

ERSTE BANK HUNGARY Zrt.

Financial Statements in accordance with
Hungarian Accounting Standards

31 December 2016

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of ERSTE BANK HUNGARY Zrt.

Opinion

We have audited the accompanying 2016 annual financial statements of ERSTE BANK HUNGARY Zrt. ("the Company"), which comprise the balance sheet as at 31 December 2016 - showing a balance sheet total of HUF 2,038,492 million and a net result for the period of HUF 31,738 million -, the related income statement for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the equity and financial position of ERSTE BANK HUNGARY Zrt. as at 31 December 2016 and of the results of its operations for the financial year then ended in accordance with the Act C of 2000 on Accounting ("Hungarian Accounting Law").

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of annual financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the annual financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual financial statements.

Credit Impairment

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

Due to the significance of impairment loss on receivables (representing 50.1% of Total assets) and the related estimation uncertainty, this is considered a key audit matter.

We involved our internal valuation specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures.

We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of receivables from customers and controls over impairment calculations including the quality of underlying data and systems.

For Impairment loss on receivables calculated on an individual basis (specific provision), we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the annual financial statements. We assessed the Company's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information. For impairment loss on receivables calculated on a collective basis (portfolio provision) we evaluated the methodologies, inputs and assumptions used, including model validations and backtesting.

We also assessed whether the annual financial statement disclosures

appropriately reflect the Company's exposure to credit risk and are compliant with the Hungarian Accounting Law. The Company's disclosures about its risk management policies are included in Note I/2 which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note II/20.

Large debt sale of retail loan portfolio

The Company sold HUF 64.3 billion (gross value) of retail non-performing loans during 2016. The Company created a significant amount of provisions for contingent obligation resulting from the large debt sale of its non-performing loan portfolio.

The derecognition of the portfolio required assessing the transfer of the risk and rewards connected to this subportfolio based on the terms of the signed contract. The assessment of the potential contingent liability arising from the sale contract and its magnitude also required high level of judgement as there is an inherent risk that the provisions created at the year-end may significantly differ from the actual expenditure realized in the upcoming years.

Due to the size of the transaction and to the difficulty in assessing and measuring the quantum from any resulting obligations, large debt sale of retail loan portfolio is considered a key audit matter.

Among other audit procedures, we inspected the sales contract to identify how much residual risk remained at the Company.

We tested derecognition of this loan portfolio and assessed the adequacy of the Company's disclosures regarding the matter.

We assessed the adequacy of the underlying data collected by the Company for supporting the provision calculated for the potential contingent liabilities arising from the contractual obligations.

We also assessed whether the annual financial statements include appropriate disclosures related to large debt sale of retail loan portfolio. The Company's disclosure is included in Note I/4.

Information Technology (IT) systems

A significant part of the Company's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area. Furthermore the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this as a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Company's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved our IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorised and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

Other information

Other information consists of the 2016 business report of ERSTE BANK HUNGARY Zrt. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the business report should include the information required according to Subsection (2) e) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law have been made available.

In our opinion, the business report of ERSTE BANK HUNGARY Zrt., including the information required according to Subsection (2) e) of Section 95/B of the Hungarian Accounting Law for 2016 corresponds to the 2016 annual financial statements of ERSTE BANK HUNGARY Zrt. and has been prepared in accordance with the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, our opinion on the business report do not include opinion in this regard as required by Subsection (5) h) of Section 156 of the Hungarian Accounting Law.

We also confirm that the Company have made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Company and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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

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

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual 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 Hungarian National Auditing Standards 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 annual financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the annual 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 Company'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 annual 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 Company to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 annual 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.

Budapest, 7 April 2017

(The original Hungarian language version has been signed.)

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Financial Statements

in accordance with Hungarian Accounting Standards

as at 31 December 2016

Budapest, 7 April 2017

Company registration number:

Budapest Metropolitan Court

Cg. 01-10-041054

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Balance Sheet

Assets

31.12.2016

Line No.	Description of the item	31.12.2015 (data in HUF million)	31.12.2016 (data in HUF million)
1	Cash and cash equivalents	97,470	24,120
2	Government securities	372,924	614,691
a	for trading purposes	52,020	109,277
b	for investment purposes	321,119	504,065
2/A	Valuation difference of government securities	(215)	1,349
3	Receivables from credit institutions	270,319	223,295
a	due on demand	11,355	2,374
b	other receivables from financial services	258,964	220,921
ba	with maturity within one year	258,964	220,921
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	14,399	31,764
	<i>from other participating interests</i>	5,370	5,502
	<i>to the Central Bank of Hungary</i>	220,000	133,299
	<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	988,292	1,020,724
a	from financial services	988,292	1,020,519
aa	with maturity within one year	80,343	126,754
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	-	3,942
	<i>from other participating interests</i>	-	-
ab	with maturity over one year	907,949	893,765
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	2,428	33,617
	<i>from other participating interests</i>	-	-
b	from investment services	-	205
	<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
bc	receivables from customers, arising from investment services	-	-
bd	receivables from clearing houses	-	-
be	receivables from other investment services	-	9
4/A	Valuation difference of receivables from customers	-	-

5	Debt securities, including those with fixed interest rates	33,119	28,900
a	debt securities in issue by local governments and other public bodies (excluding government securities)	3,075	2,808
aa	for trading purposes	-	-
ab	for investment purposes	3,075	2,808
b	debt securities in issue by other issuers	30,044	25,969
ba	for trading purposes	-	200
	<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	30,044	25,769
	<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
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		-	-
bb		-	-
6/A	Valuation difference of shares and other variable-yield securities	-	-
7	Shares and interests held for investment purposes	778	1,771
a	shares and interests held for investment purposes	778	1,771
	<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	56,846	53,765
a	shares and interests held for investment purposes	56,846	53,765
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	7,573	9,808
b	value adjustment of shares and interests held for investment purposes	-	-
	<i>Of</i>		
	<i>which: interests in credit institutions</i>	-	-
9	Intangible assets	11,160	15,675
	Intangible assets	11,160	15,675
	Value adjustment of intangible assets	-	-
10	Property and equipment	8,239	8,648
a	property and equipment held for the purpose of financial and investment services	8,239	8,648
aa	properties	5,409	5,498
ab	plant and machinery, equipment, vehicles	2,414	2,641
ac	investments	416	509
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	25,197	28,342
a	inventories	1,209	825
b	other receivables	13,516	14,024

	<i>Of which: receivables from affiliated undertakings</i>	2,527	3,342
	<i>receivables from other participating interests</i>	-	247
12/A	Valuation difference of other receivables	-	-
12/B	Positive valuation difference of derivative transactions	10,472	13,493
13	Accrued and deferred assets	18,731	18,561
	a accrued income	16,212	16,377
	b accrued expenses	2,519	2,184
	c deferred expenses	-	-
TOTAL ASSETS		1,883,075	2,038,492
	<i>Of which: Current assets</i>	<i>525,134</i>	<i>513,665</i>
	<i>Fixed assets</i>	<i>1,339,210</i>	<i>1,506,266</i>

Date: Budapest, 7 April 2017



 Radován Jelasity
 Chairman-Chief Executive Officer



 Ivan Vondra
 Chief Financial Officer

Liabilities

31.12.2016

Line No.	Description of the item	31.12.2015 (data in HUF million)	31.12.2016 (data in HUF million)
1	LIABILITIES TO CREDIT INSTITUTIONS	290,768	231,815
a	due on demand	1,624	7,953
b	liabilities committed for a certain period, arising from financial services	289,144	223,862
ba	with maturity within one year	153,532	50,449
	<i>Of which: from affiliated undertakings</i>	152,832	41,200
	<i>from other participating interests to the Central Bank of Hungary</i>	-	-
	<i>liabilities to clearing houses</i>	-	-
bb	with maturity over one year	135,612	173,413
	<i>Of which: from affiliated undertakings</i>	7,637	58,104
	<i>from other participating interests to the Central Bank of Hungary</i>	-	-
	<i>liabilities to clearing houses</i>	69,836	65,702
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	1,221,560	1,388,784
a	savings deposits	2,367	2,360
aa	due on demand	2,367	2,360
ab	with maturity within one year	-	-
ac	with maturity over one year	-	-
b	other liabilities arising from financial services	1,215,078	1,384,442
ba	due on demand	612,115	1,022,150
	<i>Of which: from affiliated undertakings</i>	51,991	104,257
	<i>from other participating interests</i>	2,006	1,566
bb	with maturity within one year	535,349	296,864
	<i>Of which: from affiliated undertakings</i>	1,969	3,754
	<i>from other participating interests</i>	968	-
bc	with maturity over one year	67,614	65,428
	<i>Of which: from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
c	from investment services	4,115	1,982
	<i>Of which: from affiliated undertakings</i>	36	44
	<i>from other participating interests</i>	113	106
ca	liabilities arising from stock market investment services	-	-
cb	liabilities arising from OTC investment services	4,115	1,982
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	19,551	11,464
a	issued bonds	19,551	11,464
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	19,551	11,464
	<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	29,800	26,983
a	with maturity within one year	8,904	16,058
	<i>Of which: from affiliated undertakings</i>	2,266	313
	<i>from other participating interests</i>	2	-
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	20,896	10,925
5	ACCRUED AND DEFERRED LIABILITIES	15,070	21,111
a	deferred income	18	336
b	deferred expenses	15,038	16,949
c	deferred income	14	3,826
6	SUNDRY PROVISIONS	8,811	24,081
a	provision for pensions and severance payments	-	-
b	risk provision for contingent liabilities and commitments	6,942	21,285
c	general risk provisions	-	-
d	other provisions	1,869	2,796
7	SUBORDINATED LIABILITIES	132,907	55,008
a	subordinated loan capital	132,907	55,008
	<i>Of</i>		
	<i>which: from affiliated undertakings</i>	128,692	50,793
	<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	102,000	146,000
	<i>Of</i>		
	<i>which: ownership interests repurchased at nominal value</i>	-	-
9	SUBSCRIBED BUT UNPAID CAPITAL (-)	-	-
10	CAPITAL RESERVE	83,493	117,492
a	difference between the nominal value and the issue price of shares and interests (premium)	83,493	117,492

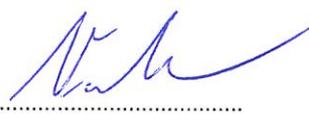
	b other	-	-
11	GENERAL RESERVE	-	3,526
12	RETAINED EARNINGS (+-)	-	(20,455)
13	TIED-UP RESERVE	-	-
14	VALUATION RESERVE	(830)	945
	a Valuation reserve of the value adjustment	-	-
	b Valuation reserve of fair valuation	(830)	945
15	PROFIT OR LOSS FOR THE YEAR ACCORDING TO THE STATEMENT OF FINANCIAL POSITION (+-)	(20,455)	31,738
TOTAL LIABILITIES		1,883,075	2,038,492
	Of		
	which: Short-term maturity liabilities	1,338,902	1,408,741
	Long-term maturity liabilities	356,084	305,313
	Total equity	164,208	279,246

Line No.	Description of the item	31.12.2015 (data in HUF million)	31.12.2016 (data in HUF million)
1	Contingent liabilities	229,764	375,268
2	Liabilities	1,498,449	2,198,107
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS		1,728,210	2,573,375

Line No.	Description of the item	31.12.2015 (data in HUF million)	31.12.2016 (data in HUF million)
1	Contingent claims	2,873,037	2,129,777
2	Future receivables	1,492,766	2,213,667
TOTAL CONTINGENT CLAIMS AND FUTURE RECEIVABLES		4,365,804	4,343,444

Date: Budapest, 7 April 2017


.....
Radosław Jelasity
Chairman-Chief Executive Officer


.....
Ivan Vondra
Chief Financial Officer

Income statement

31.12.2016

Line No.	Description of the item	31.12.2015 (data in HUF million)	31.12.2016 (data in HUF million)
1	INTEREST AND SIMILAR INCOME RECEIVED	89,105	77,657
a	interest income received (due) on debt securities with fixed interest rates	12,640	19,668
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
b	other interest and similar income received	76,465	57,989
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	2,233	852
	<i>from other participating interests</i>	15	15
2	INTEREST PAID AND SIMILAR CHARGES	28,717	15,137
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	12,928	8,937
	<i>to other participating interests</i>	39	14
	INTEREST DIFFERENTIAL (1-2)	60,388	62,520
3	INCOME FROM SECURITIES	1,855	3,862
a	income from shares and interests held for trading (dividends, equity holdings)	-	-
b	income from interests in affiliated undertakings (dividends, equity holdings)	1,800	49
c	income from other interests (dividends, equity holdings)	55	3,813
4	FEE AND COMMISSION INCOME RECEIVED (DUE)	46,646	47,518
a	from the income of other financial services	44,924	45,981
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	7,006	8,054
	<i>from other participating interests</i>	-	1,872
b	of the income of investment services (excluding the income of trading activities)	1,722	1,537
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	-	-
	<i>from other participating interests</i>	-	-
5	COMMISSIONS AND FEES PAID (PAYABLE)	8,252	8,716
a	of the expenses of other financial services	7,407	7,656
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	23	31
	<i>to other participating interests</i>	-	0
b	of the expenses of investment services (excluding the expenses of trading activities)	845	1,060
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	579	700
	<i>to other participating interests</i>	-	2
6	NET PROFIT OR LOSS FROM FINANCIAL TRANSACTIONS (6.A-6.B+6.C-6.D)	(6,258)	(4,126)
a	from the income of other financial services	13,611	19,859
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	4,339	4,032
	<i>from other participating interests</i>	564	-
	<i>valuation difference</i>	-	-
b	of the expenses of other financial services	16,531	23,257
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	4,006	5,658

	<i>to other participating interests</i>	-	-
	<i>valuation difference</i>	-	-
c	of the income of investment services (the income of trading activities)	142,071	100,783
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	37,898	40,719
	<i>from other participating interests</i>	201	539
	<i>reversal of the impairment loss of securities held for trading</i>	-	-
	<i>valuation difference</i>	45,469	36,537
d	of the expenses of investment services (the expenses of trading activities)	145,409	101,511
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	42,238	30,106
	<i>to other participating interests</i>	197	297
	<i>impairment loss of securities held for trading</i>	-	-
	<i>valuation difference</i>	57,960	31,637
7	OTHER INCOME FROM BUSINESS ACTIVITIES	127,787	57,494
a	income of services other than financial or investment services	1,793	1,794
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	339	1,050
	<i>from other participating interests</i>	-	-
b	other income	125,994	55,700
	<i>Of which:</i>		
	<i>from affiliated undertakings</i>	1,881	89
	<i>from other participating interests</i>	-	-
	<i>reversal of the impairment loss of inventories</i>	2,131	237
8	GENERAL ADMINISTRATION COSTS	44,656	47,664
a	staff costs	23,512	25,772
	aa wages and salaries	16,877	18,596
	ab other employee benefits	1,372	1,417
	<i>Of which:</i>		
	social insurance costs	116	100
	pension-related costs	91	94
	ac contributions on wages and salaries	5,263	5,759
	<i>Of which:</i>		
	social insurance costs	4,486	4,947
	pension-related costs	5	5
b	other administration costs (material costs)	21,144	21,892
9	DEPRECIATION	5,747	5,323
10	OTHER EXPENDITURE RELATING TO BUSINESS ACTIVITIES	192,288	92,807
a	expenses on services other than financial or investment services	944	1,186
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	8	44
	<i>to other participating interests</i>	-	-
b	other expenditure	191,344	91,621
	<i>Of which:</i>		
	<i>to affiliated undertakings</i>	-	2
	<i>to other participating interests</i>	-	-
	<i>impairment loss of inventories</i>	219	-
11	IMPAIRMENT LOSS ON RECEIVABLES AND RISK PROVISIONING FOR CONTINGENT LIABILITIES AND COMMITMENTS	90,008	59,585
a	impairment loss on receivables	83,442	44,987
b	risk provisioning for contingent liabilities and commitments	6,566	14,598
12	REVERSAL OF IMPAIRMENT LOSS ON RECEIVABLES AND THE USE OF RISK PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS	92,575	84,384
a	reversal of impairment loss on receivables	92,217	83,638
b	the use of risk provisions for contingent liabilities and commitments	358	746
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	2,731	3,302
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	239	6,649
15	PRE-TAX RESULT (1-2+3+4-5+-6+7-8-9-10-11+12-13+14)	(20,450)	40,904
16	TAX PAYMENT LIABILITY	5	5,640
17	RESULT AFTER TAX (+-15-16)	(20,455)	35,264
18	APPROPRIATION AND USE OF GENERAL RESERVE (+-)	-	3,526
19	NET RESULT FOR THE PERIOD (+-17-/18)	(20,455)	31,738

Date: Budapest, 7 April 2017



 Radosław 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 12, 2017)
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 Ernst & Young Kft. (1132 Budapest, Váci út 20.)

Registration number with the Chamber of Hungarian Auditors: 001165

Appointed auditor: Gergely Szabó (mother's maiden name: Zsuzsanna Kiss, 1202 Budapest, Mézes u. 35, membership number with the chamber: 005676)

The Board of Directors of ERSTE Bank Hungary Zrt.

31 December 2016

Radován Jelasity	Chairman, internal member
László Szabolcs Harmati	internal member
Jurgen Kristiaan.De Ruijter	internal member
Ivan Vondra	internal member
Tamás Foltányi	internal member
Krisztina Zsiga	external member
Frederik Silzer	external member
dr. János Ruday	external member
Zoltán István Marczinkó	external member
Michael Neumayr	external member

31 December 2016

Manfred Wimmer	Chairman
Friedrich Rödler	member
Gernot Mittendorfer	member
Maximilian Clary Und Aldringen	member
dr. Alíz Zsolnai	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 2016 and the related accounting system:

- Act C of 2000 on Accounting (hereinafter: the Accounting Act), as amended
- Government Decree 250/2000. (XII. 24) on the specifics of the annual reporting and accounting liabilities of credit institutions, as amended
- Act LXXXI of 1996 on Corporate Income Tax and Dividend Tax, as amended
- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: the Credit Institutions Act), as amended
- other laws applicable to the Bank and the Bank's internal regulations issued for the purpose of the enforcement of such laws.

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 2016: 31 December 2016

Date of preparation of the balance sheet: 4 January 2017

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 and the provisions of Government Decree 250/2000. (XII. 24) (Annex 7), 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 following categories: pass, special mention, sub-standard, doubtful and loss.

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 recognises 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.

The point of fair value measurement is that 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 well-informed parties expressing their intention to conclude a transaction, within the framework of a deal concluded at arm's length. 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 31.12.2016.

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 and assigns each single deal to one of five asset rating category (standard, watch, substandard, doubtful, loss). 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

Legislative changes relating to consumer loan agreements

Changes in 2014 and 2015 that had a significant impact on those periods:

Act LXXVII of 2014 on the Settlement of certain issues concerning the modification of the currency and interest conditions related to consumer loan agreements was promulgated. This Act provides for the conversion into HUF of debts arising from foreign currency or foreign-currency-based consumer mortgage contracts on 1 February 2015 (the "Conversion Act").

The Hungarian Government decided that FX denominated car loans and unsecured loans shall also be converted into HUF until the end of 2015.

The date of conversion regarding the existing contracts was the scheduled repayment day in November, but not later than 1 December 2015. The conversion regarding the claims arisen from a terminated contract had to be concluded until 31 January 2016 with a value date of 1 January 2016. Similarly to previous conversion, borrowers of terminated contracts are compensated in cash.

The participation was voluntary, borrowers, either with existing or expired foreign currency based consumer loan contracts, had 30 days to decide whether to take this opportunity or not.

The conversion has taken place at the average NBH rate of 19 August 2015 (287.2 CHF/HUF, 309.2 EUR/HUF). In the practice, the HUF conversion has been executed at the same FX rate as applied by the FX mortgage loans in February 2015 (FX fixation of 7 November 2014 see point (ii), page 11: 256.47 CHF/HUF, 308.97 EUR/HUF). The exposure has been reduced by the financial institution as a 'rebate' with the amount of the difference between the two rates.

Act on fair banking

Act LXXVIII of 2014 amending Act CLXII of 2009 on loans provided to consumers, better known as the "Fair" Banking System Act was also promulgated. The purpose of this Act is to make changes to the interest rates of consumer loan agreements transparent, thereby making them traceable at the same time. The provisions of this law must be applied from 1 February 2015.

This law also affects the new provisions applicable to the amendment of loan agreements, the rules on consumers' right to terminate their loan agreements free of charge, the special provisions on foreign-currency-based loans and the rules of converting to the new contract terms. In connection with unilateral amendments of contracts the Act provides that only loan interest rates, interest surcharges, costs and fees may be amended unilaterally to the disadvantage of consumers. No other condition may be amended unilaterally to the disadvantage of consumers.

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

Balance sheet composition

The Bank's balance sheet total was HUF 2,038 billion at the end of 2016, 8.3 % higher than the balance sheet total at the end of the previous year. The amount of total equity is HUF 279,246 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 86.7 billion, due to the decision of the MNB to terminate two-week deposits. Thus the share of receivables from credit institutions within total assets fall back slightly to 10.9% as compared with the 14.4% reported for the preceding year. Receivables from credit institutions have decreased with HUF 47 billion in total compared to 2015. The proportion of receivables from customers have also decreased, thus, at the end of the year, it amounted to 50.1% of the Bank's asset portfolio in contrast to 52.5% in the previous year. The portfolio of government securities grew by HUF 142 billion, out of which government securities held for trading purposes grew by 110%, while government securities held for investment purposes increased by 57%.

The gross amount of retail loans (including the self-employed) was HUF 677 billion. The proportion of HUF loans and FX loans was 99.7%-0.3%. At the end of the year, 61.3% of long-term maturity retail loans were housing loans (HUF 414 billion) and 33.2% were consumer loans (HUF 225 billion).

Changes in the distribution of retail loans by product group in 2016:

Households, retail customers (million HUF)	31.12.2015	31.12.2016	change %
housing loans	493,151	414,831	(15.9)%
consumer loans	294,662	225,117	(23.6)%
other loans	44,058	36,684	(16.7)%
Total	831,871	676,632	-18.7%

The (net) loans to business organisations (including local governments, not profit-oriented organisations, financial undertakings and the central budget) increased to HUF 436 billion by the end of the year, which was HUF 113 billion higher than the portfolio at the end of 2015.

Financial lease balances 31.12.2016

(In million HUF)	Gross	Impairment	Net	Interest	Total
Property	17,340	8,119	9,221	10	9,231
Vehicle, other	9,101	199	8,902	28	8,930
Investment EXIM	5,878	37	5,841	5	5,846
Total	32,319	8,355	23,964	43	24,007

The restructured loans made up HUF 296 billion within the entire portfolio (of this receivables from companies: HUF 38 billion, receivables from retail customers – including the bailout schemes and the collective account schemes: HUF (257 billion), and their carrying amount was HUF 250 billion.

Main asset categories, 2015-2016

(In million HUF)	31.12.2015	31.12.2016	Change %		Proportion %	
			2016/2015	31.12.2015	31.12.2016	
Cash and cash equivalents	97,470	24,120	(75,3)%	5.1%	1,2%	
Government securities	372,924	614,691	64,8%	19.8%	30,2%	
Receivables from credit institutions	270,319	223,295	(17,4)%	14.4%	10,9%	
Receivables from customers	988,292	1,020,724	3,3%	52.5%	50,1%	
Other assets	154,070	155,662	1,0%	8.2%	7,6%	
TOTAL ASSETS	1,883,075	2,038,492	8,3%	100%	100%	

Items on the liabilities side

There was a slight change in the structure of liabilities in 2016 compared to the end of 2015. Proportions, similarly to the prior year trend, continued shifting towards retail and corporate deposits. Liabilities consist of the following: retail and corporate deposits 68% (64.9% in 2015), own resources 14% (8.7% in 2015) and other (from credit institutions, the central bank, money market funds and third party funding) funds 18% (26.3% in 2015).

The Bank recognised HUF 55.008 million subordinated loan capital in its liabilities.

Deposits in 2016

Deposits (million HUF)	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Central government	5,048	4,056	10,877	14,526	6,357
Local governments	37,543	45,370	35,442	33,896	17,855
Other financial enterprises	235,972	204,605	206,906	228,994	322,180
Money market funds	75,437	58,089	49,020	51,006	62,959
Companies engaged in activities auxiliary to financial services	3,608	4,589	4,723	4,221	4,444
Insurers and pension funds	18,072	13,155	12,458	11,065	6,351
Auxiliary undertakings	13,038	13,859	19,716	25,049	19,590
Non-financial enterprises	315,654	323,016	314,056	332,755	419,056
Households, retail customers	443,752	427,519	432,768	426,938	447,611
Households, self-employed	11,633	11,072	11,153	10,990	12,191
Households non-profit	38,079	41,132	37,988	37,565	48,695
Foreign countries	19,609	17,296	16,081	15,191	19,513
Total	1,217,445	1,163,755	1,151,198	1,192,196	1,386,802

As regards customer deposits, the portfolio increased by HUF 167 billion, and in parallel with this, their share within the balance sheet total increased to 68% from 65% in 2015. The Bank has a 6.16% market share regarding retail deposits, which corresponds to a 9 bps decrease over the past year.

Distribution of retail deposits by product in 2015

Retail deposits (million HUF)	31.12.2014	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Due on demand	255,218	258,024	282,343	287,398	318,797
Fixed-term deposit – on account	188,534	168,951	149,883	138,999	128,274
Fixed-term deposit – in document	-	544	542	541	540
Total	443,752	427,519	432,768	426,938	447,611

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, 2015-2016

(In million HUF)	31.12.2015	31.12.2016	Change % 2016/2015	Proportion %	
				31.12.2015	31.12.2016
Liabilities to credit institutions	290,768	231,815	(20.3)%	15.4%	11.4%
Liabilities to customers	1,221,560	1,388,784	13.7%	64.9%	68.1%
Total equity	164,208	279,246	70.1%	8.7%	13.7%
Other liabilities, sundry provisions	206,539	138,647	(32.9)%	11.0%	6.8%
TOTAL LIABILITIES	1,883,075	2,038,492	8.3%	100%	100%

Income statement

The Bank's operating revenues increased by 7.1%, while its operating expenses decreased by 5.1% in 2016.

There was a slight increase in the net interest profit compared to the previous year (2016: HUF 62.5 billion, 2015: HUF 60.4 billion). There was a HUF 77 billion decrease on the revenue side, while HUF 137 billion decrease in expense side.

The decrease of expenses was greatly influenced by the impairment loss on receivables being HUF 28 billion lower in 2016 than it was in 2015.

The decrease of both the revenue and the expenditure sides were also determined by the continued decrease of interest rates, which had a greater reducing effect on interest paid on deposits than on the interest rates of loans.

The central bank prime rate was 1.35% at the end of 2015 and 0.9% at the end of 2016.

The Bank realised an income of HUF 3.384 billion from its derecognised investments (Visa Europe HUF 3.785 billion, Erste Bérlet Kft. HUF 0.040 billion, Collat-Reál Kft. HUF 0.009 billion).

Administrative costs were higher by 6.7% this year compared to the same period of the previous year. Within this category, staff costs increased by 9.6%, while other administrative costs increased by 3.5%.

The Bank's headcount did not significantly change in 2016, and the projects supporting the Bank's development and improvement continued, adjusted to market circumstances and to the Bank's long-term strategy. At the end of 2016, the Bank had 2,646 employees (projected to 8-hour employment), disregarding trainees.

The average age of our employees is 37 years, and the average length of their employment is 6.9 years.

During 2016, the Bank provided an opportunity for 161 trainees within the framework of a trainee programme to get an inside view of the Bank's operation and to acquire work experience. 9% of those participating in the Bank's trainee programme were recruited as employees of the Bank.

Depreciation decreased by 7.4% (HUF 424 million) compared to the previous year. The change was mainly due to the decrease in depreciation of licenses and softwares.

Operating revenues and expenses in 2015-2016

(In million HUF)	2015	2016	Change %
			2016/2015
Net interest income	60,388	62,520	3.5%
Commission income	38,394	39,106	1.9%
Dividend income, interests	1,855	3,862	108.2%
Profit/loss from financial transactions	(6,258)	(4,431)	(29.2)%
Operating revenues	94,379	101,057	7.1%
Administration costs	44,656	47,664	6.7%
<i>Staff costs</i>	22,512	25,772	9.6%
<i>Other costs</i>	21,144	21,892	3.5%
Depreciation	5,747	5,323	(7.4)%
Operating expenses	50,403	52,987	5.1%
Other profit or loss*	(64,501)	(34,386)	(40.6)%
Impairment loss + provision	(92,739)	(64,741)	(30.2)%
Reversals of impairment loss + provision	92,814	91,961	(0.9)%
Pre-tax result	(20,450)	40,904	300.0%
Result after tax	(20,455)	35,264	272.4%
Net result for the period	(20,455)	31,738	255.2%

* Including earlier extraordinary items

Main profitability indices

Rate of return on assets (ROA)	31.12.2015	31.12.2016
Profit/loss before tax / Asset value	(1.09)	0.02
Profit/loss for the year / Asset value	(1.09)	0.02
Rate of return on total equity (ROE)	31.12.2015	31.12.2016
Profit/loss for the year / Total equity	(12.46)	0.13

Impairment loss, provision

At the end of the fourth quarter of 2016, the 80% of gross balance sheet items consist of credit given, while almost 100% of impairment is related to these assets. 77.1% of loans to be classified were pass, 9.5% special-mention, 1.8% were sub-standard, 6.5% were doubtful and 5.1% were loss. There were significant shift in the proportions compared to the previous year: the pass items increased by 6.4 percentage points, special-mention decreased by 0.1 percentage points, and sub-standard increased by 1.0 percentage points. Doubtful items decreased by 3.5 percentage points while loss items decreased by 4.2 percentage points.

Impairment losses and risk provisions improved by HUF 28 billion in Q4 2016 compared to the same period of the previous year, due to „Large debt sale” the portfolio has improved, while provision for contingent liabilities doubled. The impairment reversal and provision usage was by HUF 0.9 billion lower than in the previous period.

Large debt sale

The Bank concluded a mass sale in November 2016 assigning the legal title of loan receivables and certain related other receivables and rights out of the non-performing retail portfolio. Based on the Large Debt Sale and Purchase Agreement (LSPA) recourse is not allowed, but a detailed and complex claim procedure is settled.

Due to the size of the transaction and the relatively short time frame to proceed, the risk of potential claims by the buyer could not be eliminated. The contractual claim procedure is similar in substance to warranties, so the Bank allocated a provision, conforming the liability cap prescribed in LSPA, of HUF 1.78 billion.

By the LSPA the Bank sold about 9,137 pieces of contract, in the gross amount of HUF 64.3 billion and net amount of HUF 18.5 billion.

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 2016:

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 2016 and as the basis of restrictions were HUF 275.910 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 3,526 million in 2016.

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, also taking into account the adjustment factors, the solvency ratio decreased from 10.30% in 2015 to 9.54%.

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 2016 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	31.12.2015	31.12.2016
Cash and cash equivalents	1	2,311	1,881
Government securities	2	15,215	18,880
Receivables from credit institutions	3	36,193	85,224
Receivables from customers	4	183,331	213,519
Debt securities	5	7,292	4,131
Shares and other variable-yield securities	6	-	-
Shares and interests held for investment purposes	7	-	857
Shares and interests in affiliated undertakings	8	-	-
Other receivables	12b,12/A,12/B	1,972	4,469
Accrued and deferred assets	13	1,318	1,402
Total		247,632	330,364

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

Data in million HUF

Description	Statement of financial position line	31.12.2015	31.12.2016
Liabilities to credit institutions	1	45,475	40,182
Liabilities to customers	2	210,636	467,843
Debt securities issued	3	-	487
Other liabilities	4	2,751	8,913
Accrued and deferred liabilities	5	2,720	3,544
Sundry provision	6	6,415	20,565
Subordinated liabilities	7	128,698	50,793
Total		396,689	592,327

II/3 Receivables from credit institutions and customers by remaining maturity (excluding receivables on demand) 31.12.2016

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	135,224	85,697	0	0	0	0	220,921
4.a) Receivables from customers arising from financial services	78,177	105,248	177,938	713,022	(106,916)	(1,560)	965,909

II/4 Liabilities to credit institutions and customers by remaining maturity (excluding demand deposit items) 31.12.2016

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	14,023	62,557	87,161	60,121	223,682
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	119,039	177,700	125	-	296,864
2.bc) Other liabilities to customers, with maturity over one year, arising from financial services	7,066	16,977	41,265	100	65,428
7) Subordinated liabilities (subordinated loan capital)	-	-	51,656	3,352	55,008

II/5 Receivables from the parent company and the subsidiaries 31.12.2016

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	2,374	220,921	-	223,295
of which	- from the parent company	1,960	24,764	-	26,724
	- from subsidiaries	-	7,000	-	7,000
4)	Receivables from customers	54,610	72,144	893,765	1,020,519
of which	- from the parent company	-	-	-	-
	- from subsidiaries	-	3,942	33,617	37,559
12b)	Other receivables	-	14,024	-	14,024
of which	- from the parent company	-	3,096	-	3,096
	- from subsidiaries	-	246	-	346
13)	Accrued and deferred assets	-	18,561	-	18,561
of which	- from the parent company	-	1,554	-	1,554
	- from subsidiaries	-	261	-	261

II/6 Liabilities to the parent company and the subsidiaries 31.12.2016

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	7,953	50,449	173,413	231,815
of which	- from the parent company	44	30,000	2,472	32,516
	- from subsidiaries	4,149	11,200	55,632	70,981
2)	Liabilities to customers	1,024,510	296,864	67,410	1,388,784
of which	- from the parent company	-	-	-	-
	- from subsidiaries	104,257	3,754	44	108,055
3)	Liabilities existing as a result of debt securities in issue	-	-	11,464	11,464
of which	- from the parent company	-	-	-	-
	- from subsidiaries	-	-	-	-
4)	Other liabilities	-	26,983	-	26,983
of which	- from the parent company	-	-	-	-
	- from subsidiaries	-	312	-	312
5)	Accrued and deferred liabilities	-	21,111	-	21,111
of which	- from the parent company	-	640	-	640
	- from subsidiaries	-	126	-	126
7)	Subordinated liabilities	-	-	55,008	55,008
of which	- from the parent company	-	-	50,793	50,793
	- from subsidiaries	-	-	-	-

II/7 Shares and interests held for investment purposes

Data in million HUF

Interests for investment purposes 31.12.2016

Description	In affiliated undertakings (subsidiaries)	In affiliated associates	In other non-affiliated undertakings	Total
Opening balance	56,846	-	778	57,624
Growth (+)*	4,000	-	1,302	5,302
Decrease (-)	6,832	-	-	6,832
Reclassification (+, -)	-	-	-	-
Closing balance	54,014	-	2,080	56,094
Impairment loss	2,994	-	309	3,303
Reversal of impairment loss	2,754	-	-	2,745
Carrying amount	53,765	-	1,771	55,536
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 01.01.2016	26,210	5,680	31,890
2 Growth (+)	7,896	314	8,210
3 Decrease (-)	548	202	750
4 Transfer (+, -)	-	-	-
5 Gross value on 31.12.2016 (1+2-3±4)	33,558	5,792	39,350
6 Accumulated depreciation on 01.01.2016	15,544	5,186	20,730
7 Increase of depreciation (+)	3,341	244	3,585
of which depreciation of the reviewed period	3,176	244	3,420
of which extraordinary depreciation in the reviewed period	165	-	165
8 Decrease of depreciation (-)	438	202	640
9 Change of depreciation due to transfer (+, -)	-	-	-
10 Accumulated depreciation on 31.12.2016 (6+7-8±9)	18,447	5,228	23,675
11 Net value on 31.12.2016 (5-10)	15,111	564	15,675
Statement of financial position line			9)

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	8,813	13,173	416	22,402
2 Growth (+)	797	1,538	139	2,474
3 Decrease (-)	40	286	37	363
4 Transfer (+, -)	-	-	-	-
5 Gross value on 31.12.2016 (1+2-3±4)	9,570	14,425	518	24,513
6 Accumulated depreciation on 01.01.2016	3,404	10,759	0	14,163
7 Increase of depreciation (+)	697	1,266	40	2,003
of which depreciation of the reviewed period	654	1,249	-	1,903
of which extraordinary depreciation in the reviewed period	43	17	40	100
8 Decrease of depreciation (-)	29	241	31	301
9 Change of depreciation due to transfer (+, -)	-	-	-	-
12 Accumulated depreciation on 31.12.2016 (6+7-8±9)	4,072	11,784	9	15,865
13 Net value on 31.12.2016 (5-12)	5,498	2,641	509	8,648
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 14 million net (HUF 331 million gross with amortisation of HUF 317 million) at the end of FY 2016 (FY 2016 amortisation 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 31.12.2016

Description	Data in million HUF		
	Carrying amount	Impairment loss	Book value
Purchased inventories	298	-	298
a Raw materials and consumables	292	-	292
b Goods	-	-	-
c Performance of subcontractors	-	-	-
d Other materials	6	-	6
e Advances and prepayments for inventories	-	-	-
Inventories received in exchange for receivables	750	223	527
a Properties	562	222	340
b Machinery and equipment, fixtures and fittings	-	-	-
c Vehicles	-	-	-
d Other assets	188	1	187
Total inventories	1,048	223	825
Statement of financial position line			12.a)

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

Data in million HUF

Contingent liabilities	31.12.2015	31.12.2015 of which: related	31.12.2016	31.12.2016 of which: related
	- undertaken guarantees and suretyship	28,299	10	23,870
- unused credit line	199,505	4,955	347,994	-
- lawsuits	53	-	192	-
- return guarantee	-	-	-	-
- liabilities arising from forward deal in securities	-	-	-	-
- import letters of credit	1,295	-	2,114	-
- export letters of credit	-	-	-	-
- other contingent liabilities	609	-	1,098	-
Total	229,761	4,965	375,268	-

Liabilities	31.12.2015	31.12.2015 of which: related	31.12.2016	31.12.2016 of which: related
	- futures	302	-	5,592
- forward	3,507	3,507	-	-
- delivery repo - passive	1,499	1,499	-	-
- spot	12,944	12,944	18,996	18,996
- margin	1,219	705	462,830	151,580
- FRA	-	-	-	-
- swap	583,340	457,525	680,490	574,326
- option	80,800	49,634	156,708	-
- interest rate swap (IRS)	816,337	389,110	873,491	506,636
Total	1,498,448	914,924	2,198,107	1,251,538

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 2015	In 2016	In 2015	In 2016	In 2015	In 2016
	- liabilities arising from foreign exchange futures	(289)	4	17	-	211
Total	(289)	4	17	-	211	-

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 2015	In 2016	In 2015	In 2016	In 2015	In 2016
	- spot	(6)	8	4	-	10
- margin	379	(207)	1,744	-	1,089	-
- options	-	1	1,044	648	986	691
- FRA	-	-	-	-	-	-
- swap	(1,507)	503	872	12,832	2,574	10,571
- forward	(266)	-	-	-	265	-
- IRS	1,454	5,840	6,791	13	15,761	177
Total	55	6,145	10,455	13,493	20,685	10,925

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

	Data in million HUF	
	31.12.2015	31.12.2016
Collaterals received		
- Cash collateral	32,543	9,573
- Bank guarantees and joint and several suretyship	1,381	1,056
- Guarantees from the central budget	96,808	91,246
- Guarantees from other public or state-owned bodies	9,042	9,764
- Securities – shares	910	2,255
- Securities – other securities	42,739	5,400
- Assignment of sales revenue	-	-
- Assignment of other receivables	43,246	7,088
- Lien registered on goods in stock	53,970	55,314
- Mortgages	1,436,223	1,392,766
- Other	1,156,176	555,315
- Suretyship	271,047	171,032
- Movable	237,111	280,426
- Other lien	604,697	90,377
- Other	43,051	13,480
Total collaterals and securities	2,873,037	2,129,777
Collaterals and securities (up to the value of the receivable)	732,720	663,845
Future receivables		
- delivery repo - active	2,995	9,809
- futures	13	5,600
- forward	3,241	-
- spot	12,938	19,004
- margin	1,598	462,416
- FRA	-	-
- swap	581,833	680,994
- option	80,799	156,710
- interest rate swap	791,816	857,816
- IRS	17,534	21,318
Total	1,492,766	2,213,667

II/17 Statement of interest and commission claims made pending

Description	Data in million HUF	
	Closing balance of claims made contingent	
	31.12.2015	31.12.2016
Deal interest, default interest, interest-type commissions	62,413	28,283
Financial service fees	85	31
Total	62,498	28,314

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 2015	In 2016
Deal interest, default interest, interest-type commissions	6,812	38,080
Financial service fees	8	59
Total	6,820	38,139

II/19 The portfolio of sundry provisions per type 31.12.2016

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	6,899	15,830	1,697	143	21,175
For litigations	43	86	18	-	111
Other provisions	1,869	1,854	928	-	2,795
Total	8,811	17,770	2,643	143	24,081
Provision created for deferred interest of housing loans with deferred payment	1,913	-	353	-	1,560
Total	10,724	17,700	2,996	143	25,641

* Recognised in the receivables from customers line

II/20 Changes of the portfolio of impairment losses by asset class 31.12.2016

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	58	-	-	-	-	-	1	59
Receivables from customers	208,053	103,364	58,403	44,961	83,571	62,332	(255)	106,856
Other receivables	293	65	38	27	27	-	(2)	291
Securities and interests	15,744	3,534	196	3,338	5,935	1,106	(58)	11,983
Inventories	459	19	-	19	-	256	1	223
Total	224,607	106,982	58,637	48,345	89,533	63,694	(313)	119,412

Material change in the balance of impairment on Receivables from customers is due to the 'Large debt sale' see in Note I/4 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	31.12.2015	31.12.2016
Accrued income	13a	16,212	16,377
- interest on placements		2,587	2,695
- interest on securities		8,846	9,387
- exchange rate margin of securities for investment purposes		5	-
- pro rata profit/loss of derivatives		1,028	1,835
- other income from commissions and fees		1,947	2,460
- rent		-	-
-other income		1,800	-
Accrued expenses	13b	2,519	2,184
- operating costs		456	784
- other accrued costs		1,855	1,378
- accrued losses relating to derivatives		207	22
Deferred expenses	13c	-	-
Total	13	18,731	18,561

II/22 Detailed statement of accrued and deferred liabilities

Data in million HUF

Description	Statement of financial position line	31.12.2015	31.12.2016
Deferred income	5a	18	336
- deferred income of derivatives		18	244
- deferred interest income		-	92
Deferred expenses	5b	15,038	16,949
-interest on deposits		3,428	1,324
•interest on subordinated loan capital		82	219
- interest on issued bonds		779	799
- exchange rate margin of securities for investment purposes		2,961	5,124
- deferred profit/loss of derivatives		325	611
- operating costs		7,382	-
- other deferred expenditure		81	8,872
Deferred income	5c	14	3,826
- other deferred income		14	3,826
Total	5	15,070	21,111

II/23 Changes in total equity

Data in million HUF

The items of total equity	31.12.2015	Growth (+)	Decrease (-)	31.12.2016
Subscribed capital	102,000	44,000	-	146,000
Capital reserve	83,493	33,999	-	117,492
- premium	83,493	33,999	-	117,492
- other	-	-	-	-
General reserve	-	3,526	-	3,562
Retained earnings	-	-	20,455	(20,445)
transfer of the profit or loss for the previous year according to the statement of financial position	-	-	20,455	(20,445)
Valuation reserve	(830)	1,775	-	945
valuation reserve of fair valuation	(830)	1,775	-	945
Profit or loss for the year according to the statement of financial position	(20,455)	52,193	-	31,738
Total	164,208	135,493	20,455	279,246

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 1,162.542 billion HUF, the reduced value with deductions according to Article 395 (1) of the CRR, undertaken by the Bank, was HUF 1,162.281 billion on the statement of financial position date (of this HUF 773.180 billion to the Central Bank of Hungary and the Government Debt Management Agency); the value adjusted by exceptions was HUF 124.381 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 2016 the Bank had no subordinated receivables among its assets, but there were subordinated – non-convertible – liabilities among liabilities to the amount of approximately HUF 55,008 million. Within this:
 - subordinated liabilities – securities amounted to HUF 4,215 million → (A)
 - subordinated and financial liabilities – loans were HUF 50,793 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 2016, 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	9,953	EUR3MT+198	2021
MM00000000136	68	21,149	EUR3MT+198	2021
MM00000006689	35	10,886	EUR3MT+250	2021
MM00000017633	28.312	8,805	EUR3MT+198	2021
Összesen	163.312	50,793		

- 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 2016 according to the applicable rules:
 - Contribution paid to the National Deposit Insurance Fund HUF 1,069 million
 - Contribution paid to the Investor Protection Fund HUF 4 million
 - Contribution paid to the Resolution Fund HUF 554 million
- In its books among own securities, the Bank showed at nominal value securities in value of HUF 605,224 million. The value of third-party securities was HUF 1,399,664 million.

- The Bank's own securities denominated in HUF, excluding business shares, on 31 December 2016:

	Data in million HUF
Portfolio of own securities denominated in	
At nominal value (dematerialised)	575,955
At nominal value (physical)	2,020
At book value	619,092
of this securities maturing within one year	47,959
Securities in the custody of KELER Rt	541,755
Stored with a third party (dematerialised)	34,200
In own custody (physical)	2,020
Portfolio of securities denominated in HUF, owned by third parties	
Portfolio of securities owned by third parties	1,147,451
of this in the custody of KELER	942,299
of this in own custody	203,881
of this stored with a third party	1,271

HUF 211,586 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 2016:

Data in million HUF

Portfolio of own securities denominated in foreign currencies

At nominal value	26,849
At book value	23,220
Of securities, in the custody of KELER Rt	26,849

- The Bank's securities denominated in foreign currencies and owned by third parties, on 31 December 2016 (expressed in HUF):

Data in million HUF

Customer securities in custody

At nominal value (dematerialised)	250,347
At nominal value (physical)	1,865

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

Data in million HUF

Recognised costs	2015	2016
Description		
Costs of raw materials	763	663
Value of contracted services	19,229	20,525
The value of other services	1,152	704
Wages and salaries	16,877	18,596
Staff costs	1,372	1,417
Contributions on wages and salaries	5,263	5,759
Depreciation	5,747	5,323
Total: Er: 8), 9)	50,403	52,987

Contracted services	2015	2016
Description		
Property rent	4,546	4,088
Hardware/Software rent	261	286
IT services	5,447	5,836
Advertising, promotion	1,892	2,311
Education	201	266
Telecommunications, data transmission and postal charges	1,946	1,769
Service fees related to the production of bank account statements	230	151
Audits, reviews, expert services	171	175
Travel and transportation	189	196
Experts' fees	1,349	1,657
Cash and valuables transportation, property protection	881	878
Expenses related to operation	1,981	2,315
Other	134	597
Total	19,229	20,525

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

	Data in million HUF	
Income	2015	2016
Description		
Income from mediated services	702	645
Other	1,091	1,149
Total: Er: 7a)	1,793	1,794

	Data in million HUF	
Expenses	2015	2016
Description		
Expenses of mediated services	795	602
Other	149	584
Total: Er: 10a)	944	1,186

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

	Data in million HUF	
Income	2015	2016
Description		
Commissions and fees relating to the management of client accounts	16,068	15,046
Foreign exchange commissions	2,328	2,292
Exchange rate gain on foreign exchange trade	8,993	1,352
Bank card commissions	11,786	11,820
Fees and commissions related to lending	1,876	2,430
Guarantee fees	244	199
Lease commissions	-	-
Pension fund commissions	7	5
Mortgage bank commissions	4	3
Exchange gain on fixed assets	4,546	12,331
Insurance and other brokerage commissions	12,452	14,070
Other	164	50
Exchange gain on revaluation	-	6,176
Income from Széchenyi Card fees	68	66
Total: Er: 4a), 6a)	58,535	65,840

Expenses	2015	2016
Description		
Commissions relating to account management	507	542
Foreign exchange commissions	1	1
Other commission-type banking charges	77	42
Costs of card production	342	627
Guarantee fees	1	-
Commissions relating to bank cards	1,780	1,929
Exchange rate loss on foreign exchange trade	7,127	4,916
Expenses related to lending	1,148	1,073
Brokerage commissions and charges payable to the post	1,398	889
Exchange rate loss on fixed assets	8,466	17,919
Other	2,321	2,723
Exchange rate loss on valuation	770	252
Total: Er: 5a), 6b)	23,938	30,913

III/4 Income and expenses of investment services

Data in million HUF

Income	2015	2016
Description		
Commercial activity	220	2,585
Exchange rate profit on issued bonds	8	-
Income from account management	1,521	1,537
Exchange rate gain on futures/forward deals	93,505	58,710
Fair valuation income of derivatives	46,528	36,688
Exchange rate gain on the fair valuation of securities held for trading	-	629
Income from option fees and premiums	1,809	1,847
Other activities	202	323
Total: Er: 4b, 6c)	143,793	102,319
Expenses	2015	2016
Description		
Commercial activity	669	2,909
Commission agent activities	350	562
Exchange rate loss on issued bonds	16	2
Custodian, safekeeping and portfolio management activities	188	217
Exchange rate loss on futures/forward deals	84,475	64,983
Fair valuation expenses of derivatives	58,475	32,149
Exchange rate loss on the fair valuation of securities held for trading	426	-
Expenses of option prices and premiums	1,574	1,468
Other activities	306	281
Total: Er: 5b, 6d)	146,254	102,571

III/5 Recognised items of other operating income and expenses

	Data in million HUF	
Other income	2015	2016
Income relating to the sale of fixed assets	18,482	15,945
Income from selling own receivables and write-offs	5,604	35,244
Reversal of the impairment loss of inventories	2,131	237
Use and release of provisions	94,604	4
Use and release of other provisions	-	928
Deferred income of interest rate swaps connected to credit activity (HIRS)**	-	1,657
Other income	3,520	3,478
Subtotal	124,341	57,493
Previous years' corporate income tax income*	161	-
Income related to derecognised loans to customers (fx settlement related)	3,280	-
Value of assets received without consiredation*	-	1
Subtotal*	3,446	1
Total: Er: 7b)	127,787	57,494

*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 2016 240 million forint 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 2016 1,417 million forint is presented as deferred income related to HIRS.

	Data in million HUF	
Other expenditure	2015	2016
Expenditure relating to the sale of fixed assets and inventories	20,421	15,936
Expenditure relating to selling own receivables and write-offs	12,874	33,619
Impairment loss of inventories	212	-
Expenditure of allocating provisions	1,672	97
Allocation of other provisions	-	1,855
Taxes, duties and contributions	30,731	16,779
Other expenditure	2,971	3,474
Subtotal	68,882	71,760
Previous years' corporate income tax expense*	11	-
Non-recurring expenses due to FX settlements*	109,763	217
Write-off of receivables*	13,628	20,830
Value of assets transferred without consiredation*	4	-
Subtotal*	123,406	21,047
Total: Er: 10b)	192,288	92,807

*Prior extraordinary items

**Also see part I/3, page 18

III/6 Geographical breakdown of income

93.01% of income are interior, 6.93% are with partners from other EU members.

Data in million HUF

Income	Domestic	EU other	Outside EU	Total
Interest and similar income received	76,935	695	27	77,657
Income from securities	3,862	-	-	3,862
Fee and comission income received (due)	47,143	231	144	47,518
Income of other financial services	15,843	4,016	-	19,859
Income of investment services (the income of trading activities)	70,940	29,762	81	100,783
Other income of business services	57,492	2	-	57,494
Total	272,215	34,706	252	307,173

IV/1 Erste Bank Hungary Zrt.'s interests ensuring a direct majority and a qualifying holding 31.12.2016

Direct majority interest in undertakings

Company name	The Bank's ownership ratio in %	Subscribed capital on 31.12.2015, HUF million	Subscribed capital on 31.12.2016, HUF million	Total equity on 31.12.2015, HUF million	Total equity on 31.12.2016, HUF million	Registered office of the company	The company's internet address
Erste Jelzálogbank Zrt.	100,00	3,000	3,000	3,900	3,616	1138 Budapest, Népfürdő u. 24-26	none
Erste Befektetési Zrt.	100.00	2,000	2,000	8,451	10,907	1138 Budapest, Népfürdő u. 24-26.	http://www.erstebroker.hu
Erste Lakástakarék Zrt.	100.00	2,015	2,025	3,450	5,733	1138 Budapest, Népfürdő u. 24-26.	http://www.erstebank.hu/hu/lakastakarekpenztar.html
Erste Ingatlan Kft.	100.00	210	210	39,698	40,991	1138 Budapest, Népfürdő u. 24-26.	http://www.ersteingatlan.hu/
Erste Lakáslízing Zrt.	100.00	53	53	218	223	1138 Budapest, Népfürdő u. 24-26.	none

Indirect majority interest in undertakings

Company name	The Bank's ownership ratio in %	Subscribed capital on 31.12.2015, HUF million	Subscribed capital on 31.12.2016, HUF million	Total equity on 31.12.2015, HUF million	Total equity on 31.12.2016, HUF million	Registered office of the company	The company's internet address
Sió Ingatlan Invest Kft.	100.00	13	13	3,284	3,283	1138 Budapest, Népfürdő u. 24-26.	none
Erste IN_FORG Kft.	100.00	5	5	416	483	1138 Budapest, Népfürdő u. 24-26.	none
Collat-real Kft.	100.00	3	3	6,391	6,367	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	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
- futures	17	-	211	-	(289)	4
- forward	-	-	265	-	(266)	-
- spot	4	-	10	-	(6)	8
- margin	1,744	-	1,089	-	379	(207)
- FRA	-	-	-	-	-	-
- swap	872	12,832	2,574	10,057	(1,507)	503
- option	1,044	648	986	691	-	1
- IRS	6,791	13	15,761	177	1,454	5,840
Total	10,472	13,493	20,896	10,925	(235)	6,149

Data in million HUF

Securities for trading purposes	Carrying amount		Fair value		Valuation difference		Recognition of valuation	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Government bonds	25,770	98,404	25,430	98,655	(339)	251	Profit/loss	Profit/loss
Discounted treasury bills	26,250	10,873	26,244	10,905	(6)	31	Profit/loss	Profit/loss
Central-bank bond	-	-	-	-	-	-	Profit/loss	Profit/loss
Total government securities:	52,020	109,277	51,675	109,560	(345)	282		
Debt securities	-	200	-	202	-	2	Profit/loss	Profit/loss
Grand total:	52,020	109,477	51,675	109,762	(345)	284		

Data in million HUF

Securities available for sale	Carrying amount		Fair value		Valuation difference		Recognition of valuation	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Investment unit	-	-	-	-	-	-	-	-
Government bonds	51,929	108,688	52,044	109,754	115	1,066	Valuation reserve	Valuation reserve
Discounted treasury bills	5,689	-	5,704	-	15	-	Valuation reserve	Valuation reserve
Central-bank bond	-	-	-	-	-	-	Valuation reserve	Valuation reserve
Other bonds	33,118	28,577	33,118	28,700	-	121	Valuation reserve	Valuation reserve
Total	90,736	137,265	90,866	138,454	130	1,187		

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)	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Registered shares	1	1	102,000,000,000	146,000,000,000	102,000	146,000

The Bank's share capital is HUF 146,000,000,000 (one hundred and two billion forints), consisting exclusively of cash contributions, that is, 146,000,000,000 (one hundred and two 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 31.12.2015

Employees by groups	Average statistical headcount (2015)	Average statistical headcount (2016)	Wages and salaries (HUF million) (2015)	Wages and salaries (HUF million) (2016)
Full-time				
- white-collar	2,674	2,632	16,454	18,037
- blue-collar	-	-	-	-
Total	2,674	2,632	16,454	18,037
Part-time				
- white-collar	89	99	255	399
- blue-collar	-	-	-	-
Total	89	99	255	399
Pensioners				
- white-collar	1	1	2	3
- blue-collar	-	-	-	-
Total	1	1	2	3
Grand total	2,764	2,732	16,711	18,439

Other wages and salaries for employees not on the payroll: HUF 157 million.

IV/6 Other employee benefits

Data in million HUF	31.12.2015	31.12.2016
Cafeteria vouchers, certificates, season tickets	386	400
Sick pay	168	162
Payments into health insurance funds	116	100
Pension fund contributions	91	94
Cafeteria benefits - Housing supports	86	98
Use of own cars, travel allowances	59	57
Daily allowances	52	46
Entertainment costs	31	52
Education, catering	20	26
In-kind benefits	18	-
Other unspecified benefits	345	382
Total other employee benefits (8ab)	1,372	1,417

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	705
Supervisory Board	8	23
Total	18	728

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 31.12.2016

Description	Data in million HUF		
	Contractual amount	Outstanding debt	Conditions of the loan
Total amount of loans granted	43	30	According to the general terms and conditions of the loans provided to employees.
Total	43	30	

IV/9 Cash flow statement

Data in million HUF

Line No.	Description	2015	2016
1	Interest income	89,105	77,657
2	+ Income from other financial services (excluding the reversal of the impairment loss of securities and the positive valuation difference of receivables)	58,535	65,840
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)	29,263	54,535
4	+ Income from investment services (excluding the reversal of the impairment loss of securities and the positive valuation difference)	98,324	65,782
5	+ Income of services other than financial or investment services	1,793	1,794
6	+ Dividend income	1,855	3,862
7	- Interest expenses	(28,717)	(15,137)
8	- Expenses of other financial services (excluding the impairment loss of securities and the negative valuation difference of receivables)	(17,580)	(35,127)
9	- Other expenses (excluding the accumulation of provisions, impairment loss of inventories and unplanned write-offs)	(225,899)	(152,079)
10	- Expenses of investment services (excluding the impairment loss of securities and the negative valuation difference)	(90,261)	(74,878)
11	- Expenses on services other than financial or investment services	(944)	(1,186)
12	- General administration costs	(44,656)	(47,664)
13	- Corporate income tax liabilities for the year under review	(5)	(5,640)
14	- Dividend payment liabilities	-	-
15	Operating cash flow (lines 01-16)	(129,187)	(62,241)
16	± Changes in liabilities (+ if increased, - if decreased)	46,186	29,039
17	± Changes in receivables (- if increased, + if decreased)	317,405	115,280
18	± Changes in inventories (- if increased, + if decreased)	2,997	621
19	± Changes in securities reported in current assets (- if increased, + if decreased)	(165,901)	(52,915)
20	± Changes in securities reported among fixed assets (- if increased, + if decreased)	(5,253)	(177,097)
21	± Changes in investments (including advances) (- if increased, + if decreased)	69	(93)
22	± Changes in intangible assets (- if increased, + if decreased)	440	(4,515)
23	± Changes in property and equipment (excluding investments and payments made on account) (- if increased, + if decreased)	(5,373)	(5,639)
24	± Changes in accrued and deferred assets (- if increased, + if decreased)	1,280	170
25	± Changes in accrued and deferred liabilities (+ if increased, - if decreased)	513	6,041
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)	63,176	(73,350)
33	- changes in cash (HUF and foreign currency in cash, checks)	(1,829)	1,755
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)	65,005	(75,105)

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	31.12.2015	31.12.2016
7 (1) a	Accrued loss		18,142
7 (1) b	Use of provisions	1,127	379
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)	5,030	5,808
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	1,824	28
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		
	Use of provision of FX settlements	93,149	
7 (1) n	Uncollectable receivables	93	14
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		
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		
	Total	101,224	25,206

		Data in million HUF	
8	Items increasing the tax base	31.12.2015	31.12.2016
8 (1) a	Expenses recognised as a result of a provision (for expected liabilities, future costs)	1,046	2,056
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)	390	141
8 (1) b	Depreciation (planned, extraordinary, derecognition)	5,951	5,323
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	31	44
8 (1) o	Conversion difference		
8 (1) e	Fines, tax penalties	6	198
	FX settlements	60,187	
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)	15	318
	Other		
	Total	67,625	8,080

		Data in million HUF	
Tax calculation		31.12.2015	31.12.2016
Pre-tax result		(20,450)	40,904
Credit institution tax		-	5,635
Total tax base adjustments		(33,599)	(17,126)
Corporate income tax base (pursuant to the general rules)		(54,048)	18,142
Tax base according to the minimum income (profit)		8,421	7,959
Amount of corporate income tax		-	-
Corporate income tax (10%/16%)		-	3,402
Tax refund related to FX settlements (-)		-	3,402
Tax allowances (Sections 21-23)			
Tax paid abroad that can be set off		5	4
Payable corporate income tax		0	0

IV/11 Data of the persons entitled to represent Erste Bank Hungary Zrt. and obliged to sign the annual report 31.12.2016

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

Responsibée 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

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 provides a 90 day post-migration period for the parties in order to calculate and finalise the purchase price. The end of this period falls after the issuance data of the financial statement of the business year 2016.

Curia decision

By the decision of the Hungarian Competition Authority of 19 November 2013 11 leading Hungarian banks were fined for harmonised activities in setting their practices in the case of the "Endpayment" scheme (details of the scheme see in point C) 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 niled and new procedure is ordered. Conforming to the decision the Bank allocated legal provision in 2017, in the amount of the original fine of 1.7 billion HUF.

Date: Budapest, 7 April 2017


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


.....
Ivan Vondra
Chief Financial Officer



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Business Report

for

the Financial Statement of Erste Bank Hungary Zrt.
Concerning Year 2016

Budapest, 7 April 2017

Company registration number:
Budapest Metropolitan Court
01-10-041054

The Financial Statement and Business Report for 2016 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 2.0 per cent in the first three quarters of 2016, compared to the 3.1 per cent increase in the previous year. Growth in Q3 means an increase of 2.2 per cent in performance as compared with the same period of the previous year, which is due primarily to the contribution of market services and agriculture. Till the third quarter of 2016 the performance of agriculture became 21 per cent higher, while the performance of construction decreased by 12 per cent. As regards year 2016 as a whole, based on preliminary calculations the performance of the economy grew by 2.0 per cent.

With regards to internal consumption, positive trend continued in 2016: in the 3rd quarter of 2016 retail consumption increased by 3.8 per cent, which is considered as a significant growth. The volume of investments in the national economy was 9.3 per cent lower in the 3rd quarter of 2016 than in the same period of the previous year. The volume of investments changed differently in the case of enterprises and budgetary units and entities: it increased among enterprises (+3.3 per cent), while it was down by 57 per cent in the case of budgetary units and entities – due to the lower volume of developments financed from EU funds – compared to one year earlier. In the first three quarters of 2016, investment fell by 14 per cent compared to the previous year.

By the 3rd quarter of 2016, the total foreign trade export volume of the country grew by 4.6 per cent as compared with the same period of year 2015. Both exports of goods and services slowed down in the third quarter compared to the first half of the year. Unemployment rate is moving on a decreasing path and has been steadily below 10 per cent since the second half of 2013: in the period between October and December 2016 unemployment fell by 1.7 percentage points to 4.4 per cent, mostly as a result of the government's public works programmes.

In December 2016, consumer prices were 1.8% higher on average than a year earlier. The highest price rises in this period were measured for other goods including motor fuels as well as for alcoholic beverages and tobacco out of the main groups of consumption. In 2016 as a whole, consumer prices rose by 0.4 per cent on average compared to the previous year. The highest price rise was recorded for alcoholic beverages and tobacco and for services, while consumers paid significantly less for other goods.

The interest rate cutting cycle of the National Bank of Hungary has continued in March 2016, as a result, after a three-month decrease of 15 percentage points, in May 2016 the central bank decreased the benchmark rate to a historically low level of 0.9 per cent, while pushed interbank rates even much below, to 0.37 per cent.

Tight labor market conditions, coupled with increases in real wages, suggest that household consumption is likely to be the main driver of economic growth in 2017. In addition, investments should somewhat rebound, and 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 fragile recovery of the euro area as well as risks related to Brexit and the presidency of Trump in the US may pose risks to trade developments.

In 2016, retail loan portfolio, as a balance of disbursements and repayments, have not changed 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 2016, consumer loan conditions softened, while housing loan conditions remained unchanged except for Q2. In 2016, total corporate loan volume increased in a pace unexperienced since the crisis. Loan portfolio growth was driven by volume growth of HUF loans. Beside HUF loans of the Funding for Growth Scheme, market based HUF lending also significantly increased. SME segment lending growth was realized with increasing demand and easing loan supply constraints. Banks fulfilled 150% of Market based Lending Scheme (MLS) commitments made in the beginning of 2016, out of which 15 banks substantially overachieved. 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 Hungarian banking sector realized record profit in 2016, mainly due to risk provision releases after loan portfolio improvement and gains on Visa-share sale. In addition to the positive one-off items, the interest rate environment is getting worse for the banks, negatively impacting operating income generating capability. Therefore, it is unlikely to repeat the result of 2016 next year.

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 settlement and FX-conversions of remaining foreign currency household loans, and 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 and the termination of the exchange rate cap scheme have a positive impact.

Among government measures, the National Asset Management Company set up in 2011 in the scope of the Home Protection Action Plan in order to help foreign currency mortgage borrowers should also be mentioned. The company completed about 28,000 sales transactions during 2012-2015. Its target to purchase 25,000 real estates by 2015 has been extended to 35,000 by the end of 2017, but further extension is probable. Additional government measure was the introduction of personal bankruptcy, which presents an ordered option for restructuring with tight conditions for debtors.

In the changing market environment Erste Bank Hungary focuses on the growth potentials, and unlike some of its competitors – which chose to exit or significantly limit their operation – plans to remain in a significant player both in retail and corporate segments in Hungary. In February 2015, together with the Hungarian Government and EBRD, the bank signed the Memorandum of Understanding, based on what in August 2016 Corvinus Nemzetközi Befektetési Zrt. (representing the Hungarian State) and EBRD acquired minority stakes of 15 per cent each in Erste Bank Hungary Zrt.. In line with the Memorandum of Understanding, the Hungarian Government reduced Hungary's banking tax in two phases, from which the entire Hungarian banking sector will benefit. Additionally 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. In 2015 the Bank established its new mortgage bank, Erste Jelzálogbank Zrt and as an important milestone in the first half of 2016 the mortgage bank was granted all licenses necessary to its operation and in 2016 two bond issuance programs already occurred. Furthermore, the Bank has acquired a minority shareholding of 2.3% in the Budapest Stock Exchange (BSE) from ING Bank and launched a new MobilBank application for iOS and Android devices. In Q3 2016 the Bank sold a substantial part of its non-performing retail mortgage loan portfolio to a debt collection agency, and thus decreasing both the retail and total NPL ratio to single digit.

The strategic goal of Erste Bank Hungary Zrt. is to continue its operation as an important 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. Erste Lakástakarék Zrt, (Building Society) after 4 years of deposit collection, in January 2016 started its loan disbursement operation and could become a significant pillar of new loan disbursement in the following years.

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

The Bank's form of operation did not change during the business year of 2016. 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.

In June 20, 2016 Corvinus Nemzetközi Befektetési Zrt. (representing the Hungarian State) and the European Bank for Reconstruction and Development (EBRD) signed the contractual framework with Erste Group Bank AG to acquire minority equity stakes of 15 per cent each in Erste Bank Hungary Zrt. After the regulatory approvals regarding the transaction and completion of other conditions of the contracts, the transfer of ownership occurred in August 11, 2016.

The new 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%

As part of the agreement, both EBRD and Corvinus Zrt. delegated one member to the Supervisory Board and one non-executive member to the Board of Directors of Erste Bank Hungary.

Other changes

New regulation of the National Bank of Hungary requires minimum 15% mortgage bond funding in the net retail loan portfolio from October 2016 which has provided opportunity for Erste Bank Hungary to establish an own mortgage bank on 2015. In the first half of 2016 the mortgage bank was granted all licenses necessary to its operation and in 2016 two bond issuance programs already occurred.

Additionally the Bank has acquired a minority shareholding of 2.3% in the Budapest Stock Exchange (BSE) from ING Bank. Róbert Cselovszki, CEO of Erste Investment was appointed as a member of the Board of Directors of BSE.

PRODUCT RANGE, COOPERATION AGREEMENTS, STRATEGIC ALLIANCES

After mainly refinancing market growth of 2015, 2016 saw a further boom in the property market and consequently in the mortgage market, as a result of housing market stimulus measures. These measures can be classified as: CSOK, low interest rate environment, as well as real estate investments. We assume that the above mentioned measures will create a preferential environment for mortgages in the future as well.

Potential mortgage customers are - as a result of past experiences - more thoughtful, more interested in carrying less risk, also in predictable, long-term fixed-rates. According to the latest statistics of the MNB, more than 50% of mortgage loans' interest period is now long (minimum 5 years) in the current market.

In order to serve the wide-range consumer needs and respond to the falling base rate, as well as adapting the demand for long interest period loans, after the introduction of five-year interest period mortgage product in March 2015, in February 2016 Erste introduced ten-year interest period loan in the market.

Besides the above mentioned, in 2016. November the Bank has launched a niche product: building society bridge loan. The offer brings an alternative for the consumers: instead of waiting until the saving expires, the realization of their dream-home can be reached immediately with building society bridge loan. The instalments can be determined for 22 years in advance.

The Bank's share in the retail lending market showed a rising trend throughout the year, as regards housing mortgage loans as well as home equity loans.

As of 1 July 2015, Erste Bank was amongst the first to launch the application for the new type of state subsidies (CSOK), the introduction of which was supported by a wide marketing campaign in the home building topic (ersteotthon.hu).

In 2016 the product "market interest rate housing loan with preliminary evaluation" for the purchase of new and used apartments is still available, providing an opportunity for customers to file their loan requests already before the apartment has been chosen and the sales contract concluded, and get an offer from the Bank on the basis of their certified incomes and creditworthiness. Due to their preliminary evaluation certificates, customers are able to exactly assess the loan amount they are entitled to, and may start searching for an apartment accordingly.

After the introduction of CSOK - state subsidies – in 2015 July, the product played an important role in generating new volume in 2016.

The preferential package developed for public servants at the end of 2015 is still available at Erste Bank. Our Bank still considers public sector employees as a long term important strategic segment.

In view for increasing its credit portfolio, the Bank is present in the consumer lending market with a continuous DM campaigns, branch and contact center activity.

Erste Bank serves customer needs for retail loan products with a full product range and wide scale solutions.

During 2016 the Bank continued the technical and business preparation for the takeover of the retail portfolio of Citibank.

At the end of 2016, for our retail customers, the renewed 'Erste EgySzámlla' Account Package was introduced, which is supposed to address customers who get their salaries transferred to the Bank, and use their accounts, debit cards in an active manner. The new type of General Retail Banking Services Agreement provides better conditions to our customers, just like having the option to keep limitless number of bank accounts for one monthly customer relations fee, and to attach bankcards to any of their accounts.

Based on legal provisions the Bank introduced new account types in the 4th quarter of 2016 under the name of 'Erste Alapszámla' and 'Erste Megélhetési and Erste Adósságrendezési' accounts.

Due to the continuous MNB base rate cuts in the first half of 2016, the portfolio and the level of interest rates of sight and term deposits have been re-evaluated. In addition the Bank kept continuous NetBank activation campaign of 'CélBetét' Saving Account which product provides flexible and customizable options for customers with regular savings.

The range of account products sold to micro-enterprises is still adjusted to the demands of customers. For start-up enterprises, the Erste 'Induló' Account Package, and for already operating customers with an actual account turnover the 'Válogatás Plusz' Account Package is offered. The 'Válogatás Plusz' Account Package offers a wide range of services to customers, and each customer can select the two discounts most appealing to them from the account management and transaction discounts offered in the Announcement.

Increase in micro segment was mainly driven by a newly marketed, turnover based overdraft product that was offered without collateral requirements. Offers are provided for already existing customers with positive track record as part of a semi-automated process.

Exceptional priority was given for the set up and launch of financing for the agricultural sector. As part of the strategy, the Bank focused on overdraft facilities, provided for the agricultural segment further to the already existing working capital and subsidy pre-financing. All products mentioned are provided without collateral, relating product parameters have been developed solely and directly for this segment, in addition to the newly developed investment loans.

Condominium financing was also among the main focuses with a brand new loan type provided with the purpose of condominium development.

Erste Bank continued the intensive sales of Széchenyi Card Overdraft Facilities in 2016 as well in addition to the moderate demand arised for the Funding for Growth Scheme loans.

In addition to the specifically structured loan products, Erste Bank also offered its own financing products to its customers. To mention only the classic products: loans promoting the increase of liquidity, development and investment loans, general purpose loans, bank guarantees.

We provide all-inclusive financing service to companies and municipalities managed under the corporate business line. In the scope of this, the Bank provides HUF and foreign currency loans from its own resources or in the form of refinancing further to account keeping issues credit cards and bank guarantees, opens letters of credit, and provides leasing financing and factoring services to its partners. We participate in project finance as well as in syndicated loans.

Predominant were among financing products in year 2016 the HUF loans refinanced under the MNB's Funding for Growth Scheme and the foreign currency loans refinanced by the EXIM, enabled the Bank to provide financing in both HUF and foreign currencies to its partners at costs more favourable than in the case of loans disbursed from own funds. Both refi-

nancing programmes were extended also to financial leasing funding and factoring. Further to the refinanced facilities we have launched Erste Growth Programme, in which we offer reasonable financing based on fixed rates offered from own sources.

Another characteristic element of the product structure was the loans provided against the guarantees of Garantiqa Zrt. and the Rural Credit Guarantee Foundation also in year 2016, which enable the Bank to expand the range of our financed customers via risk sharing with institutional guarantors.

In the corporate lending business the customer driven approach to lending and increasing the level of system support are key aspects that contribute to the achievement of the increasingly high level of customer service. Loan processes have been continuously developed considering risk management aspects.

MAIN RESOURCES AND RISKS, AND THE RELATED CHANGES AND UNCERTAINTIES

Asset-liability management (interest rate risk management)

The Bank 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 organisational units involved in interest rate risk management: (1) Asset-Liability Management Directorate (ALM), which prepares decisions and supports the activities of ALCO, (2) Treasury Directorate, 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 the variation of the interest rate risk exposures of the banking book. 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 policy;
- to determine if the Bank has enough capital to undertake the respective interest rate risk;
- to make decisions relating 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-statement of financial position and off-statement of financial position 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 (FX Adequacy Ratio, Deposit and Statement of Financial Position Sheet Coverage Ratios) 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 slightly shrank but the net loan portfolio increased due to decreasing risk provision. The volume of retail loans dropped in 2016, while the corporate loan portfolio increased. The volume of client deposits grew significantly in 2016, mainly due to increasing FX deposits from financial funds. The retail deposit portfolio slightly grew during the year, caused by the increase of sight deposits. The level of deposits from non-financial corporations decreased. The flow of liquidity from term deposits to sight deposits was observable in all client segments, as well as flow from HUF to FX deposits in the case of corporate accounts.

Due to the conversion of FX retail loans and to the diminishing loan-to-deposit ratio, the external financing need of the Bank decreased significantly in the last two years. The Bank executed a HUF 78bn capital increase and prepaid EUR 248m subordinated deposits in the third quarter of 2016. These actions further diminished the FX financing of the Bank.

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	-153 637	-86 265	-161 713	-41 324	40 535	374 627
EUR	-3 848	150 727	55 655	-66 060	-34 445	-120 885
CHF	-16 444	5 615	- 151	-444	61	11 682
USD	2 057	3 822	952	-6 582	10 365	-10 058
Other	-171 871	73 899	-105 258	-114 410	16 515	255 367
Total	-153 637	-86 265	-161 713	-41 324	40 535	374 627

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 suggested 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, +100 basis point assumed change in interest rates, compared to the net interest income calculated with an unchanged interest rate scenario.

Table No. 2

	2015.12.31	2016.12.31
Sensitivity of the total equity	7.42%	6.76%
Sensitivity of the net interest income, simulated for 12 months	4.88%	7.16%

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 2016, the portfolios denominated in HUF had a positive repricing gap, except for the 3-year repricing portfolio. 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 corporate 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.

Table No.3

Data in millions of HUF

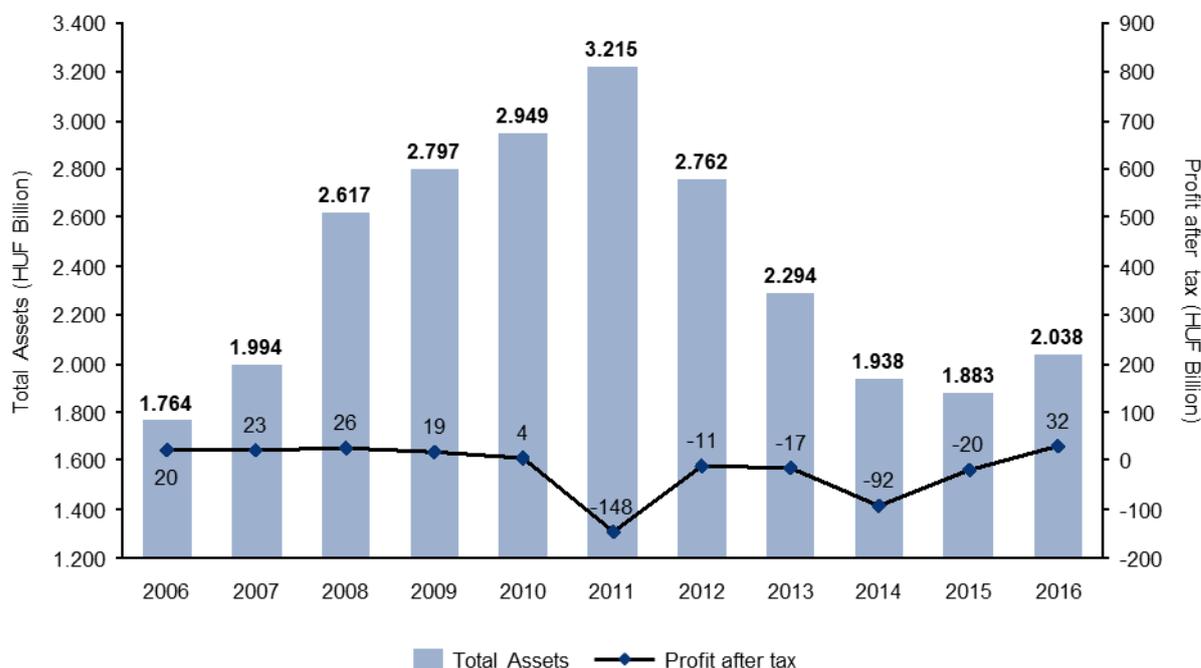
Currency	1 year	2 years	3 years	4 years	5 years	> 5 years
CHF	20 609	2	5	34	80	0
HUF	438 075	105 921	-59 029	76 326	144 675	167 355
EUR	307 173	-5 838	8 293	-399	-3 089	-4 618
USD	17 625	0	0	0	0	0

*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 result for the period turned positive again in 2016 – highly beating 2015 YE result. Though revenues grew by 7% on annual basis, the key factors were 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 2.038 billion by the YE, which corresponds to a 8,3% year-on-year growth. The Bank reported a HUF 31,7 billion Net result for the period.

The structure of the Bank's asset portfolio shows a significant change at the end of 2016 compared to the preceding years. The portfolio of government securities, (especially government securities held as investments) grew approximately by HUF 242 billion and their share within the balance sheet total also increased.

At the same time Loans to credit institutions declined together with their share within Total assets (11% vs 14% in 2015). Placements with the National Bank of Hungary (MNB) decreased considerably (by HUF 86.7 billion), mainly as a result of diminishing interest rate environment and limited amount of excess liquidity, that is allowed to be placed in 3M deposits.

Changes in the main asset categories 2014-2016:

(data in mm HUF)	2014	2015	2016	Change %		Proportion %		
				2015/ 2014	2016/ 2015	2014	2015	2016
Securities	229 532	372 924	614 691	62.5%	64.8%	11.8%	19.8%	30.2%
Loans to credit institutions	341 112	270 319	223 295	-20.8%	-17.4%	17.6%	14.4%	11.0%
Loans to customers	1 192 569	988 292	1 020 724	-17.1%	3.3%	61.5%	52.5%	50.1%
Cash reserve	34 294	97 470	24 120	>100%	-75.3%	1.8%	5.2%	1.2%
Other (non interest-bearing) assets	140 701	154 070	155 662	9.5%	1.0%	7.3%	8.2%	7.6%
Total Assets	1 938 208	1 883 075	2 038 492	-2.8%	8.3%	100.0%	100.0%	100.0%

The net volume of Loans to customers increased – after subdued loan demand during the past years - mainly as a result of growing new disbursements. Out of the total HUF 32 billion increase, HUF 46 billion loans were maturing within one year, while loans maturing over one year were down by HUF 14 billion. Though the contribution by the different Business Lines varies, i.e. Retail portfolio declined by 10% due to the high level of mortgage early- and final repayments and the NPL (non-performing loans) wind-down, while Corporate volumes could grow substantially above the market by 30%.

The high level of Cash and cash equivalents (HUF 97.5 billion in 2015) diminished to HUF 24.1 billion in 2016, and their share within the balance sheet total also decreased.

There were no major changes in the share of non-interest-bearing assets.

Changes in the main liability categories, 2014-2016:

(data in mn HUF)	2014	2015	2016	Change %		Proportion %		
				2015/ 2014	2016/ 2015	2014	2015	2016
Amounts owed to credit institutions	237 912	290 768	231 815	22.2%	-20%	12%	15%	11%
Amounts owed to customers	1 227 407	1 221 560	1 388 784	-0.5%	14%	63%	65%	68%
Equity	183 250	164 208	279 246	-10.4%	70%	9%	9%	14%
Other liabilities + subordinated capital	289 639	206 539	138 647	-28.7%	-33%	15%	11%	7%
Total Liabilities	1 938 208	1 883 075	2 038 492	-3%	8%	100%	100%	100%

The portfolio structure within liability side is roughly the same as last year. Deposits from credit institutions decreased by HUF 59 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 down from 15% to 11%.

Customer deposits gained significantly by HUF 167 billion in 2016, and their share within the total balance sheet increased from 65% in 2015 to 68%. The dynamic increase is coupled with structural changes; i.e. the significant decrease of term deposits by HUF 238 billion could be compensated by the HUF 410 billion increase of demand deposits. The Bank has a 6,15% market share regarding retail deposits, which corresponds to a 14 bps drop compared to last year. While market share of sight deposits increased by 29 bps, term deposits decreased by 109 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, at the same time Other + subordinated debt liabilities decreased significantly by HUF 68 billion due to subordinated debt repayment.

Changes in the main Profit & Loss elements, 2014-2016:

(data in mn HUF)	2014	2015	2016	Change %		
				2014/2013	2015/2014	2016/2015
Net interest income	79 675	60 388	62 520	21.8%	-24.2%	3.5%
Fee income	38 019	38 394	38 802	52.5%	1.0%	1.1%
Dividend	2 033	1 855	3 862	-26.2%	-8.8%	>100%
Trading	4 081	-6 258	-4 126	-82.6%	<-100%	34.1%
Operating income	123 808	94 379	101 058	6.3%	-23.8%	7.1%
Operating expenses	48 570	50 403	52 987	1.6%	3.8%	5.1%
Operating result	75 238	43 976	48 071	9.5%	-41.6%	9.3%
Other operating result	-139 055	55 459	-35 313	-73.7%	139.9%	<-100%
Risk provision for loans and off-balance	-14 727	75	-28 146	-433.9%	>100%	<-100%
Pre-tax result	-92 353	-20 450	39 577	<-100%	77.9%	>100%
Result after tax	-92 353	-20 455	35 264	<-100%	77.9%	>100%
Net result for the period	-92 353	-20 455	31 738	<-100%	77.9%	>100%

The Bank's Operating income and expenses increased compared to the previous year, resulting in a HUF 31.7 billion Net result for the period at the end of 2016.

Regarding the elements of Operating income, Net interest income was up by 3,5% (HUF 2.1 billion) compared to previous year mainly due to subordinated debt repayment.

The decrease of interests received by HUF 11.4 billion was overcompensated by the decrease of interests paid by HUF 13.5 billion (-47%).

The decline of interests received was caused by the decreasing yield environment and the (FX settlement related) substantial drop in Retail customer loans. Furthermore moderate interest received after placements with the National Bank of Hungary (MNB) was offset by higher interest income earned on securities.

The HUF 13.5 billion improvement on interest expenses is caused by the diminishing interests paid on 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.

The Net fee and commission income of the Bank is by only HUF 408 million (+1,1%) higher than as of December 2015. The growth induced by the increase in distribution fees was partially counterbalanced by the lower payment- and card transaction fee income.

Realised gains from securities transactions are up by HUF 2 billion compared to 2015 YE thanks to shares sales, represented a HUF 3,8 billion income.

Net trading income increased by HUF 2.1 billion as compared to the previous year mainly due to the realized FX gain on derivatives.

Operating expenses amounted to HUF 52.9 billion in 2016 and by 5.1% higher than in the previous year. Higher Operating expenses are partly caused by the increase in Personnel related expenses in line with slightly higher wages and salaries. IT expenses also increased in relation to IT maintenance and support, while higher consultancy expenses were induced by Citi migration.

Depreciation amounted to HUF 5.3 billion and decreased by 7% compared to the previous year mainly due to depreciation on software's acquired, IT assets and other intangibles.

Cost-income ratio improved from 53.4% (Q4 2015) to 52.4% (Q4 2016) mainly as a result of higher operating income.

Other operating result worsened by HUF 90.8 billion compared to 2015, which is almost solely attributable to the one-off positive effect of FX settlement related provision release last year.

Risk provision for loans and off-balances improved by HUF 28.2 billion in 2016 compared to the previous year, caused by a substantial reversal of impairment for the reporting period (HUF 28.1 billion).

Changes in capital adequacy, 2015-2016.

BANK ONLY (mHUF)	2015 DEC Basel III	2016 MAR Basel III	2016 JUN Basel III	2016 SEP Basel III	2016 DEC Basel III
Solvency Capital	281 010	278 302	276 695	275 539	273 769
Tier 1 Capital	146 664	143 266	141 617	220 058	220 036
CET1 - Common Equity Tier1	146 664	143 266	141 617	220 058	220 036
Subscribed capital	102 000	102 000	102 000	146 000	146 000
Agio	83 493	83 493	83 493	117 492	117 492
Profit reserve	0	-20 455	-20 455	-20 455	-20 455
Non audited negative YTD net profit	-20 455	0	0	0	0
Other reserve	-831	-318	-485	298	945
Other CET1 Capital Components	673	-445	-982	-275	-884
Deductible items	-18 216	-21 009	-21 954	-23 003	-23 062
- Intangible Assets	-11 160	-11 337	-12 552	-14 238	-15 675
- IRB Shortfall	-7 057	-9 672	-9 402	-8 765	-7 386
- Other Deductions from CET1 Capital					
AT1 - Additional Tier 1 Capital					
Tier 2 Capital	134 345	135 035	135 078	55 481	53 733
Subordinated debts	131 064	131 423	131 729	52 185	49 884
Part of the subordinated loan that cannot be taken into account					
IRB Surplus					
Other Tier 2 Components					
Deductible items	3 281	3 613	3 350	3 296	3 848
- IRB Shortfall	-2 916	-2 827	-2 746	-2 555	-2 141
- Other Deductions from Tier2 Capital	6 197	6 439	6 095	5 851	5 989
Capital requirement	323 658	342 860	375 123	376 102	373 552
Pillar 1 Capital Requiurements	105 553	111 815	122 337	122 656	121 825
Credit risk	93 304	97 448	93 167	90 902	91 044
Trading Book and exchange rates, high risks in trading book	683	1 023	936	1 173	1 564
Operational risk	11 566	13 344	28 235	30 581	29 217
Pillar 2 Capital Requiurements	218 105	231 044	252 786	253 445	251 727
Pillar II. Risks					
Stress test					
SREP correction	218 105	231 044	252 786	253 445	251 727
CET1 / TIER 1 capital surplus / shortage compared to P1 Capital requirements	41 111	31 451	19 279	97 401	98 211

At the end of 2016, the Bank's capital adequacy was stable; the solvency ratio (14.45%) was higher than the statutorily required level. Tier 1 capital substantially grew in line with a capital increase after subordinated debt repayment. The capital surplus was up by HUF 47 billion compared to the end of 2015.

The capital requirement increased by HUF 49.9 billion, on the one hand due to the application of SREP ratio (HUF 33.6 billion) in accordance with the new guidelines of the National Bank of Hungary, and the growing capital requirement on operational risk. However credit risk was declined by HUF 2.3 billion compared to the previous year due to growing risk-weighted assets. The capital requirement calculated for trading book and exchange rates haven't changed significantly compared to the preceding year.

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 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 research of the willingness of branch advisers to make referrals.

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 the Bank, and conduct measurements to determine the performance of the processes. Our processes are analyzed 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 (LEAN, Six Sigma) in order to increase the efficiency of the process.

In 2016 the main focus was on the Citi retail portfolio migration project, through which new customer service processes and information platforms have been established (www.ujbankom.hu) to ensure a clear and understandable migration for our clients. During the project, 150 customer processes have been reviewed and modified by the involvement of every customer channel (branch network, personal advisers, call center, complaint handling, correspondence, collection). Customer experience of the processes has been analyzed in detail and negative impacts were mitigated. Customer satisfaction will be measured in Q1 2017 after the portfolio migration.

EMPLOYMENT POLICY

The Bank's year-end headcount did not significantly change during 2016, at the end of 2016, the Bank had 2,646 employees (projected to 8-hour employment), disregarding trainees. The Bank's average 2016 headcount was a bit lower compared to 2015, no significant change throughout the year. In line with the long-term strategy of the Bank the projects supporting its development and improvement continued and the preparation for the takeover of the Consumer Business of Citibank continued in 2016.

The average age of our employees is 37 years, and the average length of their employment is 6.9 years. During 2016 the Bank provided an opportunity for 161 trainees within the framework of a trainee programme to get an inside view of the Bank's operation and to acquire work experience. 9% of those participating in the Bank's trainee programme were hired as 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 organisational units of the Bank's head office and the subsidiaries. The 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

Similar to the previous years Erste Bank Hungary has been concluded a wide range of development activities in 2016. It means that in general all of our employees spend 3,73 working days with trainings. The main development focuses were the deepening of the professional knowledge, the internal process development and the increase of the effectiveness of our sales and customer care activities. In 2016 we also emphasized the English language courses among our colleagues mainly in our Risk Division.

In the Retail division we continued the intensive preparation of our new joiners, we introduced a new 3 level micro enterprise training system and our internal trainers lay down the base of a new mortgage loan training which is aligned with all the relevant EU directives. Our digital channel and private banking directorates focused to the sales techniques and customer care development in 2016 and those directorates who are responsible for the products and processes participated in professional conferences and workshops.

The corporate division divided the development focuses among sales techniques and agricultural professional courses furthermore they have been initiating a new leadership/organizational development process.

Our IT division pay attention to its managers' leadership and professional development and all staff level we closed our talent management program and since October the Erste/Citi integration related trainings got the biggest emphasize.

CORPORATE SOCIAL RESPONSIBILITY

Erste was established 200 years ago with the concept of letting everyone have a share from prosperity, irrespective of social status, nationality, religion, sexual orientation, or age. Protecting and expanding that prosperity is among our ongoing objectives. One of the key statements in our future vision says “Our commitment to our customers and Hungary is evidenced by our social responsibility acts besides our banking and investment services”.

Therefore, in our complex world Erste Bank seeks to be more than simply a business enterprise that provides financial solutions. In fact, the bank 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 bank’s activities in Corporate Social Responsibility rests on two pillars: 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 which our volunteer program dubbed Közösségi csapatmunka [Community Team Work] was launched in 2015, actively involving our employees.

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 South-east Europe, realising 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 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 “+1tett” [“1+Act”] was launched in 2014 with an application designed to identify communities and projects that provide efficient help in resolving matters of social focus, as well as in the topics of self-care and digitalisation. 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 organisations with their expertise.

As part of the program the Bank entered into cooperation with three organisations:

Salva Vita Alapítvány – Plus one idea that only you can give



We at Erste Bank believe that every person should be granted access to financial services. Finances, however, are often too hard to understand even for average people. Salva Vita Alapítvány [Salva Vita Foundation] has been engaged for years in fostering social integration of persons with disabilities or impaired work ability for whom management of finances or the related administrative tasks and use of banking services present difficulties. Particularly for our fellow human beings with mental impairments who have a hard time finding their way around in the world of often too complex rules, processes, and online interfaces. In its application Salva Vita Alapítvány offered a solution to this problem by creating a “financial guide”, which is comprehensible by all and may even be used as a teaching material. Enthusiastic experts from Erste Bank helped the Foundation compile the publications. The guide, dubbed Pénzügyi 1X1 [Finances 101], has been disbursed in thousands of copies in specialised schools across the country. In addition to the publication, “ERSTE-Salva financial orientation classes” were held at 10 special schools by the Foundation with involvement from volunteering employees of the bank.

Erste Bank's Pénzügyi1X1 Program was granted Most Innovative Sponsorship Program in 2015 by Magyar Adományozói Fórum [Hungarian Donors Forum]

Homepage of the organisation: <http://salvavita.hu/>

Együttható Egyesület - +1 reason for online security

Együttható Egyesület [Co-efficient Community Development] was founded in 2011 with the aim of organising nonexistent and gap-filler programs for youth. One of those programs is Surf Safe, focusing on safe Internet use and conscious media consumption. As part of the program, group classes are organised at weekends and preventive school classes are held for youth between 10 and 18 years of age. Enthusiastic experts from Erste Bank joined this initiative, attending a number of classes in the course of the cooperation and sharing their views with youth interested in the topic. The volunteering work was preceded by a through prep training and content generating workshop. The banking experts' approach on financial security and their first-hand experience were especially valuable.

Homepage of the organisation: <http://www.egyutthato.eu/>

Szimbiózis Alapítvány - +1 busy hand

Sponsored the bank, alpaca therapy has been introduced by Szimbiózis Alapítvány [Symbiosis Foundation] as a unique concept in the country so far. Using the funds awarded in the application, the Foundation purchased a couple of alpacas and an open-air coral/stable, feeder, fence, gate, and information post were made with help from volunteering employees of the bank. Later on, experience gained in alpaca rearing and therapy will be disseminated in Hungary and internationally, and then alpaca wool processing will start subsequently (the wool will be used in producing felt in the artisan workshop). The “+1 Act” program has contributed to the financial and business sustainability of alpaca rearing as a therapy opportunity in Hungary.

Homepage of the organisation: <http://szimbiozis.net/>

+1 Act – Community teamwork

Taking the +1 Act program one step further, the Bank—relying on its employees—launched a new volunteering program in 2015, dubbed Közösségi csapatmunka [Community Teamwork]. As part of the program employees of the bank are given a chance to apply for volunteering in implementing programs they have selected themselves. As an important aspect, our colleagues themselves had to organise the program within community teamwork that they have applied for, while Erste Bank provides the time and funding necessary for the program.

Within the framework of the program, diverse cooperation projects were implemented such as repainting the signals of trekking trails, supporting the financial education of children in state custody or living with foster parents, or organising dragon boat events for underprivileged children. In 2015, nearly 300 Erste employees participated in community teamwork projects and their number grew to more than 350 in 2016.

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

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

Virtuózok

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

Cellist Tamás Kökény won the main prize of the programme, HUF 12 million provided by Erste Bank, which was accompanied by a concert opportunity in New York's Carnegie Hall. The other two age group winners were granted HUF 500,000 each, also provided by the Bank.



Kékszalag Erste World Nagydíj

In 2016, Erste 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: we help customers find real values, create real wealth from their assets, because property turns into value when you use it to lay down the foundations of your family's future and happiness and yours as well.

At the location of the sailing race, Erste World offered special programs, including a lounge that featured the values of the Lake Balaton region and a VIP section designed for priority 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 Erste Bank has sponsored the initiative Mosoly Váltó [Smile Relay], launched by Mosoly Alapítvány [Smile Foundation], in which some of our enthusiastic employees were running in a 4-kilometre stretch alongside kids who had recovered from serious illnesses.

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

Szimplakert Közös Lábos Program

Erste Bank joined Közös Lábos Program [Common Pot Program] in 2014, an initiative organised by Szimplakert [Simple Garden] which has become something of a tradition by now. With help from volunteering Erste employees, donations are collected every time in the course of the program: the meals prepared by our staff are sold on the basis of honour system and the amounts thus realised are offered to select organisations. Most recently, in March 2015, the donations offered in the open-air cooking in Szimplakert were transferred to 90 Decibel Alapítvány [90 Decibels Foundation]. The Foundation spends the amounts realised on providing ease of access—primarily in theatres and museums—for those living with hearing or visual impairment.

Further information: <http://szimpla.hu/hirek/kozoslabas>

United Way book donation to develop reading skills of underprivileged children

In the spring of 2015, a book donation campaign dubbed KÖNYVFORGATÓ (Book Turner) was organised at Erste Bank's headquarters in cooperation with United Way with the aim to draw the attention to the importance of reading, at the same time helping underprivileged children's comprehensive reading. Within the book donation program hundreds of books were collected in May 2015 and November 2016. In 2015, Erste Bank emerged the company with the highest number of books ever donated.

Further information: <http://www.unitedway.hu/>

Donut sale for Nemzetközi Cseperedő Alapítvány

Charity donut sales have been organised in cooperation with Nemzetközi Cseperedő Alapítvány [International Growing-up Foundation] at Erste's Headquarters since 2014 twice a year with involvement from donut shop 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. When the donut sale project was launched, 300 donuts were made, but in February 2016 over a thousand donuts were sold in just 90 minutes! The entire proceeds from the donut sale went to the Foundation, supporting kids living with communication and social skill disorders, in particular autism, and their environment. In recent years, a total of nearly HUF 2 million has been donated this way.

Let's crowdfund it – Collaboration with NIOK

One of Erste Bank's events organised for its employees featured a special charity program in 2016: donations were collected in collaboration with Nonprofit Információs és Oktató Központ [Non-profit Information and Training Centre; NIOK]. A special feature of the donation collection was the interface: it was managed through a website (<http://www.adjukossze.hu/>) based on crowdfunding model and operated by NIOK. The beneficiaries of the donation collection were foundations and organisations that were familiar to Erste employees from previous campaigns, including Nemzetközi Cseperedő Alapítvány [International Growing-up Foundation] (sponsoring youth living with autism); Dévai Szent Ferenc Alapítvány [Saint Francis of Déva Foundation] (representing the interests of underprivileged children, fostering their mental and social development; ensuring social protection; promoting and supporting their upbringing); and Tappancs Állatvédő Alapítvány [Paws Animal Protection Foundation] (protection of animals and operating an animal shelter). The targets were defined jointly: each foundation requested a donation of HUF 300,000. The collection was a success.

The donated sums were spent on:

- Dévai Szent Ferenc Alapítvány can now renovate one of the wings of Castle Stubenberg in Székelyhíd, creating a home for another 20 kids that live in extreme poverty,
- Tappancs in Szeged can now install 10 chew-resistant, insulated doghouses at the animal shelter, protecting cats and dogs from the elements,
- Cseperedő Alapítvány can now enlarge further the first library in the country that focuses on autism and provides fresh knowledge and insight into autism at a single location to all stakeholders.

Further information: <http://www.adjukossze.hu/>

Erste Green

Erste Group 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), Erste Bank Hungary takes additional steps to make our organisational culture and operation greener and more environment-conscious, hence expanding our commitment to corporate social responsibility.



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.

The campaigns organised by Erste Green to date have been aimed at raising colleagues' awareness and educate them on the topic. The campaign included wearing green clothes on Earth Day, a dedicated Erste Green tent on Erste Day where

colleagues could participate in environment quizzes and measuring ecological footprint. A photo contest with environment protection as its topic was also organised. On the other hand, Erste Green has embraced measures that even outsiders could relate to, including volunteering to collect trash at the Danube bank next to Erste's headquarter, clearing a trekking trail in the Pilis Mountains and repainting the signage, implementing the ISO 50001 standard that endeavours to reduce energy costs and emission of gases that cause greenhouse effect.

Customers with disability

Erste Bank Hungary Zrt. 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 81 out of its 124-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.

ERSTE BANK HUNGARY'S ENERGY EFFICIENCY

The Bank attaches great emphasis on improving and sustaining energy efficiency both in its central buildings and branch network.

The central locations of the Bank are Class A office buildings constructed with up-to-date architecture standards, modern heating and cooling technologies, and facility monitoring systems. Motion sensors as well as energy efficient and LED lighting sources have been installed at numerous locations in the buildings. The heating and air conditioning systems are operated in energy-saving mode at night and during the weekends. All workstations in the buildings have natural illumination, an important aspect for employees' health and for our commitment to reduce energy consumption as well.

By constant development, the appliances providing the energy supply of the building are replaced with more efficient appliances that meet the demands with a higher level of efficiency.



Focusing on environment consciousness, selective waste disposal units for paper and plastic refuse as well as communal waste have been placed in the central buildings. Plans include introducing selective waste disposal in the branch network as well.

A total of 8,000 MWh of green power has been purchased for 2016 and 2017, which not only reduces the Bank's CO₂ emission directly, but also fosters the expansion of innovative and renewable energy generation indirectly.

In order to ensure continuous maintenance and development of energy management efficacy, a power management system equivalent to the ISO50001 standards has been implemented by the end of 2016.

The energy-efficient design of the branch network is ensured by continuously evolving planning standards. A lower level of energy consumption for the periods outside business hours is facilitated with changes in the operating mode aligned with opening hours.

Artificial illumination is provided using energy-efficient neon lighting and LED light fittings set in line with demands. Logo illumination is controlled by timers; most of the night illumination is limited. All new appliances installed carry energy certificate 'A'.

When selecting air conditioning systems for new installation, VRV (thermal pump) and inverted appliances which ensure efficient use of energy are preferred. Recently installed furnaces are of the condensing type.

In order to reduce paper consumption, Erste Bank has implemented the option of cash withdrawal from home ATMs without receipt. Additionally, recyclable, environment-friendly paper is used in the Bank's ATMs and also in its daily workflow.

In the Bank's internal mailing system, envelopes that can be re-addressed 24 times are used as well as recyclable paper and stamps.

Obsolete but still operable computers as well as unused furniture are donated to education institutions in need, and also to foundations. Used paint cartridges from copy machines and printers are collected by the suppliers.

In order to reduce the direct harmful effects of traffic on the environment, priority is given to checking the emission levels of company cars when they are undergoing regular maintenance. For biking colleagues a space in the Bank's central buildings is provided to park approximately 180 bicycles simultaneously as part of our commitment to promote a healthy and environment-friendly way of commute.

EVENTS AFTER THE BALANCE SHEET DATE

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 provides a 90 day post-migration period for the parties in order to calculate and finalise the purchase price. The end of this period falls after the issuance data of the financial statement of the business year 2016.

Curia decision

By the decision of the Hungarian Competition Authority of 19 November 2013 11 leading Hungarian banks were fined for harmonised activities in setting their practices in the case of the "Endpayment" scheme (details of the scheme see in point C) 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 niled and new procedure is ordered. Conforming to the decision the Bank allocated legal provision in 2017, in the amount of the original fine of 1.7 billion HUF.

Budapest, 7 April 2017



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 2016:

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

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	Kalocsa 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
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	Pécs, Diana téri Branch	Pécs
99	Pécs, Rákóczi úti Branch	Pécs
100	Pesterzsébeti Branch	Budapest
101	Pólus Irodaház Branch	Budapest
102	Private Banking Debrecen, Vár utcai Branch	Debrecen
103	Private Banking Győr, Bajcsy-Zs úti Branch	Győr
104	Private Banking Kecskemét, Kisfaludy utcai Branch	Kecskemét
105	Private Banking Miskolc, Bajcsy-Zsilinszky utcai Branch	Miskolc
106	Private Banking MOM SAS torony	Budapest
107	Private Banking Pécs, Rákóczi téri Branch	Pécs
108	Private Banking Szeged, Széchenyi téri Branch	Szeged
109	Private Banking Székesfehérvár, Palotai úti Branch	Székesfehérvár
110	Private Banking Zalaegerszeg, Ispotály közti Branch	Zalaegerszeg
111	Rákóczi téri Branch	Budapest
112	Rákoskeresztúri Branch	Budapest
113	Salgótarjáni Branch	Salgótarján
114	Sárospataki Branch	Sárospatak
115	Sárvári Branch	Sárvár
116	Siófoki Branch	Siófok
117	Sopron, Előkapu Branch	Sopron
118	Szabadság téri Branch	Budapest
119	Szarvasi Branch	Szarvas
120	Százhalombattai Branch	Százhalombatta
121	Szeged, Kölcsey u. Branch	Szeged
122	Szeged, Széchenyi téri Branch	Szeged

123	Székesfehérvár, Budai úti Branch	Székesfehérvár
124	Székesfehérvár, Palotai úti Branch	Székesfehérvár
125	Szekszárdi Branch	Szekszárd
126	Szentendrei Branch	Szentendre
127	Szentesi Branch	Szentes
128	Szentgotthárdi Branch	Szentgotthárd
129	Szigetszentmiklós Auchan Branch	Szigetszentmiklós
130	Szolnok, Baross u. Branch	Szolnok
131	Szombathely, Mártírok tér Branch	Szombathely
132	Tatabányai Branch	Tatabánya
133	Tatai Branch	Tata
134	Teréz körúti Branch	Budapest
135	Thököly úti Branch	Budapest
136	Tiszaújvárosi Branch	Tiszaújváros
137	Törökszentmiklósi Branch	Törökszentmiklós
138	Újpesti Branch	Budapest
139	Váci Branch	Vác
140	Váci út 33. Branch	Budapest
141	Várpalotai Branch	Várpalota
142	Veszprém, Ádám Iván utcai Branch	Veszprém
143	Vörösmarty téri Branch	Budapest
144	Westend Branch	Budapest
145	Záhonyi Branch	Záhony
146	Zalaegerszeg, Ispotályközi Branch	Zalaegerszeg
147	Zirci Branch	Zirc

2. Annex No. 2: Erste Bank Hungary Zrt. Corporate Governance Report for year 2016

ERSTE BANK HUNGARY Zrt. CORPORATE GOVERNANCE REPORT FOR THE YEAR 2016

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 MNB (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 2016 and currently the CEO), and his deputies (in 2016 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 2016 the Board of Directors' decisions related, amongst others, the following matters:

- reports of the management
- Risk Management Reports
- 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
- Company decisions related to the purchase of Citibank's retail business in Hungary, and to the acquisitions by the EBRD and the Hungarian State in the Company.

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 2016

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.

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 Kereskedelmi 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.

Jurgen De Ruijter Executive Director, CRO, Deputy Risk management CEO (04.02.2015. -)

Jurgen De Ruijter has started his career in 2003 at ABN AMRO Bank NV in the Netherlands where he various positions in both retail and corporate segments, in loan portfolio management. From 2008 he continued his career in the ABN AMRO Bank in Romania as Corporate Loan Portfolio Management Director. In 2009 he moved to the Romanian Bank of Erste Group (BCR), where he filled in numerous management positions. He was in charge of Workout between 2009 and 2011, he was a Divisional Director at Remedial & Recovery business line from 2012 until January 2013, and as of January 2013 he was the CEO of the Workout Division. Jurgen De Ruijter as Deputy CEO for Risk Management (Chief Risk Officer) of ERSTE BANK HUNGARY Zrt. – since February 2015 – supervises the credit policies of the Bank's business lines, including the credit rating, collateral valuation and provisioning policies. He 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 Programme 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 Jelzálogbank. 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.

Krisztina Zsiga, external Board of Directors member (22.03.2016. -)

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 has been working as Head of Retail Risk Management. Between 2013 and 2016 she was member of ERSTE Bank Hungary Zrt's Supervisory Board, before she was elected as external Board member.

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 as a lawyer in 1980 at the University of Vienna. He started his professional career in 1982 as manager at Girozentrale und Bank der österreichischen Sparkassen AG in Vienna. During his working career he used to have several positions at Girozentrale and subsidiary of Girozentrale from 1982 to 1994. He worked at GiroCredit Bank as Assistant General Manager and Head of the International Finance Department between 1990 and 1992. He was the Senior Vice President and Chairman of the Managing Board from 1992 to 1994. He began as Assistant General Manager and Head of the International Finance and Syndications Department at the Creditanstalt-Bankverein in the year 1995. He worked at the European Bank for Reconstruction and Development from 2002 to 2008.

Since 2008 he established his own company under the name of Finance and Business Consultant. From 2012 he is Board member at Krk-Kreditimi Rural I Kosoves (Kosovo), from 2015 at Unibank (Baku), and in addition member of GFF's Investment Committee.

2.2. *Members of Supervisory Board on 31 December 2016*

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, 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 ha 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 Universitat 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.

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 Közép-európai 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 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 and Fraud Prevention Department from May 2016.

2.3. *Members of Managing Board on 31 December 2016*

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

Jurgen De Ruijter Executive Director, Deputy Risk management CEO

Ivan Vondra Executive Director, CFO

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 2016

In 2016 both the Board of Directors and Supervisory Board held four meetings each.

The quorum of the bodies at the 2016 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 2016 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,
 - Company decisions related to the purchase of Citibank's retail business in Hungary, and
 - to the acquisitions by the EBRD and the Hungarian State in the Company.

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 2016, the Audit Committee held four meetings, at all of them the Committee had a quorum.

In 2016 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 2016

Friedrich Roller, 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 the 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 2016, the Risk Governance Committee held four meetings, at all of them the Committee had a quorum.

In year 2016 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 2016

Krisztina Zsiga, 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 Committees 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 the 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 2016 the Remuneration and Nomination Committee held two meetings; at both meetings the Committee had a quorum.

In 2016 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 2016:

dr. János Rudnay, Chairman
Frederik Silzer, Deputy Chairman
Krisztina Zsiga

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 MNB, 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): *Bankunkról/Erste Bank Hungary Zrt./Vállalatirányítás/Közzelmények/2017-es hivatalos közzétételek*

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 2016 annual report and consolidated annual report in line with the legislation in force Ernst & Young Kft. (1132 Budapest, Váci út 20.). Appointed auditor: Gergely Szabó (mother's name: Zsuzsanna Kiss, 1202 Budapest, Mézes u. 35, Registration number with the Chamber: 005676.)

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;

³ Act CXX of 2001 on the Capital Market

- 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/bankunkrol/erste-bank-hungary-zrt/javadalmasasi-politika>

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.

⁴ Act V of 2013 on the Civil Code of Hungary

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 2016 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 2016 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

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)

ation 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.

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. 6/2014 (XII. 17.) of MNB, 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)

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)

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 4.1.8 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.	Yes / No