

ERSTE BANK HUNGARY Zrt.
Financial Statements in accordance with
Hungarian Accounting Standards
31 December 2017

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INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholders of Erste Bank Hungary Zrt.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Erste Bank Hungary Zrt ("the Bank") which comprise the balance sheet as at 31 December 2017 (in which the balance sheet total is MHUF 2.179.025, the net result for the period is MHUF 72.877), the related income statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of the results of its operations for the year then ended in accordance with the provisions of Act C of 2000 on Accounting ("Accounting Act"), in force in Hungary.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Bank in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in these documents.

The non-audit services that we have provided to the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in note III/1 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and the Council (the EU Regulation) No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Our audit approach

Overview

<i>Overall materiality</i>	Overall materiality applied was MHUF 4,181
<i>Key Audit Matters</i>	<ul style="list-style-type: none">• Valuation of loans and receivables to customers• Accounting for the acquisition of Citibank's retail business

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Materiality</i>	MHUF 4,181
<i>Determination</i>	5% of the profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users and other stakeholders, and it is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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



Key audit matter

How our audit addressed the key audit matter

Valuation of loans and receivables to customers

The net amount of loans and receivables to customers was MHUF 1,191,165 as at 31 December 2017, representing 55% of the balance sheet total. Impairment recognised in the balance sheet amounted to MHUF 63,399.

The management disclosed the related assumptions, balances and estimates in section I/2 of the notes to the financial statements on accounting policy, as well as in notes II/3., and II/20.

Impairment is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective impairment.

In the calculation of individual impairment, the most significant uncertainty is involved in the estimation of the amounts and timing of the expected future cash flows as they include recoveries from both collections of contractual cash flows and from collaterals.

The Bank applies impairment models to calculate collective impairment. These models quantify the probability of default and the loss given default as the primary parameters in the estimation of the recoverable amount.

We paid considerable attention to this area during our audit due to the significance of the amounts involved and also because of the nature of the judgments and assumptions that management is required to make.

We gained an understanding about the whole lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval.

We performed credit review for individually significant loans, and checked credit application / monitoring documents as well as customer-related financial and non-financial information whether the customer's rating is appropriate.

For a sample of individually impaired loans, we checked whether assumptions and estimations applied in calculations of the recoverable amount are reasonable and whether the calculations are correct.

When assessing collective impairment, we analysed the development of impairment with the assistance of our experts, checked the methodology applied to its calculation, the input data, changes of parameters, reconciled the estimations from previous periods with the actual data, and performed recalculations on a sample basis.

We read points I/2, II/3 and II/20 of the notes to the financial statements to assess whether disclosures are in line with applicable regulations.

We did not identify any material errors during our audit procedures performed. We found management's estimations reasonable.

Accounting for the acquisition of Citibank's retail business

The Bank acquired Citibank's retail business in 2017. The relevant details of the transactions were presented in section I/4 of the notes to the financial statements.

We have read the acquisition agreement read the accounting documents related to acquisition, and checked the accounting treatment of acquisition.



The business was acquired partly by Erste Bank Hungary Zrt., partly by Erste Befektetési Zrt. The intangible assets identified and recognized in the Balance Sheet amounted to HUF 7,894 million.

We paid particular attention to this matter because the acquired retail portfolio is significant, and it is an individual transaction, that requires complex accounting and significant management estimates. Furthermore, determining the fair value of the customer relationships identified among intangible assets depends on management's assumptions concerning future results and the interest rate used to discount future cash flows.

As part of our procedures, we have critically assessed whether assumptions used in the purchase price allocation performed by management with the aim of determining the fair value of the customer relationships are reasonable by performing the following:

- We have critically checked the report prepared on valuation, challenged the assumptions contained therein by involving our valuation expert.
- We focused our attention on examining whether estimated discount rate and the factors identified to forecast future cash flows (like expected client churn rates) are substantiated. In doing so, we compared the estimates to observable actual data concerning the volume and profitability of the transferred portfolios subsequent to the acquisition.

We have not detected any material errors as a result of our procedures performed.

Other information: the business report

Other information comprises the business report of the Bank. Management is responsible for the preparation of the business report in accordance with the provisions of Accounting Act and other relevant regulations. Our opinion on the financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the business report to consider whether it has been prepared in accordance with the provisions of Accounting Act and other relevant regulations, if any, and to express an opinion on this, and on whether the business report is consistent with the financial statements.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report shall cover the information prepared under Paragraphs e) of Subsection (2) of Section 95/B, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

As the Bank is a public interest entity and the conditions in Paragraph a) and b) of Subsection (1) of Section 95/C of the Accounting Act are met at the balance sheet date, the Bank shall publish a non-financial statement required by 95/C in its business report. In this respect, we shall state whether the business report includes the non-financial statement required by Section 95/C of the Accounting Act.



In our opinion, the 2017 business report of the Bank, also including the information prepared under Paragraphs e) of Subsection (2) of Section 95/B, is consistent with the 2017 financial statements in all material respects, and the business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the business report and therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The business report includes the non-financial statement required by Section 95/C of the Accounting Act.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis in preparation of the financial statements. Management has to apply the going concern basis of accounting unless other relevant rules prevent its application or there are facts and circumstances contradicting the going concern principle.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis in the preparation of the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

Report on other legal and regulatory requirements

We were first appointed as auditors of the Bank on 25 April 2017.

The engagement partner on the audit resulting in this independent auditor's report is Árpád Balázs.

Budapest, 13 April 2018

Árpád Balázs
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

Financial Statements

in accordance with Hungarian Accounting Standards

as at 31 December 2017

Budapest, 13 April 2018

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Balance Sheet

Assets

31.12.2017

Line No.	Description of the item	31.12.2016 (data in HUF million)	31.12.2017 (data in HUF million)
1	Cash and cash equivalents	24,120	20,292
2	Government securities	614,691	648,423
a	for trading purposes	109,277	20,868
b	for investment purposes	504,065	626,344
2/A	Valuation difference of government securities	1,349	1,211
3	Receivables from credit institutions	223,295	62,225
a	due on demand	2,374	1,617
b	other receivables from financial services	220,921	60,608
ba	with maturity within one year	220,921	60,608
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	31,764	9,131
	<i>from other participating interests</i>	5,502	-
	<i>to the Central Bank of Hungary</i>	133,299	28,966
	<i>from clearing houses</i>	-	-
bb	with maturity over one year	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
	<i>to the Central Bank of Hungary</i>	-	-
	<i>from clearing houses</i>	-	-
c	from investment services	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
	<i>receivables from clearing houses</i>	-	-
3/A	Valuation difference of receivables from credit institutions	-	-
4	Receivables from customers	1,020,724	1,191,165
a	from financial services	1,020,519	1,191,162
aa	with maturity within one year	126,754	233,719
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	3,942	61,033
	<i>from other participating interests</i>	-	-
ab	with maturity over one year	893,765	957,443
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	33,617	1,658
	<i>from other participating interests</i>	-	-
b	from investment services	205	3
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
ba	receivables from stock market investment services	-	-
bb	from OTC investment services	196	1
bc	receivables from customers, arising from investment services	-	-
bd	receivables from clearing houses	-	-
be	receivables from other investment services	9	2
4/A	Valuation difference of receivables from customers	-	-

5	Debt securities, including those with fixed interest rates	28,900	117,071
a	debt securities in issue by local governments and other public bodies (excluding government securities)	2,808	2,329
aa	for trading purposes	-	-
ab	for investment purposes	2,808	2,328
b	debt securities in issue by other issuers	25,969	114,791
ba	for trading purposes	200	31,170
	<i>Of</i>		
	<i>which: issued by affiliated undertakings</i>	-	-
	<i>issued by other participating interests</i>	-	-
	repurchased own-issue securities	-	-
bb	for investment purposes	25,769	83,622
	<i>Of</i>		
	<i>which: issued by affiliated undertakings</i>	-	-
	<i>issued by other participating interests</i>	-	-
5/A	Valuation difference of debt securities	123	-49
6	Shares and other variable-yield securities	-	-
a	shares and interests held for trading purposes	-	-
	<i>Of</i>		
	<i>which: issued by affiliated undertakings</i>	-	-
	<i>issued by other participating interests</i>	-	-
b	variable-yield securities	-	-
ba	for trading purposes	-	-
bb	for investment purposes	-	-
6/A	Valuation difference of shares and other variable-yield securities	-	-
7	Shares and interests held for investment purposes	1,771	1,321
a	shares and interests held for investment purposes	1,771	1,321
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	-	-
b	value adjustment of shares and interests held for investment purposes	-	-
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	-	-
7/A	Valuation difference of shares and interests	-	-
8	Shares and interests in affiliated undertakings	53,765	54,729
a	shares and interests held for investment purposes	53,765	54,729
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	9,808	9,753
b	value adjustment of shares and interests held for investment purposes	-	-
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	-	-
9	Intangible assets	15,675	22,315
	Intangible assets	15,675	22,315
	Value adjustment of intangible assets	-	-
10	Property and equipment	8,648	8,340
a	property and equipment held for the purpose of financial and investment services	8,648	8,340
aa	properties	5,498	5,020
ab	plant and machinery, equipment, vehicles	2,641	2,519
ac	investments	509	801
ad	payments made on account	-	-
b	property and equipment not directly held for the purpose of financial and investment services	-	-
ba	properties	-	-
bb	plant and machinery, equipment, vehicles	-	-
bc	investments	-	-
bd	payments made on account	-	-
c	value adjustment of property and equipment	-	-
11	Own shares	-	-
12	Other assets	28,342	32,969
a	inventories	825	506
b	other receivables	14,024	13,140

<i>Of</i>			
<i>which:</i>	<i>receivables from affiliated undertakings</i>	3,342	3,180
	<i>receivables from other participating interests</i>	247	71
12/A	Valuation difference of other receivables	-	-
12/B	Positive valuation difference of derivative transactions	13,493	19,323
13	Accrued and deferred assets	18,561	20,175
a	accrued income	16,377	17,463
b	accrued expenses	2,184	2,712
c	deferred expenses	-	-
TOTAL ASSETS		2,038,492	2,179,025
<i>Of which:</i>	<i>Current assets</i>	513,665	402,409
	<i>Fixed assets</i>	1,506,266	1,756,442

Date: Budapest, 13 April 2018

.....
Radován Jelasity
Chairman-Chief Executive Officer

.....
Ivan Vondra
Chief Financial Officer

Liabilities

31.12.2017

Line No.	Description of the item	31.12.2016 (data in HUF million)	31.12.2017 (data in HUF million)
1	LIABILITIES TO CREDIT INSTITUTIONS	231,815	229,102
a	due on demand	7,953	6,633
b	liabilities committed for a certain period, arising from financial services	223,862	222,469
ba	with maturity within one year	50,449	44,293
	<i>Of which: from affiliated undertakings</i>	41,200	6,238
	<i>from other participating interests to the Central Bank of Hungary</i>	-	-
	<i>liabilities to clearing houses</i>	-	13,255
bb	with maturity over one year	173,413	178,176
	<i>Of which: from affiliated undertakings</i>	58,104	77,792
	<i>from other participating interests to the Central Bank of Hungary</i>	-	-
	<i>liabilities to clearing houses</i>	65,702	62,397
c	from investment services	-	-
	<i>Of which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
	<i>liabilities to clearing houses</i>	-	-
1/A	VALUATION DIFFERENCE OF LIABILITIES TO CREDIT INSTITUTIONS	-	-
2	LIABILITIES TO CUSTOMERS	1,388,784	1,478,881
a	savings deposits	2,360	2,355
aa	due on demand	2,360	2,355
ab	with maturity within one year	-	-
ac	with maturity over one year	-	-
b	other liabilities arising from financial services	1,384,442	1,475,023
ba	due on demand	1,022,150	1,239,489
	<i>Of which: from affiliated undertakings</i>	104,257	83,327
	<i>from other participating interests</i>	1,566	4,392
bb	with maturity within one year	296,864	176,312
	<i>Of which: from affiliated undertakings</i>	3,754	-
	<i>from other participating interests</i>	-	-
bc	with maturity over one year	65,428	59,222
	<i>Of which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
c	from investment services	1,982	1,503
	<i>Of which: from affiliated undertakings</i>	44	147
	<i>from other participating interests</i>	106	63
ca	liabilities arising from stock market investment services	-	-
cb	liabilities arising from OTC investment services	1,982	1,503
cc	liabilities to customers, arising from investment services	-	-
cd	liabilities to clearing houses	-	-
ce	liabilities arising from other investment services	-	-
2/A	VALUATION DIFFERENCE OF LIABILITIES TO CUSTOMERS	-	-
3	DEBT SECURITIES ISSUED	11,464	2,033
a	issued bonds	11,464	2,033
aa	with maturity within one year	-	-

	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
ab	with maturity over one year	11,464	2,033
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
b	other debt securities issued	-	-
ba	with maturity within one year	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
bb	with maturity over one year	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
c	debt instruments treated as securities in terms of accounting but not qualified as securities according to the Securities Act	-	-
ca	with maturity within one year	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
cb	with maturity over one year	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
4	OTHER LIABILITIES	26,983	28,620
a	with maturity within one year	16,058	13,213
	<i>Of which: from affiliated undertakings</i>	313	2
	<i>from other participating interests</i>	-	-
b	with maturity over one year	-	-
	<i>Of which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
4A	NEGATIVE VALUATION DIFFERENCE OF DERIVATIVES	10,925	15,406
5	ACCRUED AND DEFERRED LIABILITIES	21,111	19,285
a	deferred income	336	302
b	deferred expenses	16,949	16,790
c	deferred income	3,826	2,193
6	SUNDRY PROVISIONS	24,081	5,648
a	provision for pensions and severance payments	-	-
b	risk provision for contingent liabilities and commitments	21,285	2,988
c	general risk provisions	-	-
d	other provisions	2,796	2,660
7	SUBORDINATED LIABILITIES	55,008	54,864
a	subordinated loan capital	55,008	54,864
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	50,793	50,650
	<i>from other participating interests</i>	-	-
b	other capital contribution of the members in the case of credit institutions operating as cooperatives	-	-
c	other subordinated liabilities	-	-
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
8	SUBSCRIBED CAPITAL	146,000	146,000
	<i>Of</i>		
	<i>which: ownership interests repurchased at nominal value</i>	-	-
9	SUBSCRIBED BUT UNPAID CAPITAL (-)	-	-
10	CAPITAL RESERVE	117,492	117,492
a	difference between the nominal value and the issue price of shares and interests (premium)	117,492	117,492

b	other	-	-
11	GENERAL RESERVE	3,526	11,623
12	RETAINED EARNINGS (+-)	(20,455)	11,283
13	TIED-UP RESERVE	-	-
14	VALUATION RESERVE	945	1,317
a	Valuation reserve of the value adjustment	-	-
b	Valuation reserve of fair valuation	945	1,317
15	PROFIT OR LOSS FOR THE YEAR ACCORDING TO THE STATEMENT OF FINANCIAL POSITION (+-)	31,738	72,877
TOTAL LIABILITIES		2,038,492	2,179,025
	<i>Of</i>		
	<i>which: Short-term maturity liabilities</i>	1,408,741	1,499,205
	<i>Long-term maturity liabilities</i>	305,313	294,295
	<i>Total equity</i>	279,246	360,592

Line No.	Description of the item	31.12.2016 (data in HUF million)	31.12.2017 (data in HUF million)
1	Contingent liabilities	375,268	400,498
2	Liabilities	2,198,107	3,468,593
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS		2,573,375	3,869,091

Line No.	Description of the item	31.12.2016 (data in HUF million)	31.12.2017 (data in HUF million)
1	Contingent claims	2,129,777	2,514,604
2	Future receivables	2,213,667	3,519,076
TOTAL CONTINGENT CLAIMS AND FUTURE RECEIVABLES		4,343,444	6,033,680

Date: Budapest, 13 April 2018

.....
Radován Jelasity
Chairman-Chief Executive Officer

.....
Ivan Vondra
Chief Financial Officer

Income statement

31.12.2017

Line No.	Description of the item	31.12.2016 (data in HUF million)	31.12.2017 (data in HUF million)
1	INTEREST AND SIMILAR INCOME RECEIVED	77,657	84,695
a	interest income received (due) on debt securities with fixed interest rates	19,668	26,975
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
b	other interest and similar income received	57,989	57,720
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	852	1,140
	<i>from other participating interests</i>	15	11
2	INTEREST PAID AND SIMILAR CHARGES	15,137	6,840
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	8,937	4,816
	<i>to other participating interests</i>	14	-
	INTEREST DIFFERENTIAL (1-2)	62,520	77,855
3	INCOME FROM SECURITIES	3,862	2,581
a	income from shares and interests held for trading (dividends, equity holdings)	-	-
b	income from interests in affiliated undertakings (dividends, equity holdings)	49	2,500
c	income from other interests (dividends, equity holdings)	3,813	81
4	FEE AND COMMISSION INCOME RECEIVED (DUE)	47,518	56,086
a	from the income of other financial services	45,981	54,507
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	8,054	10,180
	<i>from other participating interests</i>	1,872	967
b	of the income of investment services (excluding the income of trading activities)	1,537	1,579
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	-	60
	<i>from other participating interests</i>	-	50
5	COMMISSIONS AND FEES PAID (PAYABLE)	8,716	12,375
a	of the expenses of other financial services	7,656	11,658
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	31	107
	<i>to other participating interests</i>	-	102
b	of the expenses of investment services (excluding the expenses of trading activities)	1,060	717
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	700	384
	<i>to other participating interests</i>	2	1
6	NET PROFIT OR LOSS FROM FINANCIAL TRANSACTIONS (6.A-6.B+6.C-6.D)	(4,126)	15,545
a	from the income of other financial services	19,859	35,981
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	4,032	19,207
	<i>from other participating interests</i>	-	4,508
	<i>valuation difference</i>	-	-
b	of the expenses of other financial services	23,257	21,915
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	5,685	5,136

	<i>to other participating interests</i>	-	167
	<i>valuation difference</i>	-	-
c	of the income of investment services (the income of trading activities)	100,783	106,899
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	40,719	47,307
	<i>from other participating interests</i>	539	761
	<i>reversal of the impairment loss of securities held for trading</i>	-	-
	<i>valuation difference</i>	36,537	50,813
d	of the expenses of investment services (the expenses of trading activities)	101,511	105,420
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	30,106	42,895
	<i>to other participating interests</i>	297	538
	<i>impairment loss of securities held for trading</i>	-	-
	<i>valuation difference</i>	31,637	39,725
7	OTHER INCOME FROM BUSINESS ACTIVITIES	57,494	31,113
a	income of services other than financial or investment services	1,794	1,379
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	1,050	629
	<i>from other participating interests</i>	-	2
b	other income	55,700	29,734
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	89	1,804
	<i>from other participating interests</i>	-	7
	<i>reversal of the impairment loss of inventories</i>	237	266
8	GENERAL ADMINISTRATION COSTS	47,664	50,946
a	staff costs	25,772	28,449
	<i>aa wages and salaries</i>	18,596	21,522
	<i>ab other employee benefits</i>	1,417	1,609
	<i>Of which:</i>		
	<i>social insurance costs</i>	100	50
	<i>pension-related costs</i>	94	52
	<i>ac contributions on wages and salaries</i>	5,759	5,317
	<i>Of which:</i>		
	<i>social insurance costs</i>	4,947	4,446
	<i>pension-related costs</i>	5	-
b	other administration costs (material costs)	21,892	22,497
9	DEPRECIATION	5,323	8,448
10	OTHER EXPENDITURE RELATING TO BUSINESS ACTIVITIES	92,807	77,779
a	expenses on services other than financial or investment services	1,186	894
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	44	20
	<i>to other participating interests</i>	-	-
b	other expenditure	91,621	76,885
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	2	25
	<i>to other participating interests</i>	-	24
	<i>impairment loss of inventories</i>	-	68
11	IMPAIRMENT LOSS ON RECEIVABLES AND RISK PROVISIONING FOR CONTINGENT LIABILITIES AND COMMITMENTS	59,585	34,396
a	impairment loss on receivables	44,987	20,770
b	risk provisioning for contingent liabilities and commitments	14,598	13,626
12	REVERSAL OF IMPAIRMENT LOSS ON RECEIVABLES AND THE USE OF RISK PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS	84,384	85,866
a	reversal of impairment loss on receivables	83,638	53,643
b	the use of risk provisions for contingent liabilities and commitments	746	32,223
12/A	DIFFERENCE BETWEEN THE GENERAL RISK PROVISION AND ITS UTILISATION	-	-

13	IMPAIRMENT LOSS ON DEBT SECURITIES HELD FOR INVESTMENT PURPOSES AND ON SHARES AND EQUITYHOLDINGS IN AFFILIATED UNDERTAKINGS AND IN OTHER PARTICIPATING INTERESTS	3,302	2,942
14	REVERSAL OF IMPAIRMENT LOSS ON DEBT SECURITIES HELD FOR INVESTMENT PURPOSES AND ON SHARES AND EQUITY HOLDINGS IN AFFILIATED UNDERTAKINGS AND IN OTHER PARTICIPATING INTERESTS	6,649	1,457
15	PRE-TAX RESULT (1-2+3+4-5+-6+7-8-9-10-11+12-13+14)	40,904	83,617
16	TAX PAYMENT LIABILITY	5,640	2,643
17	RESULT AFTER TAX (+-15-16)	35,264	80,974
18	APPROPRIATION AND USE OF GENERAL RESERVE (+-)	3,526	8,097
19	NET RESULT FOR THE PERIOD (+-17-/+18)	31,738	72,877

Date: Budapest, 13 April 2018

.....
 Radován Jelasity
 Chairman-Chief Executive Officer

.....
 Ivan Vondra
 Chief Financial Officer

Notes

I/1 Short description of ERSTE BANK HUNGARY Zrt.

Legal form:	Company limited by shares (Zártkörűen Működő Részvénytársaság)
Date of foundation:	17 December 1986
Date of registration:	12 April 1988 (last registration of changes: on January 22, 2018)
Registered office:	1138 Budapest, Népfürdő u. 24-26.
The company's internet address:	http://www.erstebank.hu
Owners:	Erste Group Bank AG (70%)
	European Bank for Reconstruction and Development (15%)
	Corvinus Nemzetközi Befektetési Zrt. (15%)

ERSTE BANK HUNGARY Zrt. is entitled to perform the following activities as a credit institution:

SCOPE OF ACTIVITIES

Main activity:

64.19'08 Other monetary intermediation

Other activities:

64.92'08 Other credit extension
 64.99'08 Other financial service activities n.e.c.
 66.12'08 Security and commodity contracts brokerage
 66.19'08 Other activities auxiliary to financial services
 66.22'08 Activities of insurance agents and brokers
 66.29'08 Other activities auxiliary to insurance and pension funding
 68.20'08 Renting and operating of own or leased real estate
 64.91'08 Financial lease
 69.20'08 Accounting, bookkeeping and auditing activities; tax consultancy (non-profit activity)

The Bank is a credit institution, which provides the following financial and investment services within the above statistical classification, pursuant to the Credit Institutions Act and the Investment Firms Act:

Financial services:

- (i) collection of deposits and other repayable monetary assets from the public;
- (ii) granting of credits and loans;
- (iii) financial leasing;
- (iv) provision of payment services;
- (v) issue of electronic money and paper-based cash equivalents (for example paper-based traveller's cheques, bills) and provision of related services that are not classified as payment services;
- (vi) undertaking of suretyship and guarantees as well as other banking liabilities;
- (vii) trading activity for own account or on commission in currency, foreign exchange (excluding currency conversion activities), bills and cheques;
- (viii) intermediation of financial services ;
- (ix) custodial services, provision of safe-deposit boxes;

- (x) *loan reference services.*

Ancillary financial services:

- (xi) *Currency conversion activity.*

Investment services:

- (xii) *receiving and transmitting client orders, execution of orders on behalf of clients (points (a) and (b) of Section 5(1) of the Investment Firms Act);*
- (xiii) *trading on own account relating to financial instruments (point (c) of Section 5(1) of the Investment Firms Act);*
- (xiv) *investment advice (point (e) of Section 5(1) of the Investment Firms Act);*
- (xv) *placement of financial instruments without any commitment for the purchase of assets (financial instruments) (point (g) of Section 5(1) of the Investment Firms Act).*

Ancillary investment services:

- (xvi) *safekeeping and administration of financial instruments, including the management of related client accounts (point (a) of Section 5(2) of the Investment Firms Act);*
- (xvii) *safe custody services, including the management of related securities accounts, and keeping records of printed securities and the management of the related client accounts (point (b) of Section 5(2) of the Investment Firms Act);*
- (xviii) *granting credits and loans to investors (point (c) of 5(2) of the Investment Firms Act);*
- (xix) *advice to companies on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of companies (point (d) of 5(2) of the Investment Firms Act);*
- (xx) *investment analysis and financial analysis (point (f) of 5(2) of the Investment Firms Act);*
- (xxi) *services related to underwriting guarantees (point (g) of 5(2) of the Investment Firms Act);*
- (xxii) *investment services and ancillary activities related to the underlying instruments of the derivatives mentioned in points (e)-(g), (j) and (k) of Section 6 of the Investment Firms Act ((point (h) of 5(2) of the Investment Firms Act).*

Other for-profit activities performed in addition to the financial services, ancillary financial and investment services and ancillary investment services:

- (i) *activities aimed at the utilisation of collaterals or securities acquired by the Bank with a view to reducing or avoiding losses from financial services (point (i) of Section 7(3) of the Credit Institutions Act).*

Other not for-profit activities:

- (i) *accounting services and representation before the tax authority, which can only be performed by the Bank for the benefit of its subsidiaries and affiliated undertakings belonging to the Hungarian Erste Group, on a not for-profit basis, in order to promote the prudent operation of its subsidiaries and affiliated undertakings as well as their compliance with the requirements for risk assumption and capital adequacy and their fulfilment of accounting liabilities.*

Auditor's details:

Pursuant to Section 155(2) of Act C of 2000 on Accounting, auditing is compulsory for the Bank.

The Bank's auditor is PricewaterhouseCoopers Könyvvizsgáló Kft.(1055 Budapest, Bajcsy-Zsilinszky út 78.)

Registration number with the Chamber of Hungarian Auditors: 001464

Appointed auditor: Árpád Balázs (mother's maiden name: Kozma Hedvig, 1124 Budapest, Dobsinai u. 1, membership number with the chamber: 006931)

The Board of Directors of ERSTE Bank Hungary Zrt.

31 December 2017

Radován Jelasity	Chairman, internal member
László Szabolcs Harmati	internal member
Ivan Vondra	internal member
Tamás Foltányi	internal member
Krisztina Zsiga	internal member
Alexandra Habeler-Drabek	external member
Frederik Silzer	external member
dr. János Ruday	external member
Zoltán István Marczinkó	external member
Michael Neumayr	external member

31 December 2017

Manfred Wimmer	Chairman
Friedrich Rödler	member
Gernot Mittendorfer	member
Maximilian Clary Und Aldringen	member
dr. Alíz Zsolnai	member
Lucyna Stanczak-Wuczynska	member
Magdolna Nagy	employee member
Márta Marosvölgyi	employee member
dr. Anna Kósa	employee member

I/2 ERSTE Bank Hungary Zrt.'s accounting policy

The Bank's accounting policy is a collection of the reporting and bookkeeping provisions of the Accounting Act, as well as the Government Decree issued for the implementation of such Act regarding credit institutions and the accounting and valuation rules applied by the company. The combined application of these rules creates the bases of the operation of the management information system and of the regulatory compliance of the compilation of the financial statements and the report.

ERSTE Bank Hungary Zrt. enforces the accounting principles specified in the Act and the Government Decree both in its accounting system and during the preparation of the annual report.

ERSTE Bank Hungary Zrt. took into account the provisions of the following laws when establishing its accounting policy used for the preparation of its report for the year 2017 and the related accounting system:

- Act C of 2000 (hereinafter: Accounting Act)
- 250/2000 (XII.24.) Government Decree on the specificities of annual reporting and bookkeeping liabilities of financial enterprises (hereinafter: Decree on bookkeeping at credit institutions)
- Act CCXXXVII. of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act)
- Directive 575/2013 of the EUROPEAN PARLIAMENT and of the COUNCIL (of 26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
- MNB Decree 40/2016. (X.11.) on prudential requirements of customer and partner classification and collateral valuation
- Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act)
- Act LXXXI of 1996 on Corporate Income Tax and Dividend Tax (hereinafter: Corporate Tax Act)
- Civil Code: Act V of 2013 on the Civil Code

ERSTE Bank Hungary Zrt. keeps its books by applying a business management approach, according to the rules of the double-entry method, and it compiles its annual report in accordance with the provisions of the Government Decree applicable to credit institutions. The Bank prepares its income statement in accordance with the relevant requirements, in a vertical layout.

The accounting date of the financial statements for 2017: 31 December 2017

Date of preparation of the balance sheet: 4 January 2018

Measurement methods used in the financial statements

The measurement of assets and liabilities

The Bank measures current assets and fixed assets at cost or production cost (with the exception of currency and foreign exchange holdings) and recognises them at such costs in the statement of financial position.

In accordance with the content requirements of Section 87(1) of the Credit Institutions Act, the provisions of Government Decree 250/2000. (XII. 24) (Annex 7) and the National Bank of Hungary Decree 40/2016, the Bank classified its outstanding claims, investments and undertaken contingent liabilities and commitments required for the assessment of individual risks and the establishment of the impairment losses and provisions serving as a collateral for such risks individually.

When performing such classification, the Bank classified all parts of outstanding claims, investments and undertaken liabilities in relation to which there is a risk of losses.

When classifying investments, first of all the losses expected to arise from such investments were estimated.

When classifying outstanding claims, the Bank examined the defaults in principal repayment and interest payment arising in connection with the repayment of the outstanding claim, jointly with the changes in the debtor's financial situation, stability and income-generating ability, as well as any deterioration in the value, liquidity and availability of securities accepted as collateral.

Based on the impairment loss established during classification as well as on the size of the provision, the Bank classified outstanding claims, investments and undertaken liabilities into the categories performing and non-performing.

The Bank daily revalues its currency (foreign exchange) stock and its receivables and liabilities denominated in a foreign currency and exclusively related to its credit institution activity into a HUF amount based on the exchange rate published by the Central Bank of Hungary.

The Bank recognizes liabilities at carrying amount (with the exception of the above-mentioned currencies).

Fair value measurement

The assets and liabilities subject to fair value measurement are included in the statement of financial position with the amount for which an asset can be exchanged (sold or purchased) or a liability can be settled between the parties expressing their intention to conclude a transaction, within the framework of a deal concluded at arm's length.

In accordance with the provisions of the Accounting Act, the Bank classified the financial instruments that are not part of any hedges into the following categories:

- Financial instruments for trading: financial instruments acquired for the purpose of generating profit from short-term price and rate fluctuations.
- Originated loans and other receivables: financial assets created by the Bank through making financial instruments, goods or services available, which involve fixed or ascertainable payments, unless the Bank created them for the purpose of short-term sales. Originated loans and other receivables primarily consist of credits and loans provided to banks and customers.
- Financial instruments held to maturity: financial assets which the Bank intends to and is able to retain until maturity. The Bank classifies securities held to maturity into this category.
- Assets available for sale: financial instruments that are not classified as financial assets held for trading, credits or loans originated by the Bank or financial instruments held to maturity.

In the case of securities available for sale and held for trading, when establishing the fair value taken into account during fair value measurement, the prices are unreliable due to the vulnerable liquidity that can be observed on the market, therefore the Bank performs the measurement based on a yield curve. The market price "calculated" based on the yield curves is calculated by the Kondor system.

Bonds issued by local governments or municipal companies have been an exception from the general rule of measuring securities available for sale at market price since 2011. For such bonds, in 2011, the Bank introduced a model similar to the rating-based impairment loss used during the valuation of the loan portfolio.

The fair value measurement methodology used for derivatives and the valuation principles were developed in a manner approved by the Bank's management.

In the case of securities held for trading, the valuation difference is recognised directly in the profit/loss and in the case of securities available for sale, it is recognised in the shareholders' equity (valuation reserve).

The fair value hedges concluded by the Bank are market value type (fair value) and cash flow type hedges. Hedges must be marked as hedges when concluding the transaction and they must be recorded as such. In the records kept of hedges, the open position existing due to the hedge(s) as well as its expected interest and exchange rate losses must be assigned to the hedge. The hedge efficiency must be ensured at the time of the conclusion of the hedge and also during its entire maturity term. Reviews must be performed at the measurement dates (monthly), and their results must be recorded in the hedge document. If the nature of a deal concluded with a hedging purpose changes prior to its maturity term, its result must be recognised according to the general rules applicable to forward deals.

The Bank does not have fair value and cash flow hedge transactions at 31.12.2017.

Impairment loss and sundry provisions

The general principles and methodologies for asset evaluation and impairment and credit risk provision calculation within Bank in line with regulatory and accounting standards are described in internal policies.

Asset evaluation is performed for:

- receivables from credit institutions and customers derived from financial and investment services, receivable-type prepaid expenses and accrued income (hereinafter collectively: the 'receivables'),
- off balance sheet liabilities,
- assets received in exchange for receivables and recorded as inventory,
- assets sold with deferred payment, repurchase obligation and a right of recourse,
- litigated receivables,
- other customer claims,
- claims against employees and ex-employees.

The evaluation process performed monthly for receivables and off-balance sheet liabilities and quarterly for other items. During the assessment, all of the following criteria are taken into account:

- customer and partner rating,
- compliance with the order of repayment (overdue),
- value, mobility, accessibility of the security offered as collateral and the changes therein,
- re-marketability and mobility of the item,
- future payment obligation that qualifies as a loss from the item,
- special risks.

Individual asset evaluation is applied for individually significant exposures. Asset evaluation is performed group-based for individually insignificant exposures using evaluation groups with similar characteristics (client rating, product, collateral level, revocability, etc.). An exposure is considered as individually significant if the client's total exposure (including on-balance and off-balance) is over the materiality limit of HUF 50 million.

As a result of asset evaluation impairment is may be created for on-balance sheet items. For off-balance sheet items credit risk provision is may be accounted. Also in case of group-based evaluation impairment or provision is allocated to individual deals.

Individual assessment of receivables and off-balance sheet liabilities for defaulted customers is based on discounted cash flow method. This means that a difference between carrying amount and net present value (NPV) of the expected cash flows is recognised as expected credit loss and lead to impairment allocation. All estimated cash payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows. The effective interest rate is used as the discount rate in the calculation of the NPV of the expected cash flows. Litigated receivables are evaluated considering the chance of losing the litigation. For other items impairment or provision rate is dependent on overdue days and expectations on future losses.

Group based evaluation uses risk parameters to calculate impairment or provision rate for each evaluation group. Risk parameters of receivables and off balance sheet liabilities are: probability of default (PD, only for performing client), loss given default (LGD) and credit conversion factors (CCF) in case of off-balance-sheet exposures. For other items group-based impairment or provision rate is dependent on overdue days.

Special risks are taken into consideration so that minimum or additional impairment is accounted for the deal in case of restructuring or other specific risk category (e.g. capitalised interest, project loans, balloon payment, combined products) defined in regulatory resolutions.

The Bank regularly reviews its impairment and credit risk provision. These exercises comprise the parameters and methodologies used in its calculation. Adjustments can take place in the context of specific reviews, routine maintenance of parameters (such as regular calibration) or in the case of specific events (e.g. improved knowledge about recovery behaviour, back-testing results).

The Bank recognises the portfolio of the following recognised impairment losses among the assets (according to the provisions of the Credit Institutions Act and the government decree on credit institutions) in the statement of financial position:

- impairment loss recognised on receivables,
- impairment loss recognised on securities,
- impairment loss recognised on inventories,
- impairment loss recognised on fixed financial assets.

The following sundry provisions created according to the requirements of the Credit Institutions Act and the Accounting Act are recognised in liabilities:

- provision for pensions and severance payments,
- risk provision for contingent liabilities and commitments,
- other provisions for expected, significant and periodically recurring future costs,
- other provision.

The Bank continuously monitors the legal affairs by which it is directly or indirectly affected. The Bank creates a provision for potentially arising liabilities, taking into account the chances of their occurrence. In cases for which the Bank has not created any provision, the potential claim against the Bank is not substantiated or it has no significant effect on the financial and income situation of the Bank.

Making interest pending

According to the requirements of the government decree on credit institutions, we accounted for the income from interest, interest-type commissions and other financial services and made them pending. There are expired interest and commission receivables among the receivables that were due pro rata for the financial year, were payable and paid by the time of the preparation of the balance sheet, and there are overdue receivables which were paid late but not later than the date of preparation of the balance sheet.

Income statement

The income statement contains detailed information on the Bank's net result for the period according to the statement of financial position, the main factors influencing the profit/loss generated, and the components and trends in the net result for the period.

In accordance with Section 11/A. § (2) of the Government Decree 250/2000. (XII. 24), the Bank, classified its extraordinary items among either financial or other income or expenses based on their nature and content. Related items are presented under note III/5.

The principles specified by the Accounting Act were also enforced during the preparation of the income statement; the profit/loss is the difference between the income and expenses for the financial year, realised for certain by the statement of financial position date or the preparation of the statement of financial position and arising by the statement of financial position date or becoming known to the Bank by the date of preparation of the statement of financial position.

Depreciation of assets

Based on the Corporate Income Tax Act and the Accounting Act, the Bank recognises depreciation and depreciation allowances according to the following:

- based on individual consideration, it accounted for the carrying amount of property and equipment below an individual acquisition value of HUF 100,000 in one sum as depreciation at the time of their putting into use,
- it accounted for depreciation every month; on property and equipment acquired during the month, a pro rata depreciation was recognised from the date of commissioning,
- it used the straight line depreciation method determined based on gross values for accounting for depreciation,
- for recognising the annual depreciation of property and equipment, it acted in accordance with the requirements of the Accounting Act, taking into account the time of use,
- the following rates were used for the write-down of intangible assets:
 - tenancy right 10%, software 10% (or depending on the time of use)
 - capitalised value of formation/reorganisation 20%
 - business line purchase related goodwill is impaired over the same period of time as the pricing model applied through the calculation of the purchase price.
- it recognises licenses relating to property and equipment among tangible assets in the books,

it specified a residual value in the case of motor vehicles and own investments; it is a residual value expected at the end of the service life and is 20% of the gross value.

Accounting closing and stocktaking

The Bank prepares a general ledger statement every month, including the designation of the accounts in the general ledger, their currencies and the closing balance in the original currency and in HUF.

When preparing the annual financial statements, the Bank performs the closing activities prescribed by the laws. The Bank makes a stock-list for the year-end closing of the books and the preparation of the annual financial statements, which contains its assets and liabilities (their quantities and values) existing on the statement of financial position date, in an itemised form and a verifiable manner.

Stocktaking is done of property and equipment and intangible assets every three years, and annually/quarterly or monthly of inventories – depends on type of inventory.

Notes

The note contains all numerical data and explanatory texts that are necessary for owners, investors and creditors to judge the Bank's financial situation and operating profit/loss.

The Notes also include the cash flow statement with the content required by the government decree on credit institutions (Annex 3 "A").

I/3 Legislative changes with an effect on the Bank's financial and income situation in 2016

Due to changes in legislation of Banking tax during 2017, the basis of calculation changed from the corrected total assets of the Bank for the year 2009, to total assets for two years prior to the actual period. The tax rate for entities of total assets over HUF 50 billion was 0.24% in 2016, while 0.21% in 2017. Below HUF 50 billion of total assets, the rate of banking tax is 0.15% in both years.

I/4 The assessment of the Bank's financial and income situation

Balance sheet composition

The Bank's balance sheet total was HUF 2,179 billion at the end of 2017, 6.9 % higher than the balance sheet total at the end of the previous year. The amount of total equity is HUF 360,592 million.

Items on the asset side

Similarly to the previous year, a further decrease is observable in the portfolio of receivables from credit institutions and their share within total assets. Mainly placements with the National Bank of Hungary (MNB) decreased by about HUF 104.3 billion, mainly as a result of diminishing interest rate environment and limited amount of excess liquidity. Thus the share of receivables from credit institutions within total assets fall back to 2.9% as compared with the 10.9% reported for the preceding year. Receivables from credit institutions have decreased with HUF 161 billion in total compared to 2016. The proportion of receivables from customers have increased, mainly as a result of growing new disbursements and migrated Citi loan portfolio, thus, at the end of the year, it amounted to 54.7% of the Bank's asset portfolio in contrast to 50.1% in the previous year. The portfolio of government securities grew by HUF 34 billion, out of which government securities held for trading purposes decreased by 81%, while government securities held for investment purposes increased by 24%.

The gross amount of retail loans (including the self-employed) was HUF 692 billion. The proportion of HUF loans and FX loans was 99.7%-0.3%. At the end of the year, 56.9% of long-term maturity retail loans were housing loans (HUF 394 billion) and 34.7% were consumer loans (HUF 240 billion).

Changes in the distribution of retail loans by product group in 2017:

Households, retail customers (million HUF)	31.12.2016	31.12.2017	change %
housing loans	414,831	394,192	(4.98)%
consumer loans	225,117	240,230	6.71%
other loans	36,684	57,989	58.08%
Total	676,632	692,411	2.33%

The (gross) loans to business organizations (including local governments, not profit-oriented organizations, financial undertakings and the central budget) increased to HUF 562 billion by the end of the year, which was HUF 111 billion higher than the portfolio at the end of 2016.

Main asset categories, 2016-2017

(In million HUF)	31.12.2016	31.12.2017	Change %		Proportion %	
			2017/2016	31.12.2016	31.12.2017	
Cash and cash equivalents	24,120	20,292	(15.9)%	1.2%	0.9%	
Government securities	614,691	648,423	5.5%	30.2%	29.8%	
Receivables from credit institutions	223,295	62,225	(72.1)%	11.0%	2.9%	
Receivables from customers	1,020,724	1,191,165	16.7%	50.1%	54.7%	
Other assets	155,662	256,920	65.0%	7.6%	11.8%	
TOTAL ASSETS	2,038,492	2,179,025	6.9%	100.0%	100.0%	

Items on the liabilities side

There was a slight change in the structure of liabilities in 2017 compared to the end of 2016. Proportions, similarly to the prior year trend, continued shifting towards retail and corporate deposits. Liabilities consist of the following: retail and corporate deposits 67.9% (68% in 2016), own resources 16.5% (14% in 2016) and other (from credit institutions, the central bank, money market funds and third party funding) funds 15.6% (18% in 2016).

The Bank recognized HUF 54.864 million subordinated loan capital in its liabilities.

Deposits in 2017

Deposits (million HUF)	31.12.2016	31.12.2017
Central government	6,357	10,894
Local governments	17,855	41,316
Other financial enterprises	322,180	238,668
Money market funds	62,959	21,907
Companies engaged in activities auxiliary to financial services	4,444	7,357
Insurers and pension funds	6,351	5,486
Auxiliary undertakings	19,590	9,554
Non-financial enterprises	419,056	441,007
Households, retail customers	447,611	616,948
Households, self-employed	12,191	14,470
Households non-profit	48,695	45,272
Foreign countries	19,513	24,499
Total	1,386,802	1,477,378

As regards customer deposits, the portfolio increased by HUF 91 billion, and in parallel with this, their share within the balance sheet total increased to 72% from 68% in 2016. The Bank has a 7.92% market share regarding retail deposits, which corresponds to a 176 bps increase over the past year.

Retail deposits (million HUF)	31.12.2016	31.12.2017
Due on demand	318,797	518,626
Fixed-term deposit – on account	128,274	97,787
Fixed-term deposit – in document	540	535
Total	447,611	616,948

The Bank's treasury activity focuses on the Hungarian currency and on trading on the related derivatives market, however it carries out the dominant part of this activity not on its own behalf but on behalf of Erste Group Bank.

As regards its activities performed on its own behalf, the Bank concludes own-account hedges and deals for the purpose of serving customers, primarily on the Hungarian money and foreign exchange markets.

The Bank's FX financing continues to heavily rely on the parent bank's financing within the Erste Group.

The Bank did not repurchase any of its own shares or concluded any other transaction with its own shares.

Main liability categories, 2016-2017

(In million HUF)	31.12.2016	31.12.2017	Change %	Proportion %	Proportion %
			2017/2016	31.12.2016	31.12.2017
Liabilities to credit institutions	231,815	229,102	(1.2)%	11.4%	10.5%
Liabilities to customers	1,388,784	1,478,881	6.5%	68.1%	67.9%
Total equity	279,246	360,592	29.1%	13.7%	16.5%
Other liabilities, sundry provisions	138,647	110,449	(20.3)%	6.8%	5.1%
TOTAL LIABILITIES	2,038,492	2,179,024	6.9%	100.0%	100.0%

Income statement

The Bank's Operating income increased considerably, while Operating expenses grew in a lesser extent compared to the previous year, resulting in a HUF 72.9 billion After tax profit at the end of 2017.

Regarding the elements of Operating income, Net interest income was up by 24,5% (HUF 15.3 billion) compared to previous year.

The interests received increased by HUF 7 billion, while interests paid were lower by HUF 8.3 billion (-55%).

Administrative costs were higher by 6.9% this year compared to the same period of the previous year. Within this category, staff costs increased by 10.4%, while other administrative costs increased by 2.8%.

The Bank's 2017 year-end headcount (2 827) was higher with 181 employee than 2016 (2 626) projected to 8-hour employment. The Bank's average 2017 headcount was more than 100 people higher compared to 2016, primarily due to the integration of the acquired Citibank consumer business. In line with the long-term strategy of the Bank the projects supporting its development and improvement continued.

The average age of our employees is 38 years, and the average length of their employment is 6.2 years.

During 2017, the Bank provided an opportunity for 126 trainees within the framework of a trainee programme to get an inside view of the Bank's operation and to acquire work experience. 4% of those participating in the Bank's trainee programme were recruited as employees of the Bank.

Depreciation increased by 58.7% (HUF 3,125 million) compared to the previous year. The change was mainly due to the increase in depreciation of licenses and softwares.

Operating revenues and expenses in 2016-2017

(In million HUF)	2016	2017	Change %
			2017/2016
Net interest income	62,520	77,855	24.5%
Commission income	38,802	43,711	12.7%
Dividend income, interests	3,862	2,581	(33.2)%
Profit/loss from financial transactions	(4,126)	15,545	(476.7)%
Operating revenues	101,058	139,692	38.2%
Administration costs	47,664	50,946	6.9%
<i>Staff costs</i>	25,772	28,449	10.4%
<i>Other costs</i>	21,892	22,497	2.8%
Depreciation	5,323	8,448	58.7%
Operating expenses	52,987	59,394	12.1%
Other profit or loss*	(35,313)	(46,666)	32.1%
Impairment loss + provision	(62,887)	(37,339)	(40.6)%
Reversals of impairment loss + provision	91,033	87,324	(4.1)%
Pre-tax result	40,904	83,617	104.4%
Result after tax	35,264	80,974	129.6%
Net result for the period	31,738	72,877	129.6%

* Including earlier extraordinary items

Main profitability indices

Rate of return on assets (ROA)	31.12.2016	31.12.2017
Profit/loss before tax / Asset value	0.02	0.04
Profit/loss for the year / Asset value	0.02	0.04
Rate of return on total equity (ROE)	31.12.2016	31.12.2017
Profit/loss for the year / Total equity	0.13	0.22

Impairment loss, provision

At the end of 2017, 79.2% of loans are within low-risk category, which is 8.8% higher than the 2016 figure. The most significant improvement is observable in the portion of non-performing loans (decreased from 12.4% to 7.0%), yet there has been a decrease in the portion of special-mention and sub-standard loans as well, respectively a decrease of 2.8% and 0.6% to 11% and 2.8%.

Due to the improved portfolio, there was a HUF 42 billion lower impairment loss and risk provision at the end of 2017. On one hand, a number of large non-performing corporate loans have been recovered, while on the other, successful retail workout activity also contributed to the reduced impairment loss and risk provision balance. Furthermore, in line with new regulations, the statistical impairment calculation on performing loans has been ceased. This is substituted by the impairment calculated on newly defaulted loans, yet compared to 2016, there has been a lower number of defaults in 2017 both in the case of retail and corporate contracts. Impairment on non-performing loans ratio increased to 70%.

Purchase of Citibank's Hungarian retail banking and cards business

In February 2017 the Bank completed one of the largest bank portfolio acquisitions in the last 10 years by acquiring the Hungarian consumer banking business of Citibank Europe plc. The transaction resulted in Erste Bank Hungary having the second largest retail customer portfolio in Hungary. As part of the acquisition process, making headway in asset management, the Bank launched the new Erste World segment in March 2016, expanding its mass-affluent and private banking services. Conforming to the scale and complexity of the deal, the acquisition contract provided a 90 day post-migration period for the parties in order to calculate and finalize the purchase price.

I/5 Compliance with the rules for certain risky activities

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Directive (EU) No 575/2013 on prudential requirements for credit institutions and investment firms regulate the limit values of certain risky activities of credit institutions and their secure operation. Compliance with this Act can be summarized as follows, based on the data on 31 December 2017:

For each activities regarded as risky, the Act determines the limit values as a proportion of the Bank's own funds. The Bank's own funds that can be taken into account for covering the risks of the year 2017 and as the basis of restrictions were HUF 330.567 million (there was no limit overrun in the period in question).

Compliance with the limits prescribed by the Credit Institutions Act:

Section 106 § (1)-(3) The Bank did not grant any loan classified as internal credit; it only granted employer's loan - in its capacity as employer - to its employees, approved in accordance with the internal policy, and retail loans, in addition to the overdraft facility held for executive officers closely linked to the credit institution, and it only granted loans to companies under the controlling influence of the management body of the credit institution on the bases of the decision of the management body exercising management powers made with a more than two-thirds majority.

Section 83 (1)-(2) The Bank accumulated general reserve of HUF 8,067 million in 2017.

Section 79 § (1)-(2) The Bank's solvency ratio exceeded the minimum value specified in the Act throughout the year. At the end of the year, based on the numerical data of the statement of financial position, the solvency ratio decreased from 20.58% in 2016 to 19.63%.

CRR Article 395 The Bank did not incur any exposure calculated taking into account the effect of the credit risk mitigation in excess of 25% of its eligible capital or EUR 150 million, whichever the higher, to a client or group of connected clients.

CRR Article 89 (1) The Bank had no qualifying shares in any undertaking - with the exception of those mentioned in subsections a) and b) of Article 89 (1) of the CRR - exceeding 15% of its eligible capital.

CRR Article 89 (2) The Bank's qualifying interests in any undertakings other than those exempted did not exceed 60% of its eligible capital.

Section 101 § The total amount of the Bank's real estate investment portfolio, excluding real estate not used exclusively for banking purposes, did not exceed 5% of its own funds. These properties were acquired by the Bank in order to avoid credit losses.

Section 102 § (1) Total net amount of the Bank's (direct and indirect) investment portfolio did not exceed one hundred percent of its own funds.

Section 84 § (1) To compensate for any and all identifiable and classifiable risks that may arise in connection with its activities, the Bank created the required risk provision and recognized the impairment loss.

Section 84 § (1) At the end of 2017 the Bank had no general risk provision.

When determining the limits, the Bank took into account also the capital requirements of the trading book.

The Bank fulfilled the mandatory central bank reserve liability within the regulatory scope of the central bank.

II/1 Foreign currency assets within total assets, in HUF

Data in million HUF

Description	Statement of financial position line	Data in million HUF	
		31.12.2016	31.12.2017
Cash and cash equivalents	1	1,881	2,445
Government securities	2	18,880	17,293
Receivables from credit institutions	3	85,224	22,047
Receivables from customers	4	213,519	290,122
Debt securities	5	4,131	71,261
Shares and other variable-yield securities	6	-	-
Shares and interests held for investment purposes	7	857	854
Shares and interests in affiliated undertakings	8	-	-
Other receivables	12b,12/A,12/B	4,469	3,248
Accrued and deferred assets	13	1,402	1,987
Total		330,363	409,257

II/2 Foreign currency liabilities within total liabilities, in HUF

Data in million HUF

Description	Statement of financial position line	Data in million HUF	
		31.12.2016	31.12.2017
Liabilities to credit institutions	1	40,182	26,445
Liabilities to customers	2	467,843	410,370
Debt securities issued	3	487	-
Other liabilities	4	8,913	4,783
Accrued and deferred liabilities	5	3,544	4,224
Sundry provision	6	20,565	-
Subordinated liabilities	7	50,793	50,650
Total		592,327	496,472

II/3 Receivables from credit institutions and customers by remaining maturity (excluding receivables on demand) 31.12.2017

Data in million HUF

Description	Maturity					Impairment loss	Deferred interest provision	Total
	3 months	3 months - 1 year	1 - 5 years	Over 5 years				
3.b) Other receivables from credit institutions from financial services	27,334	33,274	0	0	0	0	0	60,608
4.a) Receivables from customers arising from financial services	52,395	152,542	206,294	738,809	-63,457	(830)		1,085,753

II/4 Liabilities to credit institutions and customers by remaining maturity (excluding demand deposit items) 31.12.2017

Data in million HUF

Description	Maturity				Total
	3 months	3 months - 1 year	1 - 5 years	Over 5 years	
1.b) Liabilities to credit institutions, committed for a certain period, arising from financial services	51,541	29,222	70,899	70,807	222,469
2.ab) Customers' savings deposits with a maturity of up to one year	-	-	-	-	-
2.ac) Customers' savings deposits with a maturity over one year	-	-	-	-	-
2.bb) Other liabilities to customers, with maturity within one year, arising from financial services	84,489	91,645	178	-	176,312
2.bc) Other liabilities to customers, with maturity over one year, arising from financial services	6,203	17,413	35,606	-	59,222
7) Subordinated liabilities (subordinated loan capital)	-	-	51,512	3,352	54,864

II/5 Receivables from the parent company and the subsidiaries 31.12.2017

Data in million HUF

Statement of financial position lines	Description	Maturity			Total
		due on demand	within one year	over one year	
3)	Receivables from credit institutions	1,617	60,608	-	62,225
of which	- from the parent company	925	1,031	-	1,956
	- from subsidiaries	-	8,100	-	8,100
4)	Receivables from customers	105,409	128,310	957,443	1,191,162
of which	- from the parent company	-	-	-	-
	- from subsidiaries	333	60,700	1,658	62,691
12b)	Other receivables	-	13,140	-	13,140
of which	- from the parent company	-	2,849	-	2,849
	- from subsidiaries	-	331	-	331
13)	Accrued and deferred assets	-	20,175	-	20,175
of which	- from the parent company	-	1,899	-	1,899
	- from subsidiaries	-	905	-	905

II/6 Liabilities to the parent company and the subsidiaries 31.12.2017

Data in million HUF

Statement of financial position lines	Description	Maturity			Total
		due on demand	within one year	over one year	
1)	Liabilities to credit institutions	6,633	44,293	178,176	229,102
of which	- from the parent company	8	6,238	-	6,246
	- from subsidiaries	6,036	-	77,792	83,828
2)	Liabilities to customers	1,241,844	176,312	60,725	1,478,881
of which	- from the parent company	-	-	-	-
	- from subsidiaries	83,327	-	147	83,474
3)	Liabilities existing as a result of debt securities in issue	-	-	2,033	2,033
of which	- from the parent company	-	-	-	-
	- from subsidiaries	-	-	-	-
4)	Other liabilities	-	28,620	-	28,620
of which	- from the parent company	-	-	-	-
	- from subsidiaries	-	2	-	2
5)	Accrued and deferred liabilities	-	19,285	-	19,285
of which	- from the parent company	-	774	-	774
	- from subsidiaries	-	228	-	228
7)	Subordinated liabilities	-	-	54,864	54,864
of which	- from the parent company	-	-	50,650	50,650
	- from subsidiaries	-	-	-	-

II/7 Shares and interests held for investment purposes

Data in million HUF

Interests for investment purposes 31.12.2017

Description	In affiliated undertakings (subsidiaries)	In affiliated associates	In other non-affiliated undertakings	Total
Opening balance	53,765	-	1,771	55,536
Growth (+)*	2,000	-	-	2,000
Decrease (-)	-	-	2	2
Reclassification (+, -)	-	-	-	-
Closing balance	55,765	-	1,769	57,534
Impairment loss	2,494	-	448	2,942
Reversal of impairment loss	1,457	-	-	1,457
Carrying amount	54,729	-	1,320	56,049
Statement of financial position line	8.a)	-	7.a)	

II/8 The portfolio of intangible assets

Data in million HUF

Description	Licenses	Goodwill	Total
1 Gross value on 01.01.2017	33,558	5,792	39,350
2 Growth (+)	12,775	595	13,370
3 Decrease (-)	1,204	976	2,180
4 Transfer (+, -)	-	-	-
5 Gross value on 31.12.2017 (1+2-3±4)	45,129	5,411	50,540
6 Accumulated depreciation on 01.01.2017	18,447	5,228	23,675
7 Increase of depreciation (+)	6,201	356	6,557
of which depreciation of the reviewed period	5,960	356	6,316
of which extraordinary depreciation in the reviewed period	241	-	241
8 Decrease of depreciation (-)	1,031	976	2,007
9 Change of depreciation due to transfer (+, -)	-	-	-
10 Accumulated depreciation on 31.12.2017 (6+7-8±9)	23,617	4,608	28,225
11 Net value on 31.12.2017 (5-10)	21,512	803	22,315

Statement of financial position line

9)

During 2017 HUF 209 million extraordinary depreciation was recorded on activated IT software and HUF 32 million extraordinary depreciation was recorded on undeployed IT software. During the revision of software inventory (scheduled every third year) the entity decides about the scrapping of unused software.

II/9 The portfolio of property and equipment and investments held for the purpose of financial and investment services (including licenses)

Data in million HUF

Description	Properties	Plant and machinery, vehicles	Investments	Total
1 Gross value on 01.01.2016	9,570	14,425	518	24,513
2 Growth (+)	532	1,341	301	2,174
3 Decrease (-)	665	1,219	18	1,902
4 Transfer (+, -)	-	-	-	-
5 Gross value on 31.12.2016 (1+2-3±4)	9,437	14,547	801	24,785
6 Accumulated depreciation on 01.01.2016	4,072	11,784	9	15,865
7 Increase of depreciation (+)	750	1,382	-	2,132
of which depreciation of the reviewed period	750	1,382	-	2,132
of which extraordinary depreciation in the reviewed period	-	-	-	-
8 Decrease of depreciation (-)	405	1,138	9	1,552
9 Change of depreciation due to transfer (+, -)	-	-	-	-
12 Accumulated depreciation on 31.12.2016 (6+7-8±9)	4,417	12,028	-	16,445
13 Net value on 31.12.2016 (5-12)	5,020	2,519	801	8,340

Statement of financial position line

10.aa)

10.ab)

10.ac)

10.a)

The table also contains the data of licenses relating to real properties.

II/10 The portfolio of rights relating to properties held for the purpose of financial and investment services, shown by type (using table II/9)

The Bank has tenancy related to properties serves financial and investment purposes in its books amounted HUF 9 million net (HUF 298 million gross with amortization of HUF 289 million) at the end of FY 2017 (FY 2017 amortization amounted to HUF 5 million).

II/11 The portfolio of property and equipment and investments held not directly for financial and investment services

In 2016 the Bank had no property and equipment or investments not directly held for financial and investment services.

II/12 The portfolio of rights relating to properties held not directly for the purpose of financial and investment services, shown by type

In 2016 the Bank had no rights relating to properties not directly held for financial and investment services.

II/13 The portfolio of assets reported as inventories, per type 31.12.2017

Description	Data in million HUF		
	Carrying amount	Impairment loss	Book value
Purchased inventories	407	-	407
a Raw materials and consumables	175	-	175
b Goods	-	-	-
c Performance of subcontractors	-	-	-
d Other materials	232	-	232
e Advances and prepayments for inventories	-	-	-
Inventories received in exchange for receivables	123	23	99
a Properties	122	23	98
b Machinery and equipment, fixtures and fittings	-	-	-
c Vehicles	-	-	-
d Other assets	1	-	1
Total inventories	530	23	506
Statement of financial position line			12.a)

II/14 Legal title and amount of contingent liabilities and commitments

Data in million HUF

Contingent liabilities	31.12.2016	31.12.2016 of which: related	31.12.2017	
			31.12.2017	31.12.2017 of which: related
- undertaken guarantees and suretyship	23,870	-	31,710	-
- unused credit line	347,994	-	363,842	-
- lawsuits	192	-	2,409	-
- return guarantee	-	-	-	-
- liabilities arising from forward deal in securities	-	-	-	-
- import letters of credit	2,114	-	2,537	-
- export letters of credit	-	-	-	-
- other contingent liabilities	1,098	-	-	-
Total	375,268	-	400,498	-

Liabilities	31.12.2016	31.12.2016 of which: related	31.12.2017	
			31.12.2017	31.12.2017 of which: related
- futures	5,592	-	5,015	-
- forward	-	-	-	-
- delivery repo - passive	-	-	1,654	-
- spot	18,996	18,996	34,080	-
- margin	462,830	151,580	513,683	101,528
- FRA	-	-	-	-
- swap	680,490	574,326	1,744,023	-
- option	156,708	-	264,630	-
- interest rate swap (IRS)	873,491	506,636	905,508	36,896
Total	2,198,107	1,251,538	3,468,593	138,424

The Bank has financial liabilities solely from its normal banking activity with no material off balance sheet liabilities among them.

II/15 Not due futures contracts and forward deals concluded on the interbank market and their impact on the profit

Data in million HUF

Stock exchange deals	Contract amount (measured at the rate of the Central Bank of Hungary)		Expenditure taken into account		Income taken into account	
	In 2016	In 2017	In 2016	In 2017	In 2016	In 2017
	- liabilities arising from foreign exchange futures	4	(58)	-	-	-
Total	4	(58)	-	-	-	-

Deals concluded in the interbank market	Contract amount (measured at the rate of the Central Bank of Hungary)		Income taken into account		Expenditure taken into account	
	In 2016	In 2017	In 2016	In 2017	In 2016	In 2017
	- spot	8	(32)	0	0	0
- margin	(207)	(2,558)	0	0	0	0
- options	1	99	648	657	691	640
- FRA	0	0	0	0	0	0
- swap	503	4,695	12,832	18,656	10,057	14,620
- forward	0	1	0	0	0	0
- IRS	5,840	5,640	13	11	177	147
Total	6,145	7,845	13,493	19,324	10,925	15,407

The Bank had no derivative instruments in hedging relationship through 2016 and 2017.

II/16 Legal title of contingent claims and future receivables and the collaterals received

	Data in million HUF	
	31.12.2016	31.12.2017
Collaterals received		
- Cash collateral	9,573	47,009
- Bank guarantees and joint and several suretyship	1,056	2,092
- Guarantees from the central budget	91,246	93,678
- Guarantees from other public or state-owned bodies	9,764	13,997
- Securities – shares	2,255	3,485
- Securities – other securities	5,400	15,679
- Assignment of sales revenue	-	-
- Assignment of other receivables	7,088	8,750
- Lien registered on goods in stock	55,314	61,924
- Mortgages	1,392,766	1,525,383
- Other	555,315	742,607
- Suretyship	171,032	288,670
- Movable	280,426	302,746
- Other lien	90,377	100,532
- Other	13,480	50,659
Total collaterals and securities	2,129,777	2,514,604
Collaterals and securities (up to the value of the receivable)	663,845	778,714
Future receivables	31.12.2016	31.12.2017
- delivery repo - active	9,809	-
- futures	5,600	4,899
- forward	-	465
- spot	19,004	34,048
- margin	462,416	508,567
- FRA	-	-
- swap	680,994	1,748,717
- option	156,710	311,253
- interest rate swap	857,816	891,521
- IRS	21,318	19,606
Total	2,213,667	3,519,076

II/17 Statement of interest and commission claims made pending

Description	Data in million HUF	
	Closing balance of claims made contingent	
	31.12.2016	31.12.2017
Deal interest, default interest, interest-type commissions	28,283	16,153
Financial service fees	31	23
Total	28,314	16,176

II/18 Claims that were made contingent in previous years and were received in the financial year reviewed

Description	Data in million HUF	
	Amount of received contingent claims	
	In 2016	In 2017
Deal interest, default interest, interest-type commissions	38,080	14,426
Financial service fees	59	12
Total	38,139	14,438

II/19 The portfolio of sundry provisions per type 31.12.2017

Data in million HUF

	Opening balance	Growth in the year	Decrease in the year	Impact of exchange rate changes	Closing balance
For contingent liabilities and commitments	21,175	2,396	22,636	(355)	580
For litigations	111	22,354	19,982	(74)	2,409
Other provisions	2,795	325	461	-	2,659
Total	24,081	25,075	43,079	(429)	5,648
Provision created for deferred interest of housing loans with deferred payment	1,560	-	730	-	830
Total	25,641	25,075	43,809	(429)	6,478

* Recognised in the receivables from customers line

Provision for litigations

Provision for litigations covers allowances for such legal cases that have no direct linkage to the core business of the company such as, for example, labour and employment related issues.

This category also includes HUF 1.7 billion related to a Supreme Court (Curia) decision:

By the decision of the Hungarian Competition Authority of 19 November 2013 11 leading Hungarian banks were fined for harmo-nised activities in setting their practices in the case of the "Endpayment" scheme in the period of 15 September 2011 - 30 January 2012. The decision was appealed and the legal case continued at Supreme Court (Curia). By the Curia decision due to the imperfection of the legal procedure the original decision is nailed, the amount of the fine was paid back to the Bank and new procedure is ordered. Conforming to the decision the Bank allocated legal provision in 2017, in the amount of the original fine of HUF 1.7 billion.

Other provision

The determining majority of other provisions are coming from items already recognized in 2016, like HUF 1.78 billion warranty like provision related to 'Large debt sale', HUF 551 million related to a stamp duty obligation and HUF 160 million concerning the residual items out of the legally obliged forced conversion related to factored.

II/20 Changes of the portfolio of impairment losses by asset class 31.12.2017

Data in million HUF

	Opening balance	Impairment loss due to classification	Reversed from the impairment for the year under review due to classification/write-offs	Net increase	Reversed from the impairment for the previous years due to classification/write-offs	Decrease due to sales	Exchange rate changes	Closing balance
Receivables from credit institutions	59	-	-	-	-	-	-1	58
Receivables from customers	106,856	33,618	12,873	20,745	53,592	10,675	65	63,399
Other receivables	291	127	101	26	51	-	-	266
Securities and interests	11,983	2,942	-	2,942	1,457	-	-1	13,467
Inventories	223	70	-	70	-	268	-2	23
Total	119,412	36,757	12,974	23,783	55,100	10,943	61	77,213

The assessment of the Bank's financial and income situation, page 22.

II/21 Detailed statement of accruals and prepaid expenditure

Data in million HUF

Description	Statement of financial position line	31.12.2016	31.12.2017
Accrued income	13a	16,377	17,463
- interest on placements		2,695	2,756
- interest on securities		9,387	10,125
- exchange rate margin of securities for investment purposes		-	27
- pro rata profit/loss of derivatives		1,835	1,741
- other income from commissions and fees		2,460	2,814
- rent		-	-
-other income		-	-
Accrued expenses	13b	2,184	2,712
- operating costs		784	1,632
- other accrued costs		1,378	1,072
- accrued losses relating to derivatives		22	8
Deferred expenses	13c	-	-
Total	13	18,561	20,175

II/22 Detailed statement of accrued and deferred liabilities

Data in million HUF

Description	Statement of financial position line	31.12.2016	31.12.2017
Deferred income	5a	336	302
- deferred income of derivatives		244	230
- deferred interest income		92	72
Deferred expenses	5b	16,949	16,790
-interest on deposits		1,324	859
- interest on subordinated loan capital		219	135
- interest on issued bonds		799	875
- exchange rate margin of securities for investment purposes		5,124	4,964
- deferred profit/loss of derivatives		611	427
- operating costs		-	-
- other deferred expenditure		8,872	9,530
Deferred income	5c	3,826	2,193
- other deferred income		3,826	2,010
- bargain purchase		-	183
Total	5	21,111	19,285

II/23 Changes in total equity

Data in million HUF

The items of total equity	31.12.2016	Growth (+)	Decrease (-)	31.12.2017
Subscribed capital	146,000	-	-	146,000
Capital reserve	117,492	-	-	117,492
- premium	117,492	-	-	117,492
- other	-	-	-	-
General reserve	3,526	8,097	-	11,623
Retained earnings	(20,455)	31,738	-	11,283
transfer of the profit or loss for the previous year according to the statement of financial position	(20,455)	31,738	-	11,283
Valuation reserve	945	372	-	1,317
valuation reserve of fair valuation	945	372	-	1,317
Profit or loss for the year according to the statement of financial position	31,738	72,877	31,738	72,877
Total	279,246	113,084	31,738	360,592

II/24 Other detailed statements relating to the items of the statement of financial position

- The total exposure value of the total large exposures was HUF 1,182.828 billion, the reduced value with deductions according to Article 395 (1) of the CRR, undertaken by the Bank, was HUF 1,182.828 billion on the statement of financial position date (of this HUF 823.867 billion to the Central Bank of Hungary and the Government Debt Management Agency); the value adjusted by exceptions was HUF 196.797 billion.
- To cover its open liquidity and interest rate risk positions existing in the various currencies, the Bank concludes IRS (Interest Rate Swap) and CCIRS (Cross Currency Interest Rate Swap) deals. The cross currency interest rate swap deals (CCIRS) are used for financing the CHF and the EUR loan portfolios; their typical term is between 2 and 5 years.
- At the end of 2017 the Bank had no subordinated receivables among its assets, but there were subordinated – non-convertible – liabilities among liabilities to the amount of approximately HUF 54,864 million. Within this:
 - subordinated liabilities – securities amounted to HUF 4,215 million → (A)
 - subordinated and financial liabilities – loans were HUF 50,649 million → (B)

A)

The Bank's subordinated liabilities include subordinated loan capital bonds of a total value of HUF 4,215 million.

Name of Bonds	Issue date	Subscribe partner	Subscribe amount (million HUF)	Interest	Maturity date
Erste Guarantee Bond	01.12.2008	Erste Sparkassen Biztosító Zrt	389.3	6.88%	01.12.2020
Erste Guarantee 2 Bond	30.04.2009	ERSTE Vienna Insurance Group Zrt*	473.7	8.19%	30.04.2019
ERSTE Subordinated Loan Capital Bond	28.03.2014	ERSTE Vienna Insurance Group Zrt*	3,352	0.9%	28.03.2024
Total:			4,215		

B)

The balance of subordinated loan capital as of 31. December 2017, made available to us by Erste Group Bank AG, are as follows:

	Amount (million EUR)	Amount (million HUF)	Interest and index	Maturity (year)
MM00000000133	32	9,924	EUR3MT+198	2021
MM00000000136	68	21,089	EUR3MT+198	2021
MM00000006689	35	10,855	EUR3MT+250	2021
MM00000017633	28.312	8,781	EUR3MT+198	2021
Összesen	163.312	50,649		

- There are no assets encumbered by a mortgage and related rights among the intangible assets and property and equipment owned by the Bank.
- On the statement of financial position date, the Bank had no real sale and repurchase liabilities, within the framework of which it received assets from the counterparty with a repurchase obligation.
- The Bank is a member of the National Deposit Insurance Fund and the Investor Protection Fund and joined the Resolution Fund (Szanálási Alap). The amounts of the contributions paid in 2017 according to the applicable rules:
 - Contribution paid to the National Deposit Insurance Fund HUF 1,302 million
 - Contribution paid to the Investor Protection Fund HUF 3.4 million
 - Contribution paid to the Resolution Fund HUF 567 million
- In its books among own securities, the Bank showed at nominal value securities in value of HUF 713,278 million. The value of third-party securities was HUF 1,430,664 million.
- The Bank's own securities and securities owned by third parties denominated in HUF, excluding business shares, on 31 December 2017:

	Data in million HUF
Portfolio of own securities denominated in	
At nominal value (dematerialised)	619,071
At nominal value (physical)	2,020
At book value	675,645
of this securities maturing within one year	58,503
Securities in the custody of KELER Rt	618,671
Stored with a third party (dematerialised)	400
In own custody (physical)	1,620
Portfolio of securities denominated in HUF, owned by third parties	
Portfolio of securities owned by third parties	1,271,310
of this in the custody of KELER	1,072,924
of this in own custody	197,669
of this stored with a third party	717

HUF 211,853 million of the securities denominated in HUF and owned by third parties is printed.

- The Bank's own securities denominated in foreign currencies, excluding business shares, on 31 December 2017:

	Data in million HUF
Portfolio of own securities denominated in foreign currencies	
At nominal value	92,187
At book value	88,879
Of securities, in the custody of KELER Rt	92,187

- The Bank's securities denominated in foreign currencies and owned by third parties, on 31 December 2017 (expressed in HUF):

	Data in million HUF
Customer securities in custody	
At nominal value (dematerialised)	157,794
At nominal value (physical)	1,541

III/1 Detailed statement of recognised costs by cost type and of the costs of services used

	Data in million HUF	
Recognised costs	2016	2017
Description		
Costs of raw materials	663	679
Value of contracted services	20,525	21,177
The value of other services	704	641
Wages and salaries	18,596	21,522
Staff costs	1,417	1,609
Contributions on wages and salaries	5,759	5,317
Depreciation	5,323	8,448
Total: Er: 8), 9)	52,987	59,393

	2016	2017
Contracted services		
Description		
Property rent	4,088	4,202
Hardware/Software rent	286	281
IT services	5,836	6,504
Advertising, promotion	2,311	1,964
Education	266	268
Telecommunications, data transmission and postal charges	1,769	1,720
Service fees related to the production of bank account statements	151	149
Audits, reviews, expert services	175	133
Travel and transportation	196	199
Experts' fees	1,657	1,745
Cash and valuables transportation, property protection	878	876
Expenses related to operation	2,315	2,449
Other	597	687
Total	20,525	21,177

The total balance charged by PwC for 2017 consists of HUF 133 million for audit fees and HUF 20 million for other services involving the issuance of a report (gross amounts, value-added tax included).

III/2 Detailed statement of the income and expenses of services other than financial or investment services

	Data in million HUF	
Income	2016	2017
Description		
Income from mediated services	645	685
Other	1,149	694
Total: Er: 7a)	1,794	1,379

	2016	2017
Expenses		
Description		
Expenses of mediated services	602	643
Other	584	251
Total: Er: 10a)	1,186	894

III/3 Detailed statement of the income and expenses of other financial services

	Data in million HUF	
Income	2016	2017
Description		
Commissions and fees relating to the management of client accounts	15,046	16,496
Foreign exchange commissions	2,292	2,512
Exchange rate gain on foreign exchange trade	1,352	2,083
Bank card commissions	11,820	15,518
Fees and commissions related to lending	2,430	2,594
Guarantee fees	199	193
Lease commissions	-	0
Pension fund commissions	5	74
Mortgage bank commissions	3	2
Exchange gain on fixed assets	12,331	21,616
Insurance and other brokerage commissions	14,070	16,805
Other	50	246
Exchange gain on revaluation	6,176	12,283
Income from Széchenyi Card fees	66	67
Total: Er: 4a), 6a)	65,840	90,489

Expenses	2016	2017
Description		
Commissions relating to account management	542	622
Foreign exchange commissions	1	0
Other commission-type banking charges	42	67
Costs of card production	627	1,315
Guarantee fees	-	1
Commissions relating to bank cards	1,929	2,657
Exchange rate loss on foreign exchange trade	4,916	5,578
Expenses related to lending	1,073	1,150
Brokerage commissions and charges payable to the post	889	1,556
Exchange rate loss on fixed assets	17,919	14,314
Other	2,723	4,627
Exchange rate loss on valuation	252	1,685
Total: Er: 5a), 6b)	30,913	33,572

III/4 Income and expenses of investment services

Data in million HUF

Income	2016	2017
Description		
Commercial activity	2,585	447
Exchange rate profit on issued bonds	-	0
Income from account management	1,537	1,578
Exchange rate gain on futures/forward deals	58,710	52,650
Fair valuation income of derivatives	36,688	50,878
Exchange rate gain on the fair valuation of securities held for trading	629	0
Income from option fees and premiums	1,847	2,848
Other activities	323	76
Total: Er: 4b, 6c)	102,319	108,477
Expenses		
Description		
Commercial activity	2,909	2,501
Commission agent activities	562	406
Exchange rate loss on issued bonds	2	6
Custodian, safekeeping and portfolio management activities	217	252
Exchange rate loss on futures/forward deals	64,983	59,689
Fair valuation expenses of derivatives	32,149	40,140
Exchange rate loss on the fair valuation of securities held for trading	-	452
Expenses of option prices and premiums	1,468	2,632
Other activities	281	60
Total: Er: 5b, 6d)	102,571	106,138

III/5 Recognised items of other operating income and expenses

	Data in million HUF	
	2016	2017
Other income		
Income relating to the sale of fixed assets	15,945	18,929
Income from selling own receivables and write-offs	35,244	4,740
Reversal of the impairment loss of inventories	237	44
Use and release of provisions	4	2
Use and release of other provisions	928	461
Deferred income of interest rate swaps connected to credit activity (HIRS)**	1,657	1,814
Other income	3,478	5,123
Subtotal	57,493	31,113
Previous years' corporate income tax income*	-	-
Income related to derecognised loans to customers (fx settlement related)	-	-
Value of assets received without consiredation*	1	-
Subtotal*	1	-
Total: Er: 7b)	57,494	31,113

*Prior extraordinary items

**

National Bank of Hungary (NBH) security program

NBH introduced a floating-rate-payer forint interest rate swap (IRS) facility with terms of three and five years starting from June 2014 and one with a term of ten years starting from July 2015. This facility applies some preferential elements to intensify usage of IRS tenders and also additional purchase of government securities by Banks. Banks are entitled to the preferential element if the government security portfolio is kept at a given level. In 2017 HUF 266 million is presented as deferred income related to IRS.

NBH SME lending program (PHP)

NBH introduced a lending activity linked floating-rate-payer forint interest rate swap (HIRS) with terms of one and three years starting from February 2016. Banks are entitled to the preferential gain if criteria combining growth and stability elements related to lending activity in SME sector are met. In 2017 HUF 1,548 million is presented as deferred income related to HIRS.

	Data in million HUF	
	2016	2017
Other expenditure		
Expenditure relating to the sale of fixed assets and inventories	15,936	19,189
Expenditure relating to selling own receivables and write-offs	33,619	12,105
Impairment loss of inventories	-	24
Expenditure of allocating provisions	97	14,809
Allocation of other provisions	1,855	325
Taxes, duties and contributions	16,779	19,520
Other expenditure	3,474	5,593
Subtotal	71,760	71,565
Previous years' corporate income tax expense*	-	-
Non-recurring expenses due to FX settlements*	217	-
Write-off of receivables*	20,830	6,467
Value of assets transferred without consiredation*	-	2
Subtotal*	21,047	6,469
Total: Er: 10b)	92,807	78,034

*Prior extraordinary items

III/6 Geographical breakdown of income

81.55% of income are interior, 18.36% are with partners from other EU members.

Data in million HUF

Income	Domestic	EU other	Outside EU	Total
Interest and similar income received	84,063	610	22	84,695
Income from securities	2,581	-	-	2,581
Fee and comission income received (due)	55,698	251	137	56,086
Income of other financial services	16,987	18,986	8	35,981
	68,625	38,132	141	
Income of investment services (the income of trading activities)				106,898
Other income of business services	30,841	272	-	31,113
Total	258,795	58,251	308	317,354

IV/1 Erste Bank Hungary Zrt.'s interests ensuring a direct majority and a qualifying holding 31.12.2017

Direct majority interest in undertakings

Company name	The Bank's ownership ratio in %	Subscribed capital on 31.12.2016 HUF million	Subscribed capital on 31.12.2017 HUF million	Total equity on 31.12.2016 HUF million	Total equity on 31.12.2017 HUF million	Registered office of the company	The company's internet address
Erste Jelzálogbank Zrt.	100.00	3,000	3,005	3,616	6,389	1138 Budapest, Népfürdő u. 24-26	none
Erste Befektetési Zrt.	100.00	2,000	2,000	10,907	12,714	1138 Budapest, Népfürdő u. 24-26.	http://www.erstebroker.hu
Erste Lakástakarék Zrt.	100.00	2,015	2,025	5,733	3,746	1138 Budapest, Népfürdő u. 24-26.	http://www.erstebank.hu/hu/lakastakarekpenztar.html
Erste Ingatlan Kft.	100.00	210	210	40,991	41,889	1138 Budapest, Népfürdő u. 24-26.	http://www.ersteingatlan.hu/
Erste Lakáslízing Zrt.	100.00	53	53	223	298	1138 Budapest, Népfürdő u. 24-26.	none

Indirect majority interest in undertakings

Company name	The Bank's ownership ratio in %	Subscribed capital on 31.12.2016 HUF million	Subscribed capital on 31.12.2017 HUF million	Total equity on 31.12.2016 HUF million	Total equity on 31.12.2017 HUF million	Registered office of the company	The company's internet address
Sió Ingatlan Invest Kft.	100.00	13	13	3,283	3,086	1138 Budapest, Népfürdő u. 24-26.	none
Collat-real Kft.	100.00	3	8	6,367	6,832	1138 Budapest, Népfürdő u. 24-26.	none

IV/2 The valuation differences of valuation at fair value

Data in million HUF

Derivatives	Positive fair value		Negative fair value		Future cash flow	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017
- futures	-	-	-	-	4	(58)
- forward	-	-	-	-	-	1
- spot	-	-	-	-	8	(32)
- margin	-	-	-	-	(207)	(2,558)
- FRA	-	-	-	-	-	-
- swap	12,832	18,656	10,057	14,620	503	4,695
- option	648	657	691	640	1	99
- IRS	13	11	177	147	5,840	5,640
Total	13,493	19,323	10,925	15,406	6,149	7,786

Data in million HUF

Securities for trading purposes	Carrying amount		Fair value		Valuation difference		Recognition of valuation	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Government bonds	98,404	23,070	98,655	22,972	251	-97	Profit/loss	Profit/loss
Discounted treasury bills	10,873	9,129	10,905	9,126	31	-3	Profit/loss	Profit/loss
Central-bank bond	-	-	-	-	-	-	Profit/loss	Profit/loss
Total government securities:	109,277	32,199	109,559	32,098	282	-100		
Debt securities	200	19,837	202	19,781	2	-57	Profit/loss	Profit/loss
Grand total:	109,477	52,037	109,761	51,879	284	-157		

Data in million HUF

Securities available for sale	Carrying amount		Fair value		Valuation difference		Recognition of valuation	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Investment unit	-	-	-	-	-	-	-	-
Government bonds	108,688	105,141	109,754	106,379	1,066	1,238	Valuation reserve	Valuation reserve
Discounted treasury bills	-	-	-	-	-	-	Valuation reserve	Valuation reserve
Central-bank bond	-	-	-	-	-	-	Valuation reserve	Valuation reserve
Other bonds	28,577	3,495	28,700	3,577	121	82	Valuation reserve	Valuation reserve
Total	137,265	108,636	138,454	109,956	1,187	1,320		

IV/3 The shareholder having a qualifying holding in Erste Bank Hungary Zrt. 31.12.2016

Name of the shareholder	Registered office of the shareholder	The ratio of its votes in %
ERSTE Group Bank AG	A-1010 Wien, Am Belvedere 1	70.00
European Bank for Reconstruction and Development	Broadgate, 1 Exchange Square, London EC2A 2JN, United Kingdom	15.00
Corvinus Nemzetközi Befektetési Zrt.	Kapás utca 6-12. Budapest, 1027 Hungary	15.00

On 9 February 2015 Erste Group, the European Bank for Reconstruction and Development (EBRD) and Hungarian Government declared cooperation on common press conference. Erste Group offered to the Hungarian Government and to EBRD to acquire minority share in Erste Bank Hungary Zrt at a maximum level of 15% per each.

Bilateral negotiations ended at 11.08.2016 and the change in the ownership structure was realized.

IV/4 The number and nominal value of the Bank's shares by type

Description	Nominal value (HUF/share)		Pieces		Value (in million HUF)	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Registered shares	1	1	146,000,000,000	146,000,000,000	146,000	146,000

The Bank's share capital is HUF 146,000,000,000 (one hundred and forty six billion forints), consisting exclusively of cash contributions, that is, 146,000,000,000 (one hundred and forty six billion) registered ordinary shares with a nominal value of HUF 1 (one forint) each. The Bank's share capital has been fully paid up.

IV/5 The average annual statistical headcount and the costs of wages and salaries of employees by group 31.12.2017

Employees by groups	Average statistical headcount (2016)	Average statistical headcount (2017)	Wages and salaries (HUF million) (2016)	Wages and salaries (HUF million) (2017)
Full-time				
- white-collar	2,632	2,762	18,037	20,325
- blue-collar	-	-	-	-
Total	2,632		18,037	20,325
Part-time				
- white-collar	99	174	399	839
- blue-collar	-	-	-	-
Total	99	174	399	839
Pensioners				
- white-collar	1	1	3	4
- blue-collar	-	-	-	-
Total	1	-	3	4
Grand total	2,732	2,937	18,439	21,168

Other wages and salaries for employees not on the payroll: HUF 354 million.

IV/6 Other employee benefits

Data in million HUF	31.12.2016	31.12.2017
Cafeteria vouchers, certificates, season tickets	400	349
Sick pay	162	180
Payments into health insurance funds	100	50
Pension fund contributions	94	52
Cafeteria benefits - Housing supports	98	161
Use of own cars, travel allowances	57	68
Daily allowances	46	50
Entertainment costs	52	84
Education, catering	26	40
Cafeteria benefits – Cash support	-	156
Other unspecified benefits	382	419
Total other employee benefits (8ab)	1,417	1,609

IV/7 The remuneration of the members of the Board of Directors and the Supervisory Board regarding the financial year

Description	Data in million HUF	
	Headcount	Remuneration
Board of Directors	10	804
Supervisory Board	9	37
Total	19	841

The above amounts include wages and salaries related to employment relationships, with the exception of severance payments.

IV/8 The amount of loans disbursed to the members of the Board of Directors, the management and the members of the Supervisory Board 31.12.2017

Description	Data in million HUF		
	Contractual amount	Outstanding debt	Conditions of the loan
Total amount of loans granted	100	91	According to the general terms and conditions of the loans provided to employees.
Total	100	91	

IV/9 Cash flow statement

Data in million HUF

Line No.	Description	2016	2017
1	Interest income	77,657	84,695
2	+ Income from other financial services (excluding the reversal of the impairment loss of securities and the positive valuation difference of receivables)	65,840	90,489
3	+ Other income (excluding the use of provisions and the reversal of surplus provisions, the reversal of the impairment loss of inventories and the reversal of extraordinary write-offs)	54,535	29,781
4	+ Income from investment services (excluding the reversal of the impairment loss of securities and the positive valuation difference)	65,782	57,664
5	+ Income of services other than financial or investment services	1,794	1,379
6	+ Dividend income	3,862	2,581
7	- Interest expenses	(15,137)	(6,840)
8	- Expenses of other financial services (excluding the impairment loss of securities and the negative valuation difference of receivables)	(35,127)	(29,610)
9	- Other expenses (excluding the accumulation of provisions, impairment loss of inventories and unplanned write-offs)	(152,079)	(87,211)
10	- Expenses of investment services (excluding the impairment loss of securities and the negative valuation difference)	(74,878)	(60,322)
11	- Expenses on services other than financial or investment services	(1,186)	(894)
12	- General administration costs	(47,664)	(50,946)
13	- Corporate income tax liabilities for the year under review	(5,640)	(2,643)
14	- Dividend payment liabilities	-	-
15	Operating cash flow (lines 01-14)	(62,241)	28,123
16	± Changes in liabilities (+ if increased, - if decreased)	29,039	74,964
17	± Changes in receivables (- if increased, + if decreased)	115,280	34,996
18	± Changes in inventories (- if increased, + if decreased)	621	518
19	± Changes in securities reported in current assets (- if increased, + if decreased)	(52,915)	67
20	± Changes in securities reported among fixed assets (- if increased, + if decreased)	(177,097)	(124,277)
21	± Changes in investments (including advances) (- if increased, + if decreased)	(93)	(292)
22	± Changes in intangible assets (- if increased, + if decreased)	(4,515)	(6,640)
23	± Changes in property and equipment (excluding investments and payments made on account) (- if increased, + if decreased)	(5,639)	(7,848)
24	± Changes in accrued and deferred assets (- if increased, + if decreased)	170	(1,614)
25	± Changes in accrued and deferred liabilities (+ if increased, - if decreased)	6,041	(1,826)
26	+ Capital increase	77,999	-
27	+ cash and cash equivalents received permanently based on a legal provision	-	-
28	- Cash and cash equivalents transferred permanently based on a legal provision	-	-
29	effect of the previous years on the retained earnings	-	-
30	effect of the previous years on the general reserve	-	-
31	- Nominal value of withdrawn own shares	-	-
32	Net cash flow (lines 17-33)	(73,350)	(3,828)
33	- changes in cash (HUF and foreign currency in cash, checks)	1,755	1,906
34	- changes in the portfolio of deposit money (HUF and FX current accounts and short-term maturity deposit accounts with the Central Bank of Hungary, and HUF deposit accounts managed by another credit institution based on specific laws)	(75,105)	(5,734)

IV/10 Adjustment items taken into account when establishing the amount of corporate income tax

		Data in million HUF	
7	Items decreasing the tax base	31.12.2016	31.12.2017
7 (1) a	Accrued loss	18,142	40,701
7 (1) b	Use of provisions	379	624
7 (1) c	Environmental provision		
7 (1) cs	Extraordinary depreciation reversed during the tax year		
7 (1) d	Depreciation according to the Tax Act (+SZNy value at the time of derecognition)	5,808	8,311
7 (1) dz	The exchange rate gain on the sale of the reported participation in the tax year and the impairment loss reversed regarding the reported interest in the tax year		
7 (1) dzs	Exchange rate gains and exchange rate losses accounted for during the year-end revaluation of financial fixed assets and long-term maturity liabilities		
7 (1) e	50% of the profit/loss of capital market operations		
7 (1) f	Development reserve		
7 (1) g	Received dividends	28	2,581
7 (1) gy	Withdrawal of interests		
7 (1) h	Beneficiary exchanges of interest		
7 (1) i	Training of industrial apprentices		
7 (1) j	Allowance for the employment of skilled workers and unemployed persons		
7 (1) k	50% of the interest rate differential received from an affiliated party		
7 (1) l	Works of art		
7 (1) ly	Grants and allowances received without any obligation of repayment		
7 (1) m	Repurchased own shares, redemption of business shares		
7 (1) n	Use of provision of FX settlements Uncollectable receivables	14	18
7 (1) ny	Income relating to the trading of greenhouse gas emission units	55	
7 (1) o	Condominium income		
7 (1) p	Conversion difference		
7 (1) r	Cancelled fines		
7 (1) s	50% of royalties received		1
7 (1) u	Impact of tax audit and self-audit		
7 (1) w	Value of interests in small and medium-sized enterprises	778	
7 (1) x	100% of local business tax		
7 (1) z	Confirmed donations	2	
18 (1) a)	Other		2
	Total	25,206	52,237

		Data in million HUF	
8	Items increasing the tax base	31.12.2016	31.12.2017
8 (1) a	Expenses recognised as a result of a provision (for expected liabilities, future costs)	2,056	2,670
8 (1) d	Costs not related to the company's business activity (Annex 3 of the Corporate Tax Act) (e.g.: services, deficit, wastage, bribery in excess of 200 thousand)	141	71
8 (1) b	Depreciation (planned, extraordinary, derecognition)	5,323	8,688
8 (1) m/b	The part of expenses which was recognised as a result of the exchange rate loss or impairment loss recognised in relation to the reported interest in the tax year or as a result of the derecognition of the participation under any title and which is in excess of the income		
8 (1) dzs	Exchange rate gains and exchange rate losses on financial fixed assets and long-term maturity liabilities		
8 (1) j	The part of the interest on the liability falling to the liability exceeding three times the total equity		
8 (1) r	Derecognition of interests in the event of transformation		
8 (1) t	Beneficiary exchanges of interest		
8 (1) m	Expenses relating to the interest in a controlled foreign company		
8 (1) k	50% of the interest rate differential paid to affiliated parties		
8 (1) n	Supports granted (e.g. donations), benefits, monetary assets transferred permanently and assets transferred without consideration, liabilities assumed, services provided free of charge		
8 (1) h	Cancelled receivables		
8 (1) gy	Impairment loss accounted for receivables	44	24
8 (1) o	Conversion difference		
8 (1) e	Fines, tax penalties	198	169
8 (1) p	FX settlements		
8 (1) p	Impact of tax audit and self-audit		
8 (1) s	Non-payment of long-term donations		
8 (1) u	Tax base increase related to the allowance of small and medium-sized enterprises		
8 (1) v	Retrenchment at taxpayers qualified as micro-enterprises		
18 (1) b)	Other (e.g. the amendment of transfer prices)	318	301
	Other		
	Total	8,080	11,923

		Data in million HUF	
Tax calculation		31.12.2016	31.12.2017
Pre-tax result		40,904	83,317
Credit institution tax		5,635	2,302
Total tax base adjustments		(17,126)	(40,314)
Corporate income tax base (pursuant to the general rules)		18,142	40,701
Tax base according to the minimum income (profit)		7,959	(45)
Amount of corporate income tax		-	
Corporate income tax (10%/16%)		3,402	3,663
Tax refund related to FX settlements (-)		3,402	2,712
Tax allowances (Sections 21-23)		-	600
Tax paid abroad that can be set off		4	6
Payable corporate income tax		0	351

The tax authorities may audit the books and records at any time within 6 years after the relevant tax year and may set a deficit or surplus tax.

IV/11 Data of the persons entitled to represent Erste Bank Hungary Zrt. and obliged to sign the annual report 31.12.2017

Name	Address
Radován Jelasity	1026 Budapest, Balogh Ádám utca 35
Ivan Vondra	1051 Budapest, Dorottya utca 6

Responsible for the guidance and supervision of accounting and bookkeeping:

János Rádi (mother's maiden name: Mária Kmetty)

Registration number: 168198, certificate number: 009310, registration expertise: IFRS, finance

The name and registered office of the company that compiles consolidated financial statements of the international Erste Group:

Erste Group Bank AG, Austria, 1100 Vienna, Am Belvedere 1.

The financial statements can be inspected at the above company's registered office.

IV/12 Events after the balance sheet date

At Erste Bank Hungary Zrt's Annual general meeting, to be held 26 April, proposal of dividend payment amounting to HUF 40 billion is presented, that will be paid during 2018.

Date: Budapest, 13 April 2018

.....
Radován Jelasity
Chairman-Chief Executive Officer

.....
Ivan Vondra
Chief Financial Officer

Business Report

for

the Financial Statement of Erste Bank Hungary Zrt.
Concerning Year 2017

Budapest, 13 April 2018

The Financial Statement and Business Report for 2017 of ERSTE Bank Hungary Zrt. contains primarily a summary of its banking activities, supplemented with the information that affected the Bank's operation for the purposes of the evaluation of its business operation.

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BUSINESS ENVIRONMENT, OBJECTIVES AND STRATEGY OF THE COMPANY

Based on data adjusted for seasonal and calendar effects, the performance of the Hungarian economy grew by 4.0% in the first three quarters of 2017, compared to the 2.1% increase in the previous year. Third quarter growth resulted in an increase of 3.8% in performance in comparison to the same period of the previous year. This is primarily due to the contribution of construction and manufacturing industries. Until the third quarter of 2017, the performance of construction increased by 27.6%, whilst agricultural performance decreased by 10.5% although from a high base. Despite agriculture under performance, the balance of the economy (predominantly manufacturing) grew until the third quarter of 2017. Generally, 2017 as a whole, and based on preliminary data, witnessed an overall growth in the economy of 4.2%.

With regards to internal consumption, the positive trend continued in 2017. In the first three quarters of 2017, retail consumption increased by 4.3%, and the overall volume of investments in the national economy grew more than 20% quarter on quarter in comparison with the same period of the previous year. This is due in part to the increasing utilization of EU funds and the dynamic increase in construction.

By the close of the third quarter (2017) the total foreign trade export volume of the country grew by 6.5%, while the total foreign trade import volume grew by 9.5% as compared with the same period of year 2016. Both the export of goods and services slowed down in the third quarter compared to the first half of the year. Unemployment rate is decreasing and has been reported below 10% since the second half of 2013. By the close of 2017 unemployment fell to 3.8% due to the increasing employment in the private sector. However, the low unemployment rate is influenced by the government's public work programs.

In December 2016, consumer prices were 2.1% higher on average than the previous earlier. The highest price increases during this period were for food, alcoholic beverages and tobacco. During 2017 as a whole, consumer prices rose by 2.4% on average compared to the previous year. The highest price rises were recorded for other goods including motor fuels, alcoholic beverages and tobacco. Only the prices of consumer durables decreased.

The interest rate cutting cycle of the National Bank of Hungary stopped in May 2016. The central bank ever since left unchanged the benchmark rate at a historically low level of 0.9%, while the 12-month interbank rate decreased further to 0.1%.

Tight labour market conditions, coupled with increases in real wages, suggest that household consumption is likely to be the main driver of economic growth in 2018. In addition, investments may again contribute positively to economic growth, due to the expected acceleration in the utilization of EU funds. Moreover, the ongoing loose monetary conditions should help both consumption and investments. On the other hand, the risks related to Brexit and the presidency of Trump in the US may pose risks to trade developments.

In 2017, retail loan portfolio, as a balance of disbursements and repayments, have started to grow compared to the end of the previous year which is a result of significant increase in new disbursements. Particularly housing loan volume increased supported by home purchase state subsidy for families (CSOK), but unsecured consumer loans increased as well. During 2017, both housing loan and consumer loan conditions softened. The Funding for Growth Scheme ended in March 2017, still total corporate loan volume further increased significantly. Loan portfolio growth was driven by volume growth of HUF loans. SME segment lending growth was realized with increasing demand and easing loan supply constraints. On the liability side, despite the result of the squeezing out effect of the low interest rate environment and alternative investment opportunities, the retail deposit portfolio of the sector slightly increased, while due to the savings of the corporate and other segments, the total deposit portfolio increased more significantly.

The Memorandum of Understanding, signed by the Hungarian Government and the European Bank for Reconstruction and Development (EBRD) in February 2015 about the banking tax reduction from 2016, meant a significantly positive change to the banking sector, however financial transaction duty and free cash withdrawal are going to remain in effect. Additionally bankruptcy of the brokerage companies in the first half of 2015 mean extra burdens to the financial sector as compensation of customers is borne by the financial institutions.

Looking ahead to the coming years, changes in legislation and government measures have a significant impact on profits: the increase in the fees to be paid to the National Deposit Insurance Fund (OBA) and the Investor Protection Fund (BEVA) have a negative effect on the banking sector's income, while the reduction of the bank levy, the allowance that can be received in the bank levy have a positive impact.

In the changing market environment the Bank focuses on the growth potentials and plans to remain in a significant player both in retail and corporate segments in Hungary. The bank has completed one of the largest Hungarian bank acquisitions in

the last years in February 2017 by acquiring the Hungarian consumer banking business of Citibank Europe plc.. As part of the acquisition process, making headway in asset management, the Bank launched the new Erste World segment in March 2016, expanding its mass-affluent and private banking services. One of the companies indirectly owned by the Bank, i.e. ERSTE IN-FORG Kft. merged into Collat-real Kft. which is also indirectly owned by the Erste Bank Hungary Zrt. dated July 3, 2017.

The strategic goal of Erste Bank Hungary Zrt. is to continue its operation as a major player of the Hungarian banking market with the support of a well-balanced corporate business, a reinforced risk management, efficient operations and a continuously improving service quality, focusing on retail customers who regard EBH as the number one financial institution. Erste Bank provides a wide range of financial products and services to its customers throughout their whole financial lifecycle: deposits, investments products, loans, advisory services and leasing products. Keeping its position as a leading retail lending institution, together with the acquisition of Citibank's retail business line the bank wishes to become market leader in the private banking and credit card business lines, as well as in terms of electronic channels and innovative solutions, and furthermore lays great emphasis on retaining its solid share in the market of savings. In order to keep its market position, the bank offers tailored financial services through its simplified and segmentation-based product portfolio, and wishes to expand its existing customer base with the improvement of service quality and innovative banking solutions. Apart from its core banking activities, EBH plays an important role in the market of products having a significant growth potential such as investment and building society services.

The corporate business line still offers all-inclusive banking services for all segments, anticipating the biggest growth in the midmarket segment, where the goal is the development of transaction services and the maintenance of nation-wide presence. In line with the market trends, corporate lending takes place primarily via subsidised structures, and besides credit products the bank offers a wide range of transaction services and other solutions to its corporate customers.

Change in the bank's form of operation

Erste Bank's form of operation and ownership structure did not change during the business year of 2017. The change in the corporate form of the Bank to private limited company (Zrt.) was registered by the Court of Registration as of 3 January 2011. The full name of the Bank is Erste Bank Hungary Zártkörűen Működő Részvénytársaság.

The ownership structure of Erste Bank Hungary Zrt. is the following:

Owner	Number of shares	Ownership share
Erste Group Bank AG	102,200,000,000	70%
Corvinus Nemzetközi Befektetési Zrt.	21,900,000,000	15%
European Bank for Reconstruction and Development	21,900,000,000	15%
Total	146,000,000,000	100%

Other changes

ERSTE IN-FORG Kft., which, is indirectly owned by the Bank, merged into Collat-real Kft. which is also indirectly owned by the Bank dated July 3, 2017.

One of the company indirectly owned by the Bank, i.e. ERSTE IN-FORG Kft. merged into Collat-real Kft. which is also indirectly owned by the Bank dated July 3, 2017.

PRODUCT RANGE, COOPERATION AGREEMENTS, STRATEGIC ALLIANCES

The real estate boom started in 2016 continued throughout 2017 resulting in a 38% growth of mortgage loans outperforming analyst expectations. The boom was supported by real estate investments; improvement of residents' financial situation; reduction of unemployment rate; a favorable supporting system; and low interest rate environment. The assumption of the Bank is that the aforementioned factors will create a supporting environment for new disbursement of mortgage loans in the future. Erste Bank Hungary Zrt expects slower but further market increases in 2018. the Bank's share in retail lending market showed an increasing trend in 2017, in regards housing mortgage loans and home equity loans.

The National Bank of Hungary has created a “consumer-friendly home loan” certification named “Minősített Fogyasztóbarát Lakáshitel” to strengthen the competition in the banking market; to increase transparency of mortgage loans; and to increase comparability of loans. The Bank was one of the first retail banks to launch this product, by introducing the first certified three-year interest period mortgage loan. The measures of National Bank of Hungary increased the ratio of loans with long interest periods from 50% to 60% in the market in the second half of 2017. This ratio in the case of the Bank – receiving credit demand since the introduction of certified loans – is higher than 80%. The certified loans can be used for house building and refinancing existing housing loans. Moreover, customers can utilize Erste loans to purchase apartments.

The Bank introduced a credit card instalment service - “Hitelkártya Részletfizetési Szolgáltatás” - at the close of 2016. Due to the “Tele-Kölcsön” service, the customers with a credit card can acquire a loan via phone based on monthly payments. Via “Könnyített Törlesztés” service, instalment payment can be chosen after purchasing with credit card. This service can be provided via either telephone or NetBank. These new services largely contributed to the development of credit card business.

To increase its consumer credit portfolio, the Bank engaged in continuous branch and contact center campaigns. Furthermore, the Bank adopted a new sales channel using the services of third parties in 2017.

Before the integration of Citibank’s retail branch, the Bank’s previous credit card product was removed from the market in January 2017. Two new types of credit cards were introduced. The MAX credit card addresses “mass” customers with the opportunity of refund in certain categories customized by the customers. The Erste Platinum credit card addresses specifically the clients of Private Banking and Erste World segments. The option of refund is available in three fixed categories, whilst the card owners can access exclusive services.

The Bank introduced “Erste Adókedvezményes” Account Package in February 2017 in accordance with Act CXCV of 2011 on the economic stability of Hungary.

In July 2017, the CAD currency account was introduced which is available for both existing and new customers.

Bank accounts provided to employees which were based on a contract between employers and Erste Bank were renewed on 1 August 2017: the Bank introduced four new account types which are intended to address customers transferring their salaries to the Bank and use their accounts and debit cards on a daily basis. The new accounts are available through a framework contract with the clients have an option to open and keep limitless number of HUF and foreign currency accounts for one monthly customer relations fee. Furthermore, the account attached to debit cards can be modified at any time (it can be a HUF or foreign currency account), and an SMS service is available for a fixed fee covering all accounts.

In regards of the insurances, several products were launched in 2017. Cooperating with UNION Vienna Insurance Group Biztosító Zrt., the Bank introduced a travel insurance product. Before the introduction of this new product, a similar service was available only for credit card services. The Bank renewed its repayment protection insurance product aligning with customer requirements. Lastly, Erste launched the “Erste Euro Smart” life insurance allowing customers to save money in a full investment range paying once and not on a regular basis.

Four new accounts were introduced for micro-enterprises in 2017. The “Erste Smart” Account Package’s monthly fee is adjusted to the enterprise’s current account turnover. It includes the HUF electronic transfer transactions and automatically

adjusts to the customer's habits (outgoing account turnover). To support the introduction of this product, the first six monthly fee of the accounts opened from October to December was released.

The "Erste 100 Forintos" Account Package was shaped for the needs of the smaller and recently founded companies, which operate with lower revenues and for those micro-enterprises which have seasonal activity based revenues. The monthly fee remained low in case of unaccounted or very low turnover. The introduction of the product was actively supported with a marketing campaign.

The Bank serves customer needs for foreign currency accounts with the "Erste Deviza Plusz" Account Package as well as „Erste Deviza Light” Account Package. The former account targets micro-enterprises with higher revenues and a significant number of foreign currency transactions whilst latter account targets micro-enterprises with smaller revenues and turnover.

The micro-enterprise lending services received new impetus in 2017. The Széchenyi Card overdraft facility was renewed and the Bank adjusted its ruleset to the market demand in accordance with the changes of the framework. Consequently, strong product-sales focus was implemented and, as a result, the amount of new disbursements was three times higher in Q4 compared with the same period of the previous year.

In 2017, the agricultural sector was in focus with the Bank providing specifically designed credit products via branch and telesales marketing campaigns.

In conjunction with "Mikrovállalati Egyszerű Folyószámlahitel", the Bank introduced the „Kisvállalkozói Lépéselőny Folyószámlahitel", providing small amount loans to current customers with an existing account. It is an overdraft facility based on account turnover and is easily accessible. The duration of the credit rating process is short due to the currently existing connection with the enterprises.

The Bank provides an all-inclusive financing service to companies and municipalities managed under the corporate business line. Being part of this activity, the Bank provides HUF and foreign currency loans from its own resources or in the form of refinancing issues credit cards and bank guarantees; opens letters of credit; and provides leasing financing and factoring services to its partners. The Bank takes part in project finance as well as in syndicated loans, too.

Fixed Interest Rate Loans were remarkable among financing products in year 2017. Under the NBH's Funding for Growth Scheme, and the foreign currency loans refinanced by EXIM and self-funded – Erste Growth program – products offered ensured interest rate risk free, mid-term financing to customers.

Besides the financing products provided with the guarantees of Garantiqua and the Rural Credit Guarantee Foundation, since 2017 the Bank has been providing loans covered with COSME guarantee which enabled the Bank to expand the range of our financed customers via risk sharing with institutional guarantors.

In the corporate lending business, the customer focus approach to lending and increasing the level of system support was a key factor in the increasingly high levels of customer service. Considering aspects of risk management, the lending process was continuously developed and also cycle times have been accelerated.

In February 2017, after Citibank acquisition, the Bank obtained a solid second place in Wealth Management segment. Further during 2017, the Bank stabilized its position by achieving organic growth. The aforementioned acquisition enlarged the Bank's product spectrum utilizing the best practices from both organizations. The product penetration was maximized by focusing on investment offers, core banking services, financing and other convenient services. The number of branches increased with acquiring the former Citibank locations. Furthermore, in the premium segment the Bank launched a new framework contract account in March 2017.

MAIN RESOURCES AND RISKS, AND THE RELATED CHANGES AND UNCERTAINTIES

Asset-liability management (interest rate risk management)

The Bank utilizes a simulation procedure which is one of the more advanced methodology solutions to measure the interest rate risk of its banking book as that method takes into account both traditionally applied approaches, i.e., the net interest-income simulation (income perspective) and the cash flow assessment, i.e., the economic value simulation (economic perspective). The highest-level strategic decisions on asset-liability management and, more specifically, interest rate risk management, are made by the Asset-Liability Committee (ALCO). In accordance with its responsibilities, the Committee regularly reviews the interest rate risk situation of the Bank and the development of its positions. In addition to monitoring the position, the Committee also has the right to evaluate and rate the Bank's interest rate risk position. Its competence includes the approval and modification of applicable internal regulations with special regard to the modification of effective limits, assumptions, procedures and methods. Other organizational units involved in interest rate risk management: (1) Asset-Liability Management (ALM), which prepares decisions and supports the activities of ALCO, (2) Capital Markets, which performs the operational implementation of the strategic decisions of ALCO and the market transactions of ALM. The Bank's management receives regular reports on banking book interest rate risk variation. Those reports enable the management:

- to evaluate the level and trend of the Bank's total interest rate risk exposure;
- to validate compliance with the defined risk tolerance levels;
- to identify potentially excessive risks undertaken in excess of the level set forth by the relevant policy;
- to determine if the Bank has enough capital to undertake the respective interest rate risk;
- to undertake decisions related to interest rate risks.

Liquidity risk management

The Bank uses a *Survival Period Analysis* based on stress scenarios to measure its shorter-term liquidity risks. The analysis shows for how long the Bank would be able to fulfil its payment obligations in various liquidity stress scenarios under specific conditions. ALM is responsible for coordinating the maturity structure of on-balance and off-balance items by ensuring that the aggregated net cash flows remain positive for the period of time specified as the limit. In addition to the survival period analysis based on stress scenarios; compliance with the liquidity ratios introduced by Hungarian regulators (Foreign funding adequacy ratio, Foreign currency equilibrium ratio) as well as compliance with the expected levels of the liquidity ratios (LCR, NSFR) introduced by the Basel Committee on Banking Supervision are also taken into account when managing liquidity risks. Counterparty and Market Risk Management Department regularly monitors and reports to ALCO the current figures of liquidity ratios.

During the year, the gross client loan portfolio increased significantly. The development of the net loan portfolio was further helped by the decreasing risk provision. Both retail and corporate loan portfolios increased. The volume of client deposits grew significantly in 2017, largely due to increasing demand deposit portfolios of retail clients. The non-financial deposit portfolio also grew during the year whilst the level of deposits from financial clients declined significantly. The flow of liquidity from term deposits to sight deposits was observable in all client segments.

In 2017, the Bank extended the maturity of 163 million EUR subordinated deposits till 2024.

Table No. 1 shows the Bank's contractual maturity structure by currency (with modelled amortisation for demand deposits).

Table No. 1

Data in millions of HUF

	Non-maturing	< 1 month	1-3 months	3-6 months	6-12 months	> 1 year
HUF	-745 839	-50 598	-92 172	113 612	-21 371	698 684
EUR	-250 903	-45 280	102 346	-23 260	73 813	45 591
CHF	-4 774	530	-10 610	-530	0	11 140
USD	-41 152	66 258	10 094	-8 023	-8 541	-17 859
Total	-1 042 668	-29 090	9 658	81 799	43 901	737 556

Interest rate risk management

The Bank applies two analytical methods to quantify interest rate risk: a) the net interest income method, and b) the simulation of the market value of total equity.

Both types of risk indicators suggest a medium interest rate risk exposure. Both the external and the internal limits were met during the year. The increase in the market sensitivity of total equity is a consequence of the risk of the modelled products, which has increased due to the low yield environment.

Sensitivity of the market value of the total equity:

It is expressed as the absolute sum total of the variation of the economic capital value by currency occurring as a result of a parallel, 200 basis point assumed change in interest rates, in any direction, compared to the capital amount calculated with an unchanged interest rate scenario.

Sensitivity of the net interest income, simulated for 12 months:

It is expressed as the absolute sum total of the variation of the 1-year net interest income by currency, occurring as a result of parallel, 200 basis point assumed change in interest rates, compared to the net interest income calculated with an unchanged interest rate scenario.

<i>Table No. 2</i>	2016.12.31	2017.12.31
Sensitivity of the total equity	6.76%	4.19%
Sensitivity of the net interest income, simulated for 12 months	7.16%*	9.33%

*Sensitivity of the net interest income, simulated for 12 months in 2016, is calculated by +100basis point change in interest rate

The repricing table classifies the volumes of assets, liabilities and off-balance sheet items into time bands, in the main currencies, according to the next repricing date. The repricing gap is calculated after the classification, as the difference of the assets and liabilities.

At the end of 2017, the portfolios denominated in HUF had a positive repricing gap. The positive gap of the longer terms (>= 5 years) resulted primarily from the longer-term government securities portfolio with a fixed interest rate and the retail loan portfolio.

The interest-bearing items, denominated in USD and EUR, are dominated by deals priced within one year, i.e. those statement of financial position components carry generally low repricing risks. In the case of interest-bearing items denominated in CHF, we have surplus assets due to the CHF corporate loan portfolio. The table below does not include the demand deposit portfolio, whose maturities are modelled.

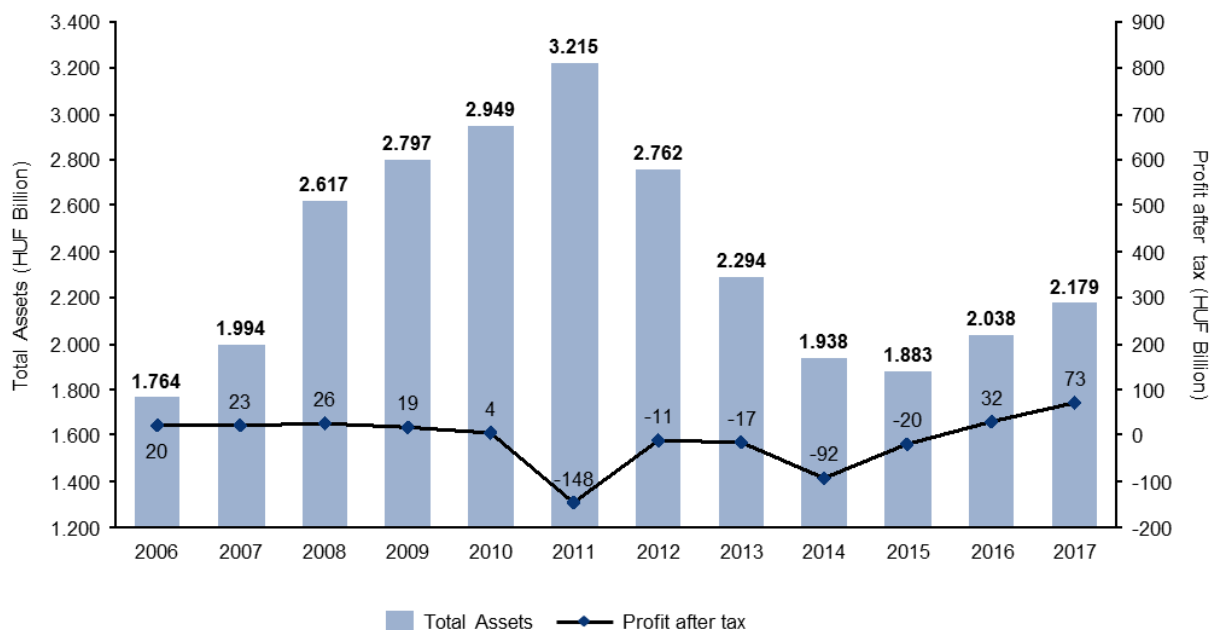
<i>Table No.3</i>	<i>Data in millions of HUF</i>					
Currency	1 year	2 years	3 years	4 years	5 years	> 5 years
CHF	5 245	3	0	51	0	0
HUF	588 711	30 466	43 221	103 012	219 699	184 064
EUR	253 892	14 379	-1 206	-2 155	-40	-10 234
USD	48 967	-7	0	-2	0	0

*The data of the table do not include the demand deposit portfolio, which is modelled

The Asset-Liability Committee (ALCO) is responsible for managing interest rate and liquidity risks at the highest decision making level.

FINANCIAL DATA

the Bank's Net profit set a new record in 2017 –in comparison to 2016 year-end result. Revenues grew by 38% on annual basis. The key factors were the migration of Citibank; the considerably lower risk provisioning mainly as a result of one-off releases; and the substantially lower banking tax.



The Bank's Total assets reached HUF 2.179 billion by the end of 2017, which corresponds to a 6,9% year-on-year growth. The Bank reported a HUF 72,9 billion After tax profit for 2017.

The structure of the Bank's asset portfolio shows a significant change at the end of 2017 in comparison to the preceding years. The portfolio of government securities, (especially government securities held as investments) grew approximately by HUF 34 billion, however their share within the balance sheet total remained on previous year's level.

At the same time Loans to credit institutions declined together with their share within Total assets (3% vs 11% in 2016). Placements with the National Bank of Hungary (MNB) decreased considerably (by HUF 104.3 billion), mainly as a result of diminishing interest rate environment and limited amount of excess liquidity.

Changes in the main asset categories 2015-2017:

(data in mn HUF)				Change %		Proportion %		
	2015	2016	2017	2016/ 2015	2017/ 2016	2015	2016	2017
Securities	372 924	614 691	648 423	64.8%	5.5%	19.8%	30.2%	29.8%
Loans to credit institutions	270 319	223 295	62 225	-17.4%	-72.1%	14.4%	11.0%	2.9%
Loans to customers	988 292	1 020 724	1 191 165	3.3%	16.7%	52.5%	50.1%	54.6%
Cash reserve	97 470	24 120	20 292	-75.3%	-15.9%	5.2%	1.2%	0.9%
Other (non interest-bearing) assets	154 070	155 662	256 921	1.0%	65.1%	8.2%	7.6%	11.8%
Total Assets	1 883 075	2 038 492	2 179 025	8.3%	6.9%	100.0%	100.0%	100.0%

The net volume of Loans to customers significantly increased - mainly as a result of growing new disbursements and migrated Citi loan portfolio. Out of the total HUF 171 billion increase, HUF 107 billion loans were maturing within one year, and HUF 64 billion loans were maturing over one year. Though the contribution by the different Business Lines varies, i.e. Retail portfolio increased by 5% due to the migration of Retail Business of Citi Bank, furthermore Corporate volumes could grow substantially above the market by 30%.

The level of Cash and cash equivalents (HUF 24.1 billion in 2016) diminished to HUF 20.3 billion in 2017, and their share within the balance sheet total decreased slightly accordingly.

The volume of non-interest-bearing assets increased by HUF 101 billion compared to YE 2016, and their share within the balance sheet improved by 4,2% .

Changes in the main liability categories, 2015-2017:

(data in mn HUF)	2015	2016	2017	Change %		Proportion %		
				2016/ 2015	2017/ 2016	2015	2016	2017
Amounts owed to credit institutions	290 768	231 815	229 102	-20.3%	-1%	12%	11%	11%
Amounts owed to customers	1 221 560	1 388 784	1 478 881	13.7%	6%	63%	68%	68%
Equity	164 208	279 246	360 592	70.1%	29%	9%	14%	17%
Other liabilities + subordinated capital	206 539	138 647	110 449	-32.9%	-20%	15%	7%	5%
Total Liabilities	1 883 075	2 038 492	2 179 024	8%	7%	100%	100%	100%

The portfolio structure within liability side is roughly the same as last year. Deposits from credit institutions decreased by HUF 3 billion since the preceding year, thereof short-term deposits from the parent company was significant down, while long-term interbank deposits went up. Overall the share of Amounts owed to credit institutions within the balance sheet total remained on the previous year's level at 11%.

Customer deposits gained significantly by HUF 90 billion in 2017, though their share within the total balance sheet remained on the level of 2016 (68%). Boost in customer deposit base was triggered by Citi portfolio migration. The dynamic increase is coupled with structural changes; i.e. the significant decrease of term deposits by HUF 121 billion could be compensated by the HUF 200 billion increase of demand deposits. The Bank has a 7,92% market share regarding retail deposits, which corresponds to a 176 bps drop compared to last year. While market share of sight deposits increased by 293 bps, term deposits decreased by 67 bps attributable to subdued demand for this saving form caused by diminishing interest rate environment.

There were no major changes in the structure of deferred income and other liabilities. The share of own equity within Total liabilities increased to 17%.

Changes in the main Profit & Loss elements, 2015-2017:

(data in mn HUF)	2015	2016	2017	Change %		
				2015/2014	2016/2015	2017/2016
Net interest income	60 388	62 520	77 855	-24.2%	3.5%	24.5%
Fee income	38 394	38 802	43 711	1.0%	1.1%	12.7%
Dividend	1 855	3 862	2 581	-8.8%	>100%	-33.2%
Trading	-6 258	-4 126	15 545	>100%	34.1%	476.8%
Operating income	94 379	101 058	139 692	-23.8%	7.1%	38.2%
Operating expenses	50 403	52 987	59 394	3.8%	5.1%	12.1%
Operating result	43 976	48 071	80 298	-41.6%	9.3%	67.0%
Other operating result	55 459	-35 313	-46 666	>100%	163.7%	-32.1%
Risk provision for loans and off-balance	75	-28 146	-49 985	-100.5%	<-100%	-77.6%
Pre-tax result	-20 450	39 577	83 617	77.9%	293.5%	204.1%
Result after tax	-20 455	35 264	80 974	77.9%	272.4%	237.1%
Net result for the period	-20 455	31 738	72 877	77.9%	255.2%	229.6%

The Bank's Operating income increased considerably, whilst Operating expenses grew in a lesser extent compared to the previous year, resulting in a HUF 72.9 billion Net result at the end of 2017.

Regarding the elements of Operating income, Net interest income was up by 24,5% (HUF 15.3 billion) compared to previous year.

The interest income increased by HUF 7 billion, while interest expense were lower by HUF 8.3 billion (-55%).

Income side was boosted by the interest income earned on securities, parallel to this the securities portfolio grew substantially thanks to additional liquidity from migrated Citi portfolio. The higher interest income realized on Retail customer loan volume has increased due to the growth of personal loan and credit card portfolio.

Interest income on interbank placements grew moderately.

The HUF 8,3 billion improvement on interest expenses is caused by the diminishing interests paid on Retail, non-financial and other private term deposits primarily due to the low level of the interest rate environment. Further to this the restructuring

of savings towards sight deposits as well as the interest paid on interbank deposits also contributed to the sinking interest expenses. Interest paid on interbank loans also decreased.

The Net fee and commission income of the Bank is also improved (partly due to acquisition of Citibank), and by HUF 4,9 billion higher than the amount of the previous year. The growth induced by the increase in revenues, while expenses were slightly higher. Both payment transfer- and distribution fees were improved.

Net trading income increased by HUF 19.7 billion as compared to the previous year mainly due to the realized FX gain on securities.

Operating expenses amounted to HUF 59.4 billion in 2017 and by 12.1% higher than in the previous year.

Higher Operating expenses are partly caused by the increase in Personnel related expenses due to higher wages and salaries in line with higher number of FTE's from migrated Citi employees. Other administrative expenses also grew accordingly.

Depreciation amounted to HUF 8.4 billion and increased by 59% compared to the previous year mainly due to depreciation on softwares developed under the Project Marlow (Citi) and Citi purchase price amortization.

Cost-income ratio improved from 52.4% (Q4 2016) to 42.5% (Q4 2017) mainly as a result of higher operating income.

Other operating result worsened by HUF 11.4 billion compared to 2016, which caused by the decreased provision allocation but the FX settlement of CHF loans has decreased even more significantly.

Risk provision for loans and off-balance exposures improved by HUF 21.8 billion in 2017 compared to the previous year, caused by a substantial reversal of impairment in the reporting period (HUF 50 billion).

Changes in capital adequacy, 2016-2017.

Bank only view (in mn HUF)	2016 DEC	2017 MAR	2017 JUN	2017 SEP	2017 DEC
Solvency Capital	311 186	291 707	296 723	297 454	330 567
Tier 1 Capital	255 348	232 598	239 784	241 078	277 891
Common Equity Tier1 Capital (CET1)	255 348	232 598	239 784	241 078	277 891
Subscribed capital	146 000	146 000	146 000	146 000	146 000
Agio	117 492	117 492	117 492	117 492	117 492
Profit reserve	-20 455	11 283	11 283	11 283	11 283
Profit or loss eligible	31 738	0	0	0	72 877
<i>Profit/Loss</i>	31 738	24 777	51 618	71 228	72 877
<i>Non-audited profit</i>	0	24 777	51 618	71 228	0
Other reserve	4 471	4 014	4 980	4 962	12 940
Deductible items	-23 898	-46 191	-39 971	-38 659	-82 701
- Intangible assets	-15 675	-23 037	-21 390	-20 776	-22 315
- IRB shortfall	-7 386	-22 485	-17 601	-16 717	-19 433
- Other deductions from CET1 Capital	-837	-669	-980	-1 166	-953
- Proposed dividend payment	0	0	0	0	-40 000
Additional Tier1 Capital (AT1)	0	0	0	0	0
Tier 2 Capital	55 838	59 109	56 939	56 376	52 676
Subordinated debts	49 884	52 571	52 392	52 897	52 676
IRB surplus	5 954	6 538	4 547	3 479	0
Other Tier 2 components	0	0	0	0	0
Deductible items	0	0	0	0	0
- IRB shortfall	0	0	0	0	0
- Other deductions from Tier2 Capital	0	0	0	0	0
Pillar1 Capital Requirements	120 960	130 212	128 356	132 688	134 702
- Credit risk	90 341	97 771	94 610	96 170	100 118
- Position, foreign exch. and commodities risk	1 402	1 971	1 335	1 395	1 466
- Operational risk	29 217	30 470	32 411	35 123	33 118
Solvency Capital surplus/shortage	190 226	161 495	168 367	164 766	195 865

At the end of 2017 the Bank's capital adequacy was stable. The solvency ratio (19.63%) was higher than the statutorily required level and the capital position significantly strengthened. The capital surplus was up by HUF 5.6 billion compared to the end of 2016.

The capital requirement increased by HUF 13.7 billion, on the one hand due to the growing capital requirement on credit risk (+ HUF 9.8 billion), however operational risk has increased by HUF 3.9 billion compared to the previous year. The capital requirement calculated for position, foreign exchanges and commodities risk hasn't changed significantly compared to the preceding year.

The deductions contain HUF 40 billion dividend proposed to the General Meeting but not yet approved at the signature date of the financial statement.

QUANTITATIVE AND QUALITATIVE PERFORMANCE INDICATORS AND MARKERS FOR THE PROCESSES

The Bank measures the quality of its internal operations through the main customer service channels (branch, Contact Center, electronic channels) and via the performance of its major customer service processes. The performance requirements for customer processes and service channels are defined following an assessment of customer needs. The Bank conducts regular researches: annual customer satisfaction and customer expectations surveys, mystery shopping in branches, and regular event-triggered surveys of branch visitors covering Channel Satisfaction, Customer Experience Index (CXI) and Net Promoter Score (NPS).

Customer needs and expectations are converted into indicators and measurable parameters. As a primary focus, the Bank built a system of indicators for business processes and channels in the Bank, and conduct measurements to determine the performance of the processes. Processes are analyzed from the occurrence of customer needs to the satisfaction of those needs. The main indicators describing process capacities are: processing time, number of errors, service levels (for example the measuring of waiting times), or NetBank availability. Target values are defined for these indicators and the results of the regular measurements are compared to the pre-determined target values.

If the performance of a process remains below the target a detailed process analysis is conducted to identify root cause of non-compliance and development proposals are determined. This activity is performed weekly and monthly involving the areas affected by the process. If necessary, the Bank launches a project for improving the process involving action plan creation based on process improvement methodologies such as LEAN and Six Sigma

EMPLOYMENT POLICY

The Bank's 2017 year-end headcount (2 827) was higher by 181 employee than 2016 (2 626) projected to 8-hour employment. The Bank's average 2017 headcount was more than 100 people higher compared to 2016, primarily due to the integration of the acquired Citibank consumer business. In line with the long-term strategy of the Bank the projects supporting its development and improvement continued.

The average age of employees is 38 years, and the average length of their employment is 6.2 years.

During 2017 the Bank provided an opportunity for 126 trainees within the framework of a trainee program allowing the participants getting an overview of its operation and to acquire work experience. 4% of those participating in the Bank's trainee program were subsequently hired as full time employees of the Bank.

DESCRIPTION OF BUSINESS PREMISES

The Bank's registered office has been at Népfürdő utca 24-26 since 1 September 2006. The modern office building hosts the organizational units of The Bank's head office and the subsidiaries. The Bank has a nationwide branch network, which is controlled at regional level (Budapest 1., Budapest 2., North-East Hungary, South-East Hungary, East Hungary, West Hungary, Middle-West Hungary). The branches are listed in Annex No. 1.

EDUCATION POLICY

During 2017 the Bank continued employee development activities which ensure that all employees received an average of 4 days professional training. The main areas of development increasing professional knowledge such as completion of mortgage trainings, the internal process development, and the increase of the effectiveness of our sales and customer care activities. The Bank focused on employee soft skills and English language skills development. Key training was provided to employees directly impacted by the integration of Citibank consumer business.

The Retail division continued the intensive training of newly on-boarded employees utilizing a new practice oriented system which granted a wide ranging system knowledge based education. The Bank established the foundations of our multi-level small business training system. Development Center days were established for our Branch Directors to define their individual development plans for 2018. Digital Channel and Private Banking focused on sales techniques and customer care development processes. Departments who are responsible for banking products and processes participated in special professional conferences and workshops.

The corporate division shared the development focus among sales techniques and customer experience courses, while strengthening cooperation and team cohesion. Day to day operation based on cultural values was an important focus sup-

ported by external presenters. Furthermore the Bank simplified a number of work processes to increase both efficiency and effectiveness.

Risk focused on improving cooperation and leadership development whilst launching the Risk Academy. Per the norm risk personnel participated in professional conferences in order to share experiences and gain insight to technical developments within their professional field.

IT division focuses on IT operational and business intelligence trends. In parallel the IT Academy program was successfully launched and utilized throughout 2017.

In relation Senior Management emphasis was placed on presentation skill development. A companywide cultural development program was launched supported by the managerial level and by pre-nominated 'change agents'. Finally, an organization-wide employee engagement survey was conducted with the results communicated to all.

CORPORATE SOCIAL RESPONSIBILITY

Erste was established 200 years ago allowing everyone participate in prosperity regardless of social status, nationality, religion, sexual orientation, or age. Protecting and expanding that prosperity is amongst our key objectives. Our future vision states "Our commitment to our customers and to Hungary is evident by our social responsibility acts beside our banking and investment services".

Therefore, in this complex world the Bank seeks to be more than simply a business enterprise providing financial solutions - also offers solutions to life situations. In this context, the Bank not only confirms its commitment to Hungary and Hungarian citizens through its banking and investment activities, but also through social responsibility functions implemented as a responsible employer.

The main pillars of the Bank Corporate Social Responsibility presence are the Hungarian activities of Erste Stiftung [Erste Foundation], the Good.bee program, and the bank's own CSR program dubbed "+1 tett" [+1 Act] as part of our volunteer program dubbed Közösségi csapatmunka [Community Team Work] was launched in 2015, actively involving our employees.

ERSTE Foundation in Hungary

Established in 2003 by Erste Österreichische Spar-Casse, the first savings cooperative in Austria founded in 1819, ERSTE Foundation (ERSTE Stiftung) is the biggest foundation in the savings cooperatives sector in Austria.

As the majority shareholder in Erste Group, ERSTE Stiftung is dedicated to foster social development in Central and South-east Europe, realizing this commitment through projects initiated or sponsored in the scope of three programs: Social Development, Culture, and Europe.



ERSTE Stiftung

Further information: <http://www.erstestiftung.org/>

[+1 tett program](#)



“Our commitment to our customers and to Hungary is evidenced by our social responsibility acts besides our banking and investment services”. It was in the spirit of this motto, taken from Erste’s future vision, that our program “1+tett” [“1+Act”] was launched in 2014 designed to identify communities and projects that provide support to resolve matters of social importance, as well as in the topics of self-help and digitalization. At the same time, in addition to providing financial support, employees of the Bank actively participated in the projects supporting the work of the selected organizations with their expertise.

+1 Act – Community teamwork

Taking the +1 Act program one step further, the Bank - relying on its employees - launched a new volunteer program in 2015, dubbed Közösségi csapatmunka [Community Teamwork]. As part of the program employees of the Bank volunteer to support implementing programs they themselves support. As an important aspect, the employees organize the program within community teamwork that they have proposed whilst the Bank provides the time and the funding necessary for the program.

Within the framework of the program, diverse co-operation projects were conducted such as repainting the signals of trekking trails; supporting the financial education of children in state custody or living with foster parents; or organizing dragon boat events for underprivileged children. From 2015, nearly 800 the Bank employees participated in roughly 50 projects.

In October 2016, the program was granted the special award for volunteering by Magyar Adományozói Fórum [Hungarian Donator Forum].

News of volunteering programs initiated as part of our Community Teamwork periodically posted on Erste Bank Hungary’s Facebook page.

Additional cooperation projects

Virtuózok

“Winning a contest is merely the first step towards success. Afterwards, you have to manage your talent as skillfully as you manage your financial resources”. The Bank was not only the main sponsor of the TV talent show Virtuózok [Virtuoso] but also participated as a financial mentor to the young talents.

Singer Réka Kristóf won the main prize of the program provided by the Bank (12 million forint) and was granted an opportunity to perform at New York’s Carnegie Hall. The other two age group winners were granted 500,000 forint each per month for a year also provided by the Bank.



Magyar Jégkorong Szövetség

Since September 2017 the Bank sponsors the adult premier league ice hockey championship. The duration of the sponsorship is 3 years and the championship bears the name of Erste (Erste League).

The main goal is to support the national teams competing in the league; supporting the development of the next generation of ice-hockey players at grass roots level; promoting the sport of Ice Hockey within Hungary. Erste Bank not only provides sponsorship funds but also business acumen to the league.



Kékszalag Erste World Nagydíj

In 2016, the Bank's new service Erste World debuted as naming sponsor to the 48th Kékszalag Nagydíj [Blue Ribbon Grand Prix]. Erste World's universe is similar to the world of sailing: the Blue Ribbon Grand Prix attracts those who appreciate real performance and real values. This is exactly what Erste World promises in the scope of financial services: help customers find real values; create real wealth from their assets based on the premise of property creates value and the foundations of both the family and the individual.

At the racing location Erste World offered special programs which including a lounge featured the values of the Lake Balaton region and a VIP section designed for VIP guests. Involving local partners, Erste World Club debuted at the venue, offering value-creating partnership to VIP customers and partners alike.

Mosoly Alapítvány

Since 2014 the Bank has sponsored the initiative Mosoly Váltó [Smile Relay] launched by Mosoly Alapítvány [Smile Foundation]. This saw volunteering participants from the Bank run 4 kilometres beside children who had successfully recovered from serious illness.

Further information: <http://mosolyalapitvany.hu/hu/>

Donut sale for Nemzetközi Cseperedő Alapítvány

Charity donut sales have been organized in cooperation with Nemzetközi Cseperedő Alapítvány [International Growing-up Foundation] at the Bank's Headquarters since 2014 involving 'Fánki Donut'. In the sponsorship project the Bank purchases the donuts being sold by the Foundation's staff at Erste Headquarters on a specific day. This project started with the sale of 300 donuts which rose to over 1,000 being sold in November 2017 in 90 minutes. The entire proceeds went to the Foundation which supports children living with the social challenges related to communication and skill development such as autism. In recent years, a total of nearly 3.5 million forint has been donated to the Foundation.

Erste Green

the Bank is committed to environment protection taking responsibility for the environment and society in which we live and work. In addition to complying with the requirements defined by its parent company (such as reduction in CO2 emission, paper usage, electric energy consumption), the Bank takes additional steps to make our organizational culture and operation greener and more environment-conscious thus expanding our commitment to corporate social responsibility.



Erste Green, a voluntary initiative of the employees was launched in early 2016 and primarily focused on educating and engaging all employees in protecting and enhancing the environment.

The initiative activities included wearing green clothes on Earth Day as well as providing a dedicated Erste Green tent on Erste Day whereby colleagues could participate in environment quizzes and measuring ecological footprint. A photo contest with an environmental theme was organized as well. Erste Green itself has embraced measures that both employees and the public could relate to. These measure included volunteering to collect trash at the Danube next to the Bank's headquarter; clearing a trekking trail in the Pilis Mountains and repainting the signage, implementing the ISO 50001 standard that endeavors to reduce energy costs and emission of gases that cause greenhouse effect.

Customers with disability

The Bank continues to dismantle accessibility obstacles at retail branches in order to facilitate for customers living with disabilities and confined to wheelchairs to manage their banking matters as conveniently as possible. As a result of the program, the Bank has modified 80 out of its 117-unit branch network in Hungary to make them disabled-friendly by ensuring full access to the entrances and creating larger spaces inside the branches for easier maneuvering in the customer area. Going forward, all branch investments will be implemented with ease of access in mind unless physical or other obstacles arise.

ERSTE BANK HUNGARY'S ENERGY MANAGEMENT

The Bank places particular emphasis on environmental protection, sustainability and increasing its energy efficiency, both in the Head Office and Branch network.

The Bank's head office buildings are "A" category office buildings and are constructed to the highest technical specification and utilize modern heating and cooling technologies as well as a building surveillance system. Motion and position sensors as well as energy-efficient LED light sources have been installed in several places in order to reduce energy consumption. During nights and weekends heating and air conditioning systems operate in energy-saving mode balancing the needs of the Bank with energy consumption reduction. All work stations are lit by natural light which supports the preservation of employee health and the aforementioned energy consumption reduction. With the use of mode switching adapted to business hours, the Bank ensures reduced energy consumption during periods of inactivity, which allows our entire branch network to operate with improved energy efficiency.



As part of our continuous improvements, the Bank will replace energy supply equipment with more efficient devices that are able to meet the demand with greater efficiency thus minimizing the environmental impact.

In the spirit of environmental awareness, the Bank also collect pre-selected waste types in Head Office including plastics, paper and municipal. It is intended to expand the scope of this recycling to the branch network.

8,000 MWh of green electricity was purchased in 2016 and 2017 which not only helped reduce CO2 emissions, but also indirectly facilitated the spread of innovative systems generating renewable energies. The Bank is committed to continuing this activity and are planning to purchase a further 8,000 MWh of green electricity in 2018 for the operation of banking network.

In order to continuously maintain and improve the efficiency of energy management the Bank introduced an energy management system that meets the requirements of the ISO50001 standard at the end of 2017. In line with internal needs and with the support of Erste Group ISO activities were expanded and included the introduction of ISO 14001 environment management system further enhancing the aforementioned commitment to environmental protection.

The development and renewal of our branch network are ensured by continuously improved standards and the innovative operation of our ISO systems. Artificial lighting is provided by energy-efficient fluorescent and LED lights. Lighting Erste logos and advertisements are based on a timer and with nightfall (in most locations) light is limited or reduced. The majority of newly installed equipment is energy efficiency class "A".

When selecting newly installed air conditioning equipment, the Bank's preference is for VRV (heat pump) and inverter devices, which facilitate energy efficiency. Newly installed boilers are condensing which allow fuel savings and ultimately emission reduction.

In order to reduce paper consumption the Bank introduced ATMs cash withdrawal without a paper based receipt. Recyclable environmentally friendly paper is purchased and utilized across all operations of the Bank. This includes printing of bank statements as well as consumption within Head Office and the branch network.

In its internal correspondence the Bank uses envelopes that can be addressed 24 times as well as recycled paper and stamps. The Bank donates End Of Life usable personal computers as well as furniture to educational institutions and charitable foundations. Used copier and printer cartridges are recycled at the purchasing source.

In order to reduce the adverse environmental impact of transport the vehicle fleet is continuously re-configured based on current needs via the exchange and purchase of modern vehicles with energy-efficient engines. Initiative include the regular monitoring of emissions and fuel consumption as well as the provision of driving education related to ECO-Drive techniques via an eLearning system the Bank provides space for the storage of 180 bicycles in the Head Office buildings for colleagues travelling to work by bicycle thus promoting health and environmentally friendly transportation.

EVENTS AFTER THE BALANCE SHEET DATE

At Erste Bank Hungary Zrt's Annual general meeting, to be held 26 April, proposal of dividend payment amounting to 40 billion forint is presented, that will be paid during 2018.

Budapest, 13 April 2018

.....
Radován Jelasity
Chairman and Chief Executive Officer

.....
Ivan Vondra
Chief Financial Officer

1. Annex No. 1 Branch network of the Bank as of 31 December 2017:

No.	Branch	City/town
1	Ajkai Branch	Ajka
2	Aréna Pláza Branch	Budapest
3	Árkád Üzletközponti Branch	Budapest
4	Bajai Branch	Baja
5	Balassagyarmati Branch	Balassagyarmat
6	Baross téri Branch	Budapest
7	Bartók-Házi Branch	Budapest
8	Béke téri Branch	Budapest
9	Békéscsaba, Andrásy úti Branch	Békéscsaba
10	Budaörsi Branch	Budaörs
11	Campona Branch	Budapest
12	Ceglédi Branch	Cegléd
13	Corvin negyed Branch	Budapest
14	Csepeli Branch	Budapest
15	Csornai Branch	Csorna
16	Danubius ház Branch	Budapest
17	Deák téri Branch	Budapest
18	Debrecen, Belvárosi Branch	Debrecen
19	Debrecen, Egyetemi Branch	Debrecen
20	Debrecen, Piac u. Branch	Debrecen
21	Debrecen, Vár u. Branch	Debrecen
22	Dombóvári Branch	Dombóvár
23	Dunaharaszti Branch	Dunaharaszti
24	Dunakeszi Branch	Dunakeszi
25	Dunaújvárosi Branch	Dunaújváros
26	Egri Branch	Eger
27	Egry József utcai Branch	Budapest
28	Érdi Branch	Érd
29	Erste World Branch Debrecen	Debrecen
30	Erste World Branch Győr	Győr
31	Erste World Branch Kecskemét	Kecskemét
32	Erste World Branch Kossuth tér	Budapest
33	Erste World Branch Mammut II.	Budapest
34	Erste World Branch Miskolc	Miskolc
35	Erste World Branch MOM Park	Budapest
36	Erste World Branch Pécs	Pécs
37	Erste World Branch Szeged	Szeged
38	Erste World Branch Székesfehérvár	Székesfehérvár
39	Erste World Branch Vörösmarty tér	Budapest
40	Erste World Branch Zalaegerszeg	Zalaegerszeg

No.	Branch	City/town
41	Erzsébet krt.8. Branch	Budapest
42	Esztergomi Branch	Esztergom
43	Eurocenter Branch	Budapest
44	Európa Torony Branch	Budapest
45	Fehérvári út 130. Branch	Budapest
46	Flórián téri Branch	Budapest
47	Gödöllői Branch	Gödöllő
48	Gyöngyösi Branch	Gyöngyös
49	Győr, Árpád úti Branch	Győr
50	Győr, Bajcsy-Zs. úti Branch	Győr
51	Gyulai Branch	Gyula
52	Hajdúböszörményi Branch	Hajdúböszörmény
53	Hajdúnánási Branch	Hajdúnánás
54	Hajdúszoboszlói Branch	Hajdúszoboszló
55	Hatvani Branch	Hatvan
56	Heltai Jenő téri Branch	Budapest
57	Hódmezővásárhelyi Branch	Hódmezővásárhely
58	Hűvösvölgyi Branch	Budapest
59	Jászberényi Branch	Jászberény
60	Kalocsai Branch	Kalocsa
61	Kálvin téri Branch	Budapest
62	Kaposvári Branch	Kaposvár
63	Karcagi Branch	Karcag
64	Kazincbarcikai Branch	Kazincbarcika
65	Kecskemét, Dobó körúti Branch	Kecskemét
66	Kecskemét, Kossuth téri Branch	Kecskemét
67	Keszthelyi Branch	Keszthely
68	Királyhágó téri Branch	Budapest
69	Kiskunfélegyházi Branch	Kiskunfélegyháza
70	Kiskunhalasi Branch	Kiskunhalas
71	Kispesti Branch	Budapest
72	Kisvárdai Branch	Kisvárd
73	Komáromi Branch	Komárom
74	Kossuth téri Branch	Budapest
75	Kőbányai Branch	Budapest
76	Köki Terminál Branch	Budapest
77	Krisztina téri Branch	Budapest
78	Makói Branch	Makó
79	Mammut II. Branch	Budapest
80	Mammut II., emeleti Branch	Budapest
81	Mátészalkai Branch	Mátészalka

No.	Branch	City/town
82	Mezőkövesdi Branch	Mezőkövesd
83	Miskolc, Bajcsy-Zs. u. Branch	Miskolc
84	Miskolc, Corvin u. Branch	Miskolc
85	Miskolc, Városház téri Branch	Miskolc
86	Mohácsi Branch	Mohács
87	MOM Park Branch	Budapest
88	Móri Branch	Mór
89	Mosonmagyaróvári Branch	Mosonmagyaróvár
90	Nagykanizsa, Belvárosi Branch	Nagykanizsa
91	Nyírbátori Branch	Nyírbátor
92	Nyíregyháza, Korzó Branch	Nyíregyháza
93	Nyíregyháza, Országzászló téri Branch	Nyíregyháza
94	Nyugati téri Branch	Budapest
95	Orosházi Branch	Orosháza
96	Paksi Branch	Paks
97	Pápai Branch	Pápa
98	Párisi utcai Branch	Budapest
99	Pécs, Diana téri Branch	Pécs
100	Pécs, Rákóczi úti Branch	Pécs
101	Pesterzsébeti Branch	Budapest
102	Pólus Irodaház Branch	Budapest
103	Private Banking Debrecen, Vár utcai Branch	Debrecen
104	Private Banking Győr, Bajcsy-Zs úti Branch	Győr
105	Private Banking Kecskemét, Kisfaludy utcai Branch	Kecskemét
106	Private Banking Miskolc, Bajcsy-Zsilinszky utcai Branch	Miskolc
107	Private Banking MOM SAS torony	Budapest
108	Private Banking Pécs, Rákóczi téri Branch	Pécs
109	Private Banking Szeged, Széchenyi téri Branch	Szeged
110	Private Banking Székesfehérvár, Palotai úti Branch	Székesfehérvár
111	Private Banking Zalaegerszeg, Ispotály közti Branch	Zalaegerszeg
112	Rákóczi téri Branch	Budapest
113	Rákoskeresztúri Branch	Budapest
114	Salgótarjáni Branch	Salgótarján
115	Sárospataki Branch	Sárospatak
116	Sárvári Branch	Sárvár
117	Siófoki Branch	Siófok
118	Sopron, Előkapu Branch	Sopron
119	Szabadság téri Branch	Budapest
120	Szarvasi Branch	Szarvas

No.	Branch	City/town
121	Százhalombattai Branch	Százhalombatta
122	Szeged, Kölcsey u. Branch	Szeged
123	Szeged, Széchenyi téri Branch	Szeged
124	Székesfehérvár, Budai úti Branch	Székesfehérvár
125	Székesfehérvár, Palotai úti Branch	Székesfehérvár
126	Szekszárdi Branch	Szekszárd
127	Szentendrei Branch	Szentendre
128	Szentesi Branch	Szentes
129	Szentgotthárdi Branch	Szentgotthárd
130	Szigetszentmiklós Auchan Branch	Szigetszentmiklós
131	Szolnok, Baross u. Branch	Szolnok
132	Szombathely, Mártírok tér Branch	Szombathely
133	Tatabányai Branch	Tatabánya
134	Tatai Branch	Tata
135	Teréz körúti Branch	Budapest
136	Thököly úti Branch	Budapest
137	Tiszaújvárosi Branch	Tiszaújváros
138	Törökszentmiklósi Branch	Törökszentmiklós
139	Újpesti Branch	Budapest
140	Váci Branch	Vác
141	Váci út 33. Branch	Budapest
142	Várpalotai Branch	Várpalota
143	Veszprém, Ádám Iván utcai Branch	Veszprém
144	Vörösmarty téri Branch	Budapest
145	Westend Branch	Budapest
146	Záhonyi Branch	Záhony
147	Zalaegerszeg,Ispotályközi Branch	Zalaegerszeg
148	Zirci Branch	Zirc

2. Annex No. 2: Erste Bank Hungary Zrt. Corporate Governance Report for year 2017

ERSTE BANK HUNGARY Zrt. CORPORATE GOVERNANCE REPORT FOR THE YEAR 2017

Under Section 95/B of Act C of 2000 on Accounting, ERSTE BANK HUNGARY Private Limited Company („the Company”) hereby publishes its Corporate Governance Report.

The Company established its corporate governance system in a responsible, efficient and transparent manner, in accordance with the effective legislation applicable to companies and credit institutions, the recommendations from and expectations of the NBH (financial supervisor), keeping the interests of clients and Shareholders in mind.

The Company, as an issuer of certain listed securities prepared its corporate governance report – to ensure transparency and full comparability – in accordance with Corporate Governance Recommendations (“Recommendations” or “CGR”) approved by the Board of Directors of the Budapest Stock Exchange Zrt. on 12 November 2012. The Company stresses however that the company is a credit institution operating as a private limited company, which applies the recommendations prepared for listed public limited companies with the derogations arising from its organization, activities and operations, as follows.

PART I

1. Operation of the Board of Directors, and a description of the division of responsibility and duties between the Board of Directors and the executive management

The Board of Directors as executive body of the Company governs the operation of the Company and its management in the framework set by legislation, the Company Statutes (“the Statutes”) and the resolutions of the Company’s General Meeting (“the General Meeting”), and by taking into account the recommendations from its Supervisory Board. It sets its own by-laws after seeking the opinion of the Supervisory Board.

The Board of Directors’ competence is, under the Statutes and the by-laws of the Board of Directors, amongst others, the preparation of the reports under the Accounting Act¹ (including the proposal for a decision to deploy the profit after tax), the preparation of the budget, the approval of the Company’s organizational structure, the approval of certain by-laws specified in the Credit Institution Act²; decision-making on the establishment and the dissolution of subsidiaries.

The Board of Directors consists of at least 3 members, elected by the General Meeting for a maximum of 5 years. The Board of Directors’ members can be reappointed and dismissed by the General Meeting.

The members of the Board of Directors are employed by the Company (internal members), and persons not employed by the Company (external members).

The Chairman of the Board of Directors organizes the Board of Directors’ work, ensures the efficient operation of the Board of Directors, represents the Board of Directors and carries out the tasks specified in the Statutes and the Board of Directors’ by-laws in connection with the holding of the meetings and other tasks.

The meetings of the Board of Directors are held with the necessary frequency, but at least 4 (four) times a year. The Chairman of the Board of Directors is required to convene a Board of Directors meeting upon a written request from any member, specifying the reason for convening the meeting and the proposed agenda. The invitation must be sent in advance to the Board of Directors members as set out in the by-laws.

1. Act C of 2000 on Accounting

2. Act CXII of 2013 on Credit Institutions and Financial Enterprises

The Board of Directors has a quorum if more than half of its members are present. The Board of Directors makes its decisions with a simple majority of the members present, by taking into account Sections 13.9 and 13.10 of the Statutes unless it is otherwise provided by the relevant legislation or the Statutes.

The Board of Directors may pass its resolutions in writing (including via fax), teleconference or videoconference.

The internal members of the Board of Directors are the CEO, the Retail Deputy CEO, the CFO, the Deputy IT and Operations CEO and the Deputy Risk Management CEO, who govern the organizational units belonging to them in order to perform their duties.

The Chairman elected by the Board of Directors and employed by the Company (in 2017 and currently the CEO), and his deputies (in 2017 and currently the internal Board of Directors members) qualify as executive managers under the Credit Institution Act. The Board of Directors decides on the distribution of business activities amongst the executive directors and the rules for replacement. The Board of Directors' decisions are implemented by the executive directors.

The Board of Directors established, within its college, a Managing Board. The Managing Board is a body engaged in the everyday operational management of the Company, drafting the decisions and principles required for the everyday operation, the competence of which covers, amongst others: management and supervision of pending Company matters, making decisions required for the everyday business operation, issuing by-laws, decision on bringing court cases, provided that these decisions are not within the exclusive competence of the Board of Directors or other bodies under the internal by-laws or effective legislative provisions.

The members of the Managing Board are the Chairman of the Board of Directors, the CEO and the Deputy CEO's, who are also members of the Board of Directors. The CEO is the Chairman of the Managing Board.

The Managing Board convenes a Managing Board meeting at a weekly frequency. The Managing Board meeting has a quorum if more than half of its members are present. The Managing Board meeting adopts its decisions with a simple majority.

The Managing Board informs the Board of Directors of the measures and decisions made on a quarterly basis.

In year 2017 the Board of Directors' decisions related, amongst others, the following matters:

- reports of the management,
- Risk Management reports
- the Company's organizational transformations,
- adoption of the amendments of internal regulations within the competence of the Board of Directors,
- preparation of the annual accounts and the related documentation,
- monitoring the inspection carried out by external authorities,
- decisions related to the Company's remuneration policy
- decisions related to the implementation of Group level directives
- decisions related to subsidiaries

2. Introduction to the members of the Board of Directors, the Supervisory Board and the Managing Board

2.1. Members of the Board of Directors on 31 December 2017

Jelasy Radován Chairman of the Board of Directors, CEO (01.06.2011. -)

Jelasy Radován was born in Baja, finished his secondary school in Budapest. He obtained an MBA at the Finance Faculty of Illinois University in Chicago, after having acquired a degree in economics at the Belgrade University. He started his banking career at the Deutsche Bank in Frankfurt where he worked for four years as area manager responsible for Central-Eastern Europe. Later he participated, on behalf of McKinsey&Company in Frankfurt in banking projects in Germany, Poland and Bulgaria. As Vice President of the Banking Rehabilitation Agency he participated in the reorganization of the banking sector and in the launch of the privatization process of several large banks. He was the Governor of the National Bank of Serbia between 2004 and 2010, and earlier he was Deputy Governor at the Serbian Central Bank. As central banker, he played an important role in the consolidation of the Serbian banking sector and the insurance market, as well as in the strengthening of the regulatory and supervisory bodies; furthermore he played a key role in Serbia's negotiations with international financial institutions. Jelasy Radován as Chief Executive Officer of ERSTE BANK HUNGARY Zrt. – since June 2011 – beyond his responsibilities specified by the laws and by the Board of Directors by-laws, the Chief Executive Officer acts for the good of the Bank's business policies, is responsible for financial stability, manages the Bank, helps the Board of Directors in making decisions affecting the entire Bank, contributes to setting directions to the Bank's business policies with evaluation of local and foreign business and macro-economic environment. He manages and coordinates the Bank's Corporate Division, supervises the division's strategic and business planning and operation. He has been the member of the General Council in the Hellenic Financial Stability Fund in Athens since October 2016.

László Harmati Executive Director, Deputy Retail CEO (02.04.2013. -)

The professional economist started his career at the ITCB - Consulting and Training, then between 1998 to 1999 he was Head of Department of Entrepreneurship and Regulation in the Ministry of Finance. Between 1999 and 2002, as Head of Department of Regulation at the National Bank of Hungary, he played a leading role, amongst others, in the development and launching of the domestic trading book regulation and the implementation of the Basel capital rules in Hungary. From 2002 until early 2013, as Deputy CEO at FHB Mortgage Bank Nyrt, and as CEO from 2010 the supervision of the entire business area was his competence, thus he played a leading role in the management of the bank's business strategy. In 2006-2007 he undertook an active role in founding the FHB Bank Zrt where he fulfilled the position of the CEO. In 2010 and 2011, during the acquisition of Allianz Bank Zrt he was in charge of the merger, he is associated with the establishment of the new business model, managing the rationalization project, and the intensive retail online developments (netbank, netbroker, lead generation via the Internet). In 2012 he led several state schemes (NET, fixed exchange rate). He was a leading actor in the cost rationalization, the development of the new set of tools for housing subsidy, he is credited with the re-tuning of the collection protocols, and the increase of the branch and direct channels' cross-sale potential. László Harmati as Deputy CEO for Retail (Chief Retail Officer) of ERSTE BANK HUNGARY Zrt. – since April 2013 – manages and coordinates the retail division of the Bank, supervises the operation of the branch network, manages and supervises the sales of retail products and the customer service and telesales channel of the Bank.

Krisztina Zsiga Executive Director, CRO, Deputy Risk management CEO (06.11.2017. -)

She graduated in 1993 at the Manchester Metropolitan University. She has been working in risk management for more than 14 years, and her career advanced in this area. She obtained numerous experiences in various European countries. Between 1995 and 2007 she worked in the Inter-Európa Bank, in Citibank and in the CitiGroup in Budapest, Moscow, Norway, Prague, and London. She joined Erste Group Bank AG in January 2008 where she was working as Head of Retail Risk Management. Between 2013 and 2016 she was member of ERSTE Bank Hungary Zrt's Supervisory Board, before she had been elected as external Board member. In November 2017 Krisztina Zsiga was elected as Deputy CEO for Risk Management (Chief Risk Officer) of ERSTE BANK HUNGARY Zrt. She supervises the credit policies of the Bank's business lines, including the credit rating, collateral valuation and provisioning policies. She regularly reviews market risks, supervises the delegation of functions regarding credit clients and he holds responsibility for the safe and secure operation of the Bank, as well as for the legal activity of the entire Bank.

Ivan Vondra, Executive Director, CFO, Deputy Financial CEO (07.11.2015. -)

The economist professional used to work at the Czech subsidiary of the Erste Group, at Česká Sporitelna as Head of Accounting, Controlling and Business Intelligence since 2002. Before this he was also employed by a financial institution - between 1992 and 1996 he was Deputy CFO at International Commercial Bank, in Prague, thus he has a total of 20 years experience gained in the financial field. Ivan Vondra as Deputy CEO (Chief Financial Officer) of ERSTE BANK HUNGARY Zrt. –since November 2015 – is responsible for financial stability within the Bank's business policies and he supervises the Finance and Accounting, Controlling, ALM and Facility and Property Management and Procurement areas.

Tamás Foltányi, Executive Director, COO, Deputy IT and Operation CEO (15.01.2016. -)

Studied in Budapest University of Technology at the Faculty of Electrical Engineering, Bank Management Program at the The International Training Center for Bankers Ltd. (Bankárképző). During his working carrier he used to have leading positions at Inter-Európa Bank and Creditanstalt. From 1999 till 2004 as a managing partner at PWC and IBM he was responsible for the Hungarian financial sector and services offered for them, then took over the management of the IBM Global Services businesses. From 2005 till 2015 he used to be Deputy Chief Executive Officer of the FHB Mortgage Bank Nyrt. Tamás Foltányi as Deputy CEO for IT and Operation (Chief Operating Officer) of ERSTE BANK HUNGARY Zrt. – since January 2016 - supervises the Bank's system development and organization tasks, manages and coordinates the IT and investment planning in the Bank, cooperates in operative decision making and supports the Bank's operation, holds responsibility for the Bank's IT and operation.

Dr. János Rudnay, external Board of Directors member (01.10.2004. -)

He graduated at the Vienna University' Law School in 1977. Between 1977 and 1994 he worked in management positions at various Philips affiliates. As of 1994 has was the CEO of the Pécs Brewery Rt. From 1995, he was the CEO of Reemtsma Debrecen Tobacco Plant Kft. Between 2001 and 2002 he was the member of SPB Investment Rt's advisory body. He has been a consultant to Erste Group Bank AG since September 2002. From 4 December 2003 he was external Board member of Postbank and Savings Fund Rt, then from 1 October 2004 he has been external Board member of ERSTE BANK HUNGARY Zrt.

Frederik Silzer external Board of Directors member (01.08.2005. -)

He started his career in 1988 at the die Erste österreichische Spar-Casse Bank, then from 1993 he worked at AVABANK in the control of affiliates, he was Executive Director at several Central European subsidiaries. In 1998 he joined Bank Austria AG (earlier operated as Creditanstalt AG) where he was in charge of coordinating subsidiaries, amongst other in Hungary. Since 2008 he has been in charge of coordinating Erste Bank der österreichischen Sparkassen AG in Central-Eastern Europe, including Hungary. He is responsible for numerous acquisition and integration projects.

Alexandra Habeler-Drabek, external Board of Directors member (06.12.2017. -)

She started her career in 1995 at the Creditanstalt-Bankverein Bank as Restrucuring and Workout Manager, in 1999 she became head of Risk Management Corporate & SME field. Between 2001 and 2010 she was in different leader positions in Unicredit Bank Austria. In 2010 she became head of Workout & Restructuring & Op-risk in Erste Bank Österreich, then she was the head of Operative Risk Management between 2012 and 2014. Between 2013 and 2016 she was the head of Group Enterprise-wide Risk Management in Erste Group Bank AG. Since 2017 she has been CRO at Slovenská sporiteľňa.

Zoltán István Marczinkó, external Board of Directors member (11.08.2016. -)

He graduated in 1988 at the Karl Marx University of Economic Sciences. At the beginning of his career he worked as the Head of Section for Production Organization in Dabas Printing House. He worked in the Budapest Bank Nyrt. as Lending Executive from 1992. Later he was the Head of Branch Network/Head of Central Branch at the HBW Express Savings Cooperative. He worked as the same position (branch manager) at the Budapest Bank from 2010 to the end of the year 2010, after that he was the head of the Corporate Business Center.

From 2013 he worked at the Széchenyi Kereskedelmi Bank Zrt. as Head of Acquisitions and Business Development. From 2014 he has been Deputy Secretary of State at the Ministry for National Economy, responsible for Key Corporate Relations.

Michael Neumayr, external Board of Directors member (14.09.2016. -)

He graduated in 1980 as doctor of law at the University of Vienna and subsequently obtained a diploma in International Relations at the Johns Hopkins University, Bologna Center.

He started his professional career in 1982 in international banking at Girozentrale Group, and held various management positions in the international division in Vienna, and the subsidiary in Zurich. In 1995 he joined Bank Austria Creditanstalt, Vienna, heading the International Finance and Syndications Department until 2002.

From 2002 - 2008 he was Executive Director and Member of the Board of Directors at the European Bank for Reconstruction and Development (EBRD) in London, representing Austria and five other shareholder countries, including Bosnia and Herzegovina, and Kazakhstan.

Since 2008, he is an independent business advisor, and member of supervisory boards of several banks and financial institutions.

2.2. Members of Supervisory Board on 31 December 2017

Dr. Manfred Wimmer, Supervisory Board member, Chairman of the Supervisory Board (01.09.2008. -)

He graduated in 1978 at the Law School of the Innsbruck University. His work experiences: 1982-1999: Creditanstalt, Wien, International Division. Since 1998 he has been working at ERSTE Bank der Oesterreichischen Sparkassen AG. between 1998-1999 as Head of International Marketing Department, between 1999-2002 as acquisition and integration Project Manager of Ceska Sporitelna, between 2002-2007 as Head of Strategic Holding Development Area, between 2007 and 2008 as President and Board Member of Banca Comerciala Romana, since 2008 as Board Member at Erste Group Bank AG responsible for Finance and Accounting and Performance Management. He retired as of 1 September 2013, but he is keeping the Chairman position of the Company's Supervisory Board.

Friedrich Rödler, Supervisory Board member (28.04.2012. -)

He graduated in 1975 at the Vienna Technical University (Mathematics and IT specialty), then obtained an academic degree at the Vienna School of Economics in 1976, then a second degree in "International relations" specialty. From 1976 to 1986 he was employed by Arthur Andersen & Co, then between 1986 and 1990 he worked as a partner at GRT Robol & CO. He has been working at PWC Austria since 2000 in various positions, currently as Country Senior Partner. He has more than 34 years of work experience in financial, accounting and tax consultancy matters.

Gernot Mittendorfer, Supervisory Board member (02.12.2013. -)

He graduated at the Linz Law School in 1989. He started his career at the Erste Group in 1990 as Account Manager. From 1997 he joined Sparkasse Mühlviertel West Bank AG where he built the business in the Czech Republic as member of the Managing Board. In November 1999 he was moved to the Prague headquarter of Erste Group Bank AG where he was responsible for the retail area. As of 1 July 2000 he was appointed to member of Ceska Sporitelna's Managing Board. As of August 2004 he received a CEO mandate at the Salzburger Sparkasse Bank AG, then in 2007 at Ceska Sporitelna. Since January 2011 he has been a member of Erste Group Bank AG's Managing Board as Risk Management Director. As of September 2013 he is Finance Director at Erste Group Bank AG, and in this position he is responsible for the Group Accounting, Group Performance Management and Group Asset/Liability Management.

Maximilian Clary Und Aldringen, Supervisory Board member (22.03.2016. -)

He graduated at the Universität Passau and European School of Management. He started his master's degree studies at London Business School for Executive MBA Degree in 2014. During his working career he used to have several positions at Raiffeisen Zentralbank Österreich AG and Raiffeisen Bank International AG. From 2013 to 2014 he was employed at the Romanian subsidiary of Erste Bank Bank AG, Banca Comerciala Romana, as a Chief Operating Officer consultant. Since April 2014, he had been the senior manager of the area, which is responsible for the group strategy of Erste Group Bank AG, and since January 2015 he has been the head of the mentioned area.

dr. Alíz Zsolnai, Supervisory Board member (11.08.2016. -)

She graduated in 2002 at the University of Szeged. She passed Specialist Exam in Public Administration in 2004. In 2006 she spent three month internship in the HM Treasury. She finished her PhD studies in 2012. From 2002 she is a Government official in the Ministry for National Economy, where she worked as Deputy Head of Department in 2014, and from 2015 as Head of Department.

Lucyna Stanczak-Wuczynska, Supervisory Board member (28.02.2017. -)

She graduated in 1990 at the Warsaw School of Economics, then obtained a second degree in Economics and European Integration. She started her professional career in 1992 at Credit Agricole. Between 1998 and 2000 she was the Structured Finance Vice President of ABN Amro Bank Polska S.A. She joined the European Bank for Reconstruction and Development (EBRD) in 2000 in Poland, where she became Country Director. Since August 2014 she has been working at the headquarters of EBRD, located in London as Financial Institutions (EU Banks) Director.

Magdolna Nagy, Supervisory Board member, representing employees (01.02.2013. -)

She is Head of Custody Department

She graduated in 1990 at the Budapest School of Economics. She has 20 year experience in investment services. Since 1993 she developed the depository service activity in various domestic banks. Between 1993 and 1997, she was head of deposit management at Magyar Hitelbank, between 1997 and 2000 at CIB Central European International Bank Rt; at ERSTE BANK HUNGARY Zrt she has been Head of Custody Department since 2000.

Márta Marosvölgyi, Supervisory Board member, representing employees (13.05.2013. -)

She is Head of the Operating Control within IT and Operation.

She has a chartered accountant degree; and she graduated in 2002 at the Budapest Business School as economist and controller. She started her professional career in 2002 as accountant at Colling Ltd. Between 2003-2007 she worked as an expert at Citibank Hungary and Citibank Handlowy/Warsaw/Poland (current accounts, deposits, loans, insurance and investments) within Operation, and she supported the conversion of the Core Bank System. Between 2007-2010 she worked at HSBC's Polish bank as Financial Control Manager. She joined ERSTE BANK HUNGARY Zrt. in 2010 as Head of Section at the Operation Control; since January 2011 she leads the Operations Control Department at the Company.

Anna Kósa, Supervisory Board member, representing employees (11.08.2016. -)

She is Head of Compliance, AML and Fraud Prevention Department.

She graduated as lawyer in the University of Miskolc. She worked as compliance and legal executive at the beginning of her career at the Magyarországi Volksbank. She joined ERSTE BANK HUNGARY Zrt. in 2012 as compliance expert at the AML and Securities Compliance. She was responsible for performance of compliance functions related to the financial and investment service activities of the Bank and supervision of the relevant internal processes from compliance aspects. Later she was the Acting Head of Department. She is the Head of Compliance, AML and Fraud Prevention Department from May 2016.

2.3. Members of Managing Board on 31 December 2017

Jelasy Radován, Chairman of the Board of Directors, CEO, executive manager responsible for the Corporate Business
László Harmati, Executive Director, Deputy CEO Retail

Krisztina Zsiga Executive Director, Deputy CEO Risk management

Ivan Vondra Executive Director, Deputy CEO Finance

Tamás Foltányi: Executive Director, Deputy CEO IT and Operation

3. Description of the number of meetings held by the Board of Directors and the Supervisory Board in 2017

In 2017 both the Board of Directors and Supervisory Board held four meetings each.

The quorum of the bodies at the 2017 meetings of the Board of Directors and the Supervisory Board was ensured in each case.

4. The presentation of viewpoints considered when evaluating the work of the Board of Directors, the Supervisory Board, the Managing Board, as well as of the different members

The Company is a credit institution subject to the Credit Institution Act, where, in line with the legislative provisions the Remuneration and Nomination Committee appraised the members of the Board of Directors and the Supervisory Board. The appraisal criteria for members of the Committees are set out in the Remuneration Policy published by the Company, and its Fit & Properregulation, and other criteria in the Credit Institution Act. No further measures were made as a follow-up to this appraisal.

5. Report on the operation of individual committees

5.1. Supervisory Board

The Supervisory Board carries out the tasks delegated to it by the law or the Company's Statutes, in particular:

- it ensures that the Company's operation is in line with the relevant laws and general rules, including the Statutes of the Company and the resolutions of the General Meeting;
- it is consulted on the annual financial report; verifies the Company's annual, interim (or other extraordinary) and consolidated balance sheets and the proposals for the distribution of dividends, furthermore it submits the related proposals to the General Meeting;
- the Supervisory Board will analyze the reports about the Company's management;
- before submitting it to the General Meeting, it forms an opinion on the draft amendments to the Statutes;

- it makes a proposal to the General Meeting on the person and remuneration of the auditor of the Company;
- the Supervisory Board will examine and assess the basic principles of the Company's business policy and forms an opinion on the Company's business policy;
- the Supervisory Board will inform the General Meeting of the outcome of its supervisory and other activities;
- the Supervisory Board will check the performance of the Company's Board of Directors;
- forms a preliminary opinion on the budget of the Company, as well as any decrease or increase of the budget items in excess of 10%;
- forms a preliminary opinion on the interim balance-sheet of the Company, required for interim dividend payment, or other reasons;
- grants a preliminary approval to the Board of Directors proposal on interim dividend payment (Section 3:263 (2) of the Civil Code);
- forms an opinion on the Investment Directives;
- forms a preliminary opinion on the Directives setting out the internal rules for the right of signing of persons assuming obligations on behalf of the Company, and on the disclosure principles;
- forms an opinion on the election of the Chairman of the Board of Directors and the executive managers;
- adopts and reviews the principles of the Remuneration Policy and it is responsible for its verification; and
- manages the organization of the Internal Audit;
- it develops recommendations and proposals on the basis of the findings of the examinations carried out by the Internal Audit.

The Supervisory Board consists of at least 3 and at most 9 members, elected for five years by the General Meeting. The members of the Supervisory Board can be re-elected and recalled by the General Meeting at any time. As long as the annual average number of the Company's FTE employees exceeds 200 people, one third of the Supervisory Board members are appointed by the General Meeting on the basis of the nomination by the Work Council. The mandate of members representing employees ceases upon the termination of his/her employment.

The Chairman of the Supervisory Board can be invited to the meetings of the Board of Directors in a consultative capacity.

The Supervisory Board meets as frequently as it deems necessary, or upon the request from any Supervisory Board member, but at least four times a year.

The invitation letters and the proposals concerning the matters to be discussed at the Supervisory Board's meeting must be sent to the members as set out in the by-laws.

The Supervisory Board meeting has a quorum when at least two-third of the Supervisory Board members are present, with at least three members present other than those elected upon the appointment from the Works Council.

The Supervisory Board passes its decisions with a simple majority and the open vote by the members present. The opinion of the employee representatives must be recorded in each case. Where the employee delegate's opinion is unanimously different from the Supervisory Board's majority opinion, the minority position of the employees must be disclosed to the General Meeting.

The Supervisory Board may pass its resolutions in writing, (including fax), teleconference or video conference, as set out in the by-laws.

As a rule, the documents related to the Supervisory Board meetings and resolutions are drawn up in English.

In 2017 the Supervisory Board resolutions affected primarily the following issues:

- Quarterly Board of Directors reports, Remuneration Policy,
- Matters related with the governance of the Internal Audit; and
- the Company's organizational transformations,
- Preparation of the Annual Report and the related report, making proposals,
- making decisions related to the main changes related to subsidiaries,

5.2. Audit Committee

The Audit Committee is a sub-committee of the Supervisory Board that carries out advisory and consultancy tasks to the Supervisory Board as set out in its by-laws, and performs other tasks as set out by the Supervisory Board. Under the by-laws, the Audit Committee is competent in the following matters, amongst others:

tasks related to the report under the Accounting Act, the audit made by the auditors, the person of the auditor and the contract to be concluded with it, the evaluation of the financial reporting system; furthermore the Audit Committee performs tasks related to the operation of internal control, such as the activities of the internal independent audit organization and proposes measures in connection with the risk assessment and risk management systems.

The Audit Committee consists of 3 members, elected by the General Meeting from the independent members of the Supervisory Board not representing employees. At least one member of the Audit Committee must have an accounting or auditing qualification.

The Audit Committee holds meetings as necessary but it must have a minimum of two meetings a year. The meeting is convened by the Chairman, or in his absence by the Deputy Chairman. The meeting of the Audit Committee must be convened if initiated by the Supervisory Board by specifying the purpose of the meeting.

The Audit Committee has a quorum if it is properly convened and at least two members are present. Otherwise the rules on the convention of the Supervisory Board apply. The Audit Committee passes its resolutions with unanimous decision.

The rules of the Audit Committee's operation are set out in its by-laws, adopted by the Supervisory Board. If all members of the Audit Committee agrees, its meeting can be convened electronically, via fax or the phone.

The Audit Committee may pass its resolutions by phone, fax or in any similar way.

The Chairman, or in the absence of the Chairman the Deputy Chairman makes an oral presentation to the Supervisory Board on the activity performed by or the meetings of the Audit Committee since the last oral or written report. Regular reports must be drawn up on the meeting of the Audit Committee and annexed to the material of the Supervisory Board meetings.

In 2017, the Audit Committee held four meetings, at all of them the Committee had a quorum.

In 2017 the Audit Committee primarily passed decisions on internal audit, the inspections carried out by the NBH at the Company, with the annual report and the auditor. The Board of Directors made no resolutions against the proposal from the Committee.

Members of the Audit Committee on 31 December 2017

Friedrich Rödler, Chairman

Gernot Mittendorfer, Deputy Chairman

Maximilian Clary Und Aldringen, member

5.3. Risk Governance Committee

The Risk Governance Committee is responsible for examining the reports related to the Company's risk profile, the risk management framework and risk management processes, and to supervise continuously the Company's solvency positions and compliance with the legislation and Erste Group level standards. It examines pricing principles, reviews remuneration guidelines in the context whether they comply with the institution's risk, capital and liquidity positions and the expected revenues.

The Committee receives information on every relevant development in risk management, reviews and discusses portfolio reports, and reports prepared on the risk management framework and related processes.

Three members of the Committee are delegated from amongst the external Board of Directors members.

Any member of the Board of Directors or the Supervisory Board, and the Deputy CEO Risk Management (Head of CRO, risk management areas in EBH) can also participate at the Committee's meetings but with no voting right, however, he/she can participate in the debates. Where the matters to be discussed require, the Chairman, or in his absence the Deputy Chairman can invite other Company employees or experts with appropriate expertise, to attend the Committee meeting with no voting right

The Risk Governance Committee holds its meetings as required but at least four times a year.

The Risk Governance Committee has a quorum if it is convened properly and at least two members are present. To pass a resolution on any matter discussed at the Committee's meeting at least two members voting for the decision is required. The members participating at the meeting via a teleconference or a video conference must be considered attending members.

The Risk Governance Committee may pass its resolutions via phone, fax or other similar ways.

The Chairman, or in his absence the deputy Chairman reports the Board of Directors on the activities completed by the Committee since the previous oral report and the meetings held. The Committee reports regularly to the Supervisory Board on its activities.

In 2017, the Risk Governance Committee held four meetings, at all of them the Committee had a quorum.

In year 2017 the Committee dealt with the matters within its competence, the amendment of risk management policies, and the effects of external events relevant for risk management.

Members of the Risk Taking - Risk Management Committee on 31 December 2017
Alexandra Habeler-Drabek, Chairwoman

Frederik Silzer, Deputy Chairman
dr. János Rudnay

5.4. Remuneration and Nomination Committee

The Remuneration and Nomination Committee performs the tasks specified in the Credit Institution Act for the Remuneration and Nomination Committee, as set out in its by-laws.

The Remuneration and Nomination Committee has three members, its members are delegated from amongst the external members of the Board of Directors.

The Committee's by-laws sets out members of bodies, and employees that can attend the meetings of the Committee in consultative capacity. Depending on the agenda items, further guests, the Company's employees and external experts can be invited to the meetings of the Remuneration and Nomination Committee.

The Committee shall meet as required but at least twice a year. The Committee's meeting must be convened if initiated by any of its members by specifying the purpose of the meeting.

The Committee may pass its resolutions by phone, fax or in any similar way.

The Committee has a quorum if at least two of its members are present. The Committee can pass decisions in any matter discussed at the meeting if at least two members vote for it. Members participating at a meeting by conference call or video conference shall be considered as being present.

In 2017 the Remuneration and Nomination Committee held two meetings; at both meetings the Committee had a quorum.

In 2017 the Committee mainly dealt with changes in the top management, remuneration issues, tasks within the Remuneration and Nomination Committee's competence and matters related to the amendment of the Remuneration Policy.

Members of the Remuneration and Nomination Committee on 31 December 2017:

dr. János Rudnay, Chairman
Frederik Silzer, Deputy Chairman
Alexandra Habeler-Drabek

6. Presentation of the system of internal controls and evaluation of the activity in the relevant period

The Company established and ensured at group level the system of internal controls, in line with the Credit Institution Act and the recommendation from NBH, and laid it down in the Company by-laws. The primary goal for operating internal controls is to facilitate the Company's prudent, efficient operation, in compliance with the legislation and by-laws, furthermore to assist the Company management in substantiated decision-making.

The basic pillars to the Company's internal control functions are the risk control function (risk management), compliance control function (compliance) and internal audit function. In the context of the financial process the work of the standing auditor is part of the internal control.

Internal Audit

The internal audit performs examination and evaluation of the activities of the Company and the subsidiaries and ancillary businesses subject to consolidated supervision with the Company. In this context it monitors compliance with legislative requirements, official orders and bylaws, whether the Company avails of the by-laws provided for by legislation and ensuring prudent operation, whether organizational units operate as provided for in the strategic objectives, it verifies the compliance and operation of business records, the outsourced activities and the content of the Remuneration Policy. As preventive activity, it contributes to projects as advisor, and forms an opinion when new products, by-laws, systems are introduced, if necessary.

The Internal Audit reports to the Supervisory Board, the Audit Committee and forward the reports to the Managing Board and the Board of Directors of the Company, and ensures that the reports are available to the financial supervisory authority. The annual report of the Internal Audit on the implementation of the remuneration policy is also forwarded to the Remuneration and Nomination Committee.

The Supervisory Board governs the system of the independent internal audit and during this:

- it ensures that the Company has a comprehensive control system in place that is suitable for the effective operation,
- it adopts the annual audit plan of the internal audit organizational unit,
- It discusses at least half yearly the reports prepared by the internal audit and verifies the implementation of the required measures.
- if necessary, it assists the work of the internal audit by engaging an external expert,
- it makes proposals to change the headcounts of the internal audit organizational unit.

The Supervisory Board develops recommendations and proposals on the basis of the findings of the examinations carried out by the Internal Audit.

Decisions related to the establishment of an employment of the Head of Internal Audit, and his dismissal by the employer can be passed with the preliminary consent from the Supervisory Board.

Audit Committee

The sub-committee of the Supervisory Board, the Audit Committee also performs tasks related to the operation of the internal control system and the activities of the independent internal audit system, amongst others:

- discusses all internal audit related material prepared for the Supervisory Board,
- makes proposals for the Supervisory Board on the appointment, dismissal of the head of internal audit, the organization, headcount and main operational rules of the internal audit,
- makes proposals to the Supervisory Board in connection with the annual audit plan and the outcome of the internal audit activity, and
- proposes measures in the context of risk assessment and management systems.

Anti money-laundering and Compliance

The Anti-money laundering, the Compliance and Fraud Prevention areas of the Company carry out tasks related to the prevention of money laundering, international sanctions and fraud management and compliance risk detection and management tasks, on the basis of European Union and domestic legislation. In this context they draw up by-laws and procedures compliant with domestic and international legislation; in connection with their activities they perform inquiries and audits; perform similar professional supervision of group subsidiaries.

These areas of the Company prepare an annual comprehensive report on the anti money-laundering and compliance activity and state, to be approved by the Board of Directors of the Company.

Risk Management

The Company's risk management system is established to comply with legislative and supervisory requirements, in addition to the internal objectives of efficient and effective risk management. This system includes risk identification, the evaluation and analysis of their effects, drawing up plans for the required measures, and monitoring the efficiency of the risk management system. The management of the Company passes its resolutions being aware of significant risks.

Apart from the Risk Governance Committee, the Company set up further committees in order to ensure support to efficient decision making process and the multi-functional supervision (joint participation of various professional areas). Their main purpose is to establish risk management, the related principles, risk strategy and its alignment with the business strategy, its follow-up and monitoring, and to increase risk awareness. Among the key objectives of these committees are the implementation of mutual coordination between corporate and retail lending functions and internal management functions.

Risk management standards and expectations are set out in detail in the Company's risk management by-laws.

The Company publishes its Disclosure Report pursuant to the Capital Requirements Regulations ("Risk Management report") on its website each year, containing the organizational structure of risk management and the relevant risk management information at the Company in the relevant year, and the risk factors influencing the Company's operation and management. The Risk Management report can be accessed here at the Company website (www.erstebank.hu): https://www.erstebank.hu/hu/ebh-nyito/bankunkrol/erste-bank-hungary-zrt/vallalatiranyitas/hivatalalos_kozzetetelek/2017/04/25/2016-evi-kockazatkezelesi-jelentes

Standing auditor

The Company has a standing auditor, appointed by the General Meeting, and registered in the Company Register.

The Company engaged with the audit of its 2017 annual report and consolidated annual report in line with the legislation in force PricewaterhouseCoopers Könyvvizsgáló Kft. (1055 Budapest, Bajcsy-Zsilinszky út 78.). Appointed auditor: Árpád Balázs (1124 Budapest, Dobsinai u. 1.; mother's name: Kozma Hedvig; Registration number with the Chamber: 006931).

The auditor performs its other tasks specified by the law (in particular in the Credit Institution Act); furthermore the Board of Directors and the Supervisory Board can request the auditor to perform special inspections and to draw up a report on them.

The Company regularly presents, in the Notes to the Annual Accounts, the fees charged by the auditor for the other certification services, for tax consultancy and other non-audit services charged in the reporting year (in addition to the fee charged by the auditor for the audit of the reports of the reporting year).

7. The company's disclosure policy

The Company is a private limited company that lays down its publication principles and procedures in its by-laws, in accordance with the legislative provisions. The by-laws set out principles and procedures which ensure that all relevant information about the Company and circumstances influencing its share price are disclosed accurately, in a timely fashion and in full.

- The Company regularly presents, in the Notes to the Annual Accounts, the fees charged by the auditor for the other certification services, for tax consultancy and other non-audit services charged in the reporting year (in addition to the fee charged by the auditor for the audit of the reports of the reporting year).
- The Company publishes its Risk Management report on its website each year, containing the organizational structure of risk management and the relevant risk management information at the Company in the relevant year, and the risk factors influencing the Company's operation and management.
- The Company publishes, together with its annual report, on its website the main remuneration data for the previous years, furthermore the summary of its current remuneration policy is available on its website.
- In its annual report the Company discloses information on the professional career of the members of the Board of Directors, the Supervisory Board and the Managing Board.

8. The Company's policy on trading by insiders

The Company is a private limited company, which manages the list of insider traders in line with the provisions of the Capital Market Act³ **and establishes its by-laws on insider trading.**

9. Method of exercising shareholders' rights

The Company's main body is the General Meeting, where shareholders can exercise their participation and voting rights in person or via proxy.

The General Meeting is convened by the Board of Directors. The convention of the General Meeting can be initiated by one or several Shareholders or any Supervisory Board member in writing; its decision can be also initiated by the competent authority, the auditor and the court of registration. Invitation to the General Meeting is sent by the Board of Directors in writing (via the post, fax or, upon an express request, e-mail) to the Shareholders, at least thirty days before the date of the meeting.

The General Meeting can be attended via telecommunication devices (phone, videophone, online conference devices), in line with the rules set out in the Statutes.

The General Meeting can also pass resolutions in writing, without holding a meeting. In such a case a resolution is adopted when the last vote required to pass a resolution is received by the Board of Directors, provided that it is received within 30 days after the sending out of the draft resolution. Any Shareholder can request the convention of a face-to-face General Meeting within five working days following the receipt of the draft resolutions.

The General Meeting shall have a quorum if the Shareholders holding more than 75% of votes are present. A second or further General Meeting can be convened to a date at least three working days after the general meeting without a quorum, with the same agenda; in this case the General Meeting has a quorum where at least Shareholders holding at least 50% of the votes are present.

The General Meeting decides in matters belonging into his competence under legislation and the Statutes. The following are the exclusive competence of the General Meeting:

- amendments to the Statutes;
- increasing the share capital;
- appointment, dismissal, and setting the remuneration of the members of the Board of Directors;
- the election and dismissal of the members of the Supervisory Board or the Company's auditor, and establishing their remuneration;
- the election and dismissal of the members of the Audit Committee;
- adoption of the reports (activity report from the Board of Directors on the previous year's business, and the Supervisory Board's report on such a report), including the resolution on the use of the profit after tax;
- evaluation of the Board of Directors member's work in the previous business year, decision on the discharge to the Board members;
- decision to pay dividends and interim dividends;
- return of the Company's license for the activity;
- approval of the Supervisory Board's by-laws; and
- making decisions on all issues assigned to the competence of the General Meeting by law or the Statutes.

In the General Meeting's decision making voting procedures set out in the Civil Code⁴ apply, except if any of these matters belong to the Reserved Competence of the General Meeting as set out in the Statutes, in which case the special voting rules as set out in the Statutes apply.

10. Remuneration statement

The Company publishes, together with its annual report, on its website the main remuneration data for the previous years, furthermore the summary of its current remuneration policy is available on its website.

The summary of the Remuneration Policy can be accessed here at the Company website (www.erstebank.hu): <https://www.erstebank.hu/hu/ebh-nyito/bankunkrol/erste-bank-hungary-zrt/vallalatiranyitas/javadalmazasi-politika>

³ Act CXX of 2001 on the Capital Market

⁴ Act V of 2013 on the Civil Code of Hungary

II. PART

Corporate Governance Report on Compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, by completing the following tables, **the Company declares to what extent it applied in its own practice of corporate governance the recommendations and suggestions formulated in the different points of the CGR published by the Budapest Stock Exchange Ltd.**

By reviewing the tables, market participants may receive information on the extent to which the corporate governance practice of different companies meets certain requirements included in the CGR, and may easily compare the practices of the different companies.

Level of compliance with the Recommendations

The Company should indicate whether it applies the relevant recommendation or not, and in the case of a negative answer, it should provide the reasons for not applying the given recommendation.

A 1.1.1 The Board of Directors / Governing Body ensured that shareholders received access to information in time to enable them to exercise their rights.

Yes (Complies) No (Explanation)

A 1.1.2 The company applies the "one share - one vote" principle.

Yes (Complies) No (Explanation)

A 1.2.8 The company ensures that shareholders must meet the same requirements in order to attend at the general meeting.

Yes (Complies) No (Explanation)

A 1.2.9 Items on the general meeting agenda only include subjects which are correctly detailed and summarized clearly and unambiguously.

Yes (Complies) No (Explanation)

The proposals included the suggestions of the Supervisory Board and a detailed explanation of the effects of the decision.

Yes (Complies) No (Explanation)

A 1.2.10 Shareholders' comments on and supplements to the items on the agenda were published at least two days prior to the general meeting.

Yes (Complies) **No (Explanation)**

The Company is a private limited company, for which no legislative provision for such publication exists, due to the special characteristics of the operational form.

A 1.3.8 Comments on the items of the agenda were made available to shareholders simultaneously with registration at the latest.

Yes (Complies) **No (Explanation)**

The Company is a private limited company, for which no such legislative provision exists, due to the special characteristics of the operational form. In this year no shareholder comments were received to the agenda items of the General Meeting.

Written comments made on the items on the agenda were published two working days prior to the general meeting.

Yes (Complies) **No (Explanation)**

The Company is a private limited company, for which no legislative obligation for such publication exists, due to the special characteristics of the operational form.

A 1.3.10 The election and dismissal of executives took place individually and by separate resolutions.

Yes (Complies) No (Explanation)

A 2.1.1 The responsibilities of the Board of Directors / Governing Body include those laid out in Section 2.1.1 of CGR.

Yes (Complies)

No (Explanation)

The Company is subject to the Credit Institution Act, which delegates the task under Subsection 2.1.1. d) of CGR, in accordance with the Remuneration Policy of the Company, to the Remuneration and Nomination Committee, otherwise the Board of Directors' tasks cover Section 2.1.1.

A 2.3.1 The Board of Directors / Governing Board held meetings regularly, at times designated in advance.

Yes (Complies)

No (Explanation)

The Supervisory Board held meetings regularly, at times designated in advance.

Yes (Complies)

No (Explanation)

The rules of procedure of the Board of Directors / Governing Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies)

No (Explanation)

The rules of procedure of the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes (Complies)

No (Please explain)

A 2.5.1 The Governing Board / Supervisory Board of the company has a sufficient number of independent members to ensure the impartiality of the board.

Yes (Complies)

No (Explanation)

No Governing Board operates at the Company. The members of the Supervisory Board are independent of the management of the Company.

A 2.5.4 At regular intervals (in connection with the CGR) the Governing Board / Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes (Complies)

No (Explanation)

No Board of Directors operates at the Company.

A 2.5.6 The company disclosed on its website the guidelines on the independence of the Governing Board / Supervisory Board, as well as the criteria applied for assessing independence.

Yes (Complies)

No (Explanation)

The Company is a private limited company, for which no legislative obligation for such disclosure obligation exists, due to the special characteristics of the operational form.

A 2.6.1 Members of the Board of Directors / Governing Board informed the Board of Directors / Governing Board (Supervisory Board/Audit Committee) if they (or any other person in a close relationship to them) had a significant personal stake in a transaction of the company (or the company's subsidiary).

Yes (Complies)

No (Explanation)

A 2.6.2 Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted according to general rules of practice of the company, but with stricter transparency rules in place.

Yes (Complies)

No (Explanation)

Transactions which according to 2.6.2, fell outside the normal course of the company's business, and their terms and conditions were approved by the Supervisory Board.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and according to this legislation, transactions concluded between the members of the bodies and the management (and persons related to them) and the Company (and its subsidiaries) are approved by the body/bodies specified by the by-laws, established in line with the requirements of the Credit Institution Act on internal lending and conflict of interests (decision of the Company's Board of Directors and the consent decision by the Supervisory Board, and of the subsidiary's Board of Directors and/or Supervisory Board).

A 2.6.3

Board members informed the Supervisory Board/Audit Committee (nomination committee) if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes (Complies)

No (Explanation)

Pursuant to Sections 143-145 of the Credit Institution Act, any member of the Board of Directors shall immediately notify the Company Secretariat if he/she establish or terminate a membership in the management or any of the bodies of a company which is not a member of the Erste group. Such notification is examined by Compliance - in line with Section 13.12. of the Statutes of the Company and other by-laws - for potential conflicts of interests, and in the event of establishing the existence of the conflict of interests it calls the person concerned, by setting an appropriate deadline, to resolve the conflict of interest.

A 2.6.4

The Board of Directors / Governing Body established its guidelines on information flow within the company and the handling of insider information, and monitored compliance with those guidelines.

Yes (Complies)

No (Explanation)

The Board of Directors / Governing Body established its guidelines regarding insiders' trading in securities and monitored compliance with those guidelines.

Yes (Complies)

No (Explanation)

A 2.7.1

The Board of Directors / Governing Body formulated remuneration guidelines regarding the evaluation and remuneration of the work of the Board of Directors / Governing Body, the Supervisory Board and the executive management.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the principles of the Company's Remuneration Policy are adopted and reviewed by the Supervisory Board. In line with the legislative provisions the Remuneration and Nomination Committee appraised the members of the Board of Directors and the Supervisory Board.

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the principles of the Company Remuneration Policy are adopted and reviewed by the Supervisory Board.

The guidelines regarding the remuneration for the Board of Directors / Governing Body and the Supervisory Board and the changes in those guidelines were approved by the general meeting, as a separate item on the agenda.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the principles of the Company Remuneration Policy are adopted and reviewed by the Supervisory Board and the Remuneration and Nomination Committee makes separate decisions on the remunerations of the members of the Board of Directors and Supervisory Board.

A 2.7.2 The Board of Directors / Governing Body prepared an evaluation of the work it carried out in the given business year.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the appraisal of the Board of Directors' members work and performance is the responsibility of the Remuneration and Nomination Committee.

A 2.7.2.1 The Supervisory Board prepared an evaluation of the work it carried out in the given business year.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the appraisal of the Supervisory Board's members work and performance is the responsibility of the Remuneration and Nomination Committee.

A 2.7.3 It is the responsibility of the Board of Directors / Governing Body to monitor the performance of and determine the remuneration for the executive management.

Yes (Complies)

No (Explanation)

The frameworks of benefits due to members of the executive management that do not represent normal practice, and the changes in those benefits were approved by the general meeting as a separate agenda item.

Yes (Complies)

No (Explanation)

The Company is a company subject to the Credit Institution Act, and in line with the requirements of that legislation the frameworks of the remuneration applied by the Company and different from the usual are adopted and reviewed by the Remuneration and Nomination Committee, within the framework set by the principles of the Remuneration Policy.

A 2.7.4 The structure of share-incentive schemes were approved by the general meeting.

Yes (Complies)

No (Explanation)

In year 2017 no share-incentive scheme existed at the Company.

Prior to the decision by the general meeting on share-incentive schemes, shareholders received detailed information (at least according to those contained in 2.7.4).

Yes (Complies)

No (Explanation)

In year 2017 no share-incentive scheme existed at the Company.

A 2.7.7 The Remuneration Statement was prepared by the company and submitted to the general meeting.

Yes (Complies)

No (Explanation)

The Company's Remuneration Policy is approved by the Supervisory Board, in line with the requirements of the Credit Institution Act, the summary of which is published by the Company. Furthermore, the Company prepares, under the CRR⁵, and publishes in the framework of the Risk Management report its remuneration data for the reporting year; the Risk Management report is approved by the Managing Board of the Company.

The Remuneration Statement includes information about the remuneration of individual members of the Board of Directors / Governing Body, the Supervisory Board, and the executive management.

Yes (Complies)

No (Explanation)

The Company prepares, under the CRR, and publishes in the framework of the Risk Management report its remuneration data for the reporting year regarding employees having significant effects on the risk profile of the Company (key persons); it contains remuneration data on an aggregate basis.

⁵ Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR)

A 2.8.1 The Board of Directors / Governing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes (Complies)

No (Explanation)

The Company, as a credit institution with at least 5 percent market share in terms of its balance sheet total, has a Risk Governance Committee established in line with the Credit Institution Act.

The Board of Directors / Governing Body request information on the efficiency of risk management procedures at regular intervals.

Yes (Complies)

No (Explanation)

The Board of Directors / Governing Body took the necessary steps to identify the major risk areas.

Yes (Complies)

No (Explanation)

A 2.8.3 The Board of Directors / Governing Body formulated the principles regarding the system of internal controls.

Yes (Complies)

No (Explanation)

Risk control function, compliance control function and internal audit function can be classified as internal control functions. The system of internal controls, and the principles related to that system are established in accordance with the Credit Institution Act and Recommendation No. 5/2016 (VI. 06.) of NBH, approved by the bodies provided for in the by-laws and legislation. The bank level framework of risk control function and the application of risk taking principles (identification, measuring, mitigation, monitoring) and the rules of determination of risk bearing capacity calculation were defined within the framework of enterprise-wide risk management which was approved by the management and Board of Directors of the Company. The Compliance internal regulation comprising the provisions of compliance control function is to be approved by the management of the Company. Regarding internal audit system please see Sections 5.1., 5.2. and 6 of this corporate governance report.

The system of internal controls established by the executive management guarantees the management of risks affecting the activities of the company, and the achievement of the company's performance and profit targets.

Yes (Complies)

No (Explanation)

A 2.8.4 When developing the system of internal controls, the Board of Directors / Governing Body took into consideration the viewpoints included in 2.8.4.

Yes (Complies)

No (Explanation)

A 2.8.5 It is the duty and responsibility of the executive management to develop and maintain the system of internal controls.

Yes (Complies)

No (Please explain)

Within the framework set out in the Credit Institution Act.

A 2.8.6 The company created an independent Internal Audit function which reports to the Audit Committee / Supervisory Board.

Yes (Complies)

No (Explanation)

The Internal Audit reported at least once to the Audit Committee / Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions.

Yes (Complies)

Regarding reporting of Internal Audit please see Section 6 of this corporate governance report.

A 2.8.7 The internal audit activity is carried out by the Internal Audit function based on authorization from the Audit Committee / Supervisory Board.

Yes (Complies)

No (Explanation)

As an organization, the Internal Audit function is independent from the executive management.

Yes (Complies)

No (Explanation)

A 2.8.8 The Internal Audit schedule was approved by the Board of Directors / Governing Body (Supervisory Board) based on the recommendation of the Audit Committee.

Yes (Complies)

No (Explanation)

Under the Credit Institution Act, the internal audit plan is adopted by the Supervisory Board.

A 2.8.9 The Board of Directors / Governing Body prepared its report for shareholders on the operation of internal controls.

Yes (Complies)

No (Explanation)

The operation of internal controls established in line with the Credit Institution Act is audited by the Internal Audit; the supervision of the Internal Audit is the competence of the Supervisory Board. Risk control and compliance control are subject to the governance by the member of the Company's risk management Board member (Deputy CEO Risk Management), which areas regularly report to the Board of Directors, to the Supervisory Board, and to the Managing Board.

The Board of Directors / Governing Body developed its procedures regarding the receipt, processing of reports on the operation of internal controls, and the preparation of its own report.

Yes (Complies)

No (Explanation)

The Internal Audit, and in the cases specified in the Credit Institution Act, the Supervisory Board is responsible for developing the procedures related to the reports on internal controls in accordance with the Credit Institution Act.

A 2.8.11 The Board of Directors / Governing Body identified the most important deficiencies or flow in the system of internal controls, and reviewed and re-evaluated the relevant activities.

Yes (Complies)

No (Explanation)

A 2.9.2 The Board of Directors / Governing Body, the Supervisory Board and the Audit Committee were notified in all cases when an assignment given to the auditor may have resulted in significant additional expense, caused a conflict of interest, or affected normal business practices significantly in any other way.

Yes (Complies)

No (Explanation)

A 2.9.3 The Board of Directors / Governing Body informed the Supervisory Board of any assignment given to the external auditor or an external advisor in connection with any event which held significant bearing on the operations of the company.

Yes (Complies)

No (Explanation)

The Board of Directors / Governing Body pre-determined in a resolution what circumstances constitute "significant bearing" on the operation of the Company.

Yes (Complies)

No (Explanation)

The Company classifies economic transactions as „significant bearing” actions according to the finance ministry decree of 24/2008. (VIII. 15.).

A 3.1.6 On its website, the company disclosed duties delegated to the Audit Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies)

No (Explanation)

The Company is a private limited company, for which no legislative provision on such publication obligation takes place. The Company publishes significant part of the above data in this Corporate Governance Report.

A 3.1.6.1 On its website, the company disclosed duties delegated to the Nomination Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies)

No (Explanation)

The Company is a private limited company, for which no legislative provision on such publication obligation takes place. The Company publishes significant part of the above data in this Corporate Governance Report.

A 3.1.6.2 On its website, the company disclosed duties delegated to the Remuneration Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes (Complies)

No (Explanation)

The Company is a private limited company, for which no legislative provision on such publication obligation takes place. The Company publishes significant part of the above data in this Corporate Governance Report.

A 3.2.1 The Audit Committee / Supervisory Board monitored the efficiency of risk management, the operation of internal controls, and the activity of the Internal Audit.

Yes (Complies)

No (Explanation)

A 3.2.3 The Audit Committee / Supervisory Board received accurate and detailed information on the work schedule of the Internal Auditor and the independent auditor, and received the auditor's report on problems discovered during the audit.

Yes (Complies)

No (Explanation)

A 3.2.4 The Audit Committee / Supervisory Board requested the new candidate for the position of auditor to submit the disclosure statement according to 3.2.4.

Yes (Complies)

No (Explanation)

A 3.3.1 There is a Nomination Committee operating at the company.

Yes (Complies)

No (Explanation)

A 3.3.2 The Nomination Committee provided for the preparation of personnel changes.

Yes (Complies)

No (Explanation)

The Nomination Committee reviewed the procedures regarding the election and appointment of members of the executive management.

Yes (Complies)

No (Explanation)

The Nomination Committee evaluated the activity of board and executive management members.

Yes (Complies)

No (Explanation)

The Nomination Committee examined all the proposals regarding the nomination of board members which were submitted by shareholders or the Board of Directors / Governing Body.

Yes (Complies)

No (Explanation)

The Remuneration and Nomination Committee examines, in accordance with the Credit Institution Act, the nomination of Board of Directors members, Executive Directors and Supervisory Board members.

A 3.4.1 There is a Remuneration Committee operating at the company.

Yes (Complies)

No (Explanation)

A 3.4.2 The Remuneration Committee made a proposal for the system of remuneration for the boards and the executive management (individual levels and the structure of remuneration), and carries out its monitoring.

Yes (Complies)

No (Explanation)

A 3.4.3 The remuneration of the executive management was approved by the Board of Directors / Governing Body based on the recommendation of the Remuneration Committee.

Yes (Complies)

No (Explanation)

The remuneration of the Board of Directors / Governing Body was approved by the general meeting based on the recommendation of the Remuneration Committee.

Yes (Complies)

No (Explanation)

In accordance with the requirements of the Credit Institution Act, the employer's rights with regard to Executive Directors are exercised by the Board of Directors of the Company; the remuneration of the Board of Directors members is approved by the General Meeting.

The Remuneration Committee also monitored the share option, cost reimbursement and other benefits in the remuneration system.

Yes (Complies)

No (Explanation)

A 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

Yes (Complies)

No (Explanation)

A 3.4.4.1 The Remuneration Committee made proposals regarding the remuneration of individual persons.

Yes (Complies)

No (Explanation)

A 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts concluded with the members of the executive management.

Yes (Complies)

No (Explanation)

A 3.4.4.3 The Remuneration Committee ascertained whether the company fulfilled its disclosure obligations regarding remuneration issues.

Yes (Complies)

No (Explanation)

A 3.4.7 The majority of the members of the Remuneration Committee are independent.

Yes (Complies)

No (Explanation)

The Company is a credit institution subject to the Credit Institution Act whose Remuneration and Nomination Committee is established with the composition set out by the law, and its members are delegated from amongst the external members of the Board of Directors (who are not in employment relationship with the Company).

A 3.5.1 The Board of Directors / Governing Body disclosed its reasons for combining the Remuneration and Nomination Committees.

Yes (Complies)

No (Explanation)

The Credit Institution Act applicable to the Company does not provide for a publication on the justified nature of this combination.

A 3.5.2 The Board of Directors / Governing Body carried out the duties of the Nomination Committee and disclosed its reasons for doing so.

Yes (Complies)

No (Explanation)

There is a Remuneration and Nomination Committee operating at the Company.

A 3.5.2.1 The Board of Directors / Governing Body carried out the duties of the Remuneration Committee and disclosed its reasons for doing so.

Yes (Complies)

No (Explanation)

There is a Remuneration and Nomination Committee operating at the Company.

A 4.1.1 In its disclosure guidelines, the Board of Directors / Governing Body established those principles and procedures which ensure that all relevant information about the operations of the company and circumstances influencing its share price are disclosed and made available accurately, in a timely fashion and in full.

Yes (Complies)

No (Explanation)

The Company is a private limited company, and its sets out its disclosure principles and procedures in accordance with the laws (primarily the Civil Code, the Credit Institution Act, the Capital Markets Act⁶, Act on Investment Services⁷, Act C of 2000 on Accounting and Decree 24/2008 (VIII.15.) of the Minister of Finance) in its by-laws, ensuring that all material information affecting the price of its securities is disclosed precisely, fully and in a timely manner.

A 4.1.2 The company ensured in its disclosure activities that all shareholders and market participants were treated equally.

Yes (Complies)

No (Explanation)

The Company is a private limited company, where arrangement made by the three Shareholders of the Company and the provisions of the Statutes apply, regarding disclosure towards market participants please see Section 7 of present Corporate Governance Report.

A 4.1.3 The company's disclosure guidelines include the procedures governing electronic, on-line disclosure.

Yes (Complies)

No (Explanation)

The company develops its website taking into consideration disclosure guidelines and the provision of information to investors.

Yes (Complies)

No (Explanation)

The Company is private credit institution, who develops its website in line with its ownership structure, by keeping in mind the disclosure principles in accordance with the standards in the Credit Institution Act and the Act on Investment Services and the proper information of customers and investors.

A 4.1.4 The Board of Directors / Governing Body assessed the efficiency of disclosure processes.

Yes (Complies)

No (Explanation)

⁶ Act CXX of 2001 on Capital Markets

⁷ Act CXXXVIII of 2007 on investment companies and commodity exchange service providers as well as on the rules of the activities to be carried out by them

A 4.1.5 The company published its corporate events calendar on its website.

Yes (Complies)

No (Explanation)

The Company is a private limited company, for which no legislative provision on such publication obligation takes place. The Company publishes the material content of resolutions passed by the General Meeting.

A 4.1.6 In the annual report and on the website of the company, the public was informed about the company's corporate strategy, its main business activities, business ethics and its policies regarding other stakeholders.

Yes (Complies)

No (Explanation)

A 4.1.8 In the annual report the Board of Directors / Governing Body disclosed the character and size of any other assignments given by the company or its subsidiaries to the auditing firm responsible for auditing the financial statements.

Yes (Complies)

No (Explanation)

A 4.1.9 In the annual report and on the website the company discloses information on the professional career of the members of the Board of Directors / Governing Body, the Supervisory Board and the executive management.

Yes (Complies)

No (Explanation)

A 4.1.10 The company provided information on the internal organization and operation of the Board of Directors / Governing Body and the Supervisory Board.

Yes (Complies)

No (Explanation)

The Company is a private limited company that provides public information on the compositions and operations of the Board of Directors and the Supervisory Board as set out in this Corporate Governance Report.

A 4.1.10.1 The company provided information on the criteria considered when evaluating the work of the Board of Directors / Governing Body, the executive management and the individual members thereof.

Yes (Complies)

No (Explanation)

A 4.1.11 In the annual report and in the Remuneration Statement on the company's website, the company informed the public about the applied remuneration guidelines, including the remuneration and fees provided for members of the Board of Directors / Governing Body, the Supervisory Board and the executive management.

Yes (Complies)

No (Explanation)

The Company publishes the summary of its Remuneration Policy, and in the framework of the Risk Management report its remuneration data for the reporting year, in accordance with the reporting year. The Company does not publish the remuneration declaration set out in the Commission Recommendation 2004/913/EC.

A 4.1.12 The Board of Directors / Governing Body disclosed its risk management guidelines, including the system of internal controls, the applied risk management principles and basic rules, as well as information about major risks.

Yes (Complies)

No (Explanation)

The Company publishes its Risk Management report with the above content, in line with the requirements of the Credit Institution Act.

A 4.1.13 In order to provide market participants with information, the company publishes its report on corporate governance at the same time that it publishes its annual report.

Yes (Complies)

No (Explanation)

A 4.1.14 The company discloses its guidelines governing insiders' trading in the company's securities on its website.

Yes (Complies)

No (Explanation)

The Company is a private limited company whose securities are not traded publicly.

The company published in the annual report and on its website ownership in the company's securities held by the members of the Board of Directors / Governing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes (Complies)

No (Explanation)

The Company is a private limited company, whose shares are owned by three Shareholders, Erste Group Bank AG, EBRD and the Hungarian State.

A 4.1.15 In the annual report and on its website, the company disclosed any relationship between members of the Board of Directors / Governing Body and the executive management with a third party, which might have an influence on the operations of the company.

Yes (Complies)

No (Explanation)

The Company is a private limited company that treats and keeps record of the relationships between the Board of Directors and the management with third parties that can influence the operation of the Company as set out in its by-laws, in accordance with the Credit Institution Act.

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (– Yes / No)

In view of the fact that the FT Recommendation contains proposals on listed public limited companies established in Hungary, the Company, as private limited company does not apply most of them. Below we list the proposals followed by the Company

J 1.1.3	The company has an investor relations department.	<u>Yes</u> / No
J 1.2.2	The company's articles of association are available on the company's website.	<u>Yes</u> / No
J 2.1.2	The rules of procedure define the composition of the Board of Directors / Governing Body and all procedures and protocols for the preparation and holding of meetings, the drafting of resolutions and other related matters.	<u>Yes</u> / No
J 2.2.1	The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation and duties, as well as procedures and processes which the Supervisory Board followed.	<u>Yes</u> / No
J 2.3.2	Board members had access to the proposals of a given meeting at least five days prior to the board meeting.	<u>Yes</u> / No
J 2.3.3	The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.	<u>Yes</u> / No
J 2.4.3	Newly elected, non-executive board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members through a tailored induction programme. Note: the Company has no induction programmes	<u>Yes</u> / No
J 2.5.2	The separation of the responsibilities of the Chairman of the Board of Directors / Governing Body from those of the Chief Executive Officer has been outlined in the basic documents of the company.	<u>Yes</u> / No

J 2.5.5	The company's Supervisory Board has no member who held a position in the Board of Directors / Governing Body or the executive management of the company in the three years prior to his nomination.	<u>Yes</u> / No
J 2.7.5	The development of the remuneration system of the Board of Directors / Governing Body, the Supervisory Board and the executive management serves the strategic interests of the company and thereby those of the shareholders.	<u>Yes</u> / No
J 2.7.6	In the case of members of the Supervisory Board, the company applies a fixed amount of remuneration and does not apply a remuneration component related to the share price.	<u>Yes</u> / No
J 2.8.2	The Board of Directors / Governing Body developed its risk management policy and regulations with the cooperation of those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company's daily operations.	<u>Yes</u> / No
J 2.8.10	When evaluating the system of internal controls, the Board of Directors / Governing Body took into consideration the aspects mentioned in Section 2.8.10 of CGR.	<u>Yes</u> / No
J 2.8.12	The company's auditor assessed and evaluated the company's risk management systems and the risk management activity of the executive management, and submitted its report on the matter to the Audit Committee / Supervisory Board.	<u>Yes</u> / No
J 2.9.4	The Board of Directors / Governing Body may invite the company's auditor to participate in those meetings where it debates general meeting agenda items.	<u>Yes</u> / No
J 2.9.5	The company's Internal Audit function co-operated with the auditor in order to help it successfully carry out the audit.	<u>Yes</u> / No
J 3.1.4	The company's committees are made up of members who have the capabilities, professional expertise and experience required to perform their duties.	<u>Yes</u> / No
J 3.1.5	The rules of procedure of committees operating at the company include those aspects detailed in Section 3.1.5 of CGR.	<u>Yes</u> / No
J 3.2.2	The members of the Audit Committee / Supervisory Board were fully informed about the accounting, financial and operational peculiarities of the company.	<u>Yes</u> / No
J 3.3.3	The Nomination Committee prepared at least one evaluation for the chairman of the Board of Directors / Governing Body on the operation of the Board of Directors / Governing Body and the work and suitability of the members of the Board of Directors / Governing Body.	<u>Yes</u> / No
J 3.4.5	The Remuneration Committee prepared the Remuneration Statement.	<u>Yes</u> / No
J 4.1.4	The disclosure guidelines of the company at least extend to those details contained in Section 4.1.4 of CGR.	<u>Yes</u> / No
J 4.1.7	The company's financial reports followed IFRS guidelines.	<u>Yes</u> / No
J 4.1.16	The company also prepares and releases its disclosures in English.	<u>Yes</u> / No

3. Annex No. 3 Non-financial statement

Non-financial statement

As in Erste Bank Group AG (Erste Group) the active engagement beyond classic banking activity and the integration of sustainability principles into basic operation and into corporate culture are integral parts of Erste Bank Hungary Zrt. (EBH). In this context beyond financial efficiency, EBH is continuously looking for opportunities to be an active member of the society in which it operates to support reaching our common goals and successes.

Environmental protection

The main principle of Erste Group's environment strategy and interpretation of sustainability are based on the central message of "Our common future", which was released by the UN's Brundtland Commission in 1987: "*sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*"

In 2016 EBH implemented Energy management systems (ENIR), which is based on the standard requirements of MSZ EN ISO 50001:2012, which implementation was a legal obligation. After this EBH started its Environmental management systems (KIR) on 5 June 2017 in accordance with MSZ EN ISO 14001:2015 standard. Both KIR and ENIR are inseparable parts of the currently existing EBH regulations in force. These two internal regulations are the SZT540/2016 Energy Management Policy and the SZT460/2016 Environmental Management Policy, the manuals of KIR and ENIR are obligatory and inseparable annexes of these. The surveillance of the operation of ISO systems are done by internal audit.

In 2017 compared to 2016 EBH reached a 3.3% energy consumption decrease. If we extract the consumption of the five new branches taken over from Citi Bank in February 2017 the consumption decreased by 5.9% on a comparable basis. This directly resulted in 47 863.2 kg CO2 emission reduction in 2017.

Erste Green, a voluntary initiative of our employees for the purpose of implementing environment protection objectives, was launched early 2016. The primary aim is to draw attention to the topic in the Bank along with education and enhancing our colleagues' engagement in our environment (e.g. garbage collection, car-free day, etc.).

Social and employment questions, respecting human rights

The basis for EBH's approach to diversity and inclusion lies in the Founding Document of the Erste österreichische Spar-Casse from 1819, which states: "*No age, no gender, no social status, nor nationality should be excluded from the benefits which are provided to all the depositors of the Savings Bank.*"

EBH's diversity and inclusion principles aim to provide a work environment free of discrimination and harassment and valuing the work and worth of each and every person, regardless of gender, age, marital status, sexual orientation, disability, race, skin color, religious or political affiliation, ethnic background, nationality, citizenship or any other aspect unrelated to employment.

In 2017 EBH has adopted a Diversity and Inclusion Policy which sets out the diversity and inclusion principles of the organization, defines what diversity and inclusion means for EBH and outlines respective roles and responsibilities of the diversity management, and declares a commitment to develop, implement diversity and inclusion targets and strategy. The commitment to these values in Erste Group was institutionalized by the appointment of the Head of Diversity, whose task is to form the Group level diversity policy, to specify the aims and steps, and to follow-up the implementation.

Diversity management as understood by EBH refers to organizational actions that are designed to (i) better understand the needs of our diverse customer base and provide them with products and services that reflect those needs; (ii) leverage social, cultural, gender and age differences to improve performance and results; and (iii) ensure organizational effectiveness by integrating diversity in staffing.

In 2017 EBH's Managing Board adopted EBH's diversity strategy for 2018-2019 which sets the focus and priorities of the diversity and inclusion endeavors within the organization. Being a family-friendly company is one of the main pillars of EBH's diversity strategy. EBH has also committed to ensure a healthy working environment that allows employees to find a balance between professional and private life.

The Remuneration and Nomination Committee on its session in November 2014 specified that in Group level the share of women participating in leading bodies and in senior management positions need to reach 35% until 2019. To achieve this goal the Bank organizes the leadership replenishment programs, the carrier management programs and other interior programs considering the diversity aims. Furthermore EBH launched ErsteNő (Erste Women - Women's Club) which primarily focuses on promoting a family friendly organization, the work-life balance of working women and supporting mothers returning from maternity leave. They also support women advance their careers and organize mentoring programs. ErsteNő played an active role in defining the Bank's diversity strategy and priorities for 2018-2019.

Inclusion and accessibility are an integral part of EBH's diversity strategy. Various initiatives aim at creating both a more inclusive environment for employees with disabilities as well as ensuring barrier-free banking for clients with disabilities. Accessibility for employees and clients is also one of the top 5 diversity priorities identified by the employees in the 2017 diversity survey. EBH committed in its diversity strategy to explore further opportunities to hire and retain employees with disabilities and enhance our services to clients with disabilities.

In 2017 EBH has signed again the Hungarian Diversity Charter, the Hungarian version of the European Diversity Charter, by which it has re-enforced its committed to respect equality, to create a diverse organizational culture and to continuously develop the employee relationships, the partnerships with customers and the business environment to promote anti-discrimination and a long-term sustainable culture, which is in line with the values described in the Charter.

Further employment related questions can be found in the chapter of Employment Policy.

Fight against corruption and blackmailing

Erste Group pays close attention to the proper operation of compliance activity, to the formation of wide scope of competence, to the fair and ethical operation, to prevent corruption and to the compliance with legal requirements and norms. To ensure the Group level compliance EBH is supported by several Group Policies to cover the highest level legal compliance. Accordingly, EBH has proper regulatory documents to maintain its duties from which the most important are: compliance policy, Ethical Codex, conflict of interest principles, managing conflicts of interest, internal credit policy, whistleblowing policy, money laundering and terrorist financing prevention policy, anti-corruption policy, sanctions and embargoes policy, anti-fraud policy. During the formulation of applicable compliance norms in EBH the compliance to the recommendations of international professional organisations and of the National Bank of Hungary was in strong focus.

During its operations (including preventing money laundering and terrorist financing, anti-fraud, general compliance and compliance operations related to supplying investment services) compliance consistently applies a risk-based approach and performs its activities along an annual plan. During the preparation of this plan the Bank evaluates all of its organizational units and processes for compliance risk perspective and form its work and control plan accordingly. During the preparation of the work plan the area puts a great emphasis on taking into account the changes of legal obligations, on the evaluation of international tendencies and on the implementation of international standards.

The compliance area according to the work plan makes further risk assessments and works out an action plan to decrease and to abolish the revealed risks. The Compliance, Anti-Money Laundering & Fraud Prevention reports quarterly about its activity, about the (eventually) revealed risks and about the measures made to decrease them to EBH's Managing Board and reports annually similarly to EBH's Supervisory Board.

In order to implement the compliance conscious and ethical business operation in all areas of EBH:

- Wide range educational program – concentrating on compliance topics and on Ethical Codex – operates in EBH which are obligatory not only for new co-workers, but every employees regularly need to participate on it.
- The Compliance, Anti-Money Laundering & Fraud Prevention maintains frequent communication with all – so called second line of defense – control areas of EBH in order to ensure effective organizational and maintenance controls.
- The compliance participates in commenting on internal policies, product developments and remuneration policy. The Bank applies the regulation of the Ethical Codex throughout the process of product development and providing service.
- The Bank operates anonym whistleblowing line signalling ethical and legal violations.

Social banking

Erste Group is committed to ensure equal chances to people and to enterprises to reach a wide range of banking services. In the name of social responsibility EBH introduced the Good.Bee program in 2011 which prepared for a new impact level of social banking. The initiative reached significant results during the "Most Innovative Social Investment Award" call. From 2016, Social Banking institutionalized the support ensured by EBH to those social organizations and groups which need a product or service offer other than the average banking conditions.

Under the aegis of this program, EBH in collaboration with Erste Stiftung supports the SEEDS enterprise development program, which takes place with the participation of 67 social enterprises for 1.5 years. In this context EBH contributes with free consultancy and with tendering non-refundable financial instruments to develop the socially active enterprises of the future.

The „Erste Higgsy Magadban!" tender ended with great success which in 2017 activated nearly 300 tenderer and 90 000 voters in Hungary. Through community voting and jurying, several social enterprises won support for a start from EBH to reach their goal.

In addition, EBH is an active player in the social organizations network via pro bono business development consulting, financing opportunities and creating business cooperations.