



## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Erste Bank Hungary Zrt.**

**Report on the audit of the financial statements**

### **Opinion**

We have audited the accompanying financial statements of Erste Bank Hungary Zrt. (the "Bank", the "Company") which comprise the statement of financial position as of 31 December 2018 (in which the balance sheet total is MHUF 2,458,763), the income statement, the statement of comprehensive income (in which the total comprehensive income for the year is MHUF 54,290 profit), the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU.

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.

The non-audit services that we have provided to the Bank, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 46 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 Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV 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 2,676
<i>Key Audit Matters</i>	Impairment on loans and advances to customers

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.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

### 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 2,676
<i>Determination</i>	5% of the average profit before tax of the last 3 years
<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 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.



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*Key audit matter*

*How our audit addressed the key audit matter*

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**Impairment on loans and advances to customers**

The net amount of loans and advances to customers was MHUF 1,212,843 as at 31 December 2018, representing 49% of the balance sheet total. Impairment recognised in the balance sheet amounted to MHUF 39,891.

The management disclosed the related assumptions, balances and estimates in section E of the notes to the financial statements on accounting policy, as well as in notes F.10., 25. and 44

IFRS9 was implemented by the Bank on 1 January 2018, the relating first time adoption effect is disclosed in note E.

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

The first step in the impairment calculation is to identify whether there was significant increase in credit risk, the selected indicators will determine whether a 12 month or a lifetime provision is calculated.

In the calculation of individual impairment, the most significant uncertainty is involved in the estimation of expected future cash flows, and in probability weighting of cash-flow scenarios, where cash flows 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, exposure at default and the loss given default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of IFRS 9.

We gained an understanding of the 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 (on a sample basis), and checked credit application and/or 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, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct.

When assessing the collective impairment, with the support of our internal modelling experts we assessed the applied methodology, whether it is in accordance with the standard, reviewed the validation documents, recalculated (on a sample basis) selected model parameters and the impairment and assessed the tool applied by the Bank to calculate impairment.

We checked input data (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analysed the development of impairment.

We checked the accounting entries relating to the first time adoption of IFRS 9 as at 1 January 2018.

We read points F10., 25. and 44 of the notes to the financial statements to assess whether disclosures are in line with applicable regulations.

Based on our procedures performed we found management's estimations reasonable.

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

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### **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 the 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 the business report has been prepared in accordance with the provisions of the 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 Bank’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 Paragraph 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 2018 business report of the Bank, also including the information prepared under Paragraph e) of Subsection (2) of Section 95/B, is consistent with the 2018 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, 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 International Financial Reporting Standards as adopted by the EU and to prepare the financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU, 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 of accounting in the financial statements unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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 of accounting in 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. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 2 years.

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

Budapest, 9 April 2019

A handwritten signature in blue ink, appearing to read 'Árpád Balázs', is written over a light blue horizontal line.

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