




ERSTE Bank Hungary Ltd.

Consolidated Report

for
30 June 2016

In accordance with the IFRS adopted by the EU


.....
Radován Jelasity


.....
Ivan Vondra

Budapest, 16 August 2016

The consolidated report of Erste Bank Hungary Ltd. (Bank) includes the base data related to the activity of the Bank and the consolidated companies (Erste Hungary) with the additional information which is significant in respect to the evaluation of the business activity of the Bank and their subsidiaries. Data is in accordance with International Financial Standards adopted by the European Union.

The half yearly consolidated report and the data on which the report based are not audited by independent auditor.

Consolidated subsidiaries:

name of the company	activity	31.12.2015	30.06.2016
Erste Befektetési Zrt.	brokerage	x	x
Erste Leasing Bérlet Kft. v.a. *	operative leasing of other assets	x	-
Erste Lakáslízing Zrt.	real estate financial lease	x	x
Erste Ingatlan Kft.	real estates (operation)	x	x
Sió Ingatlan Invest Kft.	operation of Sió Pláza	x	x
Erste IN-FORG Kft.	real estate purchase	x	x
Erste Lakástakarék Zrt.	building society	x	x
Collat-real Kft.	real estates purchase	x	x
Erste Jelzálogbank Zrt.**	mortgage bank	x	x

* Erste Leasing Bérlet Szolgáltató Kft. was cancelled from registration on 7 January 2016 due to voluntary winding up procedure.

**The Bank established a fully owned mortgage bank in 2015 which was registered in the company register 11 December 2015. The activity licence issued by National Bank of Hungary in 30th, June, 2016.

Business Environment, Objectives and Strategy of the Consolidated Group

Business Environment

Following its dynamic growth in 2015, the GDP growth decelerated a great deal in Q1 2016 as the output of the Hungarian economy increased by 0.9% on year on year basis yet shrank by 0.8% in a quarterly comparison. The details clearly reveal that household consumption was the major growth factor while investments and foreign trade turned out to be decelerating factors in Q1. In production growth was driven by services but the construction industry, industrial output and agriculture shrank compared to the same period in 2015. All in all the deceleration observed in Q1 2016 may have been only temporary as the drawdown of EU support takes longer in the new EU budget period and the industrial output weakened by a one-off effect of the temporary outage of motor industry capacities.

The fast decline in the unemployment rate continued in H1 and was down to 5.1% by June, while the employment rate crept up to a new peak of 61%. The rate of inflation picked up temporarily at the beginning of 2016, reaching 0.9% in January and then dropped to around 0% where it stayed until June.

In March 2015 Magyar Nemzeti Bank (National Bank of Hungary, NBH) started a new rate cutting cycle as a result of which the base rate stood at 1.35% by July 2015 following 15 percentage point cuts over five months. In order to reach the inflation target, in March 2016 the NBH cut the base rate by further 15 basis points to 1.20% in April to 1.05% and in May to 0.9%.

The typical trend of the previous years i.e. the decrease of the loan portfolio of the banking sector continued in 2015 as well. As regards lending, in the first half of 2015 the amortisation of the existing portfolio still exceeded the level of new placements, as a consequence of which the portfolio further decreased, but its speed slowed down in H2 of the year and in Q1 2016 due an increase in the new HUF loans. As a result of HUF conversion in 2015 the exchange rate risk disappeared from the balance sheet of households with a major restructuring in the currency structure of household lending. In 2015 the volume of new lending expanded and demand for both housing and consumption loans picked up despite the introduction of the debt brake regulations. The same positive trend continued in Q1 2016. New contracts reached HUF 164 billion in the reviewed period, reflecting 24% average annual growth compared to the same period of the previous year. While in corporate lending new loans were encouraged with the subsidised NBH programmes developed primarily for the small and medium-sized enterprise segment (Funding for Growth Scheme, also see as FGS) also in 2015, a major decline caused by one off impacts could be observed in the large corporate loan portfolio. In Q1 2016 the gross debt of the companies grew by 1.1%, primarily as a result of the third phase and new construction of the FGS. The deposit portfolio of banks stagnated over the last six months, as a result of which the loan deposit index of the sector continued to be below 100%.

After 2014 which was affected by the impact of the settlement, the Hungarian banking sector closed 2015 with a profit. The results of the sector were strongly influenced by a number of market and regulatory results: after the Act on Settlement which aimed to assist currency debtors, the interest income of financial institutions was heavily influenced by the interest amount available on the lower volumes, limited by the interest environment and the fair banking regulations which, apart from its direct negative impact on profits, will also reduce

future operating income. The conversion into HUF of foreign-currency-based and foreign currency real estate leasing and mortgage loans took place in 2015 and Parliament also decided on the HUF conversion of personal and car loans.

In 2016 the reduced banking tax is the greatest positive change for the sector, the promising effect of which is somewhat offset by the increase in the fees payable to the National Deposit Insurance Fund (OBA) and the Investor Protection Fund (BEVA).

Erste Hungary

Erste Hungary continues to focus on growth opportunities and aims to have a major role on the retail and corporate banking market. It completed one of the greatest bank acquisition deals of the decade by buying the retail business of Citibank in Hungary in 2015. In the first step of the process it took over the credit card sales agent network in February 2016. It continued to strengthen its position on the market with the establishment of its mortgage bank and an Agriculture Competence Centre.

Erste Hungary offers a wide range of financial solutions and services to its clients throughout their financial lifecycle: deposits, investment products, loans, advisory services and lease products. Keeping its position as a leading retail lending institution, with the acquisition of the Citibank retail business, 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, in order to simplify everyday finances. Furthermore, it lays great emphasis on retaining its solid share in the market of savings.

In H1 2016 the Bank continued to increase its new retail loans and achieved remarkable results in the sale of unsecured loan products. Following the restructuring driven by the low interest rates the Bank focuses not only on deposit collection but also on other investment products (e.g., investment funds) and has maintained its two-digit market share on the total savings market.

The corporate business line still offers all-inclusive banking services to all segments, anticipating the biggest growth in the midmarket segment. Nevertheless, in its corporate strategy the Bank puts great emphasis on financing the agriculture and agricultural sector. In line with the market trends, corporate lending takes place primarily with subsidised products, while apart from credit products the Bank offers a wide range of transaction services and other solutions to its corporate customers.

Risk management is a reinforced activity that is pursued across the Bank and supports responsible lending. In IT and operation the increase in digital presence plays an important role in both online and mobile banking solutions.

Major subsidiaries of the Bank

Erste Befektetési Zrt.

Erste Befektetési Zrt. has been a leader participant of the Hungarian stock markets since it's establishment.

The company is dealing with full scale services of investment banking activities (e.g: trading in securities or property management...) and is the leader broker of the Budapest Stock Exchange.

Erste Lakástakarék Zrt.

The establishment of the building society was motivated by the changing environment of the credit market and the increasing activity in the retail market (of regular savings) but mainly the headway of residential self-care.

Following four years of deposit collection, in January 2016 Erste Lakástakarék Zrt. began to disburse loans and can therefore be relied on as a major pillar of new loans in the forthcoming years.

Erste Real Estate Kft.

Main activities of the company are: distribution, development and lending of real estates, real estate management.

The company's activity also covers utilisation of real estate portfolio, purchasing of real estates related to workout deals, or technical guidance for the Bank and for their subsidiaries.

Erste Mortgage Bank

The Bank is the first to establish its own mortgage bank since the NBH announced the regulatory changes to mortgage lending (requires lenders to back at least 15% of their net mortgage loans with long-term liabilities).

Besides the regulatory changes there is business potential too since it is expectable that small or medium sized banks will not establish own mortgage bank and will refinance from other institutions.

Consolidated Financial Data (not audited)

Non audited consolidated data for H1 2016

Balance Sheet

in HUF million	12/31/2015	06/30/2016	Change %
Cash and cash balances with central bank	111,869	40,911	-63%
Financial assets - held for trading	68,880	128,942	87%
Derivatives Assets	10,846	20,808	92%
Other trading assets	58,034	108,135	86%
Financial assets - available for sale	89,555	103,335	15%
Financial assets - held to maturity	294,731	331,563	12%
Loans and receivables to credit institutions	278,436	146,212	-47%
Loans and receivables to customers	1,006,602	1,004,399	0%
Property and equipment	8,590	8,006	-7%
Investment properties	10,926	10,882	0%
Intangible assets	13,041	14,560	12%
Current tax assets	892	930	4%
Deferred tax assets	122	0	-100%
Assets held for sale	26	0	-100%
Other assets	40,496	40,095	-1%
Total assets	1,924,166	1,829,835	-5%

in HUF million	12/31/2015	06/30/2016	Change %
Financial liabilities - held for trading	20,630	13,084	-37%
Derivatives Liability	20,566	12,947	-37%
Other trading liabilities	64	137	115%
Financial liabilities measured at amortised cost	1,712,781	1,579,561	-8%
Deposits from banks	426,805	299,965	-30%
Deposits from customers	1,262,093	1,264,779	0%
Debt securities issued	23,883	17,817	-25%
Provisions	9,846	15,766	60%
Current tax liabilities	13	15	14%
Deferred tax liabilities	874	184	0%
Other liabilities	19,754	32,661	65%
Total equity	160,268	188,564	18%
Equity attributable to owners of the parent	160,268	188,564	18%
Total liabilities and equity	1,924,166	1,829,835	-5%

Compared to end 2015, the balance sheet total of Erste Hungary slightly decreased, at the same time the composition ratio of assets and liabilities changed to a different degree. The customer loan portfolio remained near to the year-end level. The portfolio of Available-for-Sale (AFS) securities, held-to-maturity securities grew, however, receivables from credit institutions and cash assets deposited with NBH decreased to a greater degree. On the asset

side, the portfolio of deposits from credit institutions decreased, which was in part compensated by the increase in Equity.

Although loan portfolios have not changed significantly, but show a slightly decreasing trend with a 22 base point drop, explained by the early repayment of retail loans to a degree exceeding the new disbursements, on the one hand, and the gradual decrease of non-performing loan, on the other hand. The performing corporate portfolio grew by HUF 38 billion.

Also no significant change occurred in customer deposits, just a slight decrease; however, a significant restructuring can be seen between demand deposits and fixed-term deposits. The shrinking of the fixed-term deposit portfolio is due to the decreasing interest rate environment that mitigated demand for this form of savings.

PNL

in HUF million	06/30/2015	06/30/2016	Change %
Net interest income	34,851	27,867	-20%
Net fee and commission income	21,537	21,464	0%
Dividend income	43	9	-79%
Net trading and fair value result	-1,086	2,083	-292%
Rental income from investment properties & other operating leases	127	594	368%
Personnel expenses	-12,847	-13,511	5%
Other administrative expenses	-10,991	-12,989	18%
Depreciation and amortisation	-2,906	-2,668	-8%
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-1,459	4,347	-398%
Net impairment loss on financial assets not measured at fair value through profit or loss	-18,073	22,424	-224%
Other operating result	-18,368	-16,009	-13%
Pre-tax result from continuing operations	-9,172	33,611	466%
Taxes on income	-1,645	-2,061	25%
Net result for the year	-10,817	31,550	392%
Net result attributable to non-controlling interests	0	0	0%
Net result attributable to owners of the parent	-10,817	31,550	392%

Erste Hungary closed the first half of 2016 with a HUF 31.6 billion profit, the significant part of it came from the Bank's profit.

The interest revenue was 20% lower (HUF 6.9 billion) compared to the same period of the previous year. On the revenue side a HUF 13.9 billion fall (27.1%) can be seen, due to the lower yield on retail loans, which took place parallel with the portfolio shrinkage.

Expenditure evolved at a 42.3% lower level during the previous year, mainly due to the decreasing interest rate path; and restructuring can be seen between demand and fixed-term deposits, also leading to the mitigation of interest expenditure.

Commission and fee profits were nearly at last year's level, with a small negative movement (HUF 78 million; 0.3%) compared to the same period in 2015. Within this, fee revenues related to payment services decreased.

The other administrative expenditure of Erste Hungary grew by 9.1% (HUF 2.4 billion), of which the most significant is the HUF 1.5 billion increase in the OBA and BEVA fees. The actual increase is HUF 0.9 billion, while the HUF 0.6 billion HUF difference comes from the one-off recognition of the annual fee in January 2016, contrary to year 2015, where the books only contained the fees pro rata for the first half year.

Furthermore, the personnel expenses (5.2%) and overhead costs increased, mainly due to salaries and IT costs.

Compared to the previous year, impairment and risk provisions evolved by HUF 40.5 billion (224%) more favourably.

For other revenues and expenditures a HUF 2.4 billion (12.8%) improvement took place compared to the previous year. The banking tax is HUF 8.4 billion lower in 2016, which is partly compensated by the HUF 5 billion increase in the provision for balance sheet items and the higher workout costs.

Due to the above effects, the profit after tax of Erste Hungary is HUF 42.4 billion higher than the profit realised in the same period of the previous year.

Events after the balance sheet

Capital increase

1 July 2016 Erste Group Bank AG (Erste Group) decided to increase the Bank's capital by issuing 44 billion dematerialised registered ordinary shares with a nominal value of HUF 1. After the increase the Bank's share capital is HUF 146 billion. The total amount of the increase is HUF 78 billion with capital surplus of the remaining amount of HUF 34 billion.

Hungarian State and European Bank for Reconstruction and Development (EBRD) have acquired 15-15% of the shares of the Bank

Within the framework of the share transfer, took place on 11th August, Corvinus International Investment Plc (acting for and on behalf of the Hungarian State) and EBRD have acquired 15-15% of the shares of the Bank. The new ownership structure of the Bank is as follows:

Owner	Number of shares	Share of total
Erste Group Bank AG	102,200,000,000	70%
Corvinus International Investment Plc	21,900,000,000	15%
European Bank for Reconstruction and Development	21,900,000,000	15%
Total	146,000,000,000	100%

Repayment of subordinated liability

14th July 2016 the Bank paid back the part of its' subordinated loans (EUR 244,688,000 + interest and related costs) to Erste Group.

2016. 1st Half Year's Consolidated Report for 2016. H1 based on non audited data
according to the International Financial Reporting Standards adopted by the European Union


Az ERSTE BANK HUNGARY Ltd. (Budapest, XIII. Népfürdő u. 24-26.) prepared their report for 30.06.2016 based on 24/2008.(VIII.15.) PM regulation 2.§ (1) b) as follows.


The issuer declares that the report includes true statements and data, does not withhold facts which are significant in respect of the status of the issuer and gives reliable view of the status of the issuer and the consolidated entities.

The consolidated report is not audited by independent auditor.

The issuer declares that the consolidated report gives a fair and true view of the assets, liabilities, financial position and the profit and loss of Erste Bank Hungary and the consolidated companies. Issuer also states that the consolidated report gives reliable view of the position, development, performance of the Bank and the consolidated companies and describes the main risks and uncertainties of the remaining six months of the financial year.

Signatories authorized to representation of Erste Bank Hungary Ltd.:


Radován Jelasity
Chairman-CEO


Ivan Vondra
Chief Financial Officer

Non audited consolidated data for H1 2016

Balance Sheet

in HUF million	12/31/2015	06/30/2016	Change %
Cash and cash balances with central bank	111,869	40,911	-63%
Financial assets - held for trading	68,880	128,942	87%
Derivatives Assets	10,846	20,808	92%
Other trading assets	58,034	108,135	86%
Financial assets - available for sale	89,555	103,335	15%
Financial assets - held to maturity	294,731	331,563	12%
Loans and receivables to credit institutions	278,436	146,212	-47%
Loans and receivables to customers	1,006,602	1,004,399	0%
Property and equipment	8,590	8,006	-7%
Investment properties	10,926	10,882	0%
Intangible assets	13,041	14,560	12%
Current tax assets	892	930	4%
Deferred tax assets	122	0	-100%
Assets held for sale	26	0	-100%
Other assets	40,496	40,095	-1%
Total assets	1,924,166	1,829,835	-5%

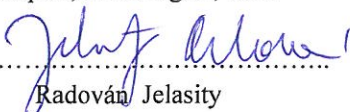
in HUF million	12/31/2015	06/30/2016	Change %
Financial liabilities - held for trading	20,630	13,084	-37%
Derivatives Liability	20,566	12,947	-37%
Other trading liabilities	64	137	115%
Financial liabilities measured at amortised cost	1,712,781	1,579,561	-8%
Deposits from banks	426,805	299,965	-30%
Deposits from customers	1,262,093	1,264,779	0%
Debt securities issued	23,883	17,817	-25%
Provisions	9,846	15,766	60%
Current tax liabilities	13	15	14%
Deferred tax liabilities	874	184	0%
Other liabilities	19,754	32,661	65%
Total equity	160,268	188,564	18%
Equity attributable to owners of the parent	160,268	188,564	18%
Total liabilities and equity	1,924,166	1,829,835	-5%

PNL

in HUF million	06/30/2015	06/30/2016	Change %
Net interest income	34,851	27,867	-20%
Net fee and commission income	21,537	21,464	0%
Dividend income	43	9	-79%
Net trading and fair value result	-1,086	2,083	-292%
Rental income from investment properties & other operating leases	127	594	368%
Personnel expenses	-12,847	-13,511	5%
Other administrative expenses	-10,991	-12,989	18%
Depreciation and amortisation	-2,906	-2,668	-8%
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-1,459	4,347	-398%
Net impairment loss on financial assets not measured at fair value through profit or loss	-18,073	22,424	-224%
Other operating result	-18,368	-16,009	-13%
Pre-tax result from continuing operations	-9,172	33,611	466%
Taxes on income	-1,645	-2,061	25%
Net result for the year	-10,817	31,550	392%
Net result attributable to non-controlling interests	0	0	0%
Net result attributable to owners of the parent	-10,817	31,550	392%

The report is on view in the following web pages: www.erstebank.hu and www.kozzetetelek.hu.

Budapest, 16th August, 2016



 Radován Jelasity
 Chairman-CEO



 Ivan Vondra
 Chief Financial Officer