to alleviate the problems of disadvantaged communities. In addition to the financial award, the winners (the UCCU Roma Information Education Non-Profit Foundation, the Social Cooperative for the Countryside and the Pearl Foundation) were offered professional mentoring throughout the calendar year to help them achieve their goals.

Improving children's health played an important role in the Bank's activities. Due to the support provided by the bank the neonatology and infant class of Péterfy Sándor Street Hospital received a special blue-light therapy device, which ensures the baby-friendly intensive care of neonates suffering from abnormal jaundice. On the occasion of the reopening of the renewed branches -St. Stephen's Road and Shopmark – the foundations of Bethesda Hospital and the Children's Hospital of Madarász Street were able to expand their therapy devices from the support of the bank. Health also played a role in the case of adults' healthcare as the bank supported the goal of the Movember Foundation, the Foundation for Men's Health Care, in autumn.

With the cooperation of the employees of the bank, via sports activities at the Family and Sports Day of UniCredit where Bátor Tábor and the SUHANJ! Foundations were invited, collected one million forints for the two organizations. By the end of the year, thanks to the bank, another ten non-profit organizations operating in a wide range of fields were supported with a total of seventeen million forints to achieve their goals.

Following a selection process lasting several months, UniCredit Bank announced in the spring the winners of the "Leave Your Mark" initiative, in which talents with outstanding achievements in their fields were selected. The winners of the talent patronage programme were pianist Dániel Villányi, animation director and artist Éva Magyarósi and winemaker Bálint Losonci, who produced enduring creations in art, music and gastronomy. The Bank granted three million forints per category to help them implement their plans.

We continue to ascribe great importance to improving the financial awareness of future generations and developing financial culture. To this end, in 2018 our colleagues took part again as volunteer finance experts in the Pénz7 scheme launched in 2015 under the guidance of the Ministry of Human Capacities, which is the Hungarian event in a Europe-wide programme series and aims to supply primary and secondary school students with practical information to expand their financial knowledge.

The Bank considers it important to implement environmental awareness as a company and to focus on sustainable operations. To this end, it joined WWF's global initiative Earth Hour for the 11th time, switching off the lights at its head office for an hour; as a participant, it too was able to highlight the dangers of climate change.

# Strengthen and optimise capital.

We will maintain a strong capital position by generating solid profit. We confirm our MDA buffer. The Group fared well in the EBA stress test results, with the third highest CET1 ratio among systemic banks in the Eurozone.

# Report on the divisions

## Corporate and Investment Banking and Private Banking Division

2018 has been one of the most challenging yet most successful years in the history of the Corporate, Investment Banking and Private Banking Division. In terms of both profits and revenue, the division continues to serve as the most significant segment of the Bank. This is attributable partly to the continued low costs of risk and tight cost control, as well as to the fact that the division responded with flexibility to the challenges of a market that changed even more markedly in 2018 than before. Of these challenges, special mention must be made of the extremely low forint interest rates, and the negative interest rates of currencies relevant for the Hungarian economy.

The division's outstanding revenue is due mostly to the significant growth in its lending and deposit portfolios in 2018, despite an unfavourable interest rate environment. As a result, we have maintained our positions even on a quickly expanding market (at 2018 year-end, our share was 12.9 percent in corporate lending and 12.7 percent in deposits); in fact, our share figures rose to record heights temporarily during the year (13.5 percent in the lending market in September and 13.3 percent in the deposit market in November). The welcome changes in lending volume were attributable mainly to the facts that the division was able to provide solid financing to medium-sized domestic and foreign owned companies (as one of the top lenders in this segment), played an active role in all the major structured financing deals and responded with flexibility to the intra-year volatility of the significant financing deals of multinational corporations and state-owned partners. The Market-Based Lending Scheme of the National Bank of Hungary played a central role in lending to small and medium-sized enterprises and our Bank succeeded in taking advantage of the opportunities it offered. The same applies to the Hungarian Export-Import Bank Plc's (EXIM) Exporters of the Future Credit Programme to Improve Competiveness.

But it is not only our profit indicators that make our Bank one the most successful corporate banks in Hungary. 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, UniCredit's high standard of services were recognized again by the outstanding result it achieved among the corporate and investment banks active on the Hungarian market in 2018. In 2018 UniCredit Bank Hungary Zrt. won the "Financing" category of the Portfolio Property Awards at the Portfolio Property Investment Forum and was named "Finance Provider of the Year". UniCredit Bank Hungary Zrt. also received the title "Trade Finance Market Leader in Hungary" in Euromoney's Trade Finance survey in 2018. UniCredit Bank Hungary Zrt. also beat all other Hungarian banks to win the "Best Services" category.

Our company's five fundamentals are the safeguards for our success, which is grounded in the expertise and experience of our colleagues and our comprehensive range of sophisticated services. As in previous years, we continued in 2018 to pay special attention to the quality of the services we provide to clients, and carried out development in several information systems to satisfy special client needs.

In structured financing, 2018 proved to be another eventful year of challenges and successes. In spite of intensifying market competition and further contraction in lending margins, the division was able to strengthen its relationship with customers by offering them customized structured finance solutions that were ideally matched to their needs and often involved an international dimension. Among other things, our role as banking coordinator or lending agent in high-profile transactions and our entry into new fields such as renewables enabled us again to strengthen our market leading position in 2018. In 2018 our portfolio of loans disbursed under structured finance arrangements grew by 41% and we also succeeded in maintaining the excellent quality and profitability of our loan portfolio.

Real Estate Finance achieved steep growth in both the loan portfolio and in revenues in 2018. The weight of construction projects grew further within the portfolio, and this may serve as a sound basis for sustainable growth in the future. We have similar prospects for 2019. We are proud to have played an important financing role in major transactions such as development phases "B" and "D" in the BudaPart Homes project, the Etele Plaza project being implemented by Futureal Group, the Budapest One office development project and the complex investment project of Horizon Group in Szervita Square. Projects financed by us have recently been awarded several prizes as a token of recognition by the real estate profession, and we are proud to have taken part in these projects as the main or sole financing partner. In retail, the Bank has also achieved significant growth in the financing of residential properties – an engagement we intend to continue both through own funded projects and by lending to the customers of other projects. With the decrease in the proportion of non-performing loans, the quality of our real estate portfolio continued to improve significantly in 2018.

European Union development funds provided stimulus for public and private sector investment in 2018 too, as subsidy recipients continued implementing their development projects. By the end of 2018 the participating authority had adopted its subsidy decisions regarding the entire assistance framework in the SME competiveness programme, which offers banks the highest business potential in terms of pre- and co-financing. In addition to the above, large payments were also disbursed.

The Bank's European Competence Centre regularly monitors the calls for applications for European Union and Hungarian funds and the related announcements, and it provided professional financial advisory services to clients in order to help them access these Union and national funds. We always strive to find the financing structure

# Report on the divisions (Continued)

best suited to the particular development strategy in order to provide our customers with solutions.

At the end of 2016, representatives of the European Investment Fund (EIF) and UniCredit InnovFin signed an SME guarantee agreement covering eight countries including Hungary. This guarantee facility 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. The InnovFin SME guarantee facility offers guarantees for loans between EUR 25,000 and EUR 7.5 million. In 2018 we increased the facility at the Bank's disposal to EUR 95 million. We have made major headway in the utilization of the facility, enabling us to help innovative small and medium-sized enterprises (SMEs) and small mid-caps access financing.

We continued to treat agribusiness financing as an area of strategic importance in 2018 too. There is significant growth potential inherent in this industry, especially as regards investments in future technologies and the potential market consolidation at some later date. Our partners are stable, well-capitalized small and medium-sized companies and large corporations. Our Bank's agribusiness financing is dominated by special solutions tailored to individual clients while also taking into consideration sector-specific factors.

In 2018 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 increase its client base. This is clearly evidenced by the significant increase in payments and sight deposits.

As a result of our reliable service level and high-quality client service, additional acceptance locations were deployed. Our market share also continued to rise: by the end of the year, about 6,000 POS terminals were operating in our network. Online retail sales volumes increased further in 2018. This also greatly boosted online card transactions, as demonstrated by our Bank's rising vPOS turnover figures. Based on customer feedback, we continuously improve the quality of our services and expand our product range. To this end, we launched a number of development projects in the second half of 2018 and expect to complete them in 2019. We are confident that the new features we plan to introduce will be to our customers' satisfaction.

UniCredit Bank Hungary Zrt's Trade Finance organization closed another successful year in 2018. Within the trade finance portfolio, guarantees exhibited a significant rate of growth. The awards received at Euromoney's Trade Finance survey serve as 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 was able to increase its share in the expanding Hungarian market in 2018. As in prior years, our Bank was able to maintain its prestigious second place in terms of turnover.

2018 was an exceptionally profitable year for Global Securities Services (GSS) of UniCredit Bank Hungary Zrt. The business line reinforced its position, retained its role as market leader and expanded its client base even further. Thanks to its stable client base, the portfolio of securities in custody increased compared to prior years. Revenues generated by the division also exceeded the results of earlier years. GSS's good results demonstrate that it provides its clients with high-quality custody services, which are sustainable on the long term. 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 the changes on the capital market. It pays special attention to keeping clients satisfied, to operating with a focus on customers and to comply with legislative requirements.

We reorganized our CFA activity in 2018 and expect to see positive impacts from this change in 2019.

Corporate treasury closed a very successful year in 2018, revenues were up 17 percent compared to the year before. The forint exchange rate against the euro weakened from HUF 310 to HUF 330 in the middle of the year. This shift on an otherwise stable market created good opportunities for our exporter customers to hedge their euro-denominated revenues. We actively reached out to our customers about fixing their interest exposures on the long term, and this generated a large number of interest swap contracts, especially on the expanding property market. With our product range widened, the increase in our commodity hedging sales was also outstanding (+13 percent turnover yoy). Currency deals represented the largest volume in the transactions with our customers. At personal consultations and customer events over the past year, we helped clients manage the volatility on the markets and explained how they can reduce their market exposures and thus increase the shareholder value of their companies.

Interest rate and currency products dominated our Bank's trading operations in 2018 too. Market volatility increased significantly in 2018, which necessitated a change in our trading strategy. Our Bank remains a market leader in interbank currency trading. The key goals of our trading area are to maintain a wide-ranging presence on the interbank market and to assume the hedging risks of our clients.

UniCredit Private Banking closed an especially successful business year in 2018. As of the end of the year, we managed over HUF 240 billion in savings for more than 1,500 Private Banking clients. 2018 proved to be a difficult year for investors, due mostly to geopolitical tensions and market adjustments. UniCredit's global investment strategy continued to play a leading role in long-term savings; our consultants advised the Bank's clients in their financial decisions in line with the strategy. Increasing its Private Banking team from 10 to 13 advisors, the Bank made further strategic investments. As a result, competitor figures published in the financial press now show that UniCredit Private Banking became the fastest growing private bank in terms of client base as well as assets under management in Hungary in 2018.

UniCredit Leasing Group, which is owned by UniCredit Bank Hungary Zrt., maintained its fourth place on the market and increased its market share to 8.2 percent in 2018. This growth focused on financing for passenger and light commercial vehicles, large commercial vehicles and construction industry machinery and equipment, but agroindustry machinery and 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 2018, UniCredit Bank Hungary Zrt's Retail and Small Business Division continued to pay particular attention to flexibly adapting to market changes and to increasing the satisfaction of its customers 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. Apart from client acquisition, our Bank pays particular attention to client retention. By continuously updating our product range, we strive to satisfy client needs as fully as possible in the fields of daily banking transactions, savings, investments and mortgage lending. The success of our efforts is confirmed by a steady annual increase in the number of retail customers whose income is regularly transferred to their UniCredit bank accounts, while a large number of small business customers also consider UniCredit Bank Hungary Zrt. as their primary bank.

In accordance with its internal guidelines, the Division paid particular and continuous attention to the improvement of service quality, the training and professional support of branch network personnel and to the development of sales, and as a result, it achieved a high degree of client satisfaction. Customer 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 in our branches, our clients were very satisfied, year after year, 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 customers also expressed great satisfaction with the helpfulness of our advisors and the atmosphere of our branches.

The surveys found that our customers' willingness to recommend our Bank is consistently 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 over 342,000 clients, including 47,000 small businesses.

The Division held a loan portfolio of HUF 272 billion in 2018, representing a 4.2 percent share of the retail lending market as of the end of 2018. This represented a growth by 28 bps over 2017. Dynamism was especially high in retail mortgage loans, of which HUF 61.7 billion were disbursed during the year, representing an increase of over 52 percent compared to 2017. Based on the disbursement figures of 2018, the Bank achieved a share of over 7% in the market of mortgage loans. Intermediary channels continued to make an important contribution to this result.

A number of positive changes took effect in mortgage loan products in 2018, enabling our Bank to further improve its competitiveness across the entire retail segment. The Bank reviewed its mortgage loan product range several times and, as a result, introduced its qualified consumer-friendly housing loan product with a 10-year interest period in May 2018 and, in September 2018, it launched a new mortgage loan product with a fixed interest rate throughout the term. In the latter arrangement, the Bank is able to offer customers fixed-rate products for any term in the range between 5 to 20 years.

In 2018 small business lending grew by 10 percent, which was attributable mostly to our current account overdraft products. In response to customer needs, we have replaced our Automatic Credit Extra overdraft facility product with a new overdraft facility product called "Progressive". In contrast to the old product, this new product has a term of three years rather than one, which will help reduce the administrative burdens of our customers.

In 2018, the Retail and Small Businesses Division added approximately HUF 71 billion in new savings, closing the year at HUF 970 billion. The growing number of active small business clients and individuals with income transferred to their accounts made a major contribution to the 21% increase in the portfolio of sight deposits.

The Bank's market share rose by 18 basis points to 5.02 percent in the deposits and securities held by private individuals, primarily due to the 47 bps rise in government securities.

Mindful of the significant changes in client needs and habits, we pay particular attention to the development of client-focused digital solutions, whereby we create value for our clients. The bank revised its website in 2018. This included the further optimization of the appearance of the communication screens of its website on mobile devices and enhancing website navigation when accessed from a mobile device. Partly thanks to the above, the unicreditbank.hu website had 1,611,968 visitors in 2018. 35.7 percent more inquiries were submitted in 2018 than in 2017. As the website is built flexibly and adjusts to the size and resolution of the device used for displaying it, 38.9 percent of all client inquiries were submitted from mobile devices.

Over 90% 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 81 percent, while the implementation of the eBanking system also contributed to this fact.

80 percent of all clients opted for convenient banking from home using internet banking, which is available day and night. By the end of the last quarter of 2018, the Bank continued to implement its new internet banking (eBanking) service for individual customers. As of the end of 2018, 217,000 customers received authorization to use the new eBanking system.

In line with its Mobile First strategy, the Bank worked on enhancing its Mobile Banking application. It did so by prioritizing customer focus and the development of financial culture in the client base. The Bank offers the following features to customers after they log in: use the application to activate their new or renewed debit cards, set up new standing orders and manage their 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 implementation of cardless ATM cash withdrawals using the mobile application (mCash) was started in the last months of 2018; this solution is innovative on the Hungarian market. Almost 70,000 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 is continuously increasing the number of ATMs suitable for cash deposits. This convenience function was available at 83 ATMs at the end of 2018. 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 2017, 66 percent of our clients used this service.

# Report on the divisions (Continued)

## Human Resources

### Strategy and participation

The HR department supports the Group 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 2018 the HR department initiated a new service model 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.

### 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 labour, compensation, training, development and selection as well as recruitment.

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.

In 2018, the Bank hired 281 new employees. Through internal transfers and promotions, 12 colleagues worked in international positions in UniCredit Group. 63 colleagues returned to the Bank from maternity leave. Annual bank-wide voluntary turnover was 13.3 percent.

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. The 2017 survey was characterized by high level of participation since 85 per cent of employees expressed their opinion; and the engagement index was 78 per cent. In 2018, the Bank launched a company-wide action plan to raise this figure . One of the main initiatives was the "Management on Tour" project that created a new channel of direct communication and feedback forum for the employees. Altogether, the top management visited 78 units (covering the whole Bank) and spent approximately 160 hours with discussing issues and gathering insight from the colleagues.

### Training and development, succession management

The HR department continues to support the regular training of employees, contributes to keeping their knowledge up-to-date, 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 2018 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, we established a new position called Talent Account with the responsibility to stimulate the transformation of colleagues to a talent organization, contribute to succession pipeline, enhance cross-divisional and international moves, strengthen our employer brand, recruitment strategy and onboarding procedures.

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.

Leadership training is just as important as the retention and training of employees who regularly perform at a high quality. UniCredit Bank Hungary Zrt. launched its year-long leadership development program in 2017; the scheme focuses on managers placed in that position for the first time in their careers. The program was finished in 2018, with high satisfaction and impact. We continue the first time manager program 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 added one new course to its portfolio in 2018.

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.

## Equal opportunity

Since Hungary joined the international Gender Balance Initiative, we, too, adopted 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.

The Bank remains committed to ensuring that the organization employ people with the right qualities. In order to do so, it improves the efficiency of its recruitment and selection activities and lays special emphasis on the continued development of colleagues and the creation of an inspiring workplace environment where colleagues can find all the support they need for their personal and professional development. We continue to support the organization in its management initiatives that are mainly connected to the redesign of the new headquarter and new work culture that comes with it.

## What to expect in 2019?

The 2019 HR strategy is shaped by continued strong management support covering strategic workforce planning, the development of participants in the management program, progress in internal client satisfaction, reinforced employee commitment and cost-aware behavior by the use of additional innovative solutions related to digitalization in order to ensure the enhanced efficiency and long-term sustainability of operations.

# Improve asset quality.

We are continuing to improve our asset quality by de-risking our balance sheet, fully on track for the accelerated rundown of our Non Core portfolio by 2021. A disciplined risk management approach guarantees high quality origination across the Group.

# 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 since 2008 some of its support activities (such as banking administration, human resources, IT, accounting etc.) to UniCredit Bank Hungary Zrt.

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 and refinancing activities 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 offering programmes, in the context of which 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 depends 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.

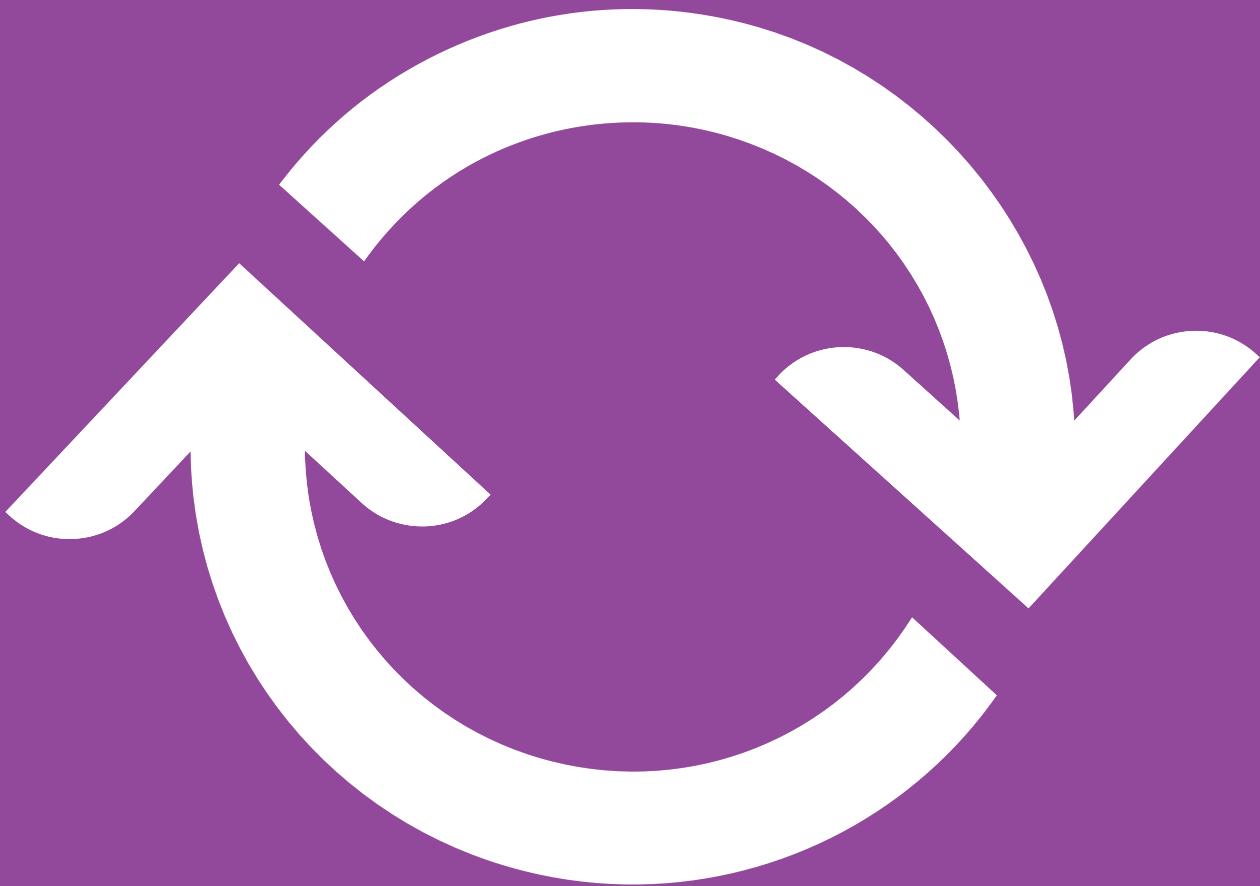
In November 2017 UniCredit Jelzálogbank Zrt. signed a joint and several guarantee agreement with UniCredit Bank Hungary Zrt. regarding the payment obligations relating to securities of the former.

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.

On 15 January 2018 UniCredit Jelzálogbank Zrt. announced its intention to join the Mortgage Bond Purchase Programme of the National Bank of Hungary, which applies to the market of mortgage bonds issued in Hungary and comprises purchases on the primary and secondary markets. In 2018 the MNB 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 220.13 billion balance sheet total and HUF 657 billion profit after taxes as at the end of the fiscal year 2018.

# Transform operating model.



We are leveraging on digitalisation to transform our operating model. We are ahead of schedule, with an improved cost reduction. The optimisation of the cost base will remain important to ensure our Group’s efficiency and effectiveness.

# Independent Auditor's report

**Deloitte.**

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Adószám: 10443785-2-42
Közösségi adószám: HU10443785

## 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 28 to 86 in the annual report for 2018 of UniCredit Bank Hungary Zrt. (the "Bank"), which comprise the summary consolidated statement of financial position as at December 31, 2018, 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. 2018.

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 2018.

***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 2018. The summary consolidated financial statements and the audited consolidated financial statements for 2018 do not reflect the effect of the events occurred subsequent to the date of our report on the consolidated financial statements.

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

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated February 5, 2019. 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 2018.

***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 2018 in accordance with relevant information included in the audited consolidated financial statements.

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

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements for 2018 based on our procedures which were conducted in accordance with National Standard on Auditing 810 "Engagements to Report on Summary Financial Statements".

Budapest, July 12, 2019

.......................................................................

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

# Banking that matters.

We are dedicated to creating tangible value for all our clients, employees and stakeholders by providing real solutions to real needs. Everything we do is grounded on ethics and respect.

# Financial statements

## Consolidated statement of financial position (Balance Sheet) – 31 December 2018

### Assets

| | | 2018 | 2017 |
|---|---|---|---|
| | NOTE | HUF MILLION | HUF MILLION |
| Cash and unrestricted nostros with Central Bank | 15 | 20,362 | 21,655 |
| Financial assets held for trading | 16 | 26,024 | 51,906 |
| Trading derivative assets | 16 | 50,702 | 60,689 |
| Hedging derivative assets | 17 | 33,403 | 44,395 |
| Placements with, and loans and advances to banks | 18 | 645,060 | 607,456 |
| Loans and advances to customers | 19 | 1,401,732 | 1,204,959 |
| Investment securities | 20 | 814,565 | 704,498 |
| Equity investments | 21 | 685 | – |
| Investment properties | 22 | 10,820 | 10,330 |
| Property, plant and equipment | 24 | 21,117 | 20,645 |
| Intangible assets | 25 | 10,796 | 6,806 |
| Deferred tax assets | 14 | 122 | 128 |
| Other assets | 26 | 19,560 | 13,308 |
| **Total assets** | | **3,054,948** | **2,746,775** |

### Liabilities

| | | 2018 | 2017 |
|---|---|---|---|
| | NOTE | HUF MILLION | HUF MILLION |
| Deposits and loans from banks | 27 | 544,508 | 555,151 |
| Deposits from customers | 28 | 1,893,176 | 1,643,826 |
| Issued bonds | 29 | 150,547 | 78,225 |
| Financial liabilities held for trading | | – | – |
| Trading derivative liabilities | 16 | 57,201 | 65,425 |
| Hedging derivative liabilites | 17 | 18,811 | 32,011 |
| Other provisions | 34 | 3,475 | 4,156 |
| Deferred tax liability | 14 | 1,562 | 3,157 |
| Other liabilities | 30 | 35,618 | 25,788 |
| Subordinated capital | | – | – |
| **Total liabilities** | | **2,704,898** | **2,407,739** |

### Equity

| | | 2018 | 2017 |
|---|---|---|---|
| | NOTE | HUF MILLION | HUF MILLION |
| Share capital | 31 | 24,118 | 24,118 |
| Capital reserve | | 3,900 | 3,900 |
| Retained earnings | | 195,845 | 181,629 |
| Statutory reserves | 32 | 44,640 | 38,707 |
| Other reserves | | – | – |
| Valuation reserves | | 25,116 | 39,399 |
| **Net profit for the year** | | **56,071** | **51,091** |
| **Total Equity attributable to the equity holder of the Bank** | | **349,690** | **338,844** |
| Minority interest | | 360 | 192 |
| **Total Equity** | | **350,050** | **339,036** |

| | | | |
|---|---|---|---|
| **Total Liabilities and Equity** | | **3,054,948** | **2,746,775** |

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

# Financial statements (Continued)

## Consolidated Income Statement – 31 December 2018

| | | 2018 | 2017 |
|---|---|---|---|
| | NOTE | HUF MILLION | HUF MILLION |
| Interest and similar income | 6 | 84,755 | 79,863 |
| Interest expense and similar charges | 6 | (20,774) | (21,552) |
| **Net interest income** | **6** | **63,981** | **58,311** |
| Fee and commission income | 7 | 52,713 | 50,572 |
| Fee and commission expense | 7 | (8,991) | (9,000) |
| **Net fee and commission income** | **7** | **43,722** | **41,572** |
| Dividend income | 8 | 188 | 187 |
| Net trading income | 9 | (1,962) | (576) |
| Net gain and loss on other financial intruments | 10 | 2,607 | 755 |
| Net gain and loss on foreign exchange | 9 | 14,371 | 13,926 |
| **Operating income** | | **122,907** | **114,175** |
| Impairment and losses on credit products | 44 | 2,026 | (317) |
| **Net financial activity result** | | **124,933** | **113,858** |
| | | | |
| Personnel expenses | 11 | (19,411) | (18,646) |
| General operating expenses | 12 | (43,676) | (42,460) |
| Other provision | 33 | (419) | (1,536) |
| Depreciation on property, plant and equipments | 24 | (1,029) | (921) |
| Amortization and impairment on intangible assets | 25 | (471) | (270) |
| **Operating costs** | | **(65,006)** | **(63,833)** |
| | | | |
| Other income | 13 | 1,026 | 6,319 |
| **Other results** | | **1,026** | **6,319** |
| | | | |
| Gain / (losses) on disposal of fixed assets and other assets | | 48 | 54 |
| Gain / (losses) on investment properties | | 503 | 134 |
| | | | |
| **Profit before tax** | | **61,504** | **56,532** |
| Income tax expense | 14 | (5,411) | (5,433) |
| **Net profit for the year** | | **56,093** | **51,099** |
| | | | |
| **Attributable to:** | | | |
| Shareholder of the Group | | 56,071 | 51,091 |
| Minority interests | | 22 | 8 |

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

## Consolidated statement of comprehensive income – 31 December 2018

(HUF million)

| | NOTE | 2018 | 2017 |
|---|---|---|---|
| **Net profit for the year** | | **56,093** | **51,099** |
| **Other comprehensive results that will be subsequently reclassified to profit or loss:** | | | |
| IFRS 9 transition | | 420 | – |
| Movement in fair value reserve of financial instruments measured at fair value through other comprehensive income | | (10,628) | 10,498 |
| Deferred income tax on movement of fair value reserve of financial instruments measured at fair value through other comprehensive income | 14 | 910 | (944) |
| **Net movement in fair value reserves** | | **(9,718)** | **9,554** |
| | | | |
| Movement in cash flow hedge reserves | | (5,478) | 1,149 |
| Income tax on movement in cash flow hedge reserves | 14 | 493 | (103) |
| **Net change in cash flow hedge reserves** | | **(4,985)** | **1,046** |
| | | | |
| **Total comprehensive income for the year** | | **41,390** | **61,699** |

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

## Consolidated statement of changes in Shareholder's equity – 31 December 2018

(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 | | | | |
| **Balance as at 1 January 2017** | **24,118** | **3,900** | **154,880** | **33,771** | **10,548** | **18,251** | **53,685** | **299,153** | **173** | **299,326** |
| | | | | | | | | | | |
| Net profit for the previous year | – | – | 53,685 | – | – | – | (53,685) | – | – | – |
| Total comprehensive income for the year | – | – | – | – | 9,554 | 1,046 | 51,091 | 61,691 | 8 | 61,697 |
| Dividend to equity holder | – | – | (22,000) | – | – | – | – | (22,000) | – | (22,000) |
| Change of non-controlling interest | – | – | – | – | – | – | – | – | 11 | 11 |
| Business combination | – | – | – | – | – | – | – | – | – | – |
| Appropriations<br>Transfer to retained earnings | – | – | (4,936) | 4,936 | – | – | – | – | – | – |
| **Balance as at 31 December 2017** | **24,118** | **3,900** | **181,629** | **38,707** | **20,102** | **19,297** | **51,091** | **338,844** | **192** | **339,036** |
| | | | | | | | | | | |
| **Balance as at 1 January 2018** | **24,118** | **3,900** | **181,629** | **38,707** | **20,102** | **19,297** | **51,091** | **338,844** | **192** | **339,036** |
| IFRS 9 Transition adjustment | – | – | (5,443) | – | 420 | – | – | (5,023) | – | (5,023) |
| **Balance as at 1 January 2018 after IFRS 9 transition and merge adjustments** | **24,118** | **3,900** | **176,186** | **38,707** | **20,522** | **19,297** | **51,091** | **333,821** | **192** | **334,013** |
| 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<br>Transfer to retained earnings | – | – | (5,933) | 5,933 | – | – | – | – | – | – |
| **Balance as at 31 December 2018** | **24,118** | **3,900** | **195,845** | **44,640** | **10,804** | **14,312** | **56,071** | **349,690** | **360** | **350,050** |

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

# Consolidated statement of cash-flows – 31 December 2018

## Cash flows from operating activities

(HUF million)

| | NOTE | 2018 | 2017 |
|---|---|---|---|
| **Profit before tax** | | **61,504** | **56,532** |
| Items not involving movement of cash: | | | |
| Depreciation and amortisation | 24, 25 | 1,500 | 1,191 |
| Scrapped and transferred fixed assets | | – | – |
| Profit on disposal of property, plant and equipment | | (35) | (252) |
| Net impairment and losses in credit products | | (13,751) | (3,126) |
| Net loss/gain from cashflow hedging assets | | (7,686) | (5,038) |
| Unrealised changes in fair value of financial assets held for trading and investment securities | | (10,628) | – |
| Foreign exchange loss on subordinated loans | | – | – |
| Fair value change of investment properties | | – | (135) |
| Foreign exchange loss/ (gain) on investment properties | | (490) | (110) |
| Business combination | | (22) | (8) |
| Income tax paid | 14 | (5,411) | (5,433) |
| **Cash flows from operating profits before changes in operating assets and liabilities** | | **24,981** | **43,621** |
| | | | |
| Change in financial assets held for trading | | 35,869 | (36,317) |
| Change in current tax assets | | 24 | 1,059 |
| Change in other assets | | (6,251) | 2,788 |
| Change in asset held for sale | | (545) | 115 |
| Change in current tax liabilities | | (161) | 240 |
| Change in other liabilities | | 11,920 | 5,382 |
| Change in loans and advances to customers | | (180,923) | (84,444) |
| Change in deposits with other banks | | (37,494) | 189,700 |
| Change in deposits from customers | | 249,350 | 97,821 |
| Change in deposits from other banks | | (10,643) | (174,103) |
| Change in subordinated loans | | – | (21,218) |
| Change in financial liabilities held for trading | | (8,224) | (2,994) |
| **Net cash from operating activities** | | **52,922** | **(21,971)** |

## Cash-flows from investing activities

(HUF million)

| | NOTE | 2018 | 2017 |
|---|---|---|---|
| Proceeds on sale of property, plant and equipment | | 47 | 44 |
| Addition of property, plant and equipment | | (972) | (977) |
| Addition of intangible assets | | (4,457) | (3,276) |
| Change in equity investments | | (829) | – |
| Change in held-to-maturity investments | | (91,676) | 3 |
| Change in available-for-sale financial assets | | (28,299) | (44,731) |
| Change in investment properties | | – | 701 |
| Change in minority interest | | 168 | – |
| **Net cash used in investing activities** | | **(126,018)** | **(48,236)** |

## Cash-flows from financing activities

(HUF million)

| | NOTE | 2018 | 2017 |
|---|---|---|---|
| Change in issued bonds | | 72,322 | 55,057 |
| Dividend paid | | (25,500) | (22,000) |
| **Net cash from financing activities** | | **46,822** | **33,057** |
| | | | |
| **Net Increase in cash** | | **(1,293)** | **6,471** |
| Cash and cash equivalents at the beginning of the year | 15 | 21,655 | 15,184 |
| **Cash and cash equivalents at the end of the year** | **15** | **20,362** | **21,655** |

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 or guarantors, and deposit relationships. Such transactions are conducted under substantially the same terms and conditions as are applied to third parties, unless otherwise stated.

The statutory auditor of the 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.

These financial statements were approved by the Supervisory Board on 5 February 2019.

## 2. Basis of preparation

### a.) Statement of compliance

The consolidated financial statements have been prepared with possibility of 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

These 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.

These 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"). On 1 January 2018, Arany Pézügyi Lízing Zrt. and SAS Reál Kft. merged into UniCredit Bank Hungary Zrt.

## 3. Significant accounting policies

These 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 these 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 these 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, and income and expenses arising from intra-group transactions are eliminated in preparing these 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 IFRS 9 the comparatives for the year ended of 2017 are disclosed in accordance with IAS 39. This results in limited comparability between the comparatives and the current year figures in case of balances affected by the adoption of the new standard.

## d.) Cash and cash equivalents

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

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

## e.) Financial instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments, and in November 2016 the EU has adopted it. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group applies IFRS 9 from 1 January 2018. The Group has chosen the modified retrospective approach with respect to the adoption.

### *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.

# Notes to the financial statements (Continued)

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

The Group's limits about the value of sales that are not in connection with the increase in the assets' credit risk are as follows.

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 in line 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 costs:**
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. Such investments are 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 into this category which were not classified 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 and 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 qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating 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

# Notes to the financial statements (CONTINUED)

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

***Financial liabilities***

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

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

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

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

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

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

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

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

## g.) Equity investments

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

## h.) Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

## i.) Intangible assets

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

## j.) Depreciation and amortisation

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

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

## k.) Impairment on non-financial assets

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

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

## l.) Investment properties

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

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

# Notes to the financial statements (Continued)

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 micro economics, 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 asset at amortised costs.

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

The purchased or originated assets becomes credit-impaired ("POCI") at initial recognition. The initial recognition of POCI assets is that 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 costs 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

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.

### o.) Impairment and losses on credit products

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

### p.) Deposits from banks and customers

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

### q.) Issued bonds

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

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

# Notes to the financial statements (Continued)

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

## u.) Income

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

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

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

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

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

# Notes to the financial statements (Continued)

**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 liability 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.

## 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.

# Notes to the financial statements (Continued)

The Group separates the following main business segments:

- CIB (Corporate and Investment Banking)
  Includes the loans, deposits and other transactions and balances with corporate customers (excludes small enterprises) together with the results of trading activities and equity sales activities with customers.
  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.) New standards and interpretations

***The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2018***

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 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of separate financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for:

- leases within the scope of IAS 17 "Leases";
- financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments",
- IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures";
- insurance contracts within the scope of IFRS 4 "Insurance Contracts";
- and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers;
- contractual rights and obligations under other IFRS standards.

The income from services provided by the Group may be not or partially in the scope of IFRS 15, or partially in the scope of other standard.

In the Group the below items are in the scope of IFRS 15:
Net fee and commission income:

- consists of income from services, provided on a fee and commission basis

Other income:

- income from non-banking services

The Group applies IFRS 15 by level of deals, however the portfolio based approach can be applicable if the following conditions are met:

- the contracts includes the similar conditions,
- the contracts have similar features,
- does not influence significantly the reader.

# Notes to the financial statements (Continued)

The Group's income in the scope of IFRS 15 is not material.
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:
- 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).
- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).

The published standard, IFRS 16 "Leases", which is not in force as at 31 December 2018 and was not applied earlier by the Group.
It supersedes the current standard IAS 17 – Leases, interpretation IFRIC 4 – Determining Whether an Arrangement Contains a Lease,SIC 15 – Operating Leases – Incentives and SIC 27 – Evaluating the Substance of Transactions in the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.
Main changes introduced by the standard
The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lessees' lease agreements.
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. Usufruct rights 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 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 interest payments regarding the lease liability are classified according to the IAS 7 standard.

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.

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.

**Transition**
The lessee is required to use one of the following methods for the first time application of the standard:
- The full retrospective method
- The modified retrospective approach

The Group chooses 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.

# Notes to the financial statements (Continued)

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.

**Impact of IFRS 16 on the financial statements**

**IFRS 16 Project**

At the moment of preparation of these financial statements the Group had completed most of the work related to implementation of the new standard IFRS 16. The project to implement IFRS 16 (project), which was commenced in the third quarter of 2018, was performed in three stages:

Stage I – Analysis of contracts, data collection

During the analysis of all executed agreements the classification was made, whether it is a purchase of services, or a lease. The analysis covered all the relevant agreements dispite their current classification. Furthermore to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.
The Group presents the following types of right-of-use assets in the statement of financial position: branch, office, ATM machine. The average life of the lease (useful life of the presented right-of-use assets): 4, 8 and 2 years, respectively. The Group presents these assets on one financial statement line.

Stage II – Evaluation of contracts, Calculations

In accordance with the application of IFRS 16 an analysis was prepared, which included:
- The effect on the statement of financial position at the date of initial application (01/01/2019)
- The effect of lease agreements recognized and measured in accordance with IFRS 16 on the statement of financial position and on the statement of profit and loss (including the future effects).

Applying a sample calculation the value of the right-of-use assets, lease liabilities and deferred tax were determined.

Stage III – Implementation of IFRS 16 based on the developed concept, Developing accounting policy and disclosures

**Description of adjustments**

## a) 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. Interest rate applied by the Group: 1.85%

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 has a low value (less than EUR 5,000) 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.

## b) 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.

## c) 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.

## d) Application of practical expedients

### Classification of lease arrangements at the date of initial application

At the date of initial application the Group uses practical expedients, and do 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 contract, 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.

### Contracts with lease and non-lease components

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.

### Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-to-use assets was estimated on the basis of agreements in force at the Group as at 31 December 2018.

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

### Estimated financial impact

(HUF million)

| | 01.01.2019 |
|---|---|
| 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 | – |

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

# Notes to the financial statements (Continued)

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)

| | 01.01.2019 |
|---|---|
| Operating lease commitment at 31 December 2018 as disclosed in the financial statements | 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 |
| **Total discounted operating lease commitment** | **2,709** |
| Finance lease liabilities recognized as at 31 December 2018 | – |
| – Variable lease payments based on an index or a rate | – |
| – Residual value guarantees | – |
| **Lease liabilities recognized at 1 January 2019** | **2,709** |

***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).***

The Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates
The Group anticipates that the adoption of these standards and amendments to existing standards 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 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 IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (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 (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 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to References to the Conceptual Framework in IFRS Standards (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.

# 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.

The most significant business risks to which the Group is exposed are: credit risk, liquidity risk, market risk (includes interest rate 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) aself-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.

# Notes to the financial statements (Continued)

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

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

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

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

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

**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
- 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.

# 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 conservativism add-ons.
- PIT adjustments have to be considered as well.
- Considering all the available collateral.
- The discounted value based on the effective interest rate (EIR).

With respect to the modelling of the exposure at default (EAD), a differentiation Is made between products with and without contractual cash flows.
- The EAD for products with contractual cash-flow in based on the managerial EAD parameters with the following adjustment with respect to the IFRS 9 standards:
  - Removing the downturn components.
  - Removing the margin of conservativism.
- The EAD for products without contractual cash-flow is determined by the managerial EAD parameters extended to a multi-year horizon – Lifetime Credit Conversion Factor (LCCF) is calculated.

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

***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 National 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 NBH 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.

# Notes to the financial statements (Continued)

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

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.

In 2018 the Group – as in previous year – focused on decreasing the non-performing private portfolio and sold that loans in a package. The sales were successfully finalized in 4. Quarter.

In the corporate segment in 2018 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 2018. 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 its own short term and structural liquidity models similar to the efforts of the Basel Committee. 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 2018. 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 2017 and 2018 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 (not relating to changes in the obligor's/issuer's default) 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 International Markets (Treasury) Management ("ALM") operations and management of the statement of financial position 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 Model ("IMOD"). 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.

IMOD, the UniCredit Group-wide pure historic VaR model implemented in the "UGRM" system of UniCredit Group.

# Notes to the financial statements (Continued)

Internal risk model is used for computing economic capital in Hungary, but the Pillar 1 capital requirement is calculated by the regulatory standard method. The system comprises all major risk categories: interest rate risk, credit spread risk, equity position risk (both general and specific risk) and exchange rate risk. The VaR position of the Group is presented in Note 46.

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.

***Management of statement of financial position structure***
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 CRDIV/CRR from 2014 was managed as a group issue, and is covered mainly with group-wide solutions.

The Group started with standardised approach of the Basel II in 2008, and received the licence to apply foundation internal based approach (F-IRB) from 1st July, 2011 for the large corporate, mid-corporate, and bank portfolio.
- The IRB roll-out is being carried out locally. Model development is carried out partially centrally and partially locally.
- The decentralized approach means that the development of models complying with the requirements of A-IRB is done locally by the Group with the support of UniCredit Italiano S.p.a., they give support during the implementation by providing guidelines and standards and in terms of coaching and advice.

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

# Notes to the financial statements (CONTINUED)

### *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.

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 Lízing 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 on a quarterly basis.

### *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 management's 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 which are failed the SPPI test, while in case of the performing and non-performing loans which are passed the SPPI test the carrying amount considered as fair value.

The 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. The impairment calculation of these debt securities is described in accounting policy Note 3. m.), o.) and risk management policy Note 4. ii.).
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)

| | 2018 | 2017 |
|---|---|---|
| **Interest and similar income** | | |
| Interest income from Central Bank | 374 | 813 |
| Interest income from banks | 1,154 | 2,606 |
| Interest income from customers | 34,442 | 35,973 |
| Interest income on customer loans at fair values through profit and loss | 157 | – |
| Interest income on trading financial instruments | 838 | 945 |
| Interest income on hedge derivatives | 25,041 | 25,680 |
| Interest income on securities at fair value through other comprehensive income | 14,683 | 13,472 |
| Interest income on securities at amortized cost | 906 | 35 |
| Interest income other | 7,160 | 339 |
| **Total** | **84,755** | **79,863** |
| | | |
| **Interest expense and similar charges** | | |
| Interest expense to Central Bank | 210 | 164 |
| Interest expense to banks | (388) | (738) |
| Interest expense related to hedge derivatives | (16,477) | (18,310) |
| Interest expense to customers | (2,048) | (1,611) |
| Interest expense on subordinated loans | – | (1) |
| Interest expense on issued bonds | (2,071) | (1,056) |
| Other financial fees and commissions | – | – |
| **Total** | **(20,774)** | **(21,552)** |
| **Net interest income** | **63,981** | **58,311** |

Other interest income contains incomes from government grants, which related to both HIRS (cross-currency IRS linked to credit activity) and those preferential deposits that meets the condition of credit activity as part of PHP Program disclosed by MNB. The total amount of it was HUF 465 million in 2018 and HUF 339 million in 2017. 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. As a result of the nature of this grant the Group recognised the total amount of HUF 6,694 million in the Financial Statements in 2018.

## 7. Net fee and commission income

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Fees and commission income** | | |
| Payment transaction fees | 41,882 | 40,160 |
| Financial guarantee fees | 1,842 | 1,482 |
| Custody service fees | 3,780 | 3,691 |
| Investment service fees | 3,282 | 4,294 |
| Other financial services fees and commissions | 1,927 | 945 |
| **Total** | **52,713** | **50,572** |
| | | |
| **Fees and commission expense** | | |
| Payment transaction fees | (7,216) | (6,598) |
| Financial guarantee fees | (351) | (421) |
| Custody service fees | (828) | (827) |
| Investment service fees | (44) | (97) |
| Other financial services fees and commissions | (552) | (1,057) |
| **Total** | **(8,991)** | **(9,000)** |
| **Net fee and commission income** | **43,722** | **41,572** |

# Notes to the financial statements (Continued)

## 8. Dividend income

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Dividends on trading securities | – | – |
| Dividends on investments | 188 | 187 |
| **Total** | **188** | **187** |

## 9. Net trading

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Gain/(Loss) on foreign exchange | 14,371 | 13,926 |
| Gain/(Loss) on trading interest rate swaps, net | (269) | (944) |
| Gain/(Loss) on debt securities, net | (1,833) | 190 |
| Gain/(Loss) on equities, net | – | – |
| Gain/(Loss) on trading FRA's, net | (7) | 67 |
| Other trading income | 147 | 111 |
| **Total** | **12,409** | **13,350** |

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

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Gain** | | |
| Debt securities at fair value through other comprehensive income | 6,552 | 4,056 |
| Financial instruments at fair value through profit and loss | 2,362 | – |
| Gain on repurchased issued Mortgage Bonds | 298 | 86 |
| **Total** | **9,212** | **4,142** |
| | | |
| **Loss** | | |
| Debt securities at fair value through other comprehensive income | (5,533) | (3,286) |
| Financial instruments at fair value through profit and loss | 27 | – |
| Loss on repurchased issued Mortgage Bonds | (1,099) | (101) |
| **Total** | **(6,605)** | **(3,387)** |
| | | |
| **Net gain from other financial investments** | **2,607** | **755** |

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

## 11. Personnel expenses

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries | (14,866) | (13,955) |
| Statutory social-security contributions | (2,610) | (2,790) |
| Other employee benefits | (1,515) | (1,500) |
| Employer's contributions | (420) | (401) |
| **Total** | **(19,411)** | **(18,646)** |

The number of employees (in full time equivalent) was 1,747.7 on 31 December 2017 (2017: 1,756.4).

# Notes to the financial statements (Continued)

## 12. General operating expenses

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Indirect tax expense and fees to authorities | (30,867) | (30,628) |
| Renting costs and operating expenses of property | (2,253) | (2,113) |
| Advertising costs | (952) | (674) |
| Information technology costs | (6,076) | (5,626) |
| Material and office equipment costs | (382) | (251) |
| Other administrative costs | (3,146) | (3,168) |
| **Total** | **(43,676)** | (42,460) |

The following services were provided by Deloitte to the Group (fees are in net amounts):
- Audit services (audit fee) of HUF 96 million in 2018 (2017: HUF 92 million),
- Other assurance services (audit related fee) of HUF 17 million in 2018 (2017: HUF 2 million),
- Permitted non-audit services (other fees) of HUF 10 million in 2018 (2017: HUF 10 million).

## 13. Other results

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Other income** | | |
| Income related to foreign currency loans converted to HUF | – | 5,141 |
| Renting activity | 1,163 | 1,008 |
| Service transfer fees received | 253 | 186 |
| Income on non-reclaimable receivable | 50 | – |
| Gain on sale of leasing assets | 46 | 15 |
| Income on leasing contracts | 44 | – |
| Indemnity received | 4 | 47 |
| Other | 409 | 455 |
| **Total** | **1,969** | **6,852** |
| | | |
| **Other expenses** | | |
| Impairment loss related to other receivables | (377) | – |
| Expenses related to rented investment properties | (205) | (220) |
| Indemnity paid | (121) | (87) |
| Cost of Workout | (62) | (28) |
| Damage | (57) | (132) |
| Expense related to termination of leasing contract | (48) | (3) |
| Miscellaneous tax expense | (34) | (24) |
| Other | (39) | (39) |
| **Total** | **(943)** | **(533)** |
| | | |
| **Other results** | **1,026** | **6,319** |

# 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 2018 in Hungary. The supplementary tax (what the Group had to pay to the income earned on special loans) has ceased from 1 January 2017.

### 14.1 Tax liability for the year

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Current tax expense | 5,022 | 5,112 |
| Adjustments for prior years | 17 | 76 |
| **Total** | **5,039** | **5,188** |
| Deferred tax charge | 372 | 245 |
| **Total income tax expense in statement of profit or loss** | **5,411** | **5,433** |

### 14.2 Reconciliation of effective tax rate

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | % | (HUF MILLION) | % | (HUF MILLION) |
| Profit before tax | | 61,504 | | 56,532 |
| | | | | |
| Income tax using the domestic corporate tax rate | 9.0 | 5,535 | 9.0 | 5,088 |
| Supplementary corporate tax for banks | – | – | – | – |
| Adjustments for prior years | (0.1) | (73) | 0.1 | 41 |
| Tax effects of income/expenses exempt from corporate tax | – | (14) | – | 25 |
| | | | | |
| Changes in tax rates | – | – | – | – |
| Other | (0.1) | (37) | 0.5 | 279 |
| **Total** | **8.8** | **5,411** | **9.6** | **5,433** |

### 14.3 Balances associated with taxation

(HUF million)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | ASSETS | LIABILITIES | NET | ASSETS | LIABILITIES | NET |
| Current tax assets/(liabilities) | 118 | (32) | 86 | 59 | (1) | 58 |
| | | | | | | |
| **Deferred income tax** | | | | | | |
| Securities at fair value through other comprehensive income | (18) | (1,060) | (1,078) | – | (1,988) | (1,988) |
| Cash flow hedges | – | (1,415) | (1,415) | – | (1,908) | (1,908) |
| Property and equipment from tied up capital | 60 | (59) | 1 | 106 | – | 106 |
| IFRS 9 - Impact on equity | 565 | (7) | 558 | – | – | – |
| IFRS 9 - Impact on profit or loss | (648) | 289 | (359) | – | – | – |
| IFRS transition adjustment | 210 | (32) | 178 | 219 | (36) | 183 |
| Effect of items, increasing/(decreasing) the local tax base | 675 | – | 675 | 693 | (115) | 578 |
| Netting effect | (722) | 722 | – | (890) | 890 | – |
| | | | | | | |
| Total deferred tax assets/(liabilities) | 122 | (1,562) | (1,440) | 128 | (3,157) | (3,029) |
| | | | | | | |
| **Total tax assets/(liabilities)** | **240** | **(1,594)** | **(1,354)** | **187** | **(3,158)** | **(2,971)** |

# Notes to the financial statements (Continued)

### 14.4 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 |
| **Total deferred tax assets/(liabilities)** | **(3,029)** | **558** | **(372)** | **1,403** | **(1,440)** |

### 14.5 Movements in temporary differences during the year 2017

(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 | (1,043) | – | (945) | (1,988) |
| Cash flow hedges | (1,805) | – | (103) | (1,908) |
| Property and equipment from tied up capital | 175 | (69) | – | 106 |
| IFRS transition adjustment | – | 183 | – | 183 |
| Effect of items, increasing/(decreasing) the local tax base | 597 | (19) | – | 578 |
| Netting effect | 340 | (340) | – | – |
| **Total deferred tax assets/(liabilities)** | **(1,736)** | **(245)** | **(1,048)** | **(3,029)** |

# 15. Cash and unrestricted balance with the Central Bank

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Cash on hand | 14,731 | 18,349 |
| Unrestricted balance with the Central Bank | 5,631 | 3,306 |
| **Total** | **20,362** | **21,655** |

# 16. Financial instruments held for trading

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Financial assets held for trading** | | |
| State treasury bills | 691 | 10,193 |
| State bonds | 23,664 | 41,081 |
| Other bonds | 1,668 | 631 |
| Equity instrument | – | – |
| *Positive fair value of derivatives* | | |
| FX derivatives | 5,836 | 7,367 |
| Interest rate derivatives | 39,373 | 50,385 |
| Commodity derivatives | 5,494 | 2,938 |
| **Total** | **76,726** | **112,595** |
| | | |
| **Financial liabilities held for trading** | | |
| *Negative fair value of derivatives* | | |
| FX derivatives | (7,674) | (6,675) |
| Interest rate derivatives | (44,035) | (55,813) |
| Commodity derivatives | (5,492) | (2,937) |
| **Total** | **(57,201)** | **(65,425)** |

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)

| | 2018 | 2017 |
|---|---|---|
| **Derivative assets held for risk management purposes** | | |
| Interest rate swaps | 33,403 | 44,395 |
| Forward rate agreements | – | – |
| **Total** | **33,403** | **44,395** |
| | | |
| **Derivative liabilities held for risk management purposes** | | |
| Interest rate swaps | **18,811** | **32,008** |
| Forward rate agreements | – | 3 |
| **Total** | **18,811** | **32,011** |

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)

| | 2018 | 2017 |
|---|---|---|
| **Placements with, and loans and advances to banks at amortized cost** | | |
| Placements with Central Bank | 142,190 | 218,352 |
| Nostros at other banks | 21,756 | 10,884 |
| Loans and advance to other banks | 481,683 | 378,220 |
| Impairment on loans and advance to other banks | (569) | – |
| **Total** | **645,060** | **607,456** |

The balance of placements with, and loans and advances to banks was affected by the adoption of IFRS 9 as follows:

### 18.2. Placements with, and loans and advances to banks (continued)

(HUF million)

| IAS 39 CLASSIFICATION | LOANS AND ADVANCES TO BANKS | LOANS AND ADVANCES TO BANKS |
|---|---|---|
| 31.12.2017 | 607,456 | 607,456 |
| Expected credit loss | (363) | – |
| Transfer to FVTPL (+) | (6,016) | 5,990 |
| Revaluation of FV deals | – | 85 |
| IFRS 9 CLASSIFICATION | PLACEMENTS WITH, AND LOANS AND ADVANCES TO BANKS AT AMORTIZED COST | PLACEMENTS WITH, AND LOANS AND ADVANCES TO BANKS AT FAIR VALUE THROUGH PROFIT OR LOSS |
| 01.01.2018 | 601,077 | 6,075 |
| 31.12.2018 | 645,060 | – |
| **01.01.2018 Total** | | **607,152** |
| **31.12.2018 Total** | | **645,060** |

# Notes to the financial statements (Continued)

## 19. Loans and advances to customers

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Loans and advances to customers at amortized cost | 1,428,490 | 1,251,714 |
| Provision for impairment and losses on credit products | (30,818) | (46,755) |
| Loans and advances to customers at fair value through profit and loss | 4,060 | – |
| **Total** | **1,401,732** | **1,204,959** |

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.

The balance of loans and advances to customers was affected by the adoption of IFRS 9 as follows:

### 19.2. Loans and advances to customers (continued)

(HUF million)

| IAS 39 CLASSIFICATION | LOANS AND ADVANCES TO CUSTOMERS | LOANS AND ADVANCES TO CUSTOMERS |
|---|---|---|
| 31.12.2017 | 1,204,959 | 1,204,959 |
| Expected credit loss | (522) | – |
| Transfer to FVTPL (+) | (29,406) | 29,406 |
| Transfer of bonds presented as loans | (11,615) | – |
| Initial expected loss of POCI | (1,033) | – |
| Revaluation of FV deals | – | (2,536) |
| IFRS 9 CLASSIFICATION | LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST | LOANS AND ADVANCES TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT AND LOSS |
| 01.01.2018 | 1,162,353 | 26,870 |
| 31.12.2018 | 1,397,672 | 4,060 |
| **01.01.2018 Total** | | **1,189,223** |
| **31.12.2018 Total** | | **1,401,732** |

**(+) Transfers:**
According to a statement issued by the MNB on 30 May 2018, the method used to determine the interest rate (ÁKK×x where x>1) on loans with governmental interest subsidy within the scope of "fair banking" legislation does not amount to leverage and therefore this interest rate pattern does not in itself constitute a violation of the SPPI criteria. Such loans are presented at fair value through profit or loss in the opening consolidated statement of financial position. Loans affected by the MNB statement were reclassified to amortized cost at 30 June 2018.

Fair value of loans and advances to customers and other banks at transfer date: HUF 31,918 million.

Amortized cost of the loans and advances to customers and other banks at transfer date: HUF 34,377 million.

The impact of the transfer has been recognized within Net gain and loss on other financial instruments in the statement of profit or loss in the total amount of HUF 2,459 million.

# Notes to the financial statements (CONTINUED)

## 19. Loans and advances to customers (continued)

**A. Analysis by industrial sector:**

(HUF million)

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | HUF MILLION | % | HUF MILLION | % |
| Private clients | 254,074 | 17.74 | 221,125 | 17.67 |
| Real estate finance | 208,355 | 14.54 | 190,801 | 15.25 |
| Trade | 113,502 | 7.92 | 155,994 | 12.46 |
| Transportation | 164,924 | 11.51 | 111,419 | 8.90 |
| Machine industry | 173,052 | 12.08 | 106,813 | 8.53 |
| Financial activities | 123,976 | 8.65 | 83,778 | 6.69 |
| Food processing | 59,908 | 4.18 | 63,236 | 5.05 |
| Chemicals/Pharmaceutical | 45,647 | 3.19 | 53,476 | 4.27 |
| Metallurgy | 53,959 | 3.77 | 51,456 | 4.11 |
| Construction | 27,092 | 1.89 | 50,495 | 4.03 |
| Community | 50,647 | 3.54 | 49,389 | 3.95 |
| Agriculture | 41,581 | 2.90 | 34,079 | 2.72 |
| Light industry | 21,288 | 1.49 | 19,824 | 1.58 |
| Electric energy industry | 27,909 | 1.95 | 12,574 | 1.01 |
| Catering trade | 5,511 | 0.38 | 4,190 | 0.33 |
| Communication | 4,298 | 0.30 | 3,493 | 0.28 |
| Mining | 448 | 0.03 | 443 | 0.04 |
| Other | 56,379 | 3.94 | 39,129 | 3.13 |
| **Total** | **1,432,550** | **100.00** | **1,251,714** | **100.00** |

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

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

## 20. Investment securities

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Investment securities at fair value through other comprehensive income** | | |
| State treasury bills | – | – |
| State bonds | 550,237 | 572,405 |
| Other bonds | 171,786 | 130,845 |
| Other investments | 323 | 815 |
| **Total** | **722,346** | **704,065** |
| | | |
| **Investment securities at amortized cost** | | |
| Mortgage bonds | 92,522 | 433 |
| Impairment | (303) | – |
| **Total** | **92,219** | **433** |
| | | |
| **Total investment securities** | **814,565** | **704,498** |

The total market value of investments securities at amortized cost was HUF 94,909 million as at 31 December 2018 (HUF 444 million as at 31 December 2017). No sales of investment securities at amortized cost took place in 2018.

# Notes to the financial statements (Continued)

The balance of investment securities was affected by the adoption of IFRS 9 as follows:

**20.2. Investment securities (continued)**

(HUF million)

| IAS 39 CLASSIFICATION | ASSET HELD FOR SALE (AFS) SECURITIES | HELD TO MATURITY SECURITIES | INVESTMENT SECURITIES TOTAL |
|---|---|---|---|
| 31.12.2017 | 704,065 | 433 | 704,498 |
| Expected credit loss | – | (120) | |
| Transfer to FVTPL | (492) | | |
| Transfer of bonds presented as loans | – | 11,615 | |
| IFRS 9 CLASSIFICATION | INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | INVESTMENT SECURITIES AT AMORTIZED COST | |
| **01.01.2018** | **703,573** | **11,928** | **715,501** |
| **31.12.2018** | **722,346** | **715,501** | **814,565** |

# 21. Equity investments

As at 31 December 2018 investments in consolidated subsidiaries were as follows:

(HUF million)

| NAME OF INVESTMENT | GROSS BOOK VALUE | SHAREHOLDER'S EQUITY |
|---|---|---|
| UniCredit Jelzálogbank Zrt. | 3,761 | 19,975 |
| Arany Pénzügyi Lízing Zrt. | 672 | 529 |
| Sas-Reál Kft. | 3 | 56 |
| UniCredit Biztosításközvetítő Kft. | 41 | 236 |

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.

On 1 January 2018, Arany Pézügyi Lízing Zrt. and SAS Reál Kft. merged into UniCredit Bank Hungary Zrt.

# 22. Investment properties

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Investment property in usage | 10,820 | 10,330 |
| **Total** | **10,820** | **10,330** |

The Group's investment properties are held within Europa Investment Fund, of which, 97.8% (2017: 98.7%) 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 999 million rental income in 2018 (2017: HUF 744 million).

# Notes to the financial statements (Continued)

## 23. Financial instruments

The impact of IFRS 9 transition is the following:

| | IAS 39 NET BOOK VALUE 31.12.2017 | TRANSFER | REVALUATION | IFRS 9 NET BOOK VALUE 01.01.2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| *Securities* | | | | |
| Gross carrying amount | 433 | 11,615 | – | 12,048 |
| Expected credit loss | – | – | (120) | (120) |
| Net book value | 433 | | | 11,928 |
| | | | | |
| *Placements with, and loans and advances to other banks* | | | | |
| Gross carrying amount | 607,456 | (6,016) | – | 601,440 |
| Expected credit loss | – | – | (363) | (363) |
| Net book value | 607,456 | | | 601,077 |
| | | | | |
| *Loans and advances to customers* | | | | |
| Gross carrying amount | 1,251,714 | (41,021) | (1,033) | 1,209,660 |
| Expected credit loss | (46,755) | | (552) | (47,307) |
| Net book value | 1,204,959 | | | 1,162,353 |
| | | | | |
| **FVOCI** | | | | |
| *Securities* | | | | |
| Gross carrying amount / Fair value | 704,065 | (492) | – | 703,573 |
| Expected credit loss | – | – | – | – |
| Net book value | 704,065 | | | 703,573 |
| | | | | |
| **FVTPL** | | | | |
| *Loans and advances to banks* | | | | |
| Gross carrying amount / Fair value | – | 5,990 | 85 | 6,075 |
| | | | | |
| *Loans and advances to customers* | | | | |
| Gross carrying amount / Fair value | – | 29,406 | (2,536) | 26,870 |
| | | | | |
| **Equity** | | | | |
| AFS Revaluation reserve | 22,090 | (158) | – | 21,932 |
| Expected credit loss | | | 622 | 622 |
| Deferred taxation | (1,988) | 14 | (58) | (2,032) |
| AFS Revaluation reserve | 20,102 | | | 20,522 |
| Retained earnings | 180,668 | 158 | (2,451) | 178,375 |
| Expected credit loss | | | (3,700) | (3,700) |
| Deferred taxation | 961 | (14) | 564 | 1,511 |
| Retained earnings | 181,629 | | | 176,186 |

One instrument has been transferred from AFS to FVTPL category which was the following:

| | NET BOOK VALUE (AS PER IAS 39 AND IFRS 9) 31.12.2017 AND 01.01.2018 | CUMULATIVE RESERVE AMOUNT IN OCI AS AT 31.12.2017 |
|---|---|---|
| VISA Inc. shares | 1,901,434 USD | 612,188 USD |

# Notes to the financial statements (Continued)

## 24. Property, plant and equipment

**Movement in property, plant and equipment**

(HUF million)

| | ACQUISITION 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 |
|---|---|---|---|---|---|---|---|---|
| 2018 | | | | | | | | |
| Land and buildings | 24,704 | (5,628) | – | 278 | – | (5,181) | (491) | 13,682 |
| Office equipment | 8,226 | (7,411) | – | 976 | – | 5,666 | (435) | 7,022 |
| Motor vehicles | 796 | (355) | – | 76 | (21) | – | (103) | 393 |
| Investments | 15 | – | – | 964 | (959) | – | – | 20 |
| **Total** | **33,741** | (13,394) | **–** | **2,294** | (980) | **485** | (1,029) | **21,117** |
| | | | | | | | | |
| 2017 | | | | | | | | |
| Land and buildings | 24,995 | (5,473) | – | 374 | – | – | (522) | 19,374 |
| Office equipment | 8,375 | (8,051) | – | 805 | – | – | (314) | 815 |
| Motor vehicles | 574 | (336) | – | 323 | (35) | – | (85) | 441 |
| Investments | 296 | – | – | 969 | (1,250) | – | – | 15 |
| **Total** | **34,240** | **(13,860)** | **–** | **2,471** | **(1,285)** | – | **(921)** | **20,645** |

## 25. Intangible assets

**Movement in intangible assets**

(HUF million)

| | ACQUISITION 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 |
|---|---|---|---|---|---|---|---|---|
| 2018 | | | | | | | | |
| Rental rights | 139 | (133) | – | 3 | (1) | – | (2) | 6 |
| Licenses | 1,613 | (251) | – | 376 | – | 43 | (123) | 1,658 |
| Software | 14,407 | (8,969) | – | 4,079 | – | (39) | (346) | 9,132 |
| **Total** | **16,159** | **(9,353)** | **–** | **4,458** | **(1)** | **4** | **(471)** | **10,796** |
| | | | | | | | | |
| 2017 | | | | | | | | |
| Rental rights | 235 | (234) | – | 5 | – | – | – | 6 |
| Licenses | 1,048 | (279) | – | 663 | – | – | (70) | 1,362 |
| Software | 12,206 | (9,176) | – | 2,609 | (1) | – | (200) | 5,438 |
| **Total** | **13,489** | **(9,689)** | **–** | **3,277** | **(1)** | **–** | **(270)** | **6,806** |

## 26. Other assets

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Leasehold improvements | – | 272 |
| Trade receivables, advanced payments, other demands | 14,367 | 1,429 |
| Accrued income and prepaid expenses | 6,479 | 7,293 |
| Items in transit | – | 2,423 |
| Receivables from State Treasury | – | 1,426 |
| Current tax asset | 118 | 59 |
| Other | 342 | 489 |
| **Total** | **21,306** | **13,391** |
| Impairment losses | (1,746) | (83) |
| **Total** | **19,560** | **13,308** |

# Notes to the financial statements (Continued)

Other demands contain demands from government grants, which related to HIRS (cross-currency IRS linked to credit activity) that meets the condition of credit activity as part of PHP Program disclosed by MNB. The total amount of it was HUF 1,022 million in 2018 and HUF 936 million in 2017. 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. The amount of demand regarding MIRS was HUF 6,246 million.

## 27. Deposits and loans from banks

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Loans from Central Bank | 74,026 | 106,161 |
| Loans and deposits from other banks | 470,482 | 448,990 |
| **Total** | **544,508** | **555,151** |

## 28. Deposits from customers

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Fixed-term customer sources | 1,698,923 | 1,457,620 |
| Ongoing cash equivalents, settlement accounts | 57,985 | 11,468 |
| Illiquid customer sources | 136,268 | 174,738 |
| **Total** | **1,893,176** | **1,643,826** |

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.

## 29. Issued mortgage bonds

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Issued mortgage bonds | 150,547 | 78,225 |
| **Total** | **150,547** | **78,225** |

## 30. Other liabilities

(HUF million)

| | 2018 | 2018 |
|---|---|---|
| Accrued expenses and prepaid income | 13,125 | 10,833 |
| Provision on guarantees and unutilised loans | 3,899 | 1,868 |
| Trade payable | 2,047 | 2,231 |
| Other taxes payable | 2,702 | 2,745 |
| Items in transit | 10,815 | 7,719 |
| Current tax liability | 32 | 1 |
| Other | 2,998 | 391 |
| **Total** | **35,618** | **25,788** |

The balance of other liabilities was affected by the adoption of IFRS 9 as follows:

(HUF million)

| IAS 39 / IFRS 9 CLASSIFICATION | 31.12.2017 | EXPECTED CREDIT LOSS | 01.01.2018 | 31.12.2018 |
|---|---|---|---|---|
| Provisions for guarantees and loans and overdraft facilities granted not disbursed | 1,868 | 1,632 | 3,500 | 3,899 |

# Notes to the financial statements (Continued)

## 31. Share capital

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| 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 2017 | 38,707 | – | **38,707** |
| Appropriation from retained earnings | 5,933 | – | **5,933** |
| Appropriation to retained earnings | – | – | – |
| Balance at 31 December 2018 | 44,640 | – | **44,640** |

## 33. Other provision

(HUF million)

| | |
|---|---|
| **Balance at 31 December 2017** | **4,156** |
| Amounts utilised | (598) |
| Amounts released | (1,692) |
| Additional provisions | 1,578 |
| Effect of FX rate | 29 |
| | |
| **Balance at 31 December 2018** | **3,473** |
| Net movement in provision | (712) |
| Amounts utilised | 598 |
| **Net amount charged to the statement of profit or loss** | **(114)** |

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 2018, the Group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| Loan and overdraft facilities granted not disbursed | 865,207 | 781,158 |
| Financial guarantees | 431,233 | 311,656 |
| Letters of credit | 42,734 | 34,216 |
| FX spot sales (notional) | 140,668 | 238,734 |
| Other contingent liabilities | 8,144 | 5,025 |

As at 31 December 2018, the total face value of client assets held in safe custody by the Group was HUF 4,205,432 million (2017: HUF 3,552,402 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 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 |
| **Total foreign currency:** | **1,283,340** | **1,082,156** | **(1,100)** | **200,084** |
| Hungarian Forint | 1,771,608 | 1,972,792 | (219) | (201,403) |
| **Total** | **3,054,948** | **3,054,948** | **(1,319)** | **(1,319)** |

**The currency structure of assets and liabilities as at 31 December 2017 is as follows:**

| CURRENCY | ASSETS | LIABILITIES AND EQUITY | OFF BALANCE SHEET NET | TOTAL NET F/X EXPOSURE LONG/(SHORT) |
|---|---|---|---|---|
| Euro | 1,002,451 | 851,973 | (135,005) | 15,473 |
| Swiss Francs | 3,576 | 4,559 | 1,230 | 247 |
| United States Dollars | 100 | 106,143 | 67,293 | (38,750) |
| Japanese Yen | 142 | 371 | 231 | 2 |
| Polish Zloty | 764 | 4,881 | 3,741 | (376) |
| British Pounds | 423 | 3,178 | 2,757 | 2 |
| Czech Crowns | 462 | 1,682 | 1,294 | 74 |
| Other | 43,161 | 4,928 | 1,356 | 39,589 |
| **Total foreign currency:** | **1,051,079** | **977,715** | **(57,103)** | **16,261** |
| Hungarian Forint | 1,695,696 | 1,769,060 | 59,589 | (13,775) |
| **Total** | **2,746,775** | **2,746,775** | **2,486** | **2,486** |

# Notes to the financial statements (Continued)

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

### Residual contractual maturities of financial assets and liabilities 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 |
|---|---|---|---|---|---|---|---|
| *Non-derivative assets* | | | | | | | |
| Cash and cash equivalents | 20,362 | 20,362 | 20,362 | – | – | – | – |
| Trading securities | 76,726 | 79,595 | 51,220 | 39 | 1,159 | 18,836 | 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 |
| **Total** | **2,958,445** | **3,226,441** | **732,867** | **46,099** | **554,775** | **1,354,306** | **538,394** |
| *Non-derivative liabilities* | | | | | | | |
| Loans and advances to banks | – | – | – | – | – | – | – |
| Loans and advances to customers | (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 | (150,547) | 188,148 | – | 32 | 14,691 | 112,796 | 60,629 |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Total** | **(2,588,231)** | **2,762,623** | **1,905,265** | **45,109** | **97,196** | **486,203** | **228,850** |
| *Cash flows from derivative positions* | | | | | | | |
| 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 |
| **Total** | **8,093** | **29,941** | **2,712** | **1,996** | **(2,486)** | **24,598** | **3,121** |
| **Unrecognised loan commitments** | **–** | **(1,360,392)** | **(4,796)** | **(92,983)** | **(264,152)** | **(269,116)** | **(729,345)** |

### Residual contractual maturities of financial assets and liabilities 31 December 2017

(HUF million)

| | CARRYING AMOUNT | GROSS NOMINAL INFLOW / (OUTFLOW) | LESS THAN 1 MONTH | 1-3 MONTHS | 3 MONTHS TO 1 YEAR | 1-5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|---|---|
| *Non-derivative assets* | | | | | | | |
| Cash and cash equivalents | 21,655 | 21,655 | 21,655 | – | – | – | – |
| Trading securities | 112,595 | 114,506 | 60,692 | 25 | 11,830 | 36,038 | 5,921 |
| Investment securities | 704,498 | 738,329 | 2,027 | 2,776 | 50,059 | 584,528 | 98,939 |
| Loans and advances to banks | 607,456 | 638,184 | 268,956 | 28,234 | 271,390 | 51,755 | 17,849 |
| Loans and advances to customers | 1,204,959 | 1,341,492 | 271,786 | 42,370 | 111,518 | 608,556 | 307,262 |
| **Total** | **2,651,163** | **2,854,166** | **625,116** | **73,405** | **444,797** | **1,280,877** | **429,971** |
| *Non-derivative liabilities* | | | | | | | |
| Trading liabilities | – | – | – | – | – | – | – |
| Deposits from banks | (555,151) | 1,006,381 | 122,537 | 20,757 | 53,784 | 440,568 | 368,735 |
| Deposits from customers | (1,643,826) | 1,652,654 | 1,546,141 | 50,200 | 36,850 | 18,187 | 1,276 |
| Debt securities issued | (78,225) | 151,604 | – | 8,348 | 21,785 | 120,362 | 1,109 |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Total** | **(2,277,202)** | **2,810,639** | **1,668,678** | **79,305** | **112,419** | **579,117** | **371,120** |
| *Cash flows from derivative positions* | | | | | | | |
| Trading: | (4,721) | (4,090) | (3,748) | 2,298 | (158) | (1,871) | (611) |
| Risk management: | 12,384 | 18,673 | 3,388 | 1,396 | (2,710) | 16,009 | 590 |
| **Total** | **7,663** | **14,583** | **(360)** | **3,694** | **(2,868)** | **14,138** | **(21)** |
| **Unrecognised loan commitments** | **–** | **(1,127,030)** | **(5,495)** | **(72,411)** | **(247,707)** | **(269,909)** | **(531,808)** |

# 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 |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| 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 |
| **Total** | **2,881,719** | **955,883** | **313,930** | **777,988** | **698,580** | **116,106** | **19,232** |
| | | | | | | | |
| 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 | – | – | – | – | – | – | – |
| **Total** | **(2,588,231)** | **(2,206,554)** | **(133,945)** | **(73,492)** | **(105,071)** | **(69,169)** | **–** |
| | | | | | | | |
| Effect of derivatives held for risk management | 2,973,627 | 16,630 | 15,099 | (77,596) | (218,189) | 264,425 | – |
| **Total** | **3,267,115** | **(1,234,041)** | **195,084** | **626,900** | **375,320** | **311,362** | **19,232** |

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

(HUF million)

| | CARRYING AMOUNT | LESS THAN 1 MONTH | 1-3 MONTHS | 3 MONTHS TO 1 YEAR | 1-5 YEARS | MORE THAN 5 YEARS | NOT INTEREST RATE SENSITIVE |
|---|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | | |
| Cash and cash equivalents | 21,655 | 21,655 | – | – | – | – | – |
| Loans and advances to banks | 607,456 | 482,335 | 47,408 | 63,477 | 14,236 | – | – |
| Loans and advances to customers | 1,204,959 | 358,381 | 571,027 | 221,207 | 52,476 | 1,868 | – |
| Investment securities | 704,498 | 6,554 | 2,174 | 17,521 | 545,624 | 97,449 | 35,176 |
| **Total** | **2,538,568** | **868,925** | **620,609** | **302,205** | **612,336** | **99,317** | **35,176** |
| | | | | | | | |
| Deposits from banks | (555,151) | (361,006) | (63,538) | (52,419) | (45,831) | (32,357) | – |
| Deposits from customers | (1,643,826) | (1,543,344) | (52,772) | (32,955) | (14,755) | – | – |
| Debt securities issued | (78,225) | (3,219) | (2,649) | – | (72,357) | – | – |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Total** | **(2,277,202)** | **(1,907,569)** | **(118,959)** | **(85,374)** | **(132,943)** | **(32,357)** | **–** |
| | | | | | | | |
| Effect of derivatives held for risk management | 2,596,528 | 109,822 | 266,019 | (219,863) | (359,958) | 206,133 | |
| **Total** | **2,857,894** | **(928,822)** | **767,669** | **(3,032)** | **119,435** | **273,093** | **35,176** |

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 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) | |
| **Interest rate derivatives** | | | | | | |
| 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 | – | – | – | **–** | – | – |
| | | | | | | |
| **Forward Exchange&Swap*** | **3,167,416** | **737,792** | **17,356** | **3,922,564** | **(1,682)** | **–** |
| **Options (sold amounts)** | | | | | | |
| **Barrier (European)** | | | | | | |
| 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) | – |
| **FX (European)*** | | | | | | |
| 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) | – |
| **IR Options** | | | | | | |
| CAP (bought) | – | – | 3,037 | **3,037** | 1 | – |
| CAP (sold) | – | – | 3,037 | **3,037** | (1) | – |
| FLOOR (bought) | – | – | – | **–** | – | – |
| FLOOR (sold) | – | – | – | **–** | – | – |
| **Equity Options** | | | | | | |
| **Commodity** | | | | | | |
| 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 HUF and delta option*

# Notes to the financial statements (CONTINUED)

**31 December 2017**

(HUF million)

| | NOTIONAL AMOUNT WITH REMAINING LIFE OF LESS THAN 3 MONTHS | 3 MONTHS – 1 YEAR | OVER 1 YEAR | TOTAL | FAIR VALUES (NET) | FVA |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| Forward Rate Agreements (bought) | – | 200,000 | 50,000 | **250,000** | (135) | – |
| Forward Rate Agreements (sold) | – | 100,000 | – | **100,000** | 184 | – |
| Interest Rate Swaps (SC IRS) | 138,080 | 140,623 | 1,198,660 | **1,477,363** | (4,393) | (45) |
| Interest Rate Swaps (DC IRS) | – | 96,919 | 273,632 | **370,551** | (920) | – |
| Multicallable swap | – | – | – | **–** | – | – |
| | | | | | | |
| **Forward Exchange&Swap*** | **1,601,431** | **842,094** | **66,908** | **2,510,433** | **2,104** | **–** |
| **Options (sold amounts)** | | | | | | |
| **Barrier (European)** | | | | | | |
| Long Call | – | 6,683 | 5,103 | **11,786** | 198 | – |
| Short Call | – | 6,451 | 4,885 | **11,336** | (198) | – |
| Long Put | – | 6,451 | 4,885 | **11,336** | 149 | – |
| Short Put | – | 6,683 | 5,103 | **11,786** | (149) | – |
| **FX (European)*** | | | | | | |
| Long Call | 366 | – | 366 | **732** | 19 | – |
| Long Call (embedded) | 1,017 | – | – | **1,017** | – | – |
| Long Put | – | – | – | **–** | – | – |
| Long Put (embedded) | 133 | – | – | **133** | – | – |
| Short Call | 1,371 | – | 372 | **1,743** | (19) | – |
| Short Put | 129 | – | – | **129** | – | – |
| **IR Options** | | | | | | |
| CAP (bought) | – | – | 3,296 | **3,296** | 42 | – |
| CAP (sold) | – | – | 3,296 | **3,296** | (42) | – |
| FLOOR (bought) | – | – | – | **–** | – | – |
| FLOOR (sold) | – | – | – | **–** | – | – |
| **Equity Options** | | | | | | |
| **Commodity** | | | | | | |
| Commodity forward&swap (bought) | 580 | 2,551 | 316 | **3,447** | 2,901 | – |
| Commodity forward&swap (sold) | 580 | 2,551 | 316 | **3,447** | (2,900) | – |

**:without barrier options*

## 39. Derivative financial instruments held for Hedging purposes

(HUF million)

| | NOTIONAL AMOUNT WITH REMAINING LIFE OF LESS THAN 3 MONTHS | 3 MONTHS – 1 YEAR | OVER 1 YEAR | TOTAL | FAIR VALUES (NET) | FVA |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| 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) | – | – | – | **–** | – | – |
| | | | | | | |
| **31 December 2017** | | | | | | |
| Interest Rate Swaps SC IRS) | 161,882 | 156,044 | 1,910,002 | **2,227,928** | 13,486 | (480) |
| Interest Rate Swaps (DC IRS) | 8,713 | 8,521 | 302,154 | **319,387** | (1,561) | – |
| Forward Rate Agreements (bought) | – | 60,000 | – | **60,000** | (3) | – |
| Forward Rate Agreements (sold) | – | – | – | **–** | – | – |

# Notes to the financial statements (Continued)

## 40. Fair valuation hierarchy[1]

| FINANCIAL ASSETS/ FINANCIAL LIABILITIES | FAIR VALUE IN HUF MILLION AS AT 31.12.2018 | 31.12.2017 | FAIR VALUE HIERARCHY | VALUATION TECHNIQUE(S) AND KEY INPUT(S) | SIGNIFICANT UNOBSERVABLE INPUT(S) | RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE |
|---|---|---|---|---|---|---|
| Forward Rate Agreements | Trading purpose: (119) Hedging purpose: - | Trading purpose: 49 Hedging purpose: (3) | Level 2 | Discounted cash flow method is used. The two future cash flows are estimated based on forward interest rate (from observable yield curves at the end of the reporting period) and the contractual interest rate and are both discounted. Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively. Financial model based FVA is used for the valuation of derivatives (close-out risk) as well. | none | none |
| Interest rate swaps (SC IRS) | Trading purpose: 2,594 Hedging purpose: 15,437 | Trading purpose: (4,393) Hedging purpose: 13,486 | 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: (539) Hedging purpose: 3 | Trading purpose: (920) Hedging purpose: (1,561) | 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 |

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

# Notes to the financial statements (Continued)

| FINANCIAL ASSETS/ FINANCIAL LIABILITIES | FAIR VALUE IN HUF MILLION AS AT 31.12.2018 | FAIR VALUE IN HUF MILLION AS AT 31.12.2017 | FAIR VALUE HIERARCHY | VALUATION TECHNIQUE(S) AND KEY INPUT(S) | SIGNIFICANT UNOBSERVABLE INPUT(S) | RELATIONSHIP OF UNOBSERVABLE INPUT(S) TO FAIR VALUE |
|---|---|---|---|---|---|---|
| Forward Exchange & Swap | (1,682) | 2,104 | 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 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 | – | 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 | 566,103 | 590,800 | 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 | 29,191 | 21,961 | 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 | 19,362 | 20,299 | 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 | 92,037 | 36,550 | 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 |
| Investment certificates | 16,918 | 15,756 | 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 31.12.2018 | 31.12.2017 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|---|---|
| Equities | 685 | 492 | 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 | Fair market value of the Visa Inc. share (Stock Exchange price). | none | none |
| Mortgage bonds | 110,891 | 72,639 | 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 | 641,008 | 585,830 | 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 | 1,047 | 21,297 | 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 | 880,313 | 293,830 | 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 | 496,679 | 1,000,146 | 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 | 544,401 | 300,252 | 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 | – | 230,572 | 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 | 1,883,795 | 178,726 | 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 | 871 | 1,465,210 | 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 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Opening balance | – | – | – | 323 | **323** |
| **Total gains or losses:** | | | | | |
| – profit or loss | – | – | – | – | – |
| – in other comprehensive income | – | – | – | – | – |
| Transactions: | | | | | |
| – purchases | – | – | – | – | – |
| – output | – | – | – | – | – |
| – disposals/settlements | – | – | – | – | – |
| Transfer to level 3 | – | – | – | – | – |
| Transfers out of level 3 | – | – | – | – | – |
| **Closing balance** | **–** | **–** | **–** | **323** | **323** |
| | | | | | |
| **31 December 2017** | | | | | |
| Opening balance | – | – | – | 323 | 323 |
| **Total gains or losses:** | | | | | |
| – profit or loss | – | – | – | – | – |
| – in other comprehensive income | – | – | – | – | – |
| Transactions: | | | | | |
| – purchases | – | – | – | – | – |
| – iss output ues | – | – | – | – | – |
| – disposals/settlements | – | – | – | – | – |
| Transfer to level 3 | – | – | – | – | – |
| Transfers out of level 3 | – | – | – | – | – |
| **Closing balance** | **–** | **–** | **–** | **323** | **323** |

# Notes to the financial statements (CONTINUED)

## 41. Balances outstanding and transactions with related parties

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Financial assets held for trading | 33,320 | 40,811 |
| Financial assets held to maturity | 323 | – |
| Loans and receivables to banks | 436,411 | 328,922 |
| Loans and receivables to customers | 4,759 | 6,647 |
| Equity investments | 685 | – |
| Derivatives used for hedging | 30,609 | 38,300 |
| Intangible assets | 3,634 | 2,345 |
| Other assets | 36 | 13 |
| **Total** | **509,777** | **417,038** |
| | | |
| **Liabilities** | | |
| Loans and receivables to banks | 216,352 | 224,265 |
| Loans and receivables to customers | 8,553 | 6,131 |
| Financial liabilities held for trading | 34,787 | 46,386 |
| Derivatives used for hedging | 16,373 | 24,377 |
| Other liabilities | 1,392 | 1,891 |
| Other provisions | 16 | – |
| Revaluation reserve | 44 | – |
| Retained earnings | 144 | – |
| | **277,661** | **303,050** |
| | | |
| **Commitments, contingencies, derivatives** | | |
| Loan and overdraft facilities granted not disbursed | 15 | 19,689 |
| Financial guarantees | 34,255 | 20,093 |
| Derivatives notional amount | **5,345,661** | **4,207,641** |
| | | |
| **Statement of profit and loss** | | |
| Interest and similar income | 1,338 | 2,003 |
| Interest expense and similar charges | (826) | (287) |
| Fee and commission income | 529 | 1,136 |
| Fee and commission expense | (1,172) | (1,687) |
| Dividend income | 188 | – |
| Net FX income | – | 3,107 |
| Impairment and loan loss provision | (234) | –- |
| Fair value adjustment of hedge deals | –- | 72 |
| Net trading income | 140 | –- |
| General operating expenses | (5,363) | (4,817) |
| Other income/(expenses) | 202 | 405 |
| **Total** | **(5,198)** | **(68)** |

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 Moscow, YAPI VE KREDI BANKASI, UniCredit Banka Slovenija DD, UniCredit Bank Austria AG, UCTAM Retail Humgary Kft., UniCredit Leasing Immotruck Zrt., UniCredit Leasing Kft., Fundamenta-Lakáskassza Zrt., Garantiqa Hitelgarancia Zrt., VISA Inc., CA-ZETA Real Estate Development Limited Liability Company

# Notes to the financial statements (Continued)

## 42. Fair value information

(HUF million)

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT |
| Cash and unrestricted nostros with Central Bank | 20,362 | 20,362 | 21,655 | 21,655 |
| Financial assets held for trading | 76,726 | 76,726 | 112,595 | 112,595 |
| Investment securities | 848,612 | 814,565 | 704,498 | 704,498 |
| Loans and advances to banks | 642,055 | 645,060 | 607,127 | 607,456 |
| Loans and advances to customers | 1,376,992 | 1,401,732 | 1,293,976 | 1,204,959 |
| Hedging derivatives assets | 33,403 | 33,403 | 44,395 | 44,395 |
| Equity investments | 685 | 685 | – | – |
| **Total financial assets** | **2,998,835** | **2,992,533** | **2,784,246** | **2,695,558** |
| | | | | |
| Loans and advances to banks | 544,401 | 544,508 | 530,824 | 555,151 |
| Loans and advances to customers | 1,884,666 | 1,893,176 | 1,643,936 | 1,643,826 |
| Subordinated loans | – | – | – | – |
| Issued bonds | 150,603 | 150,547 | 80,313 | 78,225 |
| Financial liabilities held for trading | 57,201 | 57,201 | 65,425 | 65,425 |
| Hedging derivative liabilities | 18,811 | 18,811 | 32,011 | 32,011 |
| **Total financial liabilities** | **2,655,683** | **2,664,243** | **2,352,509** | **2,374,638** |

### 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 | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Total Net Interest Income** | **64,169** | **58,498** | **12,387** | **12,274** | **473** | **235** |
| Net fee and commission income | 43,722 | 41,572 | 20,028 | 20,465 | 898 | 1,026 |
| Trading profit | 15,016 | 14,105 | 5,694 | 3,248 | 89 | 82 |
| Other operating income/expenses | 1,026 | 6,319 | (262) | 1,674 | (4) | – |
| **Total non-interest income** | **59,764** | **61,996** | **25,460** | **25,387** | **983** | **1,108** |
| **REVENUES** | **123,933** | **120,494** | **37,847** | **37,661** | **1,456** | **1,343** |
| | | | | | | |
| **Direct Expenses** | **(64,587)** | **(62,250)** | **(22,843)** | **(22,062)** | **(682)** | **(634)** |
| Indirect and overhead expenses | - | - | (7,374) | (6,792) | (192) | (175) |
| **OPERATING EXPENSES** | **(64,587)** | **(62,250)** | **(30,217)** | **(28,854)** | **(874)** | **(809)** |
| **GROSS OPERATING RESULT** | **59,346** | **58,244** | **7,630** | **8,807** | **582** | **534** |
| | | | | | | |
| Provision for risk and charges | (419) | (1,740) | 1,332 | (1,809) | 4 | – |
| **Result and impairment on loans** | **2,026** | **(317)** | **757** | **2,334** | **(37)** | **(11)** |
| Gain/ (losses) on other equity investments | 551 | 188 | – | – | – | – |
| Integration costs | – | 157 | – | 157 | – | – |
| **RESULT BEFORE TAXES** | **61,504** | **56,532** | **9,719** | **9,489** | **549** | **523** |
| | | | | | | |
| Income taxes | (5,411) | (5,433) | | | | |
| **NET PROFIT FOR THE YEAR** | **56,093** | **51,099** | | | | |
| Customer loans net | 1,401,732 | 1,204,959 | 265,543 | 233,508 | 2,561 | 791 |
| Deposits from Customers | 1,893,176 | 1,643,826 | 600,737 | 512,298 | 48,867 | 47,502 |

(HUF million)

| | CORPORATE AND INVESTMENT BANKING | | LEASING | | OTHERS | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Total Net Interest Income** | **23,731** | **23,233** | **2,255** | **1,850** | **25,323** | **20,906** |
| Net fee and commission income | 22,339 | 20,495 | 120 | 151 | 337 | (565) |
| Trading profit | 11,835 | 12,432 | 1 | (22) | (2,603) | (1,635) |
| Other operating income/expenses | 8 | 1 | 82 | 99 | 1,202 | 4,545 |
| **Total non-interest income** | **34,182** | **32,928** | **203** | **228** | **(1,064)** | **2,345** |
| **REVENUES** | **57,913** | **56,161** | **2,458** | **2,078** | **24,259** | **23,251** |
| | | | | | | |
| **Direct Expenses** | **(25,660)** | **(24,126)** | **(1,662)** | **(1,541)** | **(13,740)** | **(13,887)** |
| Indirect and overhead expenses | (6,318) | (6,148) | – | – | 13,884 | 13,115 |
| **OPERATING EXPENSES** | **(31,978)** | **(30,274)** | **(1,662)** | **(1,541)** | **144** | **(772)** |
| **GROSS OPERATING RESULT** | **25,935** | **25,887** | **796** | **537** | **24,403** | **22,479** |
| | | | | | | |
| Provision for risk and charges | 120 | 13 | (5) | 12 | (1,870) | 44 |
| **Result and impairment on loans** | **1,873** | **(2,527)** | **(173)** | **(113)** | **(394)** | **–** |
| Gain/ (losses) on other equity investments | – | (13) | – | – | 551 | 201 |
| Integration costs | – | – | – | – | – | – |
| **RESULT BEFORE TAXES** | **27,928** | **23,360** | **618** | **436** | **22,690** | **22,724** |
| | | | | | | |
| Income taxes | | | | | | |
| **NET PROFIT FOR THE YEAR** | | | | | | |
| Customer loans net | 1,035,377 | 888,232 | 97,345 | 80,180 | 906 | 2,248 |
| Deposits from Customers | 1,180,061 | 1,062,587 | 632 | 580 | 62,879 | 20,859 |

# Notes to the financial statements (Continued)

## 44. Exposure to credit risk

**44.1**

(HUF million)

| LOANS TO CUSTOMER | STAGE 1<br>12-MONTH ECL | STAGE 2<br>LIFETIME ECL | STAGE 3<br>LIFETIME ECL | POCI (FLAG)<br>PURCHASED OR ORIGINATED CREDIT-IMPAIRED | TOTAL |
|---|---|---|---|---|---|
| **Loss allowance as at 1 January 2018** | **(3,300)** | **(1,782)** | **(42,870)** | **3,488** | **(44,464)** |
| Transfers | 362 | 649 | (1,011) | – | – |
| Transfers from Stage 1 to Stage 2 | (228) | 228 | – | – | – |
| Transfers from Stage 1 to Stage 3 | (44) | – | 44 | – | – |
| Transfers from Stage 2 to Stage 1 | 634 | (634) | – | – | – |
| Transfers from Stage 2 to Stage 3 | – | (115) | 115 | – | – |
| Transfers from Stage 3 to Stage 2 | – | 1,170 | (1,170) | – | – |
| New financial assets originated or purchased credit-impaired | – | – | – | 321 | 321 |
| Changes in PDs/LGDs/EADs | 367 | (1,164) | 5,201 | 612 | 5,016 |
| Changes to model assumptions and methodologies | (878) | – | – | – | (878) |
| Financial assets derecognised during the period | – | – | 4,088 | (75) | 4,013 |
| Write-offs | – | – | 6,093 | (19) | 6,074 |
| Unwind of discount | – | (37) | (632) | – | (669) |
| FX and other movements | (3) | (8) | (220) | – | (231) |
| **Loss allowance as at 31 December 2018** | **(3,452)** | **(2,342)** | **(29,351)** | **4,327** | **(30,818)** |

**44.2**

(HUF million)

| LOANS TO BANKS | STAGE 1<br>12-MONTH ECL | STAGE 2<br>LIFETIME ECL | STAGE 3<br>LIFETIME ECL | POCI (FLAG)<br>PURCHASED OR ORIGINATED CREDIT-IMPAIRED | TOTAL |
|---|---|---|---|---|---|
| **Loss allowance as at 1 January 2018** | **(363)** | **–** | **–** | **–** | **(363)** |
| Transfers | (1) | 1 | – | – | – |
| Transfers from Stage 1 to Stage 2 | (1) | 1 | – | – | – |
| 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 | (198) | (16) | – | – | (214) |
| Changes to model assumptions and methodologies | 8 | – | – | – | 8 |
| Financial assets derecognised during the period | – | – | – | – | – |
| Write-offs | – | – | – | – | – |
| Unwind of discount | – | – | – | – | – |
| FX and other movements | – | – | – | – | – |
| **Loss allowance as at 31 December 2018** | **(554)** | **(15)** | **–** | **–** | **(569)** |

# Notes to the financial statements (CONTINUED)

**44.3**

(HUF million)

| LOAN COMMITMENTS, FINANCIAL GUARANTEES TO CUSTOMERS | STAGE 1 12-MONTH ECL | STAGE 2 LIFETIME ECL | STAGE 3 LIFETIME ECL | POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED | TOTAL |
|---|---|---|---|---|---|
| **Provision as at 1 January 2018** | **(796)** | **(444)** | **(1,794)** | **–** | **(3,034)** |
| Transfers | 180 | (227) | 47 | – | – |
| Transfers from Stage 1 to Stage 2 | (47) | 47 | – | – | – |
| Transfers from Stage 1 to Stage 3 | (10) | – | 10 | – | – |
| Transfers from Stage 2 to Stage 1 | 237 | (237) | – | – | – |
| Transfers from Stage 2 to Stage 3 | – | (37) | 37 | – | – |
| Transfers from Stage 3 to Stage 2 | – | – | – | – | – |
| New financial assets originated or purchased credit-impaired | – | – | – | – | – |
| Changes in PDs/LGDs/EADs | 51 | 525 | (1,432) | – | (856) |
| Financial assets derecognised during the period | – | – | – | – | – |
| Write-offs | – | – | – | – | – |
| FX and other movements | (1) | 5 | (4) | – | – |
| **Provision as at 1 January 2018** | **(566)** | **(141)** | **(3,183)** | **–** | **(3,890)** |

**44.4**

(HUF million)

| LOAN COMMITMENTS, FINANCIAL GUARANTEES TO BANKS | STAGE 1 12-MONTH ECL | STAGE 2 LIFETIME ECL | STAGE 3 LIFETIME ECL | POCI (FLAG) PURCHASED OR ORIGINATED CREDIT-IMPAIRED | TOTAL |
|---|---|---|---|---|---|
| **Provision as at 1 January 2018** | **(46)** | **(1)** | **–** | **–** | **(47)** |
| Transfers | (7) | 7 | – | – | – |
| Transfers from Stage 1 to Stage 2 | (7) | 7 | – | – | – |
| 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 | 34 | (6) | – | – | 28 |
| Financial assets derecognised during the period | – | – | – | – | – |
| Write-offs | – | – | – | – | – |
| FX and other movements | – | – | – | – | – |
| **Provision as at 31 December 2018** | **(19)** | **–** | **–** | **–** | **(19)** |

**44.5**

(HUF million)

| LOANS TO CUSTOMERS 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 |
|---|---|---|---|---|---|
| **Net outstanding amount as at 1 January 2018** | **1,100,051** | **38,076** | **21,124** | **6,532** | **1,165,783** |
| Transfers | (95,840) | 84,314 | 11,526 | – | – |
| Transfers from Stage 1 to Stage 2 | (90,237) | 90,237 | – | – | – |
| Transfers from Stage 1 to Stage 3 | (11,327) | – | 11,327 | – | – |
| Transfers from Stage 2 to Stage 1 | 327 | (715) | 388 | – | – |
| Transfers from Stage 2 to Stage 3 | – | 185 | (185) | – | – |
| Transfers from Stage 3 to Stage 2 | 5,397 | (5,393) | (4) | – | – |
| Financial assets derecognised during the period other than write-offs | (85) | – | (67) | (79) | (231) |
| New financial assets originated or purchased credit-impaired | – | – | – | 635 | 635 |
| Write-offs | (49) | (1) | (6,400) | (99) | (6,549) |
| FX and other movements | 235,905 | 14,530 | (12,119) | (280) | 238,036 |
| **Net outstanding amount as at 31 December 2018** | **1,239,982** | **136,919** | **14,064** | **6,709** | **1,397,674** |

# Notes to the financial statements (Continued)

## 44.6

(HUF million)

| LOANS TO BANKS AT AMORTISED COST NET OF ALLOWANCE | STAGE 1<br>12-MONTH ECL | STAGE 2<br>LIFETIME ECL | STAGE 3<br>LIFETIME ECL | POCI (FLAG)<br>PURCHASED OR ORIGINATED CREDIT-IMPAIRED | TOTAL |
|---|---|---|---|---|---|
| **Net outstanding amount as at 1 January 2018** | **609,974** | **875** | **–** | **–** | **610,849** |
| Transfers | (2,160) | 2,160 | – | – | – |
| Transfers from Stage 1 to Stage 2 | (3,035) | 3,035 | – | – | – |
| 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 | 875 | (875) | – | – | – |
| Financial assets derecognised during the period other than write-offs | – | – | – | – | – |
| New financial assets originated or purchased credit-impaired | – | – | – | – | – |
| Write-offs | – | – | – | – | – |
| FX and other movements | 36,885 | (2,686) | – | – | 34,199 |
| **Net outstanding amount as at 31 December 2018** | **644,699** | **349** | **–** | **–** | **645,048** |

## 44.7

(HUF million)

| | GROSS EXPOSURE | IMPAIRMENT ALLOWANCE | CARRYING AMOUNT | ALLOCATED MATERIAL VALUE |
|---|---|---|---|---|
| **Credit-impaired assets (stage 3)** | **44,421** | **(28,725)** | **15,696** | **6,353** |
| Loans to banks | – | – | – | – |
| Loans to individuals | 10,315 | (7,501) | 2,814 | 4,271 |
| – Mortgages | 6,377 | (3,731) | 2,646 | 4,246 |
| – Consumer Loans | 802 | (784) | 19 | – |
| – Current Acc. & Credit C. | 3,005 | (2,960) | 45 | – |
| – Other Loans | 131 | (26) | 105 | 25 |
| | | | | |
| Loans to corporate entities | 34,106 | (21,224) | 12,882 | 2,082 |
| – Large Corporate Customers | 32,656 | (20,538) | 12,118 | 1,418 |
| – Small and medium-sized enterprises (SMEs) | 997 | (618) | 379 | 234 |
| – Other (Leasing) | 453 | (68) | 385 | 430 |

## 44.8

(HUF million)

| LOANS TO CUSTOMERS ALLOCATED MATERIAL VALUE WITH COLLATERAL TYPE DISTRIBUTION | STAGE 1<br>12-MONTH ECL | STAGE 2<br>LIFETIME ECL | STAGE 3<br>LIFETIME ECL | ALLOCATED MATERIAL VALUE |
|---|---|---|---|---|
| – Warrant and guarantees | 166,540 | 48,610 | 4,584 | 219,734 |
| – Cautions | 88,880 | 1,720 | 680 | 91,280 |
| – Property | 362,239 | 17,235 | 10,806 | 390,280 |
| – Debt securities | 10,320 | 144 | – | 10,464 |
| – Equity | 1,022 | 2 | 19 | 1,043 |
| – Other | 139,917 | 15,968 | 1,173 | 157,058 |

# 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 |
|---|---|---|---|---|---|
| **Gross carrying value per asset type** | | | | | |
| Cash and balances with central banks | 20,362 | – | – | – | 20,362 |
| – Investment Grade | 20,362 | – | – | – | 20,362 |
| – Standard monitoring | – | – | – | – | – |
| – Impaired | – | – | – | – | – |
| | | | | | |
| **Loans and advances to banks** | **645,265** | **364** | **–** | **–** | **645,629** |
| – Investment Grade | 600,682 | – | – | – | 600,682 |
| – Standard monitoring | 44,583 | 364 | – | – | 44,947 |
| – Impaired | – | – | – | – | – |
| | | | | | |
| **Loans and advances to customers** | **1,243,434** | **139,260** | **42,105** | **3,693** | **1,428,492** |
| – Investment Grade | 698,229 | 84,768 | – | 40 | 783,037 |
| – Standard monitoring | 545,205 | 54,490 | 26 | 1,691 | 601,412 |
| – Impaired | – | 2 | 42,079 | 1,962 | 44,043 |
| | | | | | |
| **Debt securities** | **802,162** | **13,129** | **–** | **–** | **815,291** |
| – Investment Grade | 788,995 | – | – | – | 788,995 |
| – Standard monitoring | 13,167 | 13,129 | – | – | 26,296 |
| – Impaired | – | – | – | – | – |
| | | | | | |
| **Total gross carrying value** | **2,711,223** | **152,753** | **42,105** | **3,693** | **2,909,774** |
| | | | | | |
| **Loan commitments and financial guarantee contracts** | | | | | |
| Loans and advances to banks (loan commitments) | 67 | 10,000 | – | – | 10,067 |
| Loans and advances to banks (financial guarantees) | 199,541 | 369 | – | – | 199,910 |
| Loans and advances to customers (loan commitments) | 804,070 | 47,536 | 3,534 | – | 855,140 |
| Loans and advances to customers (financial guarantees) | 218,254 | 10,912 | 2,159 | – | 231,325 |
| **Total Loan commitments and financial guarantee contracts** | **1,221,932** | **68,817** | **5,693** | **–** | **1,296,442** |

# 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. Both regular and ad-hoc sensitivity analyses are prepared with standard and occasional scenarios.

The standard scenarios are parallel shifts and turns in the yield curve below 10y tenor. Currency-wise both HUF yield shocks and all relevant foreign currency yield curve shocks are analyzed. Similar to last year, the applied standard magnitudes are 300bps for HUF and 200bps for other currencies. In the results the effect of flooring is reflected, which is visible in the symmetric +/- shocks.
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 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| HUF only | shift up | (1,543) | (58,793) | 20,518 | (39,818) |
| | shift down | 1,543 | 58,793 | (20,518) | 39,818 |
| | turn up | 804 | (34,276) | 17,414 | (16,058) |
| | turn down | (804) | 34,276 | (17,414) | 16,058 |
| All yields | shift up | (1,343) | (56,689) | 20,612 | (37,420) |
| | shift down | 1,343 | 56,689 | (20,612) | 37,420 |
| | turn up | 1,024 | (34,184) | 18,451 | (14,709) |
| | turn down | (1,024) | 34,184 | (18,451) | 14,709 |
| **Worst of the above** | | **(1,543)** | **(58,793)** | **(20,612)** | **(39,818)** |
| | | | | | |
| 2017 | | | | | |
| HUF only | shift up | (4,097) | (48,644) | 6,802 | (45,939) |
| | shift down | 4,097 | 48,644 | (6,802) | 45,939 |
| | turn up | (1,720) | (29,708) | 3,158 | (28,270) |
| | turn down | 1,720 | 29,708 | (3,158) | 28,270 |
| All yields | shift up | (4,459) | (46,924) | 6,786 | (44,596) |
| | shift down | 4,459 | 46,924 | (6,786) | 44,596 |
| | turn up | (1,812) | (29,689) | 3,750 | (27,751) |
| | turn down | 1,812 | 29,689 | (3,750) | 27,751 |
| **Worst of the above** | | **(4,459)** | **(48,644)** | **(6,802)** | **(45,939)** |

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 2.6 bn HUF, less than 10% of Solvency Capital. The total open FX position is limited at 60mn EUR, ca. 19 bn HUF. A 10 % FX shock (HUF appreciation) would have about 0.3 bn HUF effect. 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 2018 moved in a range of HUF 1,404 million and HUF 2,073 million, following a low volatility path during the year. The average VaR was HUF 1,673 million; less 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.

# Notes to the financial statements (Continued)

(HUF million)

| RISK CATEGORY | YEAR-END | AVERAGE | MINIMUM | MAXIMUM |
|---|---|---|---|---|
| **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 | – | – | – | – |
| **Overall** | **1,484** | **1,673** | **1,404** | **2,073** |
| | | | | |
| **VaR as at 31 December 2017** | | | | |
| Exchange rate risk | 46 | 107 | 4 | 288 |
| Interest rate risk | 1,716 | 1,677 | 876 | 2,339 |
| Credit spread | 2,102 | 2,698 | 2,071 | 4,021 |
| Vega risk | – | – | – | 1 |
| Equity risk | – | 1 | – | 6 |
| **Overall** | **1,913** | **2,924** | **1,895** | **3,933** |

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 2018 and 2017, the entire interest rate position of the Group (trading and investment) for major currencies was composed as follows:

**Basis Point Value ("BPV") for main currencies**

| | | | | | | | ANNUAL STATISTICS | | |
|---|---|---|---|---|---|---|---|---|---|
| CURRENCY | LESS THAN 3 MONTHS | 3 MONTHS TO 1 YEAR | 1 YEAR TO 3 YEARS | 3 YEARS TO 10 YEARS | OVER 10 YEARS | TOTAL | MAXIMUM | MINIMUM | ABSOLUTE AVERAGE |
| **As at 31 December 2018** | | | | | | | | | |
| 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 | 0.00 | 0.01 | – | – | – | 0.01 | 0.02 | 0.00 | 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 | 0.00 | (1.30) | 0.99 | (4.09) | 2.31 |
| **Total*** | **9.25** | **20.27** | **33.84** | **90.74** | **1.50** | **148.85** | | | |
| | | | | | | | | | |
| **As at 31 December 2017** | | | | | | | | | |
| CHF | (0.04) | 0.02 | (0.04) | (0.02) | – | (0.09) | 0.17 | (0.09) | 0.06 |
| EUR | 1.33 | 1.84 | 3.57 | 0.92 | (0.09) | 7.57 | 12.65 | (5.13) | 2.34 |
| GBP | 0.00 | 0.02 | – | – | – | 0.02 | 0.02 | (0.15) | 0.04 |
| HUF | (8.67) | 2.74 | (9.02) | (128.41) | (10.11) | 153.48 | (123.37) | (154.04) | 138.44 |
| USD | 0.15 | (1.49) | 0.29 | 0.07 | 0.00 | (0.98) | 0.75 | (6.77) | 3.13 |
| **Total** | **10.30** | **6.33** | **12.92** | **129.42** | **10.20** | **162.34** | | | |

**Total contains risk taking in all reported currencies*

During 2018, the Group had major interest rate exposures in HUF. BPVs melted for 2018 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.

# Notes to the financial statements (Continued)

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

(HUF million)

| SEGMENTS | SECTOR | CREDIT SPREAD BASIS POINTS |
|---|---|---|
| **Spread Points as at 31 December 2018** | | |
| Corporate | Energy BBB | (8.03) |
| Financial | BB banks | – |
| Financial | A banks | – |
| Financial | BBB banks | (48.40) |
| Treasury | Treasuries – Local | (211.87) |
| | | |
| **Spread Points as at 31 December 2017** | | |
| Corporate | Energy BBB | (9.70) |
| Financial | BB banks | (29.60) |
| Financial | A banks | – |
| Financial | BBB banks | – |
| Treasury | Treasuries – Local | (222.37) |

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 2018 although more 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 320 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 4.1 billion (in 2017 HUF 3.5 billion), the highest quarterly capital requirement was HUF 4.5 billion (in 2017: HUF 4.1 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)

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | 2,306 | 2,086 |
| Share-based payments | 271 | 230 |
| Long-term employee benefits | – | – |
| **Total** | **2,577** | **2,316** |

No loans are granted for the key management personnel in 2018 and 2017.

# Notes to the financial statements (Continued)

## 49. Regulatory capital

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

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

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

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

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

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

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

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

**Own funds components:**

- Common Equity Tier 1 (CET 1): Ordinary share capital. Share premium. General reserve. Profit reserve. Profit for the year. Other Comprehensive Income. Deduction from CET1 capital due to prudential filters (mains itemes. Intangible assets. Cash Flow hedge reserve. IRB shortfall of credit risk adjustments to expected losses);
- Additional Tier 1;
- Tier 2 capital (T 2): 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 2018 and 2017 was as follows:**

(HUF million)

| | 2018 | 2017 |
|---|---|---|
| **Tier 1 Capital** | | |
| Ordinary share capital | 24,118 | 24,118 |
| Share premium | 3,900 | 3,900 |
| Retained earnings | 224,979 | 180,312 |
| P/L according to the statement of financial position | 28,342 | 25,005 |
| Accumulated other comprehensive income | 25,116 | 42,099 |
| Other reserves | 44,640 | 38,708 |
| Adjustments to CET1 due to prudential filters | (15,124) | (19,412) |
| Goodwill included in the valuation of significant investments | – | – |
| Intangible assets | (10,734) | (6,806) |
| Deferred tax liabilities associated to intangible assets | – | – |
| IRB shortfall of credit risk adjustments to expected losses | – | (1,927) |
| Excess of deduction from AT1 items over AT1 Capital | – | – |
| Other transitional adjustments to CET1 Capital | – | – |
| **Tier 1 Total** | **296,895** | **285,997** |
| | | |
| **Tier 2 Capital** | | |
| Qualifying subordinated liabilities | – | – |
| Reserves for IRB position | 4,448 | 3,679 |
| Other transitional adjustments to T2 Capital | | |
| **Tier 2 Total** | **4,448** | **3,679** |
| | | |
| **Guarantee capital** | **301,343** | **289,676** |
| | | |
| RWA | 1,491,638 | 1,223,927 |
| Credit risk | 1,299,072 | 1,049,575 |
| Total risk exposure amount for position, foreign exchange and commodities risks | 48,325 | 39,394 |
| Operational risk | 138,324 | 125,428 |
| Total risk exposure amount for credit valuation adjustment | 5,917 | 9,530 |
| Capital adequacy (%) | 20.20 | 23.67 |
| | | |
| **Guarantee capital for legal limits** | **301,343** | **289,676** |

## 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, 5 February 2019

# Supervisory Board and Management Board

## UniCredit Bank Hungary Zrt.

**SUPERVISORY BOARD**

| | |
|---|---|
| DR. ERICH HAMPEL | **Chairman** |
| SILVANO SILVESTRI<br>TATJANA ANTOLIC JASNIC<br>ANDREA DIAMANTI<br>IVAN VLAHO<br>DR. PETTKÓ-SZANDTNER JUDIT<br>BOLYÁN RÓBERT<br>BERKI ANDRÁS RÓBERT | **Members** |

**MANAGEMENT BOARD**

| | |
|---|---|
| DR. PATAI MIHÁLY | **Chairman and Chief Executive Officer** |
| | **Members** |
| MARCO IANNACCONE | **Deputy CEO** |
| ALEKSANDRA CVETKOVIC | **Head of Retail Divison** |
| TÓTH BALÁZS | **Head of CIB and PB division** |
| LILJANA BERIC | **Chief Financial Officer,<br>Head of Financial Division** |
| ALEN DOBRIC | **Chief Risk Officer,<br>Head of Risk Management Division** |
| ANSCHAU JÁNOS | **Head of Global Banking Services Division** |

# Supervisory Board and Management Board (Continued)

## UniCredit Jelzálogbank Zrt.

| | |
|---|---|
| | **BOARD OF DIRECTORS** |
| FARKAS BÁLINT MÁRTON | **Chairman** |
| KECSKÉSNÉ PAVLICS BABETT MÁRIA<br>AGNIESZKA FRANECZEK | **Members** |
| | **SUPERVISORY BOARD** |
| MARCO IANNACCONE | **Chairman** |
| ANSCHAU JÁNOS<br>LJILJANA BERIC<br>VÖRÖS RÉKA<br>ALEN DOBRIC<br>TÓTH BALÁZS | **Members** |

# Maximise commercial bank value.

We continue to maximise commercial bank value by successfully focusing on our clients, delivering a positive experience through our multichannel strategy and best-in-class products and services. The fully plugged in CIB leverages on the Group's strong commercial banking relationships to support the real economy.

# Calendar

## January 2018

At the 2018 Euromoney Awards UniCredit has been awarded as the winner of the leading global trade financing service and has won a total of 21 first prizes.

## January 2018

UniCredit has been supporting Filarmonica della Scala since 2000, and in 2003 became the Orchestra's top partner. In January 2018, the orchestra launched a tour of 17 stations in 9 countries, with the second stage in Budapest awaiting the audience at the Palace of Arts under with Riccardo Chailly as conductor,

## March 2018

UniCredit has joined the Earth Hour 2018 initiative in 13 countries to bring people's attention to climate change that is seriously threatening our planet. In the 77 buildings of the Bank Group, the lighting was switched off for 60 minutes, including in the building of Szabadság Square in Budapest.

## March 2018

After several months of selection process, the Bank announced winners of "Leave your mark" communication campaign: the winners of the talent-sponsoring patronage competition were the fine arts (Éva Magyarósi animation director), music (Dániel Villányi piano artist) and gastronomy (Bálint Losonci winemaker). whom the Bank helped reach their goals with three million forints.

## April 2018

Innovative Solutions were awarded with EUR 55,000 by UniCredit: "The Step With Us!" program's winners were non-profit organizations: the "UCCU" Roma Informal Educational Public Benefit Foundation, the Rural Social Cooperative (Kanálka) and the Igazgyöngy Foundation. In addition to the cash prize, the Bank also helped them to achieve their goals with a one-year professional mentoring program. At the end of the program, employees of the bankers could vote an additional € 5,000 for their most successful project based on their results.

## May 2018

Five new SMEs joined the ELITE UniCredit CEE Lounge. The ELITE platform provides support for the modernization of business models and promotes SME engagement in Central and Eastern European countries where UniCredit is present.

## May 2018

In order to support the SME event series, UniCredit Bank has signed a mid-term cooperation with Loffice Budapest. At the joint events, examples of leading business models, leadership strategies, companies, and personalities are presented through the examples of the SME sector.

## June 2018

UniCredit has entered into a strategic bank insurance partnership with Allianz and Generali insurers in Central and Eastern Europe.

## June 2018

UniCredit Bank Announces EUR 300 Million Financing Agreement for Expansion of its Hungarian Plant with Samsung SDI for Electric Vehicle Battery Production

## June 2018

The Bank enabled the Péterfy Sándor Street Hospital Neonatology and Infant Class to purchase a special blue-light therapy device that provides baby-friendly intensive care for neonates suffering from abnormal jaundice. With the help of the machine, mothers can hug and breastfeed their child under treatment.

# Calendar (Continued)

## July 2018

By merging its two branches (at Nagymező Street and Oktogon), UniCredit Bank opened a brand new bank office at Szent István Boulevard. In connection with the opening, the bank granted financial support for the Children's Foundation, which helps the work of the Madarász Street Children's Hospital.

## July 2018

The majority of domestic SMEs are optimistic about their future prospects and have a decisive role in the market - this was demonstrated by the joint Business Potential Research of UniCredit Bank and Inspira Research, which ranked companies on the basis of market position and innovation willingness perceived by managers.

## August 2018

Macroeconomic expectations in the SME sector. A representative business potential analysis of the small and medium-sized enterprise sector in Hungary, conducted by UniCredit Bank and Inspira Research, revealed that the biggest challenge for Hungarian small and medium-sized enterprises is the emigration of quality labor and the competitive advantage of foreign companies.

## September 2018

UniCredit received 23 awards at the 2018 Euromoney Cash management survey.

## September 2018

The employees of the Bank joined together on the corporate family and sports day at the end of September, for which Bátor Tábor and SUHANJ! Foundation were invited! to run a full day sensitizing program. One million forints of support were collected for the two foundations with the employees' sports activities.

## October 2018

In a solemn ceremony, UniCredit opened its refurbished spaciuos branch in Shopmark Shopping center.The bank donated Bethesda Foundation for Children's Health on this occasion.

## November 2018

The digitalisation of domestic SMEs with high business potential is encouraging and a significant part of them have an intensive multi-channel online presence. At the same time, there is considerable concern on the demand side of the SME segment's labor market, as it is difficult to find high-quality workforce and besides it is not easy to automate and outsource tasks – stated UniCredit Bank and Inspira Research's business-focused representative research on business potential.

## November 2018

UniCredit Bank's "Leave your mark" campaign was found to be the best by the communications jury in Berlin, and the Bank won the Grand Prix of The Digital Communication Awards in the "Competition" category

## November 2018

Ten new SMEs joined the ELITE UniCredit CEE Lounge. This platform promotes the development of business models and encourages SME engagement in Central and Eastern European countries of the UniCredit network.

## November 2018

As a platinum supporter, the Bank took part in the Distinguished Gentleman's Ride Budapest event, the world's largest classic vintage motorcycle parade. The event supported the Movember Foundation, a men's health preservation foundation.

## November 2018

The Portfolio Property Awards have been awarded at the Portfolio Investment Forum for the ninth time. An 8-member professional jury decided the year's office project, the year's office rental and investment transaction next year's PM and FM company, this year a new category, the year'S financial provider was introduced, and awarded to UniCredit Bank.

## November 2018

At Mastercard - Bank of the Year 2018, UniCredit Bank ranks third in the "Retail Account Package of the Year" category and second in the "Retail Savings Product of the Year" category.

## December 2018

In December, the Bank donated a total of seventeen million forints to 10 different non-profit organizations operating in different fields.

## December 2018

At the end of the year, the bank opened two new cashless premium and SME centers at the Gateway office building and the Infopark. This increased the number of bank branches to 55 again.

# Network units

## Head Office

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


On 31 December 2017 UniCredit Bank’s network consisted of 54 units throughout Hungary, from which 22 branches were located in Budapest, while 33 in the country.

# Network units (Continued)

## Branches in Budapest

**Bécsi úti fiók**
1023 Budapest, Bécsi út 3-5.

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

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

**Törökvészi fiók**
1022 Budapest, Bég u 3-5.

**Lajos utcai fiók**
1036 Budapest, Lajos u. 48-66.

**Ferenciek tere fiók**
1053 Budapest, Ferenciek tere 2.

**Alkotmány utcai fiók**
1054 Budapest, Alkotmány u. 4.

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

**Boráros téri fiók**
1095 Budapest, Boráros tér 7.

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

**Fehérvári úti fiók**
1117 Budapest, Fehérvári út 23.

**Infopark fiók**
1118 Budapest, Infopark sétány 3.

**Lágymányosi úti fiók**
1111 Budapest, Lágymányosi u. 1-3.

**Alkotás úti fiók**
1123 Budapest, Alkotás u. 50.

**Duna Plaza Fiók**
1138 Budapest, Váci út 178. (Duna Plaza)

**Gateway fiók**
1138 Budapest, Dunavirág utca 2.

**Szent István körúti fiók**
1137 Budapest, Szent istván körút 16.

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

**Mátyásföldi fiók**
1165 Budapest, Veres Péter út 105-107.

**Pestszentlőrinci fiók**
1182 Budapest, Üllői út 455.

**Shopmark fiók**
1191 Budapest, Üllői út 201. (Shopmark)

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

# Network units (Continued)

## Branches in the country

**Békéscsabai fiók**
5600 Békéscsaba, Andrássy út 37-43. (Csaba Center)

**Budakeszi fiók**
2092 Budakeszi, Fő út 139.

**Budaörsi fiók**
2040 Budaörs, Szabadság út 49.

**Ceglédi fiók**
2700 Cegléd, Kossuth tér 4.

**Debreceni fiók**
4024 Debrecen, Kossuth Lajos u. 25-27.

**Dunakeszi fiók**
2120 Dunakeszi, Fő út 70.

**Dunaújvárosi fiók**
2400 Dunaújváros, Dózsa György út 4/D

**Egri fiók**
3300 Eger, Törvényház u. 4.

**Érdi fiók**
2030 Érd, Budai út 13. (Stop.Shop)

**Esztergomi fiók**
2500 Esztergom, Kossuth Lajos u. 14.

**Gödöllői fiók**
2100 Gödöllő, Dózsa György út 13.

**Gyöngyösi fiók**
3200 Gyöngyös, Páter Kis Szaléz u. 22.

**Győri fiók**
9021 Győr, Árpád út 45.

**Kaposvári fiók**
7400 Kaposvár, Dózsa György u. 1.

**Kecskeméti fiók**
6000 Kecskemét, Kisfaludy u. 8.

**Miskolci fiók**
3530 Miskolc, Hunyadi u. 3.

**Mosonmagyaróvári fiók**
9200 Mosonmagyaróvár, Fő u. 6.

**Nagykanizsai fiók**
8800 Nagykanizsa, Fő út 8.

**Nyíregyházi fiók**
4400 Nyíregyháza, Dózsa György út 1-3.

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

**Salgótarjáni fiók**
3100 Salgótarján, Rákóczi út 13.

**Siófok**
8600 Siófok, Fő u. 174-176.

**Soproni fiók**
9400 Sopron, Várkerület 1-3.

**Szegedi fiók**
6722 Szeged, Kossuth Lajos sugárút 18-20.

**Székesfehérvári fiók**
8000 Székesfehérvár, Budai út 1.

**Szekszárdi fiók**
7100 Szekszárd, Arany János u. 15-17.

**Szentendrei fiók**
2000 Szentendre, Dobogókői út 1. (Városkapu Üzletház)

**Szigetszentmiklósi fiók**
2310 Szigetszentmiklós, Bajcsy-Zsilinszky u. 26.

**Szolnoki fiók**
5000 Szolnok, Baross Gábor út 27.

**Szombathelyi fiók**
9700 Szombathely, Kőszegi út 30-32.

**Tatabánya – Vértes Center fiók**
2800 Tatabánya, Győri út 7-9. (Vértes Center)

**Veszprémi fiók**
8200 Veszprém, Ady E. u.1.

**Zalaegerszegi fiók**
8900 Zalaegerszeg, Kovács Károly tér 1/a

# Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification.

Sorter pages: UniCredit
Creative concept: M&C Saatchi

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

Adaptation: R.A.T. Reklám és Arculat Kft. Budapest
July 2019

A bank mindenhez,
ami számít.

UniCredit Bank

www.unicreditbank.hu