

Business Report

for

the Financial Statements of Erste Bank Hungary Zrt.

in accordance with International Financial Reporting Standards as adopted by the European Union

Concerning Year 2019

Budapest, 3 April 2020

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The Financial Statements and Business Report for 2019 of Erste Bank ("Erste Bank") contains primarily a summary of its banking activities, supplemented with the information that affected Erste Bank's operation for the purposes of the evaluation of its business operation

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BUSINESS ENVIRONMENT, OBJECTIVES AND STRATEGY OF ERSTE BANK

The domestic economy proved fairly resilient to the global slowdown in 2019. GDP might have grown by 4.9% y/y in FY 2019. The structure of growth became more balanced, as the contribution of net exports to GDP turned positive, reflecting the solid performance of the vehicle manufacturing industry, partly due to the production of new car models. Meanwhile, the performance of investments and consumption remained the main drivers. Consumption was supported by high employment, surging wages and intensified lending activity of the banking sector. Meanwhile, continued utilization of EU funds and favourable lending environment helped both private and public investments.

Unemployment rate is moving on a decreasing path and has been steadily below 10% since the second half of 2013. Unemployment rate stood at 3.3% in 4Q19, still indicating tight labour market conditions in the economy.

In December 2019, consumer prices were 4% higher on average than a year before. In FY 2019, annual average CPI inflation rate was 3.4%. The highest price rises were recorded for foods (5.4% y/y) and alcoholic beverages and tobacco (8.1% y/y), while prices of consumer durables slightly decreased, by 0.3% y/y.

The National Bank of Hungary (NBH) has left unchanged the policy rate at a historically low level of 0.9% since 2016. In March 2019, the monetary council increased the O/N deposit rate by 10 bps, to -0.05%, however accommodative stance of monetary policy has not changed throughout the year. The 3M interbank market rate closed the year at 0.16%. It started to increase at the beginning of 2020, but still remained well below the level of the policy rate of 0.9%.

In 2020, the economy is to slow down. Possible negative impacts of global economic risks (trade war, coronavirus fears and ongoing challenges in car industry) have been looming, primarily affecting GDP via the export channel. In addition, investments might also slow down, mainly due to the expected lower utilization of EU funds. On the other hand, high employment and wage increases should remain, further supporting domestic consumption. The economy is set to grow by 3.6% annually in 2020.

In 2019, retail loan portfolio, as a balance of disbursements and repayments, increased by 16.7% compared to the end of the previous year which is a result of significant increase in mortgage and personal loan new disbursements and the result of the newly introduced "Baby expecting loan". New disbursement of housing loan increased by 7% still supported by home purchase state subsidy for families (CSOK). 25% of new housing loans have fixed interest rate until maturity thanks to NBH measures (e.g. modification of payment-to-income ('PTI') limits, certified consumer friendly mortgage product) which decreases risks in case of interest rate increase. New disbursement of personal loan volume increased by 23% due to a driven by the low interest rate environment and the favourable economic environment. In 2019 70 billion forint "Baby expecting loan" was disbursed. During 2019, housing loan and consumer loan conditions didn't change. Total corporate loan volume and the loan portfolio of the SME sector increased by 14%, according to preliminary data. Due to the MNB's Funding for Growth Scheme Fix introduced in January 2019 the share of fix interest rate corporate loans increased.

The Hungarian Government introduced the "Baby expecting loan" in July 2019 and this step completely changed the lending market. The government's aim is to encourage married couples to have children. To achieve this goal the government created a 10-million-forint loan construction with special conditions which is lent by banks. Since its launch new disbursement of "Baby expecting loan" almost equals to mortgage new disbursements in the same period. Mortgage and consumer loan new disbursement volumes did not decrease significantly, "Baby expecting loan" was added to the growth which means it did not turn into a substitute product.

Based on the Memorandum of Understanding, signed by Erste Group, the Hungarian Government and the European Bank for Reconstruction and Development (EBRD) in February 2015 the banking tax was further reduced to 20 bps for 2019. Furthermore from 2019 the transactions by private individuals worth less than 20,000 forint are no longer subject to the financial transaction tax.

To boost residential government bond sale the Hungarian Government introduced the Hungarian Government Security Plus (MÁP+) in June 2019. The MÁP+ was introduced with a very favourable interest rate (4.95% average annual interest rate) causing a shift in retail investment towards this bond. The main source of these investments came from other government bonds, investment funds and bank deposits. The government's 2019 target (1,100 billion forint) was already achieved in the first month.

The strategic goal of Erste Bank Hungary Zrt. ('Bank') 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 the Bank as the number one financial institution. Erste Bank Hungary Zrt. and its subsidiaries ('Erste Hungary') 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. The Bank strengthened its position as a leading

retail lending institution, with the acquisition of Citibank's retail business line in 2017, as well as with the acquisition of the portfolio of Aegon's Building Society in 2019. 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, Erste Hungary plays an important role in the market of products having a significant growth potential such as investment and savings.

Change in form of operation of the Bank

The Bank's form of operation and ownership structure did not change during the business year of 2019. The change in the corporate form of Erste 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 the Bank 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%

PRODUCT RANGE, COOPERATION AGREEMENTS, STRATEGIC ALLIANCES

2019 was a very successful year for Erste Bank Hungary, the retail and corporate loan portfolio is substantially increased well above market average. This significant increase was achieved by focusing on our strategic segments both in retail and corporate.

Our focus in retail remained on unsecured lending (consumer loan and credit card) in 2019. To support growth, we automatized decision making for unsecured loans at salary clients. We introduced our online personal loan application process via NetBank, which enables loan disbursement within minutes in case of positive credit approval. We successfully repositioned our credit card offer and we renewed our cooperation with Wizzair. To strengthen our position in micro services we introduced Power Network and Power Bill which helps our clients achieving their goals.

As a universal bank, other products and services are also in focus. The real estate boom started in 2016 has continued in 2019 as well which supported new disbursement of mortgage loans. The boom was supported by real estate investments, improvement of residents' financial situation, and reduction of unemployment rate, favourable supporting system and low interest rate environment. Our aim remained to increase our mortgage stock in this supporting environment. The new disbursement of mortgage loans was temporarily supported by the elimination of the reduced value-added tax rate on new homes (increased from 5% to 27%) at the end of 2019 driving residents to purchase their homes in 2019. Erste Bank was among the first banks who provided "Baby expecting loan" as soon as it was possible. As a result Erste Bank became a TOP player in this segment.

The Bank was a leader in affluent wealth management in 2019 and aims to become top1 player in the future.

Erste Bank provides all-inclusive financing service to companies and municipalities managed under the corporate business line. Being part of this activity, Erste 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. We take part in project finance as well as in syndicated loans too.

The dynamic of SME lending did not change in 2019 therefore the Bank paid special attention to this segment. We introduced an express loan process as a part of our strategy to make lending faster and more efficient in corporate segment. Beyond SME segment Erste Bank focuses on Large Corporate segment too and aims to reach main bank status with local champions.

The agricultural sector remained in focus in 2019. Erste Bank provided special credit products designed for the agricultural sector via branch- and telesales campaign.

MAIN RESOURCES AND RISKS, AND THE RELATED CHANGES AND UNCERTAINTIES

Asset-liability management (interest rate risk management)

Erste Bank Hungary Zrt uses a simulation procedure, 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 are: (1) Liquidity and Market Risk Management, which quantifies the changes of the risk exposures of the Erste Bank, identifies the reasons and supports the decision-making considering the limit compliance (2) Asset-Liability Management (ALM), which prepares final decisions and supports the activities of ALCO, (3) Capital Markets, which performs the operational implementation of the strategic decisions of ALCO and the market transactions of ALM. Erste Bank's management receives regular reports on the 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 check 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 Erste Bank has enough capital to undertake the respective interest rate risk;
- to make 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 Erste Bank Hungary Zrt 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. Liquidity and Market Risk Management regularly monitors and reports the current figures of liquidity ratios to ALCO.

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 2019, mainly due to increasing demand deposit portfolio of retail clients.

Interest rate risk management

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

All types of risk indicators suggested a low to medium interest rate risk exposure during 2019; both the external and the internal limits were met during the year.

Sensitivity of the economic 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 the six stress scenarios defined by the European Banking Authority, compared to the capital amount calculated with an unchanged interest rate scenario.

The economic value of equity is estimated as a difference between the net present value of all the future cash inflows (assets) and outflows (liabilities) derived from the current balance sheet. The EVE calculation excludes the credit spread from both the cash flow and discount factor calculation.

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 the EBA scenarios compared to the net interest income calculated with an unchanged interest rate scenario.

<i>Table No. 1</i>	2018.12.31	2019.12.31
Sensitivity of the market value of the total equity	5.89%	5.46%
Sensitivity of the economic value of the total equity	4.21%	4.73%
Sensitivity of the net interest income, simulated for 12 months*	4.13%	8.06%

* Sensitivity of the net interest income, simulated for 12 months in 2018 is calculated by +/-200bp floored at -100bp, while in 2019 the scenarios defined by EBA were applied

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. The table below does not include the demand deposit portfolio, whose maturities are modelled.

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.

Table No.2

in HUF million	0-3 months	3-6 months	6-12 months	over 1 year
As of 31 December 2019				
Repricing gap in HUF positions	-809 521	-13 678	-35 883	909 000
Repricing gap in EUR positions	-65 969	49 841	12 735	71 873
Repricing gap in USD positions	-99 545	-10 896	-44 778	4 079
Repricing gap in CHF positions	-3 904	196	8 073	29

FINANCIAL DATA

Erste Bank's net profit was highly positive in 2019.

The Bank is on a continuous growth path, revenues grew by 3% on annual basis. The remarkable profit is because of higher revenues, which is partially due to impacts of newly introduced Baby loan and MAP+. Erste Bank's Total assets reached 2,862 billion forint by the YE, which corresponds to a 16.4% year-on-year growth. Erste Bank reported a 55.5 billion forint after tax profit.

The structure of Erste Bank's asset portfolio is in line with the end of 2018. The net volume of Loans to customers significantly increased - mainly as a result of growing new disbursements. The total increase was 265 billion forint. Though the contribution by the different Business Lines varies, i.e. Retail portfolio increased by 20% due to high mortgage and personal loan new disbursements, and was also driven by Baby loan. Furthermore corporate volumes could grow substantially above the market, by 24%.

The portfolio of held to maturity investments grew approximately by 95 billion forint, however their share within the balance sheet total remained on previous year's level (26%). Loans to credit institutions decreased by 2%, their share within Total assets decreased to 3%. At the same time Cash and cash equivalents at central bank significantly increased together with their share within Total assets to 4%.

The deposit portfolio structure within liability side changed compared to the last year. Deposits from credit institutions decreased by 28 billion forint since the preceding year. The share of Amounts owed to credit institutions within the balance sheet total decreased from the previous year's 16% to 13%.

Customer deposits gained significantly by 362 billion forint in 2019, their share within the total balance sheet increased from 67% to 70%. Boost in customer deposit base was triggered by higher current account volumes. Erste Bank has 8.4% market

share regarding retail deposits, which corresponds to a 40 bps rise compared to last year. While market share of sight deposits increased by 35 bps, term deposits increased by 4 bps.

Erste Bank's Operating income increased, while Operating expenses only slightly increased compared to the previous year, resulting in a 69.5 billion forint (+2.4% growth vs. 2018) Operating result at the end of 2019.

Regarding the elements of Operating income, Net interest income was up by 6.2% (4.2 billion forint) compared to previous year.

Both of the interest income (by 5.8 billion forint; 7.3%) and the interest expense (by 1.6 billion forint; 13.7%) increased in 2019.

Income side was boosted by the interest income earned on customer loans due to significant volume increase of personal, mortgage, the Baby loan and the corporate portfolio. Moreover interest income earned on securities grew thanks to additional liquidity from customer deposits.

Both sight and term deposit interest expense slightly increased in 2019. The increasing interest expense was also caused by the refinancing of the mortgage bank.

The Net fee and commission income of the Bank is also improved, and by 5.4 billion forint higher than the amount of the previous year. The growth induced by the increase in revenues and the unchanged amount of expenses. Main drivers of the increase were payment transfer, card transaction, MAP+, insurance and distribution fees were improved.

Net trading income decreased by 4.3 billion forint compared to the previous year, mainly due to the one-off gain realized in 2018 on MIRS program.

Operating expenses amounted to 63 billion forint in 2019 and by 4.5% higher than in the previous year.

Higher Operating expenses are partly caused by the 9.9% (2.7 billion forint) increase in Personnel related expenses, due to salary and headcount increase.

Other administrative expenses decreased and reached 22.3 billion forint, mainly due to the changes in the accounting of rent with the relevant IFRS16 depreciation. IT costs also increased by 19% (1.7 billion forint) due to significant IT investments (Instant payments, PSD2).

Depreciation amounted to 11.4 billion forint and increased by 17% compared to the previous year. Previous year's rental cost is related to the current year's decrease and to the higher depreciation in 2019.

Cost-income ratio deteriorated from 47.2% (Q4 2018) to 47.8% (Q4 2019) mainly as a result of higher operating expenses.

Other operating result was higher by 4.5 billion forint compared to preceding year mainly due to the higher selling gain on sold AfS securities and less extraordinary IT SW depreciation, which is only partly offset with the increased financial transaction tax.

Risk provision for loans and off-balance exposures decreased by 6.4 billion forint in 2019 compared to the previous year, caused by a lower reversal of impairment in the reporting period.

QUANTITATIVE AND QUALITATIVE PERFORMANCE INDICATORS AND MARKERS FOR THE PROCESSES

Erste Bank measures the quality of its internal operations through the main customer service channels (branch, Contact Center, online channels), and through 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. We conduct regular researches: annual customer satisfaction and customer expectations surveys, mystery shopping in branches, and regular event-triggered surveys of branch visitors, online channels (Netbank, MobileBank) and Contact Center 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, we build a system of indicators for business processes and channels in Erste Bank, and conduct measurements to reveal the perception of the customers and to determine the performance of the processes. Our processes are analysed from the occurrence of the customer needs to the satisfaction of those needs. Main indicators describing process capacities: 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 desired target values.

If the performance of a process remains below the target, a detailed process analysis is conducted to identify the reasons of non-compliance, and development proposals are elaborated. This activity is performed weekly and monthly, involving the areas affected by the process. If necessary, we launch a project for improving the process, where we work out action plans using process improvement methodologies in order to increase the efficiency of the process.

EMPLOYMENT POLICY

2019 year-end headcount (2,957) was 54 employees higher compared to 2018 (2,903) in Erste Bank, projected to 8-hour employment. Erste Bank Hungary's average 2019 headcount was 58.81 employees higher compared to 2018, primarily due to new hires in development projects. In line with the long-term strategy of Erste Bank the projects supporting its development and improvement continued.

The average age of our employees is 39 years, the average length of their employment is 7.6 years, 63% women and 37% men.

During 2019 Erste Bank provided an opportunity for 101 trainees within the framework of a trainee programme to get an inside view of the Group's operation and to acquire work experience. 16.8% of those participating in Erste Bank's trainee programme were hired as employees.

DESCRIPTION OF BUSINESS PREMISES

Erste Bank's registered office has been at Népfürdő utca 24-26 since 1 September 2006. The modern office building hosts the organisational units of Erste Bank Hungary Zrt's head office. Erste Bank has a nationwide branch network, which is professionally 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

2019 was a very successful year for Erste Bank Hungary Zrt not only from financial KPI point of view but from development and culture point of view as well. Last year several development projects were successful not only within the bank but also among professional organizations: our Mentoring program and Valér project (client experience development program) won professional prizes on HR competitions (Kagyló price - <https://event.cx-ray.com/kagylodij> - and Mentor Oscar - <http://mentoroscar.hu/#nyertesek>).

We have continued our soft skill and English language development: more than 30 soft skill and IT courses were available and both the classroom English trainings and English skill development were very popular. To emphasize the importance of our internal and external client experiences we started an all bank client experience training process with the involvement of 10+ internal trainer. We have already trained 1000+ colleagues in 2019.

We closed our talent and leadership development programs started in 2018 and collected all the learnings which we need to be able to build an even more Taylor made programs which support the organizational needs as much as possible.

Our cultural development project and the 11 value of Erste Bank Hungary is the base of our development activities. We consciously build them in the training processes.

Within retail we have continued the intensive education of our newcomers and also put focus to the development of our sales trainers to ensure the highest quality support for our front line colleagues not only in the classroom but on the field as well.

In Corporate beside the above-mentioned client experience program we deepened the sales skills of our account managers with a sophisticated, more level training process.

In IT in 2019 we focused to build and widen our professional competences and we have continued the IT Academy which included courses and workshops from IT world available to all employees of the bank.

Similar to IT the Risk division has also organized Risk Academy with the same approach and details as IT Academy.

CORPORATE SOCIAL RESPONSIBILITY

In the firm belief that everyone must be treated with dignity and respect, our founders established Erste 200 years ago to give everyone – without distinction of status, nationality, faith, gender, age etc. – access to prosperity. Disseminating and securing prosperity for all is and always will be our goal. An important phrase of our vision is that "Our commitment to our customers and to Hungary, in addition to our banking and investment services, is also demonstrated by our commitment to society."

Therefore, in our complicated world, Erste Bank wants to be more than a business enterprise providing financial solutions, because it actually offers solutions to life situations. In the light of this, Erste Bank is committed not only to its banking and investment activities to Hungary and its customers, but also through its social engagements.

Social Banking

For various reasons, a substantial number of people do not have access to the basic means of everyday life, live in poverty or lack financial stability. Erste Bank is dedicated to support those who only a few believe in, to help themselves in their economic development and to have access to financial services.

Social Banking in Hungary works on equal access to financial services, both in the private and civil sector. From 2017, a wide palette of activities has been brought together under the umbrella of social responsibility. Erste Bank Hungary developed and institutionalised the value proposition for civil sectors, by developing the most affordable civil account package and a special loan product offer, supported by a European Investment Fund (EIF) guarantee.

ERSTE Foundation in Hungary

Established in 2003 from 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 Southeast Europe, realising this commitment through projects initiated or sponsored in the scope of three programs: Social Development, Culture, and Europe.

In cooperation with Erste Stiftung, Erste Bank together with IFUA Nonprofit Partner and SIMPACT Nonprofit Partner initiated its civil education programme called SEEDS, already in 3 rounds. SEEDS1 invited 68 applicants and 10 received an additional grant. In 2019, SEEDS2 continued with tailor-made consultancy services and provided again 10 grants and 3 financings in order to accelerate social impact in several areas. Due to the high demand, in 2020, SEEDS3 provides again tailor-made consultancies and thematic workshops to support social entities to become investment ready.



ERSTE Stiftung

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

+1 tett program



"Our commitment to our customers and Hungary is evidenced by our social responsibility acts besides our banking and investment services".

+1 Act – Community teamwork

+ 1Tett (+1Act) programme

The +1Tett programme was launched in 2015 with the aim of encouraging employees of Erste Bank to participate in a community programme that goes beyond simple team-building and shows colleagues how good and how easy it is to help.

The goal of the +1Tett program is to give more space to community-building, bottom-up initiatives. It is important for us to be able to identify with the goals of our Bank. That is why we have expanded the +1Tett programme and, since then, we have not only contributed to the goals of the selected organisations, but also encouraged our colleagues to find their own associations and help them to work more effectively.

Applications for community work are financially supported by EBH in order to maximize impact that employees provide.

Since the beginning, 2000 colleagues participated in voluntary work and 94 projects were implemented. We constantly report on the volunteer programmes created within the Community Teamwork on Erste Bank's Facebook page.

Együnk egymásért (Eat for Each Other) programme

In cooperation with the Hungarian Food Bank Association (FBA), Erste Bank organised the "Eat for each other" campaign. 7 departments of the Bank joined to this event and collected financial donations for poor families. In 2019, EBH's contribution to the campaign hit an ever-record, which was appreciated by the Chairman of FBA in person.

News of volunteering programs initiated as part of our Community Teamwork have been posted continually on Erste Bank Hungary's Facebook page.

Additional cooperation projects

Donations to the Rost Andrea Art Foundation

Rost Andrea is a world-famous Hungarian opera singer. Through her foundation, she supports young talented singers, giving them a chance to perform at gala events nationwide. Our Private Banking clients receive tickets for those events as well.

Magyar Jégkorong Szövetség

For three years, since September 2017, Erste Bank has sponsored the adult men's first-class Hungarian Hockey Championship, the Erste Hungarian League, and from 2018 became the main sponsor of the Hungarian Adult Men's Hockey Team.

We are determined to help the teams in the domestic championship through our business knowledge and sponsorship to contribute to the hockey being able to flourish in Hungary.

Our main goal is to support the national teams competing in the league just as support the development of the next generation of ice-hockey players, and make ice hockey more successful and more popular in Hungary – not only with sponsorship but with business know-how.

Donation to the Hungarian Mountaineering and Sport Climbing Federation

Erste Bank supports the expeditions of Dávid Klein, the most successful Hungarian mountain climber of these days. He gives presentations on motivation to Erste's clients and also organises in-company activities. He is one of the best examples of Erste's brand essence, that those who believe in themselves can achieve more.

Spring and Christmas charity fairs

By initiation of Social Banking, EBH organized 2 successful charity fairs in 2019 where civil organizations representing an underprivileged sector sold their handmade products: Búzavirág, Lámpás '92, Jövőt Nekik is, Igazgyöngy, Fészek, Gólyahír Nemzetközi Cseperedő welcomed the employees in these 2 weeks.

The full income of the fairs supports the social enterprises and their mentees: mentally or socially disabled kids and adults, underprivileged roma kids, newborn adopted kids and youngs living with communication and social skill disorders

Erste Green

Erste Bank is committed to protecting the environment and has a responsibility for the environment and the society in which we live and operate. In addition to complying with parent company-level standards (reduction of carbon dioxide emissions, paper consumption, electricity and heating energy), Erste Bank is taking further steps to make our organisational culture and operations more environmentally friendly and greener, and thereby increase our social responsibility.

At the beginning of 2016, the Erste Green initiative, a voluntary organisation of colleagues was launched to achieve environmental goals. The primary purpose of this initiative is to raise awareness, educate and increase the commitment of our colleagues within Erste Bank.

Green education becomes more and more important. Erste Green organized a water-tasting event after which the community have changed the way of water consumption: all meeting rooms have reusable water bottles and glasses instead of bottled water.

In cooperation of Social Banking, Erste Green and Real Estate management, a social enterprise, Recobin became the official partner of EBH in garbage recycling. This cooperation, near to direct effect on costs, gives opportunity to homeless people to re-integrate into the community by having everyday work.



Erste Women

Erste Women represents an important role in Erste Diversity actions. Members of the volunteer team organize events in every month around the topic of women, family, leaving /returning the bank as a mom. They successfully implemented summer camp program, Roadshow for maternity leavers, self-defense and life-saving courses, invited psychologists to discuss challenges in family life. Erste Women was involved into the policy making process of home office and Erste Care program.

They maintain active cooperation with Social Banking and HR; in their 2020 plans "the men" takes place as a new area of support in the frame of gender equality.

Customers with disability

Social Banking stands for equal accessibility and presenting the voice of banks' clients and potential employees. Within this framework, we continuously review our service channels and employment strategy, as well as setting up connections between the master-in-profession NGOs and the Bank. Social Banking acts as a bridge between the supported civil players and potential investors, supporters and charities.

Erste 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 date to make them disabled-friendly by ensuring full access to the entrances and creating larger spaces inside the branches for easier manoeuvring in the customer area. Going forward, all bank branch investments will be implemented with ease of access in mind unless physical or other obstacles arise. To help this, EBH contracted a professional auditor to map 7 branches from accessibility point of view. This helps EBH to finetune all actions around branch investments.

ERSTE BANK'S ENERGY MANAGEMENT

Erste Bank places particular emphasis on environmental protection, sustainability and increasing our energy efficiency, both in its head office buildings and in its branch network.

Erste Bank's head office buildings are "A" category office buildings constructed according to the technical and energy efficiency requirements of our age, with high technical content, modern cooling and heating technologies and 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, taking into account real needs for comfort, as well as banking holidays. All workstations in the buildings are lit by natural light, which is an important factor both with regard to the preservation of our employees' health and the reduction of energy consumption. With the use of mode switching adapted to business hours, we ensure 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, we replace our buildings' energy supply equipment with more efficient devices that are able to meet the demand with better efficiency, taking into account the need for comfort and the principle of minimal environmental impact.

In the spirit of environmental awareness, we have been carrying out selective waste collection in our head office buildings for years, collecting plastic, paper and municipal waste separately. We also plan to extend the scope of selective waste collection in our branch network.

We bought 8,000 MWh of green electricity per year in 2016-2018 and 2019, which not only helped us to directly reduce our CO₂ emissions, but with our purchase, we also indirectly facilitated the spread of innovative systems generating renewable energies. We are committed to continuing this activity. We are therefore planning to buy another 8000 MWh of green electricity in 2020 for the operation of our banking network.

In order to continuously maintain and improve the efficiency of our energy management, we introduced an energy management system that meets the requirements of the ISO50001 standard at the end of 2017. In line with our internal needs and with the support of the Group, we expanded our ISO activities at the end of 2017 and also introduced the ISO 14001 environment management system, which further enhanced our 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. The lighting of logos

and illuminated advertisements is operated with the use of a timer programme, and in most places, night-time lighting is limited or reduced to a strict minimum. Our newly installed equipment is mostly of energy efficiency class "A".

When selecting newly installed air conditioning equipment, we prefer VRV (heat pump) and inverter devices, which facilitate the efficient use of energy. Newly installed boilers are condensing, which allow us not only to save fuel but also to directly reduce our emissions.

In order to reduce paper consumption, Erste Bank has introduced in its ATMs the option of cash withdrawal without a receipt slip. We use recyclable, environmentally friendly paper not just in its ATMs but also in the course of daily work.

In its internal correspondence, Erste Bank uses envelopes that can be addressed 24 times, as well as recycled paper and stamps. Erste Bank donates scrapped but still usable computers, as well as disused furniture, to educational institutions and foundations in need, while used copier and printer cartridges are collected by the suppliers.

In order to reduce the direct adverse environmental impact of transport, the size of our vehicle fleet is continuously determined based on current needs, through the exchange and procurement of modern vehicles with energy-efficient engines. Special attention is paid to the regular monitoring of emissions and fuel consumption, while our colleagues receive driver trainings focusing on ECO-Drive techniques using the ILearning system. Erste Bank provides space for the storage of more than 180 bicycles in its head office buildings for colleagues travelling to work by bike, thereby promoting health and environmentally friendly transportation. We installed 6 charging stations for e-bikes and scooters in the bicycle storage room, which will increase the sensitivity of employees within the bank to e-Mobility.

EVENTS AFTER THE BALANCE SHEET DATE

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. Erste Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on Erste Bank. The potential impact of this outbreak on the macroeconomic forecasts will be incorporated into Erste Bank's IFRS 9 estimates of expected credit loss provisions in 2020.

The Hungarian Government has announced the State of Emergency and ordered several health protective measures to slow down the spread of the virus and published 18 March 2020 its first economic package. The most important measures that affect the banking sector are as follows:

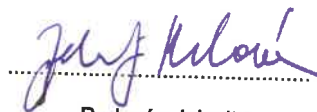
1. A repayment moratorium is introduced for all private borrower and businesses covering both principal and interest, in-scope are the loans contracted latest 18 March 2020. The moratorium expires 31 December 2020.
2. Interest condition of unsecured loans contracted from 19 March 2020 on is regulated, the interest is maximized in central bank rate plus 5%.

Due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later in time, according to the preliminary approximate estimates, the pre-tax one-off loss of the payment moratorium for 2020 can be in the range of HUF 5-9 billion – depending heavily on the actual participation rate of customers in the scheme which rate may change and fluctuate during the whole period of the moratorium as customers may decide anytime to opt-out or opt-in without limitation.

Based on observed opt-out behaviour of customers in March 2020 (which is an early observation so might not be fully representative for the whole year and might change later), our best estimation for the financial effect is HUF 6 billion. The National Bank of Hungary instructed the banks not to pay dividend for the financial year of 2019 until 30 September 2020.

Erste Bank plans not to declare and pay dividend for the financial year of 2019.

Budapest, 3 April 2020



Radován Jelasity

Chairman and Chief Executive Officer



Ivan Vondra

Chief Financial Officer

ANNEX NO. 1: LIST OF BRANCHES

Branch
1138 Budapest, Népfürdő utca 24-26.
1222 Budapest, Nagytétényi út 37-43.
1138 Budapest, Váci út 141.
1203 Budapest, Kossuth Lajos u 21-29.
1073 Budapest, Erzsébet krt 8.
1106 Budapest, Őrs vezér tere 25.
1033 Budapest, Flórián tér 3.
1102 Budapest, Kőrösi Csoma sétány 9/B
1013 Budapest, Krisztina tér 2.
1143 Budapest, Gizella u 59.
1193 Budapest, Kossuth tér 23-24.
1085 Budapest, József krt. 86.
1066 Budapest, Teréz krt. 24.
1032 Budapest, Bécsi út 154.
1021 Budapest, Hűvösvölgyi út 138.
1116 Budapest, Fehérvári út 130.
1082 Budapest, Baross u. 1-3.
1042 Budapest, Árpád út 68.
1134 Budapest, Váci út 33.
1211 Budapest, Kossuth Lajos utca 70-86.
1195 Budapest, Vak Bottyán út 75. a-c. ép.
1173 Budapest, Kaszáló utca 47.
1054 Budapest, Szabadság tér 14.
1152 Budapest, Szentmihályi út 137.
1111 Budapest, Egry József utca 2.
1051 Budapest, Vörösmarty tér 4.
1087 Budapest, Kerepesi út 9.
1024 Budapest, Lövőház utca 1-5. 3. ép.
1123 Budapest, Alkotás utca 53.
1024 Budapest, Lövőház utca 1-5. földszint
1114 Budapest, Bartók Béla út 47.
1062 Budapest, Váci út 1-3.
1138 Budapest, Váci út 135-139.
1123 Budapest, Alkotás út 55-61.
6500 Baja, Vörösmarty u 5.
9300 Csorna, Szent István tér 29.
4032 Debrecen, Egyetem tér 1.
5700 Gyula, Városház u 16.

6900 Makó, Csanád vezér tér 5.
9400 Sopron, Előkapu u 2-4.
9970 Szentgotthárd, Széchenyi u 2.
8000 Székesfehérvár, Palotai u 4.
8060 Mór, Köztársaság tér 1.
8500 Pápa, Fő tér 25-26.
6720 Szeged, Kölcsey u 13.
2890 Tata, Országgyűlés tér 3.
2000 Szentendre, Duna korzó 18.
7200 Dombóvár, Hunyadi tér 19-21.
3400 Mezőkövesd, Mátyás király út 129.
7620 Pécs, Rákóczi u 62-64.
3100 Salgótarján, Erzsébet tér 5.
2800 Tatabánya, Fő tér 20. A. ép.
6300 Kalocsa, Szent István király út 30.
7100 Szekszárd, Széchenyi u 40.
6720 Szeged, Széchenyi tér 17.
4024 Debrecen, Vár u 4.
4080 Hajdúnánás, Dorogi u 10-14.
5100 Jászberény, Szabadság tér 20.
5300 Karcag, Kossuth tér 6.
5000 Szolnok, Baross Gábor út 8.
5200 Törökszentmiklós, Kossuth u 125.
4625 Záhony, Ady E. u 27-31.
3200 Gyöngyös, Mikszáth Kálmán u 4.
3950 Sárospatak, Rákóczi u 40.
2400 Dunaújváros, Dózsa György u 2/a
8000 Székesfehérvár, Budai út 32.
8900 Zalaegerszeg, Ispotály köz 2.
2040 Budaörs, Szabadság utca 27.
5540 Szarvas, Szabadság u. 32.
2600 Vác, Széchenyi u. 14.
4600 Kisvárd, Szent László u. 26.
6000 Kecskemét, Dobó krt. 7.
9021 Győr, Árpád u. 42.
9600 Sárvár, Batthyány u. 20.
8100 Várpalota, Szent István út 7-9.
2900 Komárom, Gyár u. 2-6.
2100 Gödöllő, Szabadság tér 14.
2030 Érd, Budai út 13.

4220 Hajdúböszörmény, Szt. István tér 2.
5600 Békéscsaba, Andrásy út 20.
5900 Orosháza, Kossuth u. 2.
6400 Kiskunhalas, Bethlen G. tér 4.
2700 Cegléd, Népkör u. 2.
9700 Szombathely, Mártírok tere 12.
8400 Ajka, Szabadság tér 4/a
7700 Mohács, Szabadság út 16.
6800 Hódmezővásárhely, Andrásy út 2-4.
8200 Veszprém, Ádám I. utca 2.
2120 Dunakeszi, Fő utca 24.
2330 Dunaharaszti, Dózsa György út 27.
2440 Százhalombatta, Szent István tér 9.
4300 Nyírbátor, Szabadság tér 10.
3700 Kazincbarcika, Egressy utca 44.
2660 Balassagyarmat, Rákóczi fejedelem utca 34-36.
6100 Kiskunfélegyháza, Mártírok útja 1.
8420 Zirc, Rákóczi tér 16.
8600 Siófok, Fő utca 172.
4700 Mátészalka, Kölcsey utca 15.
3580 Tiszaújváros, Bethlen Gábor utca 5/b.
7030 Paks, Dózsa György út 64.
8800 Nagykanizsa, Fő utca 2.
6600 Szentes, Kossuth Lajos utca 12-16.
7400 Kaposvár, Fő utca 2.
9200 Mosonmagyaróvár, Fő utca 26.
3300 Eger, Dobó tér 1.
4024 Debrecen, Piac utca 32.
6300 Kalocsa, Szent István utca 37.
4400 Nyíregyháza, Országzászló tér 10.
2310 Szigetszentmiklós, Háros utca 120.
2500 Esztergom, Petőfi S. utca 2.
8360 Keszthely, Kossuth Lajos utca 11.
4400 Nyíregyháza, Nagy Imre tér 1.
4200 Hajdúszoboszló, Szilfákalja utca 49.
6000 Kecskemét, Kisfaludy utca 6
3530 Miskolc, Corvin utca 1-3.
3527 Miskolc, Bajcsy-Zsilinszky út 1.
9021 Győr, Bajcsy-Zsilinszky út 30-32

ANNEX NO. 2: 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 (Group). In this context beyond financial efficiency, Group 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 Erste Bank 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 Erste Bank 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 Group regulations in force. These two internal regulations are the SZT540/2016 Energy Management Policy and the SZT460/2016 Environmental Management Policy has been merged in 2019. The new consolidated regulations are contained in SZT297 / 2019. 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 2019 compared to 2018 Erste Bank reached a 9.1% energy consumption decrease. This directly resulted in 386 648,3 kg CO2 emission reduction in 2019.

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 Erste 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 Group'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."

A diverse and inclusive workforce is essential for business success. Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Erste Group sees diversity and inclusion as a vital part of its human resources strategy and key to attracting and retaining top employees.

Erste Bank Hungary's diversity and inclusion principles are reflected both in its Statement of Purpose and Code of Conduct, which emphasize a work environment that is free of discrimination and harassment, and values the work and worth of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin color, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

EBH's Managing Board adopted a diversity strategy for EBH for 2018-2019 which sets the focus and priorities of the diversity and inclusion endeavours of the organization. There were several focus areas identified in EBH's diversity strategy and actual implementation steps made in 2019.

Work-life balance: EBH to become a "safe haven" workplace for all kinds of employee resource groups. EBH encourages the spontaneous networking and organization of clubs by employees in order to ensure recreation, shared experience and joyful events. Currently 19 clubs (employee resource groups) operate within EBH, organized around various lifestyles, hobbies, sport activity. EBH provides financial and logistical support to these clubs with a view to support colleagues in their personal self-fulfilment and well-being endeavours and to help them to balance between personal and professional life and to feel good at the workplace. EBH introduced a loyalty program called Erste Care in 2019 including sabbatical leaves, extra vacation days, healthcare insurance or optional pension fund contribution. EBH has won the bronze award of beneFit prize with the ErsteCare program.

Family friendly workplace, help everyday life of working parents: Home office has been fully extended in the headquarters of the Bank. Average 20% of the total population (except for branch network) is benefiting from the home office on a daily basis. Flexible-smart working environment concept has been fully completed in 2019 in the EBH headquarters building (involving ca. 2000 employees). Following the suggestions of ErsteNő (*ErsteWoman: employee resource group for women*) EBH keeps in touch with mothers on maternity leave: newsletters/social media, roadshows for mothers, invite to corporate community events and celebrations so that they remain integrated in the workplace community life and updated on business developments while their absence from work.

Generation diversity: EBH grants 2 additional vacation days above the age of 50 and 4 additional days from the age of 55. This is on top of the annual vacation days according to the age set by law. Employees may select Voluntary Pension Plan and/or Voluntary Health Plan contribution from the annual fringe benefit (cafeteria) portfolio, the cost is covered by the employer. One of the Erste Care benefits is the health insurance coverage for each employee after 2 years of service which provides private medical services in most medical specialization. The program also has a non-risk element which covers annual medical check-ups as a health prevention element. After 8 years of service the health insurance coverage can be extended to another family member or a fixed amount of contribution can be selected to be transferred to the employee's Voluntary Pension Plan. Also as part of Erste care service period is rewarded by extra days off and longer service time (8 years and +) is rewarded by sabbatical leave. Leadership trainings in 2019 focused also on cross-generational aspects. EBH re-launched in 2019 its in-house mentoring program where colleagues could be mentored by senior and mid-level managers across the organization, overall more than 120 colleagues participated in this initiative. Colleagues' 10, 20, 25 years of service time is celebrated with senior management in the framework of Loyalty Day events.

Women's equality ErsteNő (*ErsteWoman*) is the most significant employee resource group at EBH with the highest impact in the organization. Members may be any employees in active and passive status. ErsteNő implements **its own strategy** to help the work-life balance of working women, to support mothers returning from maternity leave and to promote women carriers at EBH. Their goal is to enable EBH to attract and retain the best female talent by ensuring a balanced life and a supportive workplace. They participated in shaping and promoting several employee related and wellbeing programs at EBH (e.g. home office, flex-work program). In 2019 ErsteNő organized role model discussions with well-known female personalities, a fintech and digital seminar for women. This year they repeated the very successful self-defense training for women, as well as organized a resuscitation course. ErsteNő has organized a roadshow with Board members to help mothers on maternity leave to keep in touch with the bank, inform them on the business development and learn about the practical information needed for their return. Organized coaching course for fathers and another panel discussion on the challenges of being parent in various family setups. ErsteNő organized and obtained financial support to summer camps for employees' children of which more than 100 children benefited and organized various other wellbeing and charity programs for employees.

Ethnic Diversity: EBH employees have volunteered to act as mentors within the Integrom program, the aim of which is to help young –graduate and secondary educated - Roma participants by trainings and personal coaching to be successful in the recruitment process to find employment in the private sector, at major companies, primarily in administrative positions.

Disabled in the Workplace: Cooperation with Incorpora network has started already in 2018. Incorpora's activities and its member organizations have been presented to the senior management and managers at EBH. Several areas of the bank have committed to be part of this cooperation and defined positions and job descriptions that are suitable to be filled by disabled colleagues. In 2019 EBH started to actually employ disabled employees mainly in operational areas of the Bank.

Disabled clients - value propositions, enhance accessibility – With the participation of the front office areas, consumer protection lawyers and Social Banking, we identified the areas of value propositions and product features to be offered to disabled clients and explored further opportunities for accessibility to existing services. In this context we have initiated the accessibility audit of some selected branch offices and consider obtaining accessibility certification for the ones that fully comply with all accessibility criteria.

In 2019 EBH also strengthened its communication on diversity in order to educate, raise awareness and build a diversity culture. In the *Erste200Live* all-bank event various diversity groups had the possibility to present their activities and build network among the colleagues. EBH and its diversity groups have organized several charity events during the year (Spring Charity week, Eat for Others: Food bank cooperation, Doughnut fair, Christmas fair week) to raise awareness and appreciation of the activities and endeavours of civil organizations of disabled/underprivileged people. All social actions of EBH are communicated on Erste Bank Hungary's Facebook with high reach volumes. Also, ErsteNő activities, including diversity related activities are posted via ErsteNő FB group that has more than 400 members, including colleagues on maternity leave.

In 2019 the company again signed the **Hungarian Diversity Charter**, the Hungarian version of the European Diversity Charter, by which it has reinforced its commitment to respecting equality, creating a diverse organisational culture and continuously developing employee relationships, 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.

Ethical banking, fight against corruption and blackmailing, anti-money laundering (AML) and combating the financing of terrorism (CFT)

Erste Bank Hungary pays close attention to fair and ethical operation, preventing corruption, AML, CFT and compliance with all legal requirements and norms. To support and supervise these functions, an independent organisational unit the **Compliance** operates at EBH and directly report to Board about compliant banking operation.

To ensure Group-level compliance, EBH is supported by several Group Policies to ensure the highest level of legal compliance. Accordingly, EBH has the appropriate regulatory documentation to maintain its duties, of which the most important are its compliance policy, Code of Ethics, conflict of interest principles, management of 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 and management of consequences policy.

While formulating the applicable compliance regulations in EBH, compliance with the legal requirements, recommendations of international professional organisations and of the National Bank of Hungary were a main focus.

In 2019– to enhance trust into Erste Group and focus on conducting professional working – EBH supervised the **Code of Ethics**, which contains principles of ethical business behaviour, requires the fair, non-discriminatory business conduct, fight against corruption, AML and CFT, as well as avoidance of conflict of interest. All employees, executive or non-executive officers of Erste Group are obliged to declare the acceptance of Code of Ethics and also external partners are required to follow the rules thereof. Erste Code of Ethics is publicly disclosed on EBH website.

By September 2019 either IT systems or policies, procedures were successfully prepared and developed for **PSD2** Open Banking. Nevertheless, EBH paid special attention for implementing **Instant Payment** requirements all along the year 2019. Within PSD2 and IP framework, EBH redesigned its fraud prevention systems, organizational structure in order to be compliant with new regulatory requirements and focused on exploring and preventing new fraud schemes and scenarios.

AML and CFT receive increasing and close attention in Erste Group and for being in harmony with legal requirements and HNB expectations EBH continuously develops of internal processes, IT systems and pursues to increase efficiency thereof.

During its operations (including preventing money laundering and terrorist financing, anti-fraud, general compliance and compliance operations related to supplying investment services) the Compliance department consistently applies a risk-based approach and performs its activities along an annual plan and Compliance Risk Assessment (CRA) and Fraud Risk Assessment (FRA). During the preparation of this plan, the CRA and the FRA, the Bank evaluates all of its organisational units and processes from a compliance risk perspective and sets out its work and audit plan accordingly. During the preparation of the work plan, it focuses on taking the changes in legal obligations into account, as well as evaluating international trends and implementing international standards.

Compliance makes further risk assessments and draws up an action plan to eliminate or minimise the identified risks. Compliance reports on its activity and on the (eventually) revealed risks and measures implemented to decrease these risks every six months to EBH's Managing Board and annually to the Supervisory Board.

In order to ensure an effective risk management system, Compliance regularly supervises its risk assessment methodology. Results of revision conducted in 2019 and former experiences are continuously implemented into the risk management program.

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

- A wide range of educational programmes – concentrating on compliance topics and on the Code of Ethics – operates in EBH; these are obligatory for new co-workers and all employees need to participate in them regularly.
- Compliance maintains frequent communication with all – so called second line of defence – control areas of EBH in order to effectively organise and maintain control and audit functions.
- Compliance comments on every internal policy, product developments and remuneration policy. The Bank applies the provisions of the Code of Ethics throughout the entire process of product development and service provision.
- The Bank operates an anonymous whistleblowing line to detect possible ethical and legal violations.

Social banking

Erste Bank 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 Group 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 Erste Bank to those social organizations and groups which need a product or service offer other than the average banking conditions.

Social Banking provides products and services to the civil sector and their beneficiaries. Above that, Social Banking established bridge between the Bank and the civil network, by connecting services or goods.

Erste Bank Hungary developed and institutionalised the value proposition for civil sectors, by developing the most affordable civil account package and a special loan product offer, supported by a European Investment Fund (EIF) guarantee.

In cooperation with Erste Stiftung, Erste Bank together with IFUA Nonprofit Partner and SIMPACT Nonprofit Partner initiated its civil education programme called SEEDS, already in 3 rounds. SEEDS1 invited 68 applicants and 10 received an additional grant. In 2019, SEEDS2 continued with tailor-made consultancy services and provided again 10 grants and 3 financings in order to accelerate social impact in several areas. Due to the high demand, in 2020, SEEDS3 provides again tailor-made consultancies and thematic workshops to support social entities to become investment ready.

In 2019, Financial literacy flagship program have been started by involvement of 6 civil organizations. Based on EBH's financial materials, they developed edutainment-type of trainings for underprivileged and handicapped audience in order to make them more comfortable with the money handling. The program reached nearly 2000 participants and is planned to expand.

The topic of Social Housing is a current one in all Europe. Lack of available social flats and low number of municipal flats raise the need of new initiatives and refreshment of policies. Social Banking have set up a cooperation with the 2 biggest NGOs in the topic and aims to make 160 people's living conditions better.

Social banking plays essential role in diversity actions of the Bank and offers its clients to serve different areas, for example: Recobin for garbage selection, Incorpora for underprivileged employment, Integrom for roma mentorship, psychologists for Erste Women trainings, clients for +1 Act or charity fairs.

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