

Business Report

for

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

Budapest, 13 April 2018

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

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BUSINESS ENVIRONMENT, OBJECTIVES AND STRATEGY OF THE COMPANY

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

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

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

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

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

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

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

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

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

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

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

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

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

Change in the bank's form of operation

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

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

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

Other changes

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

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PRODUCT RANGE, COOPERATION AGREEMENTS, STRATEGIC ALLIANCES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MAIN RESOURCES AND RISKS, AND THE RELATED CHANGES AND UNCERTAINTIES

Asset-liability management (interest rate risk management)

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

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

Liquidity risk management

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

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

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

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

Table No. 1

Data in millions of HUF

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

Interest rate risk management

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

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

Sensitivity of the market value of the total equity:

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

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

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

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

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

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

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

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

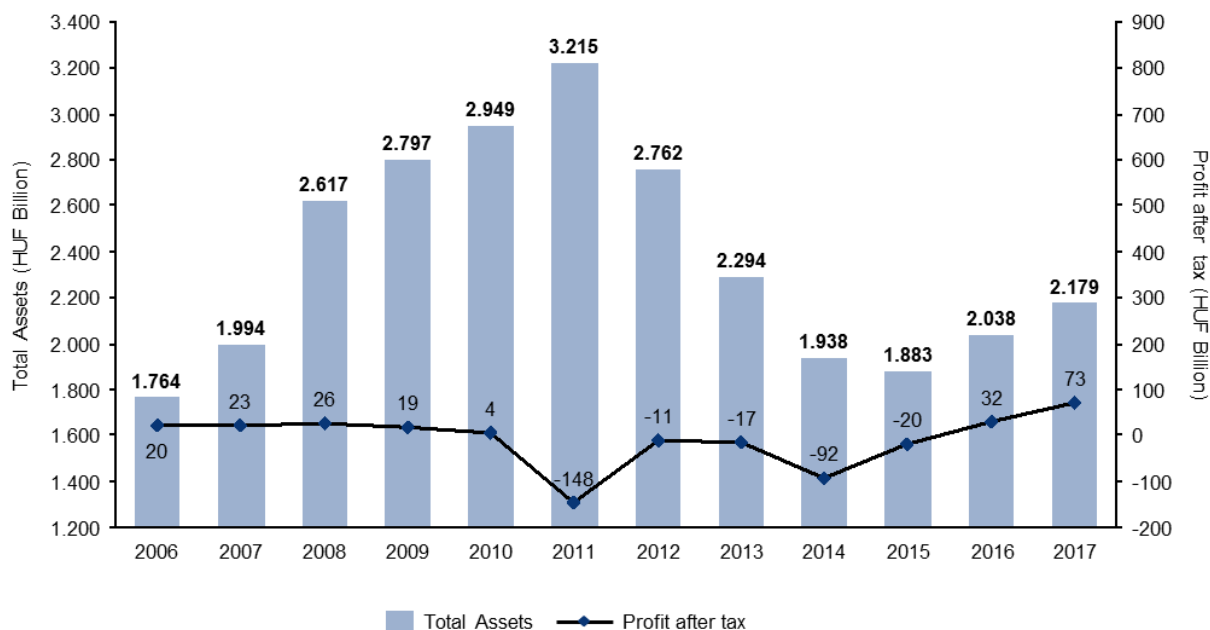
| <i>Table No.3</i> | <i>Data in millions of HUF</i> | | | | | |
|-------------------|--------------------------------|----------------|----------------|----------------|----------------|---------------------|
| Currency | 1 year | 2 years | 3 years | 4 years | 5 years | > 5 years |
| CHF | 5 245 | 3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

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

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

FINANCIAL DATA

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



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

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

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

Changes in the main asset categories 2015-2017:

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

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

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

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

Changes in the main liability categories, 2015-2017:

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

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

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

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

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

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

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

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

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

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

Interest income on interbank placements grew moderately.

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

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

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

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

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

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

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

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

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

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

Changes in capital adequacy, 2016-2017.

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

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

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

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

QUANTITATIVE AND QUALITATIVE PERFORMANCE INDICATORS AND MARKERS FOR THE PROCESSES

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

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

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

EMPLOYMENT POLICY

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

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

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

DESCRIPTION OF BUSINESS PREMISES

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

EDUCATION POLICY

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

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

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

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

ERSTE Foundation in Hungary

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

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



ERSTE Stiftung

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

[+1 tett program](#)



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

+1 Act – Community teamwork

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

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

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

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

Additional cooperation projects

Virtuózok

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

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



Magyar Jégkorong Szövetség

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

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



Kékszalag Erste World Nagydíj

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

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

Mosoly Alapítvány

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

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

Donut sale for Nemzetközi Cseperedő Alapítvány

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

Erste Green

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



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

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

Customers with disability

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

ERSTE BANK HUNGARY'S ENERGY MANAGEMENT

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

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



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

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

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

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

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

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

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

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

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

EVENTS AFTER THE BALANCE SHEET DATE

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

Budapest, 13 April 2018

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

.....
Ivan Vondra
Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

PART I

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

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

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

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

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

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

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

1. Act C of 2000 on Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2. Members of Supervisory Board on 31 December 2017

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

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

Friedrich Rödler, Supervisory Board member (28.04.2012. -)

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

Gernot Mittendorfer, Supervisory Board member (02.12.2013. -)

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

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

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

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

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

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

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

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

She is Head of Custody Department

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

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

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

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

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

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

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

2.3. Members of Managing Board on 31 December 2017

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

Krisztina Zsiga Executive Director, Deputy CEO Risk management

Ivan Vondra Executive Director, Deputy CEO Finance

Tamás Foltányi: Executive Director, Deputy CEO IT and Operation

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

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

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

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

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

5. Report on the operation of individual committees

5.1. Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

5.2. Audit Committee

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

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

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

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

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

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

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

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

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

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

Members of the Audit Committee on 31 December 2017

Friedrich Rödler, Chairman

Gernot Mittendorfer, Deputy Chairman

Maximilian Clary Und Aldringen, member

5.3. Risk Governance Committee

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

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

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

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

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

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

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

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

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

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

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

Frederik Silzer, Deputy Chairman
dr. János Rudnay

5.4. Remuneration and Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Audit

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

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

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

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

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

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

Audit Committee

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

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

Anti money-laundering and Compliance

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

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

Risk Management

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

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

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

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

Standing auditor

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

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

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

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

7. The company's disclosure policy

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

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

8. The Company's policy on trading by insiders

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

9. Method of exercising shareholders' rights

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

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

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

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

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

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

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

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

10. Remuneration statement

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

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

³ Act CXX of 2001 on the Capital Market

⁴ Act V of 2013 on the Civil Code of Hungary

II. PART

Corporate Governance Report on Compliance with the Corporate Governance Recommendations

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

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

Level of compliance with the Recommendations

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

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

Yes (Complies) No (Explanation)

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

Yes (Complies) No (Explanation)

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

Yes (Complies) No (Explanation)

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

Yes (Complies) No (Explanation)

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

Yes (Complies) No (Explanation)

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

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

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

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

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

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

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

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

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

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

Yes (Complies) No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Please explain)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

No Board of Directors operates at the Company.

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

A 2.6.3

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

Yes (Complies)

No (Explanation)

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

A 2.6.4

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

A 2.7.1

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

Yes (Complies)

No (Explanation)

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

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Please explain)

Within the framework set out in the Credit Institution Act.

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

A 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

⁶ Act CXX of 2001 on Capital Markets

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

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

Yes (Complies)

No (Explanation)

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

Level of compliance with the Suggestions

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

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

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

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

3. Annex No. 3 Non-financial statement

Non-financial statement

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

Environmental protection

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

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

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

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

Social and employment questions, respecting human rights

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

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

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

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

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

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

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

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

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

Fight against corruption and blackmailing

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

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

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

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

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

Social banking

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

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

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

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