

ERSTE Investment Ltd.

Financial Statements prepared in accordance with
International Financial Reporting Standards as adopted by
the European Union
31 December 2016

ERSTE INVESTMENT LTD.

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Independent Auditors' Report

To the Shareholder of Erste Befektetési Zrt.

Opinion

We have audited the accompanying 2016 annual financial statements of Erste Befektetési Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2016 - showing a balance sheet total of HUF 142,900,813 thousand and a total comprehensive income for the year of HUF 2,381,034 thousand -, the statement of profit and loss, statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the annual financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Other matters

The Company prepared its 2016 annual financial statements in accordance with the Act C of 2000 on Accounting on which we expressed an unmodified opinion on 24 April 2017.

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

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

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Budapest, 18 September 2017



Szabó Gergely
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

ERSTE INVESTMENT LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(in thousands of HUF, unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

At December 31, 2016

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
ASSETS			
Cash and bank account	3.	90,200,092	59,013,860
Financial assets at fair value held for trading	4.	16,264,733	2,917,522
Trading assets pledged as collateral	5.	0	1,016,798
Derivative financial assets	6.	25,651	11,803
Financial assets -available-for-sale	7.	33	33
Receivables from securities trading	8.	2,320,072	1,376,250
Receivables from customers	9.	31,155,546	15,448,191
Other assets	10.	760,733	707,850
Current tax assets	11.	313,595	32,882
Deferred tax assets	28.	0	121,997
Tangible fixed assets	12.	244,179	243,454
Intangible fixed assets	12.	1,616,179	1,583,843
TOTAL ASSETS		142,900,813	82,474,483
LIABILITIES AND EQUITY			
Financial liabilities at fair value held for trading	13.	1,093,998	93,173
Derivative financial liabilities	6.	35,119	10,320
Payables on securities trading	14.	1,351,581	1,209,343
Payables to customers	15.	89,171,745	65,074,762
Trade payables	16.	87,045	49,088
Short-term loans	17.	38,029,171	3,864,185
Other liabilities	18.	2,162,641	1,157,270
Provisions	19.	18,068	649,467
Deferred tax liabilities	28.	3,536	0
TOTAL LIABILITIES		131,952,904	72,107,608
EQUITY			
Share capital	20.	2,000,000	2,000,000
Share premium	20.	141,882	141,882
Retained earnings		8,806,027	8,224,993
TOTAL EQUITY		10,947,909	10,366,875
TOTAL LIABILITIES AND EQUITY		142,900,813	82,474,483

Approved by the Board of Directors on September 18, 2017 Budapest


 ERSTE Investment
 Erste Befektetési Zrt.
 1138 Budapest, Népfürdő utca 74-76

Róbert Cselovszki, Géza Ráner
 President General Director and Managing Director

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(in thousands of HUF, unless otherwise stated)

STATEMENT OF PROFIT AND LOSS
for the year ended December 31, 2016

	<i>Notes</i>	<u>2016</u>	<u>2015</u>
Net trading income	21.	1,174,394	1,177,034
Net fees and commission income	22.	7,276,839	5,600,810
Impairment of receivables from customers	23.	-189,073	-182,294
Total operating income		8,262,160	6,595,550
Financial result, net	24.	419,954	520,304
General and administrative expenses	25.	-1,085,495	-1,030,646
Personal expenses	26.	-2,789,397	-2,153,362
Other operating expenses, net	27.	-1,283,398	-1,098,615
Depreciation and amortisation	12.	-504,786	-374,676
Total operating expenses		-5,243,122	-4,136,995
Profit before tax		3,019,038	2,458,555
Income tax	28.	-638,004	-694,834
Net profit for the year		<u>2,381,034</u>	<u>1,763,721</u>
<i>Attributable to:</i>			
Equity holders of the parent		2,381,034	1,763,721

Approved by the Board of Directors on September 18, 2017 Budapest



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Róbert Cselovszki, Géza Ráner
President General Director and Managing Director

**ERSTE INVESTMENT LTD.
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(in thousands of HUF, unless otherwise stated)**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31, 2016

	<i>Notes</i>	<u>2016</u>	<u>2015</u>
Net profit for the year		2,381,034	1,763,721
Other comprehensive income for the year, net of tax		0	0
Total comprehensive income for the year, net of tax		2,381,034	1,763,721
<i>Attributable to:</i>			
Equity holders of the parent		2,381,034	1,763,721

Approved by the Board of Directors on September 18, 2017 Budapest


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ERSTE INVESTMENT LTD.
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(in thousands of HUF, unless otherwise stated)

STATEMENT OF CASH FLOW

for the year ended December 31, 2016

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
Operating Activities			
Net profit before income tax		3,019,038	2,458,555
<i>Adjustments to reconcile profit for the year to net cash used in operating activities:</i>		<i>66,109</i>	<i>821,399</i>
Depreciation and amortisation	12.	504,786	374,676
Allowance and release of impairment for past due receivables from negative client cash accounts, net	9.	189,073	182,294
Loss on sale of tangible and intangible fixed assets	12.	3,649	1,192
Allowance and release of provisions for liabilities, net	19.	-631,399	263,237
<i>Changes in operating assets and liabilities:</i>		<i>-38,422,052</i>	<i>231,561</i>
Net change in financial assets at fair value held for trading	4.	-13,347,211	-208,949
Net change in trading assets pledged as collateral	5.	1,016,798	3,849,542
Net change in derivative financial assets	6.	-13,848	143,662
Net change in financial assets -available-for-sale	7.	0	0
Net change in receivables from securities trading	8.	-943,822	-1,038,192
Net change in receivables from customers	9.	-15,896,428	-372,190
Net change in other assets	10.	-52,883	-54,955
Net change in financial liabilities at fair value held for trading	13	1,000,825	-2,392,897
Net change in derivatives financial liabilities	6.	24,799	1,969
Net change in payables on securities trading	14.	142,238	1,005,439
Net change in payables to customers	15.	24,096,983	22,256,658
Net change in deposits from customers	15.	-35,492,831	-22,594,613
Net change in trade payables	16.	37,957	-520,291
Net change in other liabilities	18.	1,005,371	156,378
<i>Income tax paid</i>	28.	<i>-793,184</i>	<i>-529,222</i>
Net cash flow used in operating activities		-36,130,089	2,982,293
Investing activities:			
Purchase of tangible and intangible fixed assets	12.	-544,095	-490,775
Proceeds on disposal of tangible and intangible fixed assets	12.	2,599	3,421
Net cash flow used in investing activities		-541,496	-487,354
Financing activities:			
Borrowings		255,789,171	23,064,185
Repayment of loans		-221,624,185	-21,552,054
Dividend paid	20.	-1,800,000	-2,000,000
Net cash flow from financing activities		32,364,986	-487,869
Net increase in cash and cash equivalents		-4,306,599	2,007,070
Cash and cash equivalents, beginning of the year	3.	5,508,921	3,501,851
Cash and cash equivalents, end of the year	3.	1,202,322	5,508,921

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STATEMENT OF CASH FLOW [continued]

Notes

for the year ended December 31, 2016

		<u>2016</u>	<u>2015</u>
Operating cash flows from interest and dividends			
Interest paid		119,983	133,722
Interest received		460,308	615,008
Dividend received		24,495	31,271
Cash and bank account, end of the year			
Deposits from customers	3.	88,997,770	53,504,939
Nostro accounts	3.	1,202,322	5,508,921
Cash and bank account, end of the year		90,200,092	59,013,860

Approved by the Board of Directors on September 18, 2017 Budapest


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STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2016

	Share Capital	Share premium	Retained Earnings	Total
Notes	20.	20.	20.	
At January 1, 2015	2,000,000	141,882	8,461,272	10,603,154
Dividend paid	0	0	-2,000,000	-2,000,000
Profit for the year	0	0	1,763,721	1,763,721
At December 31, 2015	2,000,000	141,882	8,224,993	10,366,875

	Share Capital	Share premium	Retained Earnings	Total
Notes	20.	20.	20.	
At January 1, 2016	2,000,000	141,882	8,224,993	10,366,875
Dividend paid	0	0	-1,800,000	-1,800,000
Profit for the year	0	0	2,381,034	2,381,034
At December 31, 2016	2,000,000	141,882	8,806,027	10,947,909

Approved by the Board of Directors on September 18, 2017 Budapest



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ERSTE INVESTMENT LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
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NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Erste Investment Ltd. (hereinafter referred to as 'the Company' or "Erste Investment") was formed as a private limited company on May 24, 1990 as Girocentrale. Due to changes in ownership, the name of the Company has changed several times since it was founded. During the ownership of Investmentbank Austria AG the Company was called Bank Austria Investment Hungary [Bank Austria Investment Ltd] until December 18, 1997. Investmentbank Austria AG then sold its 100 % ownership to ERSTE Bank Der Oesterreichischen Sparkassen AG. Due to the change of the ownership, the Company's name was changed to ERSTE Bank Befektetési Magyarország Rt. [ERSTE Bank Investment Hungary]. On December 31, 1997 ERSTE Bank der Oesterreichischen Sparkassen AG acquired majority ownership of the domestic Mezőbank Rt., whose official name, as of November 1, 1998 became ERSTE Bank Hungary Rt. According to the resolutions and merge contracts of the owners, Mezőbank Értékpapírforgalmazó és Befektetési Rt. Magyarország [Mezőbank Securities and Investment Ltd, Hungary], which previously operated independently, was merged into ERSTE Bank Investment on March 31, 1998.

On December 1, 2002 the Court of registration subscribed the ownership change, since the new 100% owner of the Company became ERSTE Bank Hungary.

In 2003 one of the subsidiaries of ERSTE Bank Hungary, ESZE Kft. obtained the 1% ownership of the Company.

On July 31, 2004 the Postbank Security Ltd. was merged into the Company.

In the year 2006 the name of the Company has changed to Erste Befektetési Zrt [Erste Investment Ltd.]. The new name was registered on September 08, 2006.

In the year 2007 ESZE Kft. was merged into the Erste Ingatlan Kft., thus Erste Ingatlan Kft. obtained 1% ownership of the Company. This 1% ownership was sold to Erste Bank Hungary Zrt. on December 15, 2011.

Erste Investment Ltd. is a limited liability company incorporated and domiciled in Hungary.

The headquarters of the Company: 1138 Budapest, Népfürdő u. 24-26.

The ownership structure of Erste Investment Ltd. at December 31, 2016 is as follows:

- 100 % Erste Bank Hungary Zrt. (1138 Budapest, Népfürdő u. 24-26.)

Erste Investment Ltd. is a subsidiary of Erste Bank Hungary Zrt. (hereinafter referred to as 'Erste Bank Hungary') which consolidates the financial statement of Erste Investment Ltd. in its financial statements.

The above mentioned consolidated financial statements are available at the head office of Erste Bank Hungary (1138 Budapest, Népfürdő u. 24-26.).

The ultimate parent of Erste Investment Ltd. is Erste Group Bank AG. (formerly known as Erste Bank der Oesterreichischen Sparkassen AG and hereinafter referred to as 'Erste Group Bank AG.', head

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office: Austria, Wien, 1100 Am Belvedere 1.). It prepares the consolidated financial statement of the International Erste Group. This annual report is available at the head office of Erste Group Bank AG.

The average number of employees at the Company was 149 and 140 as at December 31, 2016 and 2015, respectively.

Erste Investment Ltd. has been approved by MNB (Hungarian National Bank) as the Supervisory Authority, to carry out business activity as an investment company.

Core business activities include:

Erste Investment Ltd.

- trading and selling of listed and not listed securities both on nostro and on commission trade,
- trading and selling of derivative financial instruments, primarily for institutional investors,
- trading and selling of government bonds on primary and secondary markets,
- organizing of public issue of securities,
- organizing of private offering of securities,
- consultation related to purchase, sale, merge and split up of companies,
- trading in investment notes
- portfolio management, primarily for institutional and corporate investors and local governments,
- preparation of share and securities market research,
- investment advisory services,
- maintaining securities accounts of the clients related to core business activities; providing securities custody and depository services,
- securities lending and borrowing.

**ERSTE INVESTMENT LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(in thousands of HUF, unless otherwise stated)**

2. Accounting policies

2.1 Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for available-for-sale financial assets, financial assets and financial liabilities at fair value held for trading, trading assets pledged as collateral and derivative financial instrument, that have been measured at fair value.

The Financial Statements are presented in thousands of HUF, which is the Company's presentation currency.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations approved by the International Accounting Standards Board ("IASB") as adopted by the European Union.

Basis of consolidation

Until 2015 a Consolidated Financial Statement was prepared for the Erste Investment Ltd. which included the financial statements of Erste Investment Ltd. and its subsidiary the Portfolió Ltd. where the Company owned 100% interest and exercised effective control.

From the year 2016, the Financial Statements of Erste Investment Ltd. is no longer a Consolidated Financial Statements, since Portfolió Ltd was deleted from the Court of registry on January 21, 2015.

The books and records of the Company are maintained in accordance with local requirements and then adjusted to present the financial position and results of operations in accordance with IFRS.

2.2 Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the Financial Statements. The most significant use of judgements and estimates are as follows:

Going concern

The management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that determined them. Models are approved in the product development process before they are used and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require

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Management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Impairment losses on loans and advances

The Company reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Statement of profit and loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The Company determines the allowances appropriate for each loan or advance on an individual basis without materiality limit.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of equity instruments

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. The Company treats 'significant' generally as 30% or more and 'prolonged' greater than 12 months. In addition, the Company evaluates other factors, such as the share price volatility.

2.3 Summary of significant accounting policies

2.3.1 Foreign currency translation

Foreign currency transactions are translated into HUF at the official exchange rates published by the National Bank of Hungary prevailing on the transaction date.

The Company determines its own functional currency and items included in the Financial Statements are measured using that functional currency. Foreign currency transactions are recorded in the functional currency at the rate ruling at the date of the transaction. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the Statement of profit and loss.

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2.3.2 Cash and bank account

Cash and bank account consist of cash on hand and amounts due from financial institutions (i.e.: commercial banks, KELER ZRt., (Central clearing house and depository) except for transactions under settlement with KELER Zrt.), which mature within three months of the date of origination and are free from contractual encumbrances. These accounts contain nostro accounts and deposits from customers, not available for use by the Company. According to the legal requirements the customer deposits are held on separate bank accounts (commercial bank or KELER ZRt.) The Company may receive interest on these separate deposits, but the Company does not pay any interest to the customers on it. The customer deposits may be used restrictedly for the next purposes:

- financial settlement of the customer's transactions
- settlement of liabilities to customers.

The separate bank accounts are not presented as part of cash and cash equivalents.

Cash and cash equivalents as referred to in the Statement of cash flow comprises cash on hand and non-restricted nostro bank accounts.

There are no other short- term assets with an original maturity of three months or less in this line of the statement of financial position.

See Notes 3. and Statement of cash flow

2.3.3 Financial assets and liabilities

Financial assets and liabilities in the scope of International Accounting Standard 39 ("IAS 39") "Financial Instruments: Recognition and Measurement" are classified as either financial assets or liabilities at fair value held for trading or designated at fair value, financial assets or liabilities measured at amortised cost, or financial assets available-for-sale, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition.

The Relationships between the Statement of Financial Position and measurement categories are described in the next table:

Balance sheet	Measurement method	
	Fair Value	At amortised cost
Assets		
Cash and bank account		x
Financial assets at fair value held for trading	x	
Trading assets pledged as collateral	x	
Derivative financial assets	x	
Financial assets -available-for-sale		x
Receivables from securities trading		x
Receivables from customers		x

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Liabilities

Financial liabilities at fair value held for trading	x	
Derivative financial liabilities	x	
Payables on securities trading		x
Payables to customers		x
Trade payables		x
Short-term loans		x

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

2.3.3.1 Financial assets and liabilities at fair value held for trading

Financial assets and liabilities at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. The financial assets and liabilities at fair value held for trading are measured at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expenses are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling and/or repurchasing in the near term.

2.3.3.2 Trading assets pledged as collateral

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position (instrument is derecognized) if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

2.3.3.3 Derivative financial instruments

In the normal course of business, Erste Investment enters into various derivative financial instruments. Such financial instruments are held for trading and are initially recognised and subsequently measured at their fair value. Fair values are determined based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Gains and losses resulting from these instruments are included in the Statement of profit and loss as Net trading income.

In relation to derivative trading Erste Investment usually requires customers and is sometimes required by counterparts to place deposit in the form of cash or securities to cover risks related to the

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instrument. If the deposit is received or paid in accordance with the terms of a particular contract it is considered to be a part of the contract's fair value and is included in derivative assets or liabilities as of the year end. If the deposit placed or received is not directly linked to a particular contract it is shown as a receivable or payable with counterparts or customers on the face of the statement of financial position.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated stock exchanges and are subject to daily cash margin requirements.

The Company currently has no option transactions.

2.3.3.4 Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that are classified as available-for-sale or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised through Other Comprehensive Income as Available-for sale Reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Statement of profit and loss. Interest is calculated using the effective interest method and recognised in the Statement of profit and loss. Dividends on available-for-sale equity instruments are recognised as profit or loss when the Company's right to receive payment is established. Equity instruments currently classified as available-for-sale have a fair value equal to cost as this is believed to be the best estimate of their fair value.

For available-for-sale financial investments, Erste Investment assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of profit and loss – is removed from Available-for-sale Reserve and recognised in the Statement of profit and loss. Impairment losses on equity investments are not reversed through the Statement of profit and loss; increases in their fair value after impairment are recognised directly in Available-for-sale Reserve.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Net trading income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of profit and loss, the impairment loss is reversed through the Statement of profit and loss.

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2.3.3.5 Financial assets measured at amortised cost

Financial assets measured at amortised cost are carried at amortised cost using the effective interest method. Interest is recognized in the Statement of profit and loss. Gains and losses are recognised in the Statement of profit and loss when the loans and receivables are derecognised or impaired.

2.3.3.5.1 Receivables from customers

The Company may grant investment loans to its clients. The purpose of an investment loan is to complement the resources available for the purchase of a security or to provide credit for the whole of the purchase price. The purchase of securities with investment loans can take place exclusively with the completion of a commissioned purchase order given by the client to the Company simultaneously with the agreement on the investment loan.

Receivables from customers are in all instances fully collateralized upon the entry into of the transaction with the client. In case of default, the Company is permitted to sell the assets of the client and offset its receivables against the cash obtained.

Subject to compliance of the maximum value of the investment loan allowed for financing at any point of time, the Company may limit the stock of investment loans and deferred payments for any given security. The maximum size of an investment loan that can be granted to a client is determined on the basis of their client rating.

If the Company allowed the client a deferred financial settlement, the total quantity of the securities purchased in the transaction affected by the deferred financial settlement shall be used as collateral for the benefit of the Company, in addition to which, the client is obliged to provide the collateral determined by the Company (basic and floating collateral), continuously, until the financial settlement of the transaction.

2.3.3.5.2 Receivables from securities trading

Receivables from securities trading include the following:

- Receivables from trading on the Budapest Stock Exchange (BSE) shows the balance of receivables resulting from securities transactions concluded on the stock exchange on own account around the statement of financial position date (not trade on commission).
- Receivables from OTC market trading include receivables from security transactions concluded on the OTC market on own account (not trade on commission).
- Other receivables from KELER Zrt. include settlement and deposit accounts held with the clearing house and amounts transferred to the Stock Exchange Settlement Fund maintained by the clearing house.

2.3.3.5.3 Allowance for impairment of loans and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, Erste Investment first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Erste Investment determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a

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group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). Accounting for impairment on other receivables (trade receivables, receivables against stock exchange) is carried out based on the same principles. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realised or have been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the impairment of receivables from customers.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.3.3.6 Financial liabilities measured at amortised cost

2.3.3.6.1 Payables on securities trading

Payables on securities trading include the following:

- Payables arising from OTC and auction trading includes liabilities from security transactions concluded on the OTC market on own account (not trade on commission).
- Payables arising from trading on the Budapest Stock Exchange shows the balance of liabilities resulting from securities transactions concluded on the stock exchange on own account around the statement of financial position date (not trade on commission).

2.3.3.6.2 Payables to customer

Payables to customer include the positive balance of the Clients Accounts.

Client Accounts mean the accounts kept for clients and exclusively used for the execution of client orders.

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2.3.3.7 Derecognition of financial assets and liabilities

The Company derecognises a financial asset and a financial liability only when the derecognition criteria in IAS 39 are met.

Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- the Company has transferred substantially all the risk and rewards of the asset, or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In case, the Company also recognised an associated liability the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations the Company has retained.

Continuing involvement has taken the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of profit and loss.

2.3.4 Repurchase and reverse repurchase agreements

Erste Investment enters into transactions involving the purchase of securities with a simultaneous agreement to resell (reverse repurchase agreements) and transactions involving the sale of securities with a simultaneous agreement to repurchase (repurchase agreements) to provide short-term financing and liquidity. In reverse repurchase agreements, the cash delivered is derecognised and a corresponding receivable, including accrued interest, is recorded on the statement of financial position, recognising the Company's right to receive it back. In repurchase agreements, the cash received, including accrued interest is recognised on the statement of financial position with a

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corresponding obligation to return it. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised as interest income or interest expense over the life of each agreement using the effective yield method and included in interest income and expense, respectively.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on or are not derecognised from the statement of financial position, unless the risks and rewards of ownership are obtained or relinquished. In repurchase agreements where Erste Investment transfers owned securities and where the recipient is granted the right to resell or re-pledge them, the securities are reclassified in the statement of financial position to trading assets pledged as collateral. Erste Investment monitors the market value of the securities received or delivered on a daily basis and provides or requests additional collateral or recalls or returns surplus collateral in accordance with the underlying agreements.

2.3.5 Securities borrowing and lending

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

2.3.6 Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at cost, less accumulated depreciation and amortisation. Depreciation and amortisation are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	17 years
Machinery, equipment and vehicles	5 to 7 years
Software	3 years
Other intangibles	3 to 8 years

Depreciation and amortisation on tangible and intangible fixed assets commence on the day such assets are placed into service. Depreciation is not charged on land or on assets in the course of construction.

The carrying value of each tangible and intangible asset is reviewed annually and adjusted for permanent impairment, where it is considered necessary. Where the carrying value of a tangible or intangible fixed asset is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

The Company currently has no intangible assets with indefinite useful lives.

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2.3.7 Provisions and contingencies

Provisions are recognised when Erste Investment has a current legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any losses in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is virtually certain.

2.3.8 Taxation

Income taxes

Income taxes have been provided for in the Financial Statements in accordance with the tax legislation enacted or substantively enacted by the statement of financial position date in the Hungarian jurisdictions in which Erste Investment operates. The income tax charge comprises current and deferred taxes and is recognised in the Statement of profit and loss. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. The Hungarian local business tax and innovation contribution are presented as part of income tax. Taxes other than income taxes are recorded within operating expenses.

Deferred taxes

Deferred income tax is provided using liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Bank Tax

The Hungarian Parliament approved the Act 2006. LIX. in August 2010 that provides the framework for the levying of a "bank tax".

The basis and the rate of the bank tax that is payable is dependent upon the type of financial institution. The rates are uniformly based on the statutory reported financial data of the reporting entity for the period ended 31 December 2009. For investment companies the tax base is determined as the income from investment service activities less expenses on investment service activities as disclosed in the Hungarian stand alone annual report for the year 2009. The applicable tax rate is 5.6 %. The bank tax is recorded as an expense in the financial period in which it is legally payable. As the bank tax is based on the prior year non net income measures it does not meet the definition of an

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income tax under IFRS and is therefore presented as an operating expense in the Statement of profit and loss.

The Banking tax act was amended in November 2014 and extended by a new special tax for investment fund dealers from 2015. The tax is based on foreign-issued investment fund offered in Hungary by dealers, kept on the securities accounts of their clients, calculated as the daily net asset value. The annual rate of the tax is 0.05 per cent of the tax base.

2.3.9 Customer assets and funds

Erste Investment acts in its own name as trustee and also in a fiduciary capacity for the benefit of third parties. The assets managed in such a capacity are not reported on the statement of financial position as they are not the assets of the Company. Erste Investment earns commission and performance fee income from such transactions and assets. These activities potentially expose Erste Investment to liability risks in cases of gross negligence with regard to non-compliance with its fiduciary and contractual duties. Erste Investment has policies and processes in place to control these risks.

2.3.10 Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading and the derivative financial instruments and net gains on financial assets available for sale. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised through Other Comprehensive Income as available-for-sale Reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in "Net trading income". Interest is calculated using the effective interest method and recognised in "Net trading income". Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. Dividends on available-for-sale equity instruments are recognised as profit or loss when the Company's right to receive payment is established.

2.3.11 Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into two broad categories, income earned from services that are provided over a certain period of time and income earned from providing transaction-type services. The key basis of recognition is as follows:

Fees and commission earned from services that are provided over a certain period of time are recognised over the service period.

Fees and commission earned from providing transaction-type services are recognised when the service has been completed.

Performance linked fees or fee components are recognised when the performance criteria are met.

Fee and commission income is predominantly earned from services that are provided over a period of time including assets and wealth management, advisory fees. Fees predominantly earned from providing transaction-type services include underwriting fees and commission and brokerage fees.

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2.3.12 Dividends

Dividends are recognised as a liability at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the Financial Statements are authorised for issue.

2.3.13 Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

2.3.14 Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the period of the lease term and are included in general and administrative expenses.

2.3.15 Determination of whether an arrangement contains a lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.4 Changes in accounting policies

APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2016. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Erste Investment are listed below.

Effective standards and interpretations

The following standards and their amendments have become mandatory for our financial year 2016, endorsed by the EU:

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

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Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016).

Disclosure Initiative makes the following changes:

Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Notes: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

These changes and clarifications did not result in significant changes in the presentation of Erste Investment's IFRS financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (IASB Effective Date: 1 January 2016). Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets.

Application of these amendments did not have a significant impact on Erste Investment's financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date: 1 January 2016). In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016. Application of these amendments did not have a significant impact on Erste Investment's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB, but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

-IFRS 9: Financial Instruments

-IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15

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Following standards, amendments and interpretations are not yet endorsed by the EU:

- IFRS 16: Leases
- Clarifications to IFRS 15: Revenue from Contracts with Customers
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7: Disclosure Initiative

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018). IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income- (unless such treatment would create or enlarge accounting mismatch in profit or loss, in which case these changes are presented in profit or loss as well). IFRS 9 provides an option to apply this requirement early, however Erste Investment does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instrument whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS9, entities can either (a) start with full application of the hedge accounting requirements of IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS39. Erste Investment plans to implement the third choice, although having no hedge accounting item in the year of 2016. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.

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Based on the accounting policy choice embedded into the transition requirements of IFRS 9, Erste Investment will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

Starting with the second half of 2017 a fully-fledged parallel run of the “as is” IAS 39 and the “to be” IFRS9 driven processes for classification, measurement, impairment and disclosure/reporting for financial instruments is planned.

On this basis, Erste Investment upholds its previous expectations that this standard will have no significant effect on balance sheet items and measurement methods for financial instruments.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018).

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on Erste Investment’s financial statements.

IFRS 16 Leases (IASB Effective Date: 1 January 2019).

In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017). Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can lead to deductible temporary differences. The amendments also clarify that not the carrying amount but the tax base of an asset is the relevant base for the estimate of future taxable profits and that the carrying amount is not the ceiling to be used for the calculation. When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences.

The impact on the financial statements will be evaluated, but it is not expected that these amendments will have a significant impact.

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Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).

Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application of these amendments is expected to result in new disclosures since financing activities in the cash flow statement of Erste Investment relate to financial liabilities.

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3. CASH AND BANK ACCOUNT

Cash and bank account	<u>2016</u>	<u>2015</u>
Cash on hand	475	434
Deposits with KELER Zrt.	241,850	858,565
Current accounts with banks	<u>89,957,767</u>	<u>58,154,861</u>
	<u>90,200,092</u>	<u>59,013,860</u>
 Nostro accounts/ cash and cash equivalents	 1,202,322	 5,508,921
Deposits from customers/not available for use by the Company	<u>88,997,770</u>	<u>53,504,939</u>
	<u>90,200,092</u>	<u>59,013,860</u>

According to the legal requirements the customer deposits are held on separate bank accounts (commercial bank or KELER ZRt.) The Company may receive interest on these separate deposits, but the Company does not pay any interest to the customers on it. The customer deposits may be used restrictedly.

4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	<u>2016</u>	<u>2015</u>
Hungarian government bonds	14,879,016	573,925
Shares quoted on the Budapest Stock Exchange	1,302,602	745,332
Treasury bills	17,249	1,487,641
Investment notes	13,033	4,611
Other bonds held for trading	<u>52,833</u>	<u>106,013</u>
	<u>16,264,733</u>	<u>2,917,522</u>

99.92% and 99.88% of the financial assets at fair value held for trading were denominated in HUF as at December 31, 2016 and 2015, respectively.

Interest rates on securities held for trading ranged from 0.96% to 8.15% and 1.35% to 10.00% as at December 31, 2016 and 2015, respectively.

In case of securities lending transactions Erste Investment continues to recognise the financial asset in its statement of financial position, if the Company transfers a financial asset in such a way that it retains substantially all the risks and rewards of ownership of the financial asset.

In case of securities borrowing transactions Erste Investment does not recognise the financial asset in its statement of financial position, if the Company obtains a financial asset in such a way that the counterparty retains substantially all the risks and rewards of the financial asset.

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4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]

The tables below show the outstanding balances of Erste Investment from securities borrowing/lending transactions and repurchase/reversed repurchase agreements as at December 31, 2016 and 2015, respectively.

Securities borrowing transactions on December 31, 2016

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
OTP	2016.12.30	2017.12.30	10,000,000	837,677
OTP	2016.12.30	2017.01.27	3,000,000	251,303
2018/A MAGYAR ÁLLAMKÖTVÉNY	2016.12.30	2017.05.09	3,650,000,000	4,014,526
OTP BOND 20161107	2016.12.27	2017.01.02	100,000	28,730
Erste GBP/HUF Turbo Long 06	2016.12.27	2017.09.08	50,000	13,100
Erste BUX Turbo Short 11	2016.12.27	2017.09.08	50,000	21,950
Erste Henry Hub Turbo Short 36	2016.12.28	2017.09.08	50,000	14,141
Erste WTI Olaj Turbo Short 63	2016.12.28	2017.09.08	50,000	264,000
Erste USD/HUF Turbo Long 23	2016.12.29	2017.09.08	50,000	7,378
Erste MOL Turbo Long 22	2016.12.29	2017.12.31	50,000	16,450
Erste EUR/USD Turbo Short 16	2016.12.29	2017.09.08	50,000	7,336
ERSTE WTI OLAJ 02	2016.12.30	2017.12.29	400,000	225,409
ERSTE MOL TURBO SHORT 01	2016.12.30	2017.12.29	30,000	5,145
ERSTE MOL TURBO SHORT 02	2016.12.30	2017.12.29	30,000	10,910
ERSTE OTP TURBO LONG 08	2016.12.30	2017.12.29	35,000	201,250
ERSTE MAGYAR TELEKOM TURBO SHORT 01	2016.12.30	2017.12.29	40,000	8,200
ERSTE MAGYAR TELEKOM TURBO LONG 03	2016.12.30	2017.12.29	40,000	10,800
ERSTE DAX OPEN END TURBO LONG 01	2016.12.30	2017.12.29	20,000	178,920
ERSTE DAX 02 CERTIFIKÁT	2016.12.30	2017.12.29	10,000	35,500
Erste Ezüst 02 certifikát	2016.12.30	2019.09.30	40,000	19,019
ERSTE MAGYAR TELEKOM TURBO LONG 04	2016.12.30	2017.12.29	40,000	12,040
ERSTE COMMERZBANK TURBO SHORT 04	2016.12.30	2017.12.29	40,000	9,760
ERSTE COMMERZBANK TURBO SHORT 05	2016.12.30	2017.12.29	40,000	9,600
ERSTE MAGYAR TELEKOM TURBO LONG 05	2016.12.30	2017.12.29	40,000	8,805
ERSTE RICHTER TURBO LONG 03	2016.12.30	2017.12.29	10,000	34,316
ERSTE MOL TURBO LONG 15	2016.12.30	2017.12.29	30,000	32,910
ERSTE MOL TURBO LONG 16	2016.12.30	2017.12.29	30,000	31,500
Erste OTP Turbo Long 15	2016.12.30	2017.12.29	35,000	161,239
ERSTE RICHTER TURBO LONG 04	2016.12.30	2017.12.29	10,000	30,474
Erste OTP Turbo Long 16	2016.12.30	2017.12.29	35,000	171,990
Erste OTP Turbo Long 16	2016.12.30	2017.12.29	50,000	245,700
ERSTE MOL TURBO LONG 17	2016.12.30	2017.12.29	30,000	27,120
Erste OTP Turbo Long 17	2016.12.30	2017.12.29	35,000	155,855

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4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]

Securities borrowing transactions on December 31, 2016

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
Erste OTP Turbo Long 18	2016.12.30	2017.12.29	35,000	129,920
ERSTE RICHTER TURBO LONG 05	2016.12.30	2017.12.29	10,000	23,904
Erste OTP Turbo Long 19	2016.12.30	2017.12.29	35,000	110,565
Erste Richter Turbo Long 06	2016.12.30	2017.12.29	10,000	19,040
Erste Richter Turbo Short 06	2016.12.30	2017.12.29	10,000	4,075
Erste Richter Turbo Short 06	2016.12.30	2017.12.29	50,000	20,373
Erste Volkswagen Turbo Long 02	2016.12.30	2017.12.29	40,000	57,200
Erste Commerzbank Turbo Short 07	2016.12.30	2017.12.29	40,000	6,600
Erste Commerzbank Turbo Short 08	2016.12.30	2017.12.29	40,000	4,629
Erste Volkswagen Turbo Short 01	2016.12.30	2017.12.29	40,000	55,680
Erste Volkswagen Turbo Short 02	2016.12.30	2017.12.29	40,000	25,160
Erste Volkswagen Turbo Short 03	2016.12.30	2017.12.29	40,000	18,990
ERSTE WTI OLAJ 03	2016.12.30	2017.12.07	40,000	52,444
ERSTE MOL TURBO LONG 19	2016.12.30	2017.12.29	40,000	30,080
Erste OTP Turbo Long 20	2016.12.30	2017.12.29	50,000	135,833
Erste Richter Turbo Long 08	2016.12.30	2017.12.29	40,000	56,176
Erste Volkswagen Turbo Long 03	2016.12.30	2017.12.29	50,000	86,704
Erste BUX Turbo Long 11	2016.12.30	2017.09.15	50,000	41,535
Erste BUX Turbo Long 12	2016.12.30	2017.09.08	30,000	27,780
Erste BUX Turbo Long 13	2016.12.30	2017.09.15	50,000	64,500
Erste DAX Turbo Long 75	2016.12.30	2017.09.15	50,000	492,500
Erste DAX Turbo Long 75	2016.12.30	2017.09.15	50,000	492,500
Erste Henry Hub Turbo Short 32	2016.12.30	2017.09.15	50,000	7,555
Erste MOL Turbo Long 20	2016.12.30	2017.12.29	50,000	34,500
Erste Ezüst Turbo Short 34	2016.12.30	2017.12.29	50,000	143,050
Erste Ezüst Turbo Short 35	2016.12.30	2017.09.15	50,000	106,450
Erste DAX Turbo Long 76	2016.12.30	2017.09.14	30,000	204,404
Erste BUX Turbo Long 14	2016.12.30	2017.09.15	50,000	34,650
Erste S&P 500 Turbo Long 25	2016.12.30	2017.09.14	50,000	43,610
ERSTE MAGYAR TELEKOM TURBO LONG 06	2016.12.30	2017.12.29	50,000	8,350
Erste DAX Turbo Long 77	2016.12.30	2017.09.08	50,000	263,689
Erste DAX Turbo Short 64	2016.12.30	2017.09.08	50,000	50,326
Erste DAX Turbo Short 65	2016.12.30	2017.09.08	50,000	128,946

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4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]

Securities borrowing transactions on December 31, 2016

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
Erste DAX Turbo Long 08 EUR	2016.12.30	2017.09.08	50,000	342,138
Erste DAX Turbo Short 06 EUR	2016.12.30	2017.09.15	50,000	52,705
Erste S&P 500 Turbo Long 26	2016.12.30	2017.09.15	50,000	60,769
Erste S&P 500 Turbo Short 25	2016.12.30	2017.09.15	50,000	15,194
ERSTE EUR/HUF TURBO LONG 29	2016.12.30	2017.09.15	50,000	11,490
ERSTE EUR/HUF TURBO LONG 30	2016.12.30	2017.09.15	50,000	6,757
ERSTE USD/HUF TURBO LONG 21	2016.12.30	2017.09.15	50,000	27,458
ERSTE USD/HUF TURBO LONG 22	2016.12.30	2017.09.15	50,000	16,759
ERSTE EUR/HUF TURBO SHORT 39	2016.12.30	2017.09.15	50,000	6,363
ERSTE EUR/HUF TURBO SHORT 40	2016.12.30	2017.09.15	50,000	11,250
ERSTE USD/HUF TURBO SHORT 26	2016.12.30	2017.09.15	50,000	15,796
Erste EUR/USD Turbo Long 17	2016.12.30	2017.09.08	50,000	8,761
Erste GBP/HUF Turbo Long 04	2016.12.30	2017.09.15	50,000	22,350
Erste EUR/USD Turbo Short 13	2016.12.30	2017.09.15	50,000	21,725
Erste EUR/USD Turbo Short 14	2016.12.30	2017.05.19	50,000	29,000
Erste GBP/HUF Turbo Short 04	2016.12.30	2017.09.15	50,000	10,450
Erste GBP/HUF Turbo Short 05	2016.12.30	2017.09.15	50,000	19,668
Erste Euro Bund Turbo Short 24	2016.12.30	2017.09.15	50,000	195,200
ERSTE HENRY HUB TURBO LONG 38	2016.12.30	2017.09.15	50,000	25,850
ERSTE HENRY HUB TURBO LONG 39	2016.12.30	2017.09.15	50,000	18,497
Erste WTI Olaj Turbo Long 63	2016.12.30	2017.09.15	50,000	290,696
Erste WTI Olaj Turbo Long 64	2016.12.30	2017.09.15	50,000	215,190
Erste WTI Olaj Turbo Short 61	2016.12.30	2017.09.15	50,000	131,097
Erste Arany Turbo Long 37	2016.12.30	2017.09.15	50,000	173,784
Erste Ezüst Turbo Long 37	2016.12.30	2017.09.15	50,000	26,781
Erste Arany Turbo Short 36	2016.12.30	2017.09.15	50,000	453,100
Erste Arany Turbo Short 37	2016.12.30	2017.09.15	50,000	578,200
Erste Ezüst Turbo Short 36	2016.12.30	2017.09.15	50,000	81,550
Erste OTP Turbo Long 22	2016.12.30	2017.12.29	50,000	110,000
Erste OTP Turbo Short 11	2016.12.30	2017.12.29	50,000	23,070
Erste BUX Turbo Long 15	2016.12.30	2017.09.15	50,000	25,850
Erste BUX Turbo Short 10	2016.12.30	2017.09.08	50,000	11,700
Erste Commerzbank Turbo Long 11	2016.12.30	2017.12.29	50,000	4,300

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4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]

Securities borrowing transactions on December 31, 2016

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
Erste OTP Turbo Long 23	2016.12.30	2017.12.29	50,000	85,363
Erste WTI Olaj Turbo Short 62	2016.12.30	2017.09.15	50,000	195,469
Erste EUR/USD Turbo Short 15	2016.12.30	2017.09.15	50,000	14,770
Erste Euro Bund Turbo Long 22	2016.12.30	2017.09.15	50,000	129,250
Erste Euro Bund Turbo Short 25	2016.12.30	2017.09.15	50,000	40,650
Erste OTP Turbo Long 24	2016.12.30	2017.12.29	50,000	58,119
Erste Arany Turbo Long 38	2016.12.30	2017.09.15	50,000	318,784
Erste Ezüst Turbo Long 38	2016.12.30	2017.09.05	50,000	55,939
Erste Arany Turbo Short 38	2016.12.30	2017.09.15	50,000	267,042
Erste Ezüst Turbo Short 37	2016.12.30	2017.09.15	50,000	48,200
Erste S&P 500 Turbo Short 26	2016.12.30	2017.09.15	50,000	29,801
Erste EUR/USD Turbo Long 19	2016.12.30	2017.09.15	50,000	15,837
Erste DAX Turbo Long 78	2016.12.30	2017.09.15	50,000	185,575
Erste WTI Olaj Turbo Long 66	2016.12.30	2017.09.15	50,000	150,320
Total			3,668,240,000	14,723,387

Securities borrowing transactions on December 31, 2015

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
OTP	2015.12.31	2016.01.15	3,500	209,417
Total			3,500	209,417

There was not any security lending transaction on December 31, 2016 and 2015, respectively.

Repurchase and reverse repurchase agreements on December 31, 2016

There was not any repurchase and reverse repurchase transaction on December 31, 2016

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4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]

Repurchase and reverse repurchase agreements on December 31, 2015

Security name	Type	Opening date	Closing date	Nominal value	Fair value
2016/D Magyar Államkötvény	repurchase	2015.12.28	2016.01.05	1,350,000	1,414,538
2023/A Magyar Államkötvény	repurchase	2015.12.28	2016.01.06	500,000	611,650
2025/B Magyar Államkötvény	repurchase	2015.12.28	2016.01.05	200,000	246,020
2025/B Magyar Államkötvény	repurchase	2015.12.23	2016.01.04	2,550,000	3,125,107
2028/A Magyar Államkötvény	repurchase	2015.12.28	2016.01.06	1,500,000	2,043,537
2031/A Magyar Államkötvény	repurchase	2015.12.23	2016.01.04	250,000	240,059
D160413	repurchase	2015.12.23	2016.01.04	3,000,000	2,993,859
D160608	repurchase	2015.12.30	2016.01.06	500,000	498,381
Total repurchase				9,850,000	11,173,150

Security name	Type	Opening date	Closing date	Nominal value	Fair value
2016/D Magyar Államkötvény	reverse repurchase	2015.12.28	2016.01.05	1,350,000	1,414,538
2023/A Magyar Államkötvény	reverse repurchase	2015.12.28	2016.01.06	500,000	611,650
2025/B Magyar Államkötvény	reverse repurchase	2015.12.28	2016.01.05	200,000	246,020
2025/B Magyar Államkötvény	reverse repurchase	2015.12.23	2016.01.04	2,550,000	3,125,107
2028/A Magyar Államkötvény	reverse repurchase	2015.12.28	2016.01.06	1,500,000	2,043,537
2031/A Magyar Államkötvény	reverse repurchase	2015.12.23	2016.01.04	250,000	240,059
D160413	reverse repurchase	2015.12.23	2016.01.04	3,000,000	2,993,859
D160608	reverse repurchase	2015.12.30	2016.01.06	500,000	498,381
Total reverse repurchase				9,850,000	11,173,150

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5. TRADING ASSETS PLEDGED AS COLLATERAL

	<u>2016</u>	<u>2015</u>
Treasury bills	0	1,016,798
	<u>0</u>	<u>1,016,798</u>

The collateral in 2015 was given in connection with securities borrowing transactions and securities trading on the stock exchange.

	<u>2015</u>
	<u>in connection with securities borrowing</u>
D160608	248,971
	<u>248,971</u>

In 2016 the collateral in connection with securities borrowing transactions and securities trading on the stock exchange was off-balance item. It was recorded as securities borrowing transaction.

	<u>2016</u>
	<u>in connection with securities borrowing</u>
2018/A MAGYAR ÁLLAMKÖTVÉNY	1,649,805
	<u>1,649,805</u>

6. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as asset or liability, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

Notional amount

Futures contracts

	<u>2016</u>	<u>2015</u>
Currency futures contracts	921,006	0
Other futures contracts (shares)	1,589,633	155,141
Long positions (notional amount)	<u>2,510,639</u>	<u>155,141</u>
Currency futures contracts	-917,976	0
Other futures contracts (shares)	-1,772,817	-766,375
Short positions (notional amount)	<u>-2,690,793</u>	<u>-766,375</u>
Net position	<u>-180,154</u>	<u>-611,234</u>

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6. DERIVATIVE FINANCIAL INSTRUMENTS [continued]

Fair value	<u>2016</u>	<u>2015</u>
Currency futures contracts	6,653	0
Other futures contracts (shares)	18,998	11,803
Positive fair value positions	<u>25,651</u>	<u>11,803</u>
Currency futures contracts	-4,382	0
Other futures contracts (shares)	-30,737	-10,320
Negative fair value positions	<u>-35,119</u>	<u>-10,320</u>
Net fair value position	<u><u>-9,468</u></u>	<u><u>1,483</u></u>

7. FINANCIAL ASSETS - AVAILABLE-FOR-SALE

	<u>2016</u>	<u>2015</u>
Shares held in Erste Securities Istanbul A.S.	33	33
	<u><u>33</u></u>	<u><u>33</u></u>

Equity instruments classified as available-for-sale have a fair value equal to cost because this is believed to currently be the best estimate of their fair value. Of the available-for-sale securities portfolio 0% was denominated in HUF both at December 31, 2016 and 2015, respectively. As at December 31, 2016 and 2015 100 % of the available-for-sale securities portfolio was denominated in EUR, and recorded at its original purchase price of EUR 121.

8. RECEIVABLES FROM SECURITIES TRADING

	<u>2016</u>	<u>2015</u>
Receivables from trading on the Budapest Stock Exchange	780,655	616,858
Receivables from OTC market trading	713,417	673,392
Other receivables from KELER Zrt.	826,000	86,000
	<u><u>2,320,072</u></u>	<u><u>1,376,250</u></u>

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9. RECEIVABLES FROM CUSTOMERS

	<u>2016</u>	<u>2015</u>
Trade receivables from customers	762,139	595,190
Receivables from negative client cash accounts	1,795,359	1,677,403
Investment loans	29,379,178	2,594,505
Receivables from repo transactions (see Notes 4.)	<u>0</u>	<u>11,173,150</u>
Impairment on past due receivables	<u>-781,130</u>	<u>-592,057</u>
	<u>31,155,546</u>	<u>15,448,191</u>

An analysis of the change in the impairment for past due receivables from receivables from customers are as follows:

	<u>2016</u>	<u>2015</u>
Balance as at January 1	592,057	409,762
Release of impairment	-68,695	-10,594
Impairment charged during the year	<u>257,768</u>	<u>192,889</u>
Balance as at December 31	<u>781,130</u>	<u>592,057</u>

	<u>2016</u>	<u>2015</u>
Gross value of impaired receivables	793,063	599,250
Impairment	<u>-781,130</u>	<u>-592,057</u>
Net value of impaired receivables	11,933	7,193
Not impaired receivables	31,143,613	4,267,848
Not impaired receivables from repo transactions	<u>0</u>	<u>11,173,150</u>
Receivables from customers	<u>31,155,546</u>	<u>15,448,191</u>

10. OTHER ASSETS

	<u>2016</u>	<u>2015</u>
Loans given to employees	102,175	86,718
Prepaid expenses	45,116	37,524
Accrued commission of investment funds	144,121	169,930
Accrued income from brokerage fees	173,463	144,145
Accrued income from profit sharing from Erste Group Bank AG.	12,301	58,979
Accrued income from securities issuance fees	37,269	31,127
Other	9,575	10,318
Advance payment	<u>236,713</u>	<u>169,109</u>
	<u>760,733</u>	<u>707,850</u>

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11. CURRENT TAX ASSETS / CURRENT TAX LIABILITIES

	<u>2016</u>	<u>2015</u>
<u>Current tax assets</u>		
Income tax	317,481	22,083
Innovation contribution	-708	1,217
Local tax	-3,178	9,582
Total	<u>313,595</u>	<u>32,882</u>
<u>Current tax liabilities</u>	<u>2016</u>	<u>2015</u>
Local tax	0	0
Total	<u>0</u>	<u>0</u>

12. TANGIBLE AND INTANGIBLE FIXED ASSETS

	<u>Machinery, Equipment and Vehicles</u>	<u>Intangible assets</u>	<u>Total</u>
<u>Gross value</u>			
January 1, 2016	909,077	3,684,213	4,593,290
Additions	63,763	480,332	544,095
Disposals	-29,572	0	-29,572
December 31, 2016	943,268	4,164,545	5,107,813
<u>Accumulated depreciation and amortisation</u>			
January 1, 2016	665,623	2,100,370	2,765,993
Charge for the year	56,790	447,996	504,786
Disposals	-23,324	0	-23,324
December 31, 2016	699,089	2,548,366	3,247,455
<u>Net book value</u>			
December 31, 2015	<u>243,454</u>	<u>1,583,843</u>	<u>1,827,297</u>
December 31, 2016	<u>244,179</u>	<u>1,616,179</u>	<u>1,860,358</u>

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12. TANGIBLE AND INTANGIBLE FIXED ASSETS [continued]

	Machinery, Equipment and Vehicles	Intangible assets	Total
<u>Gross value</u>			
January 1, 2015	881,501	3,312,183	4,193,684
Additions	118,745	372,030	490,775
Disposals	-91,169	0	-91,169
December 31, 2015	909,077	3,684,213	4,593,290
<u>Accumulated depreciation and amortisation</u>			
January 1, 2015	708,673	1,769,200	2,477,873
Charge for the year	43,506	331,170	374,676
Disposals	-86,556	0	-86,556
December 31, 2015	665,623	2,100,370	2,765,993
<u>Net book value</u>			
December 31, 2014	172,828	1,542,983	1,715,811
December 31, 2015	243,454	1,583,843	1,827,297

Erste Investment does not have any expenditure of property, plant and equipment in the course of its construction on December 31, 2016. Erste Investment does not have any intangible assets from internal development on December 31, 2016.

The acquisition cost of fully amortised tangible and intangible assets was as follows:

Fully amortised still in use

	<u>2016</u>	<u>2015</u>
Tangible fixed assets (fully amortised still in use)	514,689	494,795
Intangible fixed assets (fully amortised still in use)	693,879	376,375
	<u>1,208,568</u>	<u>871,170</u>

13. FINANCIAL LIABILITIES AT FAIR VALUE HELD FOR TRADING

	<u>2016</u>	<u>2015</u>
Short positions	1,093,998	93,173
	<u>1,093,998</u>	<u>93,173</u>

Short position contains shares quoted on the Budapest Stock Exchange (OTP).

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14. PAYABLES ON SECURITIES TRADING

	<u>2016</u>	<u>2015</u>
Payables arising from OTC and auction trading	358,622	567,444
Payables arising from trading on the Budapest Stock Exchange	992,959	641,899
	<u>1,351,581</u>	<u>1,209,343</u>

15. PAYABLES TO CUSTOMERS

	<u>2016</u>	<u>2015</u>
Client accounts in HUF	59,688,645	35,052,199
Client accounts in foreign currency	29,309,125	18,452,740
Liabilities from Erste Structured Products	173,975	396,673
Liabilities from repo transactions (see Notes 4.)	0	11,173,150
	<u>89,171,745</u>	<u>65,074,762</u>

16. TRADE PAYABLES

	<u>2016</u>	<u>2015</u>
Accounts payable (Suppliers)	87,045	49,088
	<u>87,045</u>	<u>49,088</u>

17. SHORT-TERM LOANS

	<u>2016</u>	<u>2015</u>
Short-term loans from domestic banks	35,629,995	0
Overdrafts	2,399,176	3,864,185
	<u>38,029,171</u>	<u>3,864,185</u>

The overdraft in 2015 was granted by Erste Bank Hungary, ING Bank, OTP Bank, interest rates were from 0.75 to 2.7% based on market rates in 2015. The overdraft was granted by Erste Bank Hungary, ING Bank, OTP Bank, interest rates were from 0.1% to 2.0% based on market rates in 2016.

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17. SHORT-TERM LOANS [continued]

December 31, 2016	amount in original currency	original currency	exchange rate	in thousands of HUF
Overdraft credit facility at EBH	1,000,000,000	HUF	1.00	1,000,000
Overdraft credit facility at EBH	6,000,000	EUR	311.02	1,866,120
Overdraft credit facility at EBH	500,000	GBP	361.62	180,810
Overdraft credit facility at EBH	6,000,000	USD	293.69	1,762,140
Overdraft credit facility at EBH	500,000	CHF	289.41	144,705
Overdraft credit facility at OTP	200,000,000	HUF	1.00	200,000
Overdraft credit facility at ING	3,000,000	EUR	311.02	933,060
Total overdrafts credit facilities				6,086,835
Overdraft facility drawn on				2,399,176
Undrawn overdraft facility				3,687,659

2016.december 31.	amount in original currency	original currency	exchange rate	in thousands of HUF
Short-term loans facility	57,000,000,000	HUF	1.00	57,000,000
Short-term loans facility drawn on				35,629,995
Undrawn short-term loans facility				21,370,005

December 31, 2015	amount in original currency	original currency	exchange rate	in thousands of HUF
Overdraft credit facility at EBH	1,000,000,000	HUF	1.00	1,000,000
Overdraft credit facility at EBH	6,000,000	EUR	313.12	1,878,720
Overdraft credit facility at EBH	500,000	GBP	424.96	212,480
Overdraft credit facility at EBH	6,000,000	USD	286.63	1,719,780
Overdraft credit facility at EBH	500,000	CHF	289.38	144,690
Overdraft credit facility at OTP	200,000,000	HUF	1.00	200,000
Overdraft credit facility at ING	3,000,000	EUR	313.12	939,360
Total overdrafts credit facilities				6,095,030
Overdraft facility drawn on				3,864,185
Undrawn overdraft facility				2,230,845

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18. OTHER LIABILITIES

	<u>2016</u>	<u>2015</u>
Accrued commission of agents	1,221,202	848,348
Other accrued expenses (audit fee, Reuters, Hungarian Financial Supervisory Authority fee, other accrued cost and expenditures)	165,926	125,036
Accrued bonus brought forward before 2016	22,610	22,610
Accrued bonus for current year	503,860	0
Wages and salaries liability	0	156
Personal income tax liability	97,372	86,724
Social security liability	68,123	62,896
Banking tax	6,544	7,171
Other tax liability	77,004	4,329
	<u>2,162,641</u>	<u>1,157,270</u>

The amount of bonus, for the period ending December 31, 2015 was not accrued, but there was a provision charged for the bonus amount.

19. PROVISIONS

	<u>2016</u>	<u>2015</u>
Provisions	18,068	649,467
	<u>18,068</u>	<u>649,467</u>

Provisions of the amount of HUF 196,800,000 formed in the previous year with respect to customer receivables not covered by impairment were released in 2016. Among the provisions formed with respect to expected liabilities, there were further provisions of the amount of HUF 439,599 thousands for payments to personnel which were used in 2016. No provisions were formed on such grounds in 2016. Provisions were formed due to litigation to the value of HUF 5,000,000 in 2016.

In 2015 the amount of provision at HUF 439,599 thousands was charged for bonus, while amount of provision at HUF 196,800 thousands was charged for loans and receivables of client.

Changes of provisions

	<u>2016</u>	<u>2015</u>
January 1	649,467	386,230
Charged of provisions	5,000	636,399
Usage of provisions	-636,399	-373,162
December 31	<u>18,068</u>	<u>649,467</u>

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20. EQUITY

The composition of the shares as at December 31, 2016 and December 31, 2015:

- 200,000 pieces of ordinary shares of HUF 10,000 nominal value and each fully paid.

The share premium was HUF 141,882 thousands as at December 31, 2016 and 2015 respectively.

At the Annual General Meeting held on April 22, 2016, the shareholders approved to distribute HUF 1,800,000 thousand in dividends after the year 2015, i.e. HUF 9,000 per share. Erste Investment Ltd. paid this dividend to Erste Bank Hungary Zrt. on May 31, 2016.

Capital risk management

Erste Investment maintains an actively managed capital base to cover risks inherent in the business. The adequacy of Erste Investment Ltd.'s capital is monitored using, among other measures, the rules and ratios established by the Regulation (EU) No 575/2013 of the European Parliament.

During 2016 Erste Investment Ltd. complied in full with all its externally imposed capital requirements.

Capital adequacy

The Regulation (EU) No 575/2013 of the European Parliament directly applicable in order to prevent divergences in implementation at national level. It requires banks and investment firms to hold common equity tier 1 (CET 1) capital of 4.5% of risk weighted assets (until December 2014 between 4% to 4.5%), up from 2% applicable under current rules. The total capital requirement, which includes tier 1 and tier 2 capital, remains unchanged at 8% of risk weighted assets. The regulation defines CET 1 capital instruments using 14 criteria, similar to those set out in Basel 3, and mandates the European Banking Authority (EBA) to monitor the quality of instruments issued by institutions.

The following table shows the solvency margin and capital adequacy based on the statutory accounts of Erste Investment Ltd. in 2016 and 2015 respectively:

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20. EQUITY [continued]

	2016	2015
Paid up capital instruments (Subscribed capital)	2,000,000	2,000,000
Other reserves (Capital reserve)	141,882	141,882
Retained earnings (Profit reserve, if positive)	6,308,688	6,127,556
Standalone retained profit for the year		181,133
Intangible assets (-)	-1,400,394	-1,298,073
TIER 1 CAPITAL (CORE CAPITAL)	9,506,767	7,152,498

Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	32,569,727	17,979,639
Total risk exposure amount for position, foreign exchange and commodities risks	1,533,102	1,172,832
Total risk exposure amount for operational risk (OpR)	13,244,431	12,532,156
Total risk exposure amount for credit valuation adjustment	615,475	684,264
TOTAL RISK EXPOSURE AMOUNT	47,962,734	32,368,891

CET1 Capital ratio (%)	19.82%	22.10%
Surplus(+)/Deficit(-) of CET1 capital	7,348,444	5,695,898
T1 Capital ratio (%)	19.82%	22.10%
Surplus(+)/Deficit(-) of T1 capital	6,629,003	5,210,364

TOTAL CAPITAL RATIO (%)	19.82%	22.10%
SURPLUS(+)/DEFICIT(-) OF TOTAL CAPITAL	5,669,748	4,562,986

21. NET TRADING INCOME

	<u>2016</u>	<u>2015</u>
Net gain on financial assets at fair value held for trading		
Shares	191,342	277,439
Government securities	90,874	229,615
Other bonds	109,591	81,994
Other securities	6,320	812
Net income/expense from futures	303,463	93,670
Net income from forwards	472,804	493,504
	<u>1,174,394</u>	<u>1,177,034</u>

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22. NET FEES AND COMMISSION INCOME

FEE AND COMMISSION INCOME	2016	2015
Brokerage fees	9,170,490	8,953,018
Commission received for securities issuance	2,442,632	1,012,362
Commissions from custodian services	36,641	19,839
Income from portfolio management services	298,156	349,395
Account keeping fee	2,360,221	1,168,545
Other fees and commissions received	42,369	46,332
Total fees and commission income	<u>14,350,509</u>	<u>11,549,491</u>
FEE AND COMMISSION EXPENSES	2016	2015
Brokerage fees paid	-6,701,269	-5,551,303
Commission paid for securities issuance	-31,585	-30,886
Costs of custodian services	-2,091	-38,133
Commission paid for portfolio management services	-92,693	-106,619
Other fees and commissions paid	-246,032	-221,740
Total fees and commission expense	<u>-7,073,670</u>	<u>-5,948,681</u>
Net fees and commission income	<u>7,276,839</u>	<u>5,600,810</u>

23. IMPAIRMENT OF RECEIVABLES FROM CUSTOMERS

	2016	2015
Release of impairment	68,695	10,594
Impairment charged during the year	-257,768	-192,888
	<u>-189,073</u>	<u>-182,294</u>

24. FINANCIAL RESULT, NET

	2016	2015
Interest income	175,889	277,332
Foreign exchange gain	-4,735	-13,487
Interest income of repurchase agreements	20,267	85,528
Income from investment loans and deferred payments	554,506	304,450
Total financial income	745,927	653,823
Interest expense	-305,706	-47,991
Interest expense of repurchase agreements	-20,267	-85,528
Total financial expense	-325,973	-133,519
Financial income, net	<u>419,954</u>	<u>520,304</u>

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25. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Rental fees	-149,470	-154,416
Legal consulting and other advisory fees	-83,404	-58,250
Reuters and other fees	-208,251	-217,031
Bank charges	-62,758	-72,329
Marketing	-31,230	-65,044
Telephone and post	-101,676	-52,162
IT services	-182,550	-194,629
Maintenance	-58,476	-56,358
Insurance fees	-35,551	-31,325
Travelling and accommodation costs	-9,746	-9,838
Administration services	-129,746	-81,750
Training and education costs	-10,993	-10,364
Membership fees	-1,884	-4,680
Other	-19,760	-22,470
	<u>-1,085,495</u>	<u>-1,030,646</u>

26. PERSONNEL EXPENSES

	<u>2016</u>	<u>2015</u>
Wages and salaries	-2,156,102	-1,656,333
Social security expenses	-633,295	-497,029
	<u>-2,789,397</u>	<u>-2,153,362</u>

27. OTHER OPERATING EXPENSES, NET

	<u>2016</u>	<u>2015</u>
Other operating income		
Release of provision	636,399	373,162
Income from consignment services	56,969	16,487
Income from hardware and software services	0	0
Income of fixed asset disposal	2,599	3,421
Other income	49,999	21,452
Total other operating income	<u>745,966</u>	<u>414,522</u>

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27. OTHER OPERATING EXPENSES, NET [continued]

	<u>2016</u>	<u>2015</u>
Other operating expenses		
VAT	-11,710	0
Paid membership and supervisory fees	-1,176,769	-325,030
Donations to foundations	-310,900	-50,000
Expense of fixed asset disposal	-6,248	-4,613
Provisions	-5,000	-636,399
Other taxes paid	-481	-515
Bank tax	-450,766	-452,928
Write off receivable	-8,342	-20,767
Expenses from consignment services	-38,651	-15,862
Other expenses	-20,497	-7,023
Total other operating expense	<u>-2,029,364</u>	<u>-1,513,137</u>
Other operating expenses, net	<u>-1,283,398</u>	<u>-1,098,615</u>

28. INCOME TAXES

The components of income tax expense for the years ended December 31, 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
Current income tax expense	-104,284	-463,607
Local tax expense	-354,945	-298,766
Innovation contribution expense	-53,242	-44,815
Deferred tax benefit / expense	-125,533	112,354
Total income tax	<u>-638,004</u>	<u>-694,834</u>
Net profit before income tax	3,019,038	2,458,555
Effective tax rate after adjustments	21.13%	28.26%

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28. INCOME TAXES [continued]

Statutory income tax expense

In 2016 and 2015, corporate income tax is payable at 19% on taxable statutory profits, the tax was 10% of the positive tax base up to HUF 500 million forints in 2016, and in 2015.

Corporate income tax legislation relative for 2017 business year is published and known by the time of issuance of 2016 financial statement. Two-phase progressive tax rate is changed to general 9% rate. Conforming to that, deferred tax was calculated by applying the 19% tax rate for 2015 and 9% for 2016.

Reconciliation between the tax expense and the accounting profit multiplied by domestic tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Profit before tax	3,019,038	2,458,555
Income tax rate*	19%	19%
Income tax calculated (19%)	573,617	467,125
Local tax and innovation contribution expense	408,187	343,581
Effect of local tax and innovation contribution on income tax	-77,555	-65,280
Tax allowance on Sponsorship of Budapest Olympic Organization	-243,328	0
Income not subject to tax	-15,335	-6,075
<i>dividend</i>	-4,654	-5,941
<i>other</i>	-10,681	-134
Non-deductible expenses	41,846	167
<i>donations</i>	39,900	0
<i>other</i>	1,946	167
Fair value adjustments of financial instruments	-5,127	0
Other permanent differences	698	0
Effect of different tax rate *	-45,000	-44,684
Income tax expense reported in the Statement of profit and loss	638,004	694,834

* The corporate tax was 10% of the positive tax base up to HUF 500 million in 2016 and in 2015.

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28. INCOME TAXES [continued]

Deferred income taxes

The deferred taxes as included in the statement of financial position and changes recorded in the Statement of profit and loss are as follows:

For the year ended December 31, 2016:

	Liabilities	Assets	Statement of profit and loss impact
Fair value adjustments of financial instruments	-4,614	0	-4,747
Allowance of provisions adjustments	450	0	-120,466
Personal costs (unused vacation)	628	0	-320
Total	-3,536	0	-125,533
Net deferred tax assets	-3,536		

For the year ended December 31, 2015:

	Liabilities	Assets	Statement of profit and loss impact
Fair value adjustments of financial instruments	0	133	62,387
Allowance of provisions adjustments	0	120,916	50,015
Fixed assets depreciation	0	0	0
Personal costs (unused vacation)	0	948	-48
Total	0	121,997	112,354
Net deferred tax assets		121,997	

29. FUNDS UNDER MANAGEMENT AND CLIENT'S SECURITIES HANDLED BY THE COMPANY

Erste Investment provides securities custody and depository services. The market value of client's securities handled by the Company amounted to: HUF 1,305,287,217 thousands as at December 31, 2016 and HUF 1,176,989,057 thousands as at December 31, 2015.

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30. RELATED PARTY TRANSACTIONS

The ultimate parent of Erste Investment Ltd. is Erste Group Bank AG. It prepares the financial statement of the International Erste Group. Other related parties of Erste Investment are subsidiaries of Erste Group Bank AG. The following tables provide the outstanding balances at the year-end and the total amount of transactions, which have been entered into with related parties for the relevant financial year.

Transactions with related parties (equity holders: Erste Bank Hungary and ultimate parent: Erste Group Bank AG.) are summarized below for the year ended December 31, 2016:

Open transactions at December 31, 2016

Description / Related Party	Erste Bank Hungary	Erste Group Bank AG
Bank accounts (held at the related party)	84,400,481	4,479,266
Short term loans	-35,423,976	-2,399,108
Receivables from securities trading	0	199,069
Accounts receivable	21,362	24,845
Payables to customers	-4,462	-7,355
Accrued commission (income)	81,567	49,570
Accrued expenses (commission)	-1,040,837	-1,148

Transactions during 2016

	Erste Bank Hungary	Erste Group Bank AG
Interest paid on loan	-224,608	-77,470
Interest received on bank account	199,600	8,324
Commission income	395,975	5,046
Distribution fee	1,600	482,223
Deposit-account management fee income	29,292	0
Paid interdealer fee	-4,483,467	0
Securities borrowing fee (paid)		-9,876
Paid commission fee	-41,898	-26,689
Profit sharing income from securities trading and advisory commission		12,875
Costs charged towards	-36,069	0
Income from costs charged towards and IT services fee	11,214	37,067
IT, SLA fee paid	-39,888	-26,766
Rental fee (office lease payments)	-107,213	0

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30. RELATED PARTY TRANSACTIONS [continued]

Transactions with other related parties for the year ended December 31, 2016:

Open transactions at December 31, 2016

Description / Related Party	Erste Securities Polska	Erste Alapkezelő Zrt.	Erste Sparinvest	Banca Comm. Romana	Ceska sporitelna
Bank accounts (held at the related party)	1,061			7,940	838
Accounts receivable	1,720	3,109			
Other accrued commission income			79,207		
Payables to customers	-383	-6			
Other accrued expenses (rental fee, operating cost)		-23,128			

Transactions during 2016

Description / Related Party	Erste Securities Polska	Erste Alapkezelő Zrt.	Erste Ingatlan Kft.
Interest received on bank account	7		
Commission income from investment notes transactions		318,100	
Commission income	4,250	1,057	
Commission paid	-29,803	-92,693	
Operating costs			-20,421

Description / Related Party	Erste Sparinvest	Ceska sporitelna	Erste Bank London	Banca Comm. Romana	s IT Solutions AT	Procurement Kft.
Interest received on bank account		39				
Interest paid on loan		-115				
Commission income from investment notes transactions	309,460					
Commission income		3,623	13			
Commission paid		-19,472		-246	-87	
Operating cost						-1,254

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30. RELATED PARTY TRANSACTIONS [continued]

Transactions with related parties (equity holders: Erste Bank Hungary and ultimate parent: Erste Group Bank AG.) are summarized below for the year ended December 31, 2015:

Open transactions at December 31, 2015

Description / Related Party	Erste Bank Hungary	Erste Group Bank AG
Bank accounts (held at the related party)	38,771,743	18,376,902
Overdrafts	0	-3,429,606
Receivables from securities trading	0	400,688
Accounts receivable	20,879	75
Payables to customers	-31,895	-4,414
Trade payables	-229	0
Accrued commission (income)	37,595	93,943
Accrued expenses (commission)	-544,350	-7,391
Accrued income (costs charged towards)	38	0
Repo transactions	0	-11,173,150

Transactions during 2015

	Erste Bank Hungary	Erste Group Bank AG
Interest paid on loan	-2,894	-41,366
Interest received on bank account	297,103	5,832
Commission income	248,136	8,538
Distribution fee	12,054	349,059
Deposit-account management fee income	39,252	0
Paid interdealer fee	-3,825,999	0
Securities borrowing fee (paid)	0	-11,566
Paid commission fee	-25,151	-37,741
Profit sharing income from securities trading and advisory commission	0	76,245
Captive fee (paid)	-27,960	0
Income from costs charged towards and IT services fee	15,862	469
IT, SLA fee paid	-33,857	-22,341
Rental fee (office lease payments)	-116,440	0

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30. RELATED PARTY TRANSACTIONS [continued]

Transactions with other related parties for the year ended December 31, 2015:

Open transactions at December 31, 2015

Description / Related Party	Erste Bank Sparkassen AG	Erste Securities Polska	Erste Alapkezelő Zrt.	Erste Sparinvest	Banca Comm. Romana
Bank accounts (held at the related party)	219	164			1,596
Accounts receivable		1,782	5,838		
Other accrued commission income				85,369	
Payables to customers		-426	-1		
Other accrued expenses (rental fee, operating cost)			-25,649		

Transactions during 2015

Description / Related Party	Erste LTP	Erste Bank Sparkassen AG	Erste Securities Istanbul	Erste Securities Polska	Erste Alapkezelő Zrt.	Erste Ingatlan Kft.
Interest received on bank account			4,600	5		
Interest paid on loan		-25	-4,860	-1		
Commission income from investment notes transactions					312,691	
Commission income	313			9,180	5,838	
Commission paid		-1,430		-64,271	-106,336	
Operating costs						-21,071

Description / Related Party	Erste Sparinvest	Ceska sporitelna	Erste Bank London	Banca Comm. Romana	s IT Solutions AT	Procurement Kft.
Interest received on bank account						
Interest paid on loan						
Commission income from investment notes transactions	375,907					
Commission income		3,308	502			
Commission paid				-642	-68	
Operating cost						-1,576

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30. RELATED PARTY TRANSACTIONS [continued]

The securities held by the Company include bonds issued by Erste Bank Hungary amounting to HUF 51,866 thousands as at December 31, 2016.

The securities held by the Company include bonds issued by Erste Bank Hungary amounting to HUF 45,300 thousands as at December 31, 2015.

31. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The members of the Board of Directors have not received any loan during 2016 and 2015 respectively.

The Board of Directors and Members of the Supervisory Board received no remuneration for their Board related activities in 2016 and in 2015.

The compensation of key management personnel - such as the members of the Management, key employees (heads of department) of Erste Investment is summarised below:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	629,518	609,106

32. OPERATING LEASES

The Company has entered into operating leases on premises. These leases have a life of 10 years with a renewal option for an additional 5 years included in the contracts.

Erste Investment rents its offices from Erste Bank Hungary Zrt. The rental fee (lease payments) of the offices paid by the Company amounted to HUF 107,213 thousands for the year ended December 31, 2016, while it was HUF 116,440 thousands for the year ended December 31, 2015.

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2016	2015
	EUR	EUR
Within one year	469,734	469,734
After one year but not more than five years	1,519,303	1,785,361
More than five years	0	188,080
	<u>1,989,037</u>	<u>2,443,175</u>

The rental agreement determines the rental fee in EUR while all payments are deliverable in HUF at the prevailing exchange rate.

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33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments at fair value

Financial assets at fair value held for trading, trading assets pledged as collateral, financial assets - available-for-sale, financial liabilities at fair value held for trading, and derivatives are carried at their fair value.

Determination of fair value of financial instruments

Financial instruments purchased or sold are recorded on a trade date basis and include proprietary securities and contractual commitments arising pursuant to futures, forward contracts. The estimated fair value of financial instruments is determined in accordance with the requirements of IAS 39. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. The fair values of assets or liabilities that are actively traded in organised financial markets are determined by reference to quoted market bid or ask prices. For assets where there is no active market, fair value is determined using valuation techniques. The Company does not have financial instruments where the valuation techniques would be based on non market observable inputs.

Fair value of derivatives

All derivatives are carried at their fair value. Fair values of trading derivative financial instruments, such as forward foreign exchange, and futures are marked to market, based on international money and capital market price quotations.

In the normal course of business the Company may enter into a number of transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Set out below is a comparison by class of the carrying amounts and fair value of Erste Investment's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
	2016	2016	2016	2015	2015	2015
<i>Financial assets</i>						
Financial assets at fair value held for trading	16,264,733	16,264,733	-	2,917,522	2,917,522	-
Trading assets pledged as collateral	0	0	-	1,016,798	1,016,798	-
Derivative financial assets	25,651	25,651	-	11,803	11,803	-
Financial assets -available-for-sale	33	33	-	33	33	-
Receivables from securities trading	2,320,072	2,320,072	-	1,376,250	1,376,250	-
Receivables from customers	31,155,546	31,155,546	-	15,448,191	15,448,191	-

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33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]

	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
	2016	2016	2016	2015	2015	2015
<i>Financial liabilities</i>						
Financial liabilities at fair value held for trading	1,093,998	1,093,998	-	93,173	93,173	-
Derivative financial liabilities	35,119	35,119	-	10,320	10,320	-
Payables on securities trading	1,351,581	1,351,581	-	1,209,343	1,209,343	-
Payables to customers	89,171,745	89,171,745	-	65,074,762	65,074,762	-
Trade payables	87,045	87,045	-	49,088	49,088	-
Short-term loans	38,029,171	38,029,171	-	3,864,185	3,864,185	-
Total unrecognised change in unrealised fair value			-			-

For assets currently classified as available-for-sale where there is no active market, fair value is assumed to be equal to cost as this is believed to be the best estimate of their fair value.

Equities and derivatives are quoted on the Stock Exchange and are measured on the quoted market prices, as are the majority of securities held. In the case of t-bills maturing within 3 months valuation techniques are used based on observable inputs to determine fair value.

As the maturity of Receivables from securities trading, Receivables from customers, Payables on securities trading, Trade payables and Short-term loans are short-term, management believes that the carrying value is the best estimate of their fair value.

Determination of fair value and fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value between those whose fair value is based on quoted market prices and those involving techniques where the model inputs are observable in the market. Erste Investment does not have financial instruments where the valuation techniques involve the use of non-market observable inputs.

Equity instruments currently classified as available-for-sale have a fair value equal to cost because this is believed to be the best estimate of their fair value. Therefore this table doesn't contain financial assets -available-for-sale.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]

Publicly quoted securities are transferred from Level 1 to Level 2 in case of trade frequency is over 1 month. If frequency exceeds 3 months, the instrument is transferred into Level 3.

The responsibility for valuation of a position measured at fair value is independent from the trading units.

December 31, 2016:	Level 1	Level 2	Level 3	Total
Financial assets at fair value held for trading	1,343,748	14,920,985	0	16,264,733
Trading assets pledged as collateral	0	0	0	0
Derivative financial assets	25,651	0	0	25,651
Financial liabilities at fair value held for trading	1,093,998	0	0	1,093,998
Derivative financial liabilities	35,119	0	0	35,119

December 31, 2015:	Level 1	Level 2	Level 3	Total
Financial assets at fair value held for trading	2,520,260	397,262	0	2,917,522
Trading assets pledged as collateral	1,016,798	0	0	1,016,798
Derivative financial assets	11,803	0	0	11,803
Financial liabilities at fair value held for trading	93,173	0	0	93,173
Derivative financial liabilities	10,320	0	0	10,320

Erste Investment uses the valuation techniques-market observable for treasury bills, structured bonds short-term maturity (less than 1 year). These securities do not have capital market price quotations. Their fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method based on benchmark yields. Market information is available on the Government Debt Management Agency's home page.

Financial instruments not measured at fair value

The book value of floating rate loans and advances reflect the market value of the asset based on the assumption of Erste Investment. For loans and advances other than floating rate, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, and market rates of interest.

For deposits and unquoted notes issued, a discounted cash flow model is used based on current interest rate yield curves appropriate for the remaining term to maturity.

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33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]

The following table shows the fair value of the financial instruments not recorded at fair value:

December 31, 2016:	Value at amortized cost	Fair value	Level 1	Level 2	Level 3	Total
Cash and bank account	90,200,092	90,200,092	90,200,092	0	0	90,200,092
Receivables from securities trading	2,320,072	2,320,072	0	0	2,320,072	2,320,072
Receivables from customers	31,155,546	31,155,546	0	0	31,155,546	31,155,546
Payables on securities trading	1,351,581	1,351,581	0	0	1,351,581	1,351,581
Payables to customers	89,171,745	89,171,745	0	0	89,171,745	89,171,745
Trade payables	87,045	87,045	0	0	87,045	87,045
Short-term loans	38,029,171	38,029,171	0	0	38,029,171	38,029,171

December 31, 2015:	Value at amortized cost	Fair value	Level 1	Level 2	Level 3	Total
Cash and bank account	59,013,860	59,013,860	59,013,860	0	0	59,013,860
Receivables from securities trading	1,376,250	1,376,250	0	0	1,376,250	1,376,250
Receivables from customers	15,448,191	15,448,191	0	0	15,448,191	15,448,191
Payables on securities trading	1,209,343	1,209,343	0	0	1,209,343	1,209,343
Payables to customers	65,074,762	65,074,762	0	0	65,074,762	65,074,762
Trade payables	49,088	49,088	0	0	49,088	49,088
Short-term loans	3,864,185	3,864,185	0	0	3,864,185	3,864,185

As the maturity of Receivables from securities trading, Receivables from customers, Payables on securities trading, Payables to customers, Trade payables and Short-term loans are short-term, management believes that the carrying value is the best estimate of their fair value.

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34. FINANCIAL ASSETS AND LIABILITIES SUBJECT TO OFFSETTING AND POTENTIAL OFFSETTING AGREEMENTS

The following table shows the assets and liabilities subject to offsetting and potential offsetting agreements:

December 31, 2016:	Gross amounts of recognised financial assets	Amounts of financial liabilities set off against financial assets	Net amounts of financial assets in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Assets							
Derivatives	25,651	0	25,651	0	0		25,651
Total	25,651	0	25,651	0	0	0	25,651

	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Liabilities							
Derivatives	-35,119	0	-35,119	0	0		-35,119
Total	-35,119	0	-35,119	0	0	0	-35,119

December 31, 2015:	Gross amounts of recognised financial assets	Amounts of financial liabilities set off against financial assets	Net amounts of financial assets in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Assets							
Derivatives	11,803	0	11,803	0	0		11,803
Reverse repurchase agreements	11,173,150	0	11,173,150	0	0	10,987,155	185,995
Total	11,184,953	0	11,184,953	0	0	10,987,155	197,798

	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Liabilities							
Derivatives	-10,320	0	-10,320	0	0		-10,320
Repurchase agreements	-11,173,150	0	-11,173,150	0	0	-10,987,155	-185,995
Total	-11,183,470	0	-11,183,470	0	0	-10,987,155	-196,315

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35. RISK MANAGEMENT

Risk is inherent in Erste Investment's activities but it is managed through a process of ongoing identification, measurement and monitoring and is subject to risk limits and other controls. Erste Investment is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through Erste Investment's strategic planning process.

The Board of Directors is responsible for identifying and controlling risks; however, there is a separate independent department responsible for managing and monitoring risks.

Monitoring and controlling risks is primarily performed based on limits established by Erste Investment. These limits reflect the business strategy and market environment of Erste Investment as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition, the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Erste Investment's objective is to achieve an appropriate balance between risk and return, and this is reflected in the Company's Risk Policy. Erste Investment has adopted Erste Group Bank AG approach to risk management that has been developed using internationally accepted guidelines and procedures tailored to the markets in which the Company operates.

Erste Investment manages a variety of risks in the ordinary course of its business. These risks are identified, measured, and monitored through various control mechanisms across the Company in accordance with the risk policy approved by Erste Group Bank AG and Erste Bank Hungary as parent companies.

The Global Erste Group policy sets risk management standards for the Company and is supported in this role by the Risk Management Departments of those companies. They are responsible for approving credit and market limits, and setting other risk parameters.

New products introduced by the Company are subject to a new product development and approval process. The approval process includes an assessment of necessary accounting, legal, regulatory and compliance issues, tax and operational issues, and a full report of credit, market, and liquidity risks associated with the new product (including estimates of revenues and costs). Limits governing the activity in the new product are proposed at the preliminary stage to ensure future risk management criteria are established before the product is implemented.

Utilisation of market risk and counterparty risk limits is monitored intra-day and on-line using a real-time risk management system.

Detailed below are the primary risks associated with the Company's business:

Liquidity risk

Erste Investment has an independent department to manage Erste Investment's cash flows. Key goals are to provide data for the production of cash flow projections, identify where the Company's cash resources are restricted, monitor and address non-receipt of securities and cash and provide relevant information to enable Erste Investment to secure committed external financing lines. The Company calculates minimum cash requirements and provides detailed analysis to ensure Management is informed on any liquidity related issues.

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35. RISK MANAGEMENT [continued]

The amounts in the maturity analysis are the contractual undiscounted cash flows. The amounts of financial liabilities included in the statement of financial position are based on discounted cash flows.

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AND LIQUIDITY RISK BY RESIDUAL MATURITY

December 31, 2016:	Within 3 months	3-12 months	1-5 years	Over 5 years	Without maturity	Total
Cash and cash equivalents	90,200,092	-	-	-	-	90,200,092
Financial assets at fair value held for trading	7,291,166	7,635,351	18,281	4,300	1,315,635	16,264,733
Trading assets pledged as collateral	0	0	0	0	0	0
Derivative financial assets	18,998	6,653	0	0	0	25,651
Financial assets available-for-sale	0	0	0	0	33	33
Receivables from securities trading	1,494,072	826,000	0	0	0	2,320,072
Receivables from customers	3,931,139	27,224,407	0	0	0	31,155,546
Total financial assets	102,935,467	35,692,411	18,281	4,300	1,315,668	139,966,127
December 31, 2016:	Within 3 months	3-12 months	1-5 years	Over 5 years	Without maturity	Total
Financial liabilities at fair value held for trading	1,093,998	0	0	0	0	1,093,998
Derivative financial liabilities	26,822	8,297	0	0	0	35,119
Payables on securities trading	1,351,581	0	0	0	0	1,351,581
Payables to customers	89,171,745	0	0	0	0	89,171,745
Trade payables	87,045	0	0	0	0	87,045
Short-term loans	2,399,176	35,629,995	0	0	0	38,029,171
Total financial liabilities	94,130,367	35,638,292	0	0	0	129,768,659
Liquidity excess/(deficiency)	8,805,100	54,119	18,281	4,300	1,315,668	10,197,468
December 31, 2015:	Within 3 months	3-12 months	1-5 years	Over 5 years	Without maturity	Total
Cash and cash equivalents	59,013,860	-	-	-	-	59,013,860
Financial assets at fair value held for trading	330,626	1,515,653	270,902	50,398	749,943	2,917,522
Trading assets pledged as collateral	0	1,016,798	0	0	0	1,016,798
Derivative financial assets	11,803	0	0	0	0	11,803
Financial assets available-for-sale	0	0	0	0	33	33
Receivables from securities trading	1,290,250	86,000	0	0	0	1,376,250
Receivables from customers	15,448,191	0	0	0	0	15,448,191
Total financial assets	76,094,730	2,618,451	270,902	50,398	749,976	79,784,457

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35. RISK MANAGEMENT [continued]

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AND LIQUIDITY RISK BY RESIDUAL MATURITY

December 31, 2015:	Within 3 months	3-12 months	1-5 years	Over 5 years	Without maturity	Total
Financial liabilities at fair value held for trading	93,173	0	0	0	0	93,173
Derivative financial liabilities	10,320	0	0	0	0	10,320
Payables on securities trading	1,209,343	0	0	0	0	1,209,343
Payables to customers	65,074,762	0	0	0	0	65,074,762
Trade payables	49,088	0	0	0	0	49,088
Short-term loans	3,864,184	0	0	0	0	3,864,184
Total financial liabilities	70,300,870	0	0	0	0	70,300,870
Liquidity excess/(deficiency)	5,793,860	2,618,451	270,902	50,398	749,976	9,483,587

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY EXPECTED TO BE RECOVERED OR SETTLED

	December 31, 2016:		December 31, 2015:	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash equivalents	90,200,092		59,013,860	
Financial assets at fair value held for trading	16,264,733		2,917,522	
Trading assets pledged as collateral	0		1,016,798	
Derivative financial assets	25,651		11,803	
Financial assets available-for-sale		33		33
Receivables from securities trading	2,320,072		1,376,250	
Receivables from customers	31,155,546		15,448,191	
Total financial assets	139,966,094	33	79,784,424	33

	December 31, 2016:		December 31, 2015:	
	< 1 year	> 1 year	< 1 year	> 1 year
Financial liabilities at fair value held for trading	1,093,998	0	93,173	0
Derivative financial liabilities	35,119	0	10,320	0
Payables on securities trading	1,351,581	0	1,209,343	0
Payables to customers	89,171,745	0	65,074,762	0
Trade payables	87,045	0	49,088	0
Short-term loans	38,029,171	0	3,864,184	0
Total financial liabilities	129,768,659	0	70,300,870	0

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35. RISK MANAGEMENT[continued]

Market risk-Trading

Market risk arises from exposure to changes in equity, bond and commodity prices, credit spreads, interest rates and foreign exchange rates, and the correlation between them and their levels of volatility. The potential losses that could arise from these changes are measured and controlled by the Company's market risk methodology. Erste Investment uses a range of techniques to manage the price risk.

For the purposes of Trading risk measurement and control the following limits have been determined by Erste Investment:

- Open equity limit
- PVBP (Present Value of Basis Points) limit
- Stop-loss limit
- VaR limit

Open equity limit (delta)

The open equity position limits (excluding arbitrage book) applies to the end of day closing positions in equities, GDR/ADR and futures positions. Traded equities are assigned to one of five main categories, each of which has a separate limit. Individual equities, within the main groups, also have a singular limit attached to them. BUX futures positions have also a separate limit. An overall limit has also been defined but a separate limit applies over and above this to Xetra-traded equities open positions.

PVBP (Present Value of Basis Points, interest rate sensitivity) limit

The basis point sensitivity limits show the interest rate risk of the Company to a predetermined (i.e. 1) basis parallel shift in the yield curve.

K+ (Risk management and position keeping system) calculates the sensitivity of each position individually and these are sorted by exposure currency into 11 maturity bands (3 month, 6 month, 9 month, 1 year, 3 year, 5 year, 7 year, 10 year, 15 year, 20 year and 30 year). PVBP values within an exposure currency and assigned to the same time bucket are netted together to determine the net sensitivity of each time bucket of the exposure currency. Sensitivities are not, however, subject to netting between the time buckets themselves. Instead both the total positive and negative sensitivity are arrived at. The highest absolute figure of the two is taken as the total sensitivity of the given exposure currency.

Stop-loss limits

Stop-loss (loss-cut) limits attempt to cap losses caused by the negative move of underlying market rates or rates to a predefined limit.

Limits have been determined for the Fixed Income and Equity trading on a monthly and yearly basis.

VaR (Value at risk) limit

Although Erste Investment is satisfied that the controls it uses to manage the market price risk in its trading book is an effective means of controlling that risk, it recognises that measures of market price risk, when considered in isolation, have the following main limitations:

The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors or be the best estimate of risk factor changes that will occur in the future; and

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35. RISK MANAGEMENT[continued]

Focusing on the maximum loss that is expected to be incurred 99% of the time says little about the smaller losses that are expected to be incurred more frequently or the size of the losses in excess of the VaR that are expected to be incurred 1% of the time.

VaR (Value at risk) assumptions

Erste Investment applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. Risk Management Treasury and Investment Banking of Erste Bank AG. calculate the official VaR figures daily using the KVaR+ Sailfish risk calculation program. Calculation is made according to the historical simulation method to a 99% confidence interval for a

one-day holding period (based on a time series for the last 730 calendar days). The Company does not consider itself to be exposed to significant currency risk, therefore the Company does not calculate FX VaR but alternative methods are used instead. (See below)

The table below shows the VAR figures:

31.12.2016	Total	Interest	Currency	Price	Commodity	Volatility
Total	11,229,836	1,995,432	6,932,122	7,437,531	-	44,769
Local	7,071,620	1,995,550	6,932,122	198,968	-	0
Sales	7,641,663	0	0	7,641,663	-	0
Trade	885,523	137	0	915,080	-	44,769
Finance	7,253	7,253	0	0	-	0
31.12.2015	Total	Interest	Currency	Price	Commodity	Volatility
Total	9,580,923	1,797,836	10,003,755	552,788	-	161,838
Local	9,688,907	1,206,282	10,003,755	187,521	-	0
Sales	404,909	0	0	404,909	-	0
Trade	782,494	823,695	0	298,617	-	161,838
Finance	0	0	0	0	-	0

Currency risk

The table below shows an analysis of the Company's currency exposures. As the table shows, Erste Investment does not have significant assets/liabilities in foreign currency.

Consequently, Erste Investment does not consider itself exposed to significant currency risk.

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35. RISK MANAGEMENT[continued]

Net foreign currency position and foreign currency risk

December 31, 2016:	HUF	EUR	OTHER	Total
Cash and cash equivalents	59,717,277	19,176,069	11,306,746	90,200,092
Financial assets at fair value held for trading	16,252,263	12,444	26	16,264,733
Trading assets pledged as collateral	0	0	0	0
Derivative financial assets	18,998	0	6,653	25,651
Financial assets available-for-sale	0	33	0	33
Receivables from securities trading	2,102,054	199,069	18,949	2,320,072
Receivables from customers	30,031,096	859,124	265,326	31,155,546
Total financial assets	108,121,688	20,246,738	11,597,700	139,966,127
Financial liabilities at fair value held for trading	1,093,998	0	0	1,093,998
Derivative financial liabilities	30,737	0	4,382	35,119
Payables on securities trading	1,332,632	0	18,949	1,351,581
Payables to customers	59,862,620	18,320,207	10,988,918	89,171,745
Trade payables	69,616	4,958	12,471	87,045
Short-term loans	35,629,995	1,540,924	858,252	38,029,171
Total financial liabilities	98,019,598	19,866,089	11,882,972	129,768,659
Currency excess	10,102,090	380,649	-285,272	10,197,468

	HUF	EUR	OTHER	Total
December 31, 2015:				
Cash and cash equivalents	38,945,349	10,382,995	9,685,517	59,013,860
Financial assets at fair value held for trading	2,914,084	3,438	0	2,917,522
Trading assets pledged as collateral	1,016,798	0	0	1,016,798
Derivative financial assets	11,803	0	0	11,803
Financial assets available-for-sale	0	33	0	33
Receivables from securities trading	975,562	400,688	0	1,376,250
Receivables from customers	13,707,407	1,488,098	252,686	15,448,191
Total financial assets	57,571,003	12,275,251	9,938,203	79,784,457
Financial liabilities at fair value held for trading	93,173	0	0	93,173
Derivative financial liabilities	10,320	0	0	10,320
Payables on securities trading	1,209,343	0	0	1,209,343
Payables to customers	46,622,022	9,556,348	8,896,393	65,074,762
Trade payables	45,694	3,394	0	49,088
Short-term loans	434,486	2,404,976	1,024,723	3,864,185
Total financial liabilities	48,415,038	11,964,717	9,921,116	70,300,870
Currency excess	9,155,965	310,534	17,087	9,483,587

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35. RISK MANAGEMENT[continued]

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The majority of the Company's lending and borrowing contracts and other financial assets and liabilities generally bear interest at fixed rates generally over fixed time horizons, but the maturities of the majority of the Company's assets and liabilities are relatively short-term. Consequently, Erste Investment does not consider itself exposed to significant interest rate risk or consequential cash flow risk. The Company's assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates.

Interest bearing assets with fixed interest rate on December 31, 2016:

December 31, 2016	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
Cash and cash equivalents	90,199,617	0	0	0	0	475	90,200,092
Financial assets at fair value held for trading	1,346,974	5,944,192	7,635,351	18,281	4,300	1,315,635	16,264,733
Trading assets pledged as collateral	0	0	0	0	0		0
Derivative financial assets	0	0		0	0	25,651	25,651
Financial assets -available-for- sale	0	0	0	0	0	33	33
Receivables from securities trading	0	0	826,000	0	0	1,494,072	2,320,072
Receivables from customers	2,154,771	0	27,224,407	0	0	1,776,368	31,155,546
Total	93,701,362	5,944,192	35,685,758	18,281	4,300	4,612,234	139,966,127

Interest bearing assets with fixed interest rate on December 31, 2015:

December 31, 2015	Below 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
Cash and cash equivalents	59,013,426	0	0	0	0	434	59,013,860
Financial assets at fair value held for trading	136,714	193,912	1,515,653	270,902	50,398	749,943	2,917,522
Trading assets pledged as collateral	0	0	1,016,798	0	0		1,016,798
Derivative financial assets	25	11,778		0	0	0	11,803
Financial assets -available-for- sale	0	0	0	0	0	33	33
Receivables from securities trading	0	0	86,000	0	0	1,290,250	1,376,250
Receivables from customers	13,767,655	0	0	0	0	1,680,536	15,448,191
Total	72,781,106	342,404	2,618,451	270,902	50,398	3,721,196	79,784,457

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35. RISK MANAGEMENT[continued]

The Company has no interest bearing assets with floating interest rates on December 31, 2016 and 2015 respectively.

The Company has interest bearing liabilities with fixed interest rates on December 31, 2016:

- maturity “Below 1 month” in Payables to customers amounted to HUF 173,975 thousands
- maturity “Below 1 month” in “Short term loans” amounted to HUF 2,399,176 thousands
- maturity “3-12 month” in “Short term loans” amounted to HUF 35,629,995 thousands
- Non interest bearing amounted to HUF 91,565,513 thousands.

The Company has interest bearing liabilities with fixed interest rates on December 31, 2015:

- in “Short term loans” maturity “Below 1 month” amounted to HUF 3,864,184 thousands
- maturity “Below 1 month” in Payables to customers amounted to HUF 11,569,823 thousands
- Non interest bearing amounted to HUF 54,866,863 thousands.

The Company has no interest bearing liabilities with floating rates on December 31, 2016 and 2015 respectively.

Credit risk

Erste Investment’s trading activities involve the execution, settlement and financing of various securities and financial instrument transactions. The execution of these transactions includes the purchase and sale of securities and other trading activities. These activities may expose Erste Investment to credit risk in the event that the counterparty to the transaction is unable or unwilling to fulfil its contractual obligations and credit enhancements (including collateral) are not sufficient to cover losses.

The Company’s exposure to non-performance of its counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. In these situations Erste Investment may be required to purchase or sell financial instruments at prevailing market prices that may not fully cover the obligations of its customers or counterparties.

Counterparty risk is considered as being a combination of “pre-settlement” and/or “settlement” risk, and limits are assigned considering both types of risk. The Company’s exposure to pre-settlement credit risk associated with counterparty non-performance is limited to the net replacement cost of the contracts in a gain position which are recognised in Erste Investment’s Financial Statements, while settlement credit risk occurs when the Company is expecting an asset delivery from the counterparty on a settlement basis other than delivery-versus-payment (“DVP”), including cases of pre-delivered sale or prepaid purchase.

Erste Investment manages credit risk by following its established credit approval process, monitoring credit limits, and requiring collateral where appropriate. This includes analysis of risk concentrations, including those to individual counterparties, industry sectors, products, countries and geographic regions. The Company has controls in place to monitor credit exposures by limiting transactions with specific counterparties.

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35. RISK MANAGEMENT [continued]

The credit approval process is based on a system of quantitative and qualitative analysis tailored for the volatility of the environments in which the Company operates.

Larger risk limits are usually set for counterparties, which are large international banks, brokers and corporations. Trading with smaller counterparties is performed on prepayment/pre-delivery basis or delivery-versus-payment ("DVP") within small limits covering market risk of the transactions. The majority of domestic equity and fixed income transactions with local counterparts and custodians of foreign investors are settled delivery-versus-payment ("DVP") via Keler Zrt. and Erste Bank AG.

Maximum exposure to credit risk

Erste Investment expects that the maximum exposure to credit risk of financial assets is the gross amount of financial assets.

The table below shows the maximum exposure to credit risk of financial assets:

	Notes	Gross maximum exposure 2016	Gross maximum exposure 2015
Cash and cash equivalents (excluding cash on hand)	3	90,199,617	59,013,426
Financial assets held for trading	4	14,949,098	2,167,579
Trading assets pledged as collateral	5	0	1,016,798
Derivative financial assets	6	25,651	11,803
Financial assets -available-for-sale	7	33	33
Receivables from securities trading	8	2,320,072	1,376,250
Receivables from customers	9	31,936,676	16,040,248
Total credit risk exposure		139,431,147	79,626,137

The table below shows the credit risk exposure and its collateral:

December 31, 2016:	Credit risk exposure	Collateral total (securities)	Credit risk exposure net of collateral
Receivables from customers	31,936,676	443,046,713	-411,110,037
December 31, 2015:	Credit risk exposure	Collateral total (securities)	Credit risk exposure net of collateral
Receivables from customers	16,040,248	370,761,144	-354,720,896

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35. RISK MANAGEMENT [continued]

Risk concentrations of the maximum exposure to credit risk

The table below shows the geographical analysis of the financial assets:

December 31, 2016:	Hungary	Austria	Other countries	Total
Cash and cash equivalents (excluding cash on hand)	85,311,030	4,479,308	409,279	90,199,617
Financial assets held for trading	16,262,098	97	2,538	16,264,733
Trading assets pledged as collateral	0	0	0	0
Derivative financial assets	25,651	0	0	25,651
Financial assets -available-for-sale	0	0	33	33
Receivables from securities trading	1,799,548	199,069	321,455	2,320,072
Receivables from customers	31,893,159	26,366	17,151	31,936,676
	135,291,486	4,704,840	750,456	140,746,782

The amount of other countries includes HUF 292,100 thousands from Denmark, and HUF 321,455 thousands from UK.

December 31, 2015:	Hungary	Austria	Other countries	Total
Cash and cash equivalents (excluding cash on hand)	39,977,304	18,381,590	654,532	59,013,426
Financial assets held for trading	2,914,887	97	2,538	2,917,522
Trading assets pledged as collateral	1,016,798	0	0	1,016,798
Derivative financial assets	11,803	0	0	11,803
Financial assets -available-for-sale	0	0	33	33
Receivables from securities trading	758,156	400,688	217,406	1,376,250
Receivables from customers	15,820,244	125,010	94,994	16,040,248
	60,499,192	18,907,385	969,503	80,376,080

The amount of other countries includes an item of HUF 596,261 thousands from Denmark.

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35. RISK MANAGEMENT [continued]

The following table shows the industry sector analysis of financial assets

December 31, 2016:	Government	Financial	Institutional	Retail	Other	Total
	t	services	Investors			
Cash and cash equivalents (excluding cash on hand)	0	90,199,617	0	0	0	90,199,617
Financial assets held for trading	14,896,265	280,552	1,087,916	0	0	16,264,733
Trading assets pledged as collateral	0	0	0	0	0	0
Derivative financial assets	0	25,651	0	0	0	25,651
Financial assets -available-for-sale	0	33	0	0	0	33
Receivables from securities trading	0	2,153,270	123,192	43,610	0	2,320,072
Receivables from customers	284,470	90,817	399,492	30,831,506	330,391	31,936,676
	15,180,735	92,749,940	1,610,600	30,875,116	330,391	140,746,782

December 31, 2015:	Government	Financial	Institutional	Retail	Other	Total
		services	Investors			
Cash and cash equivalents (excluding cash on hand)	0	59,013,426	0	0	0	59,013,426
Financial assets held for trading	2,061,566	130,030	725,926	0	0	2,917,522
Trading assets pledged as collateral	1,016,798	0	0	0	0	1,016,798
Derivative financial assets	0	11,803	0	0	0	11,803
Financial assets -available-for-sale	0	33	0	0	0	33
Receivables from securities trading	0	1,366,646	0	9,604	0	1,376,250
Receivables from customers	11,285,699	145,756	459,859	3,533,234	615,700	16,040,248
	14,364,063	60,667,694	1,185,785	3,542,838	615,700	80,376,080

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35. RISK MANAGEMENT [continued]

Credit quality per class of financial assets

The following table shows the credit quality by class of financial assets.

December 31, 2016:	High grade	Standard or Sub- standard grade	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents (excluding cash on hand)	90,199,617	0	0	0	90,199,617
Financial assets held for trading	16,264,733	0	0	0	16,264,733
Trading assets pledged as collateral	0	0	0	0	0
Derivative financial assets	25,651	0	0	0	25,651
Financial assets -available-for-sale	33	0	0	0	33
Receivables from securities trading	2,320,072	0	0	0	2,320,072
Receivables from customers	30,141,317	0	1,002,296	793,063	31,936,676
	<u>138,951,423</u>	<u>0</u>	<u>1,002,296</u>	<u>793,063</u>	<u>140,746,782</u>

December 31, 2015:	High grade	Standard or Sub- standard grade	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents (excluding cash on hand)	59,013,426	0	0	0	59,013,426
Financial assets held for trading	2,917,522	0	0	0	2,917,522
Trading assets pledged as collateral	1,016,798	0	0	0	1,016,798
Derivative financial assets	11,803	0	0	0	11,803
Financial assets -available-for-sale	33	0	0	0	33
Receivables from securities trading	1,376,250	0	0	0	1,376,250
Receivables from customers	14,465,579	0	975,419	599,250	16,040,248
	<u>78,801,411</u>	<u>0</u>	<u>975,419</u>	<u>599,250</u>	<u>80,376,080</u>

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35. RISK MANAGEMENT [continued]

The table below shows the percentage of secured and unsecured financial assets:

December 31, 2016:	Secured share of exposure in percentage	Secured share of exposure	Unsecured share of exposure in percentage	Unsecured share of exposure
High grade	100.00%	138,951,423	0.00%	0
Standard grade	-	-	-	-
Sub-standard grade	-	-	-	-
Past due but not impaired	100.00%	1,002,296	-	-
Impaired	1.50%	11,933	98.50%	781,130
Total	99.45%	139,965,652	0.55%	781,130

December 31, 2015:	Secured share of exposure in percentage	Secured share of exposure	Unsecured share of exposure in percentage	Unsecured share of exposure
High grade	100.00%	78,801,411	0.00%	0
Standard grade	-	-	-	-
Sub-standard grade	-	-	-	-
Past due but not impaired	100.00%	975,419	-	-
Impaired	1.20%	7,193	98.80%	592,057
Total	99.26%	79,784,023	0.74%	592,057

Aging analysis of past due but not impaired financial assets:

December 31, 2016:	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Receivables from customers	1,002,296				1,002,296
Total	1,002,296				1,002,296

December 31, 2015:	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Receivables from customers	975,419				975,419
Total	975,419				975,419

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35. RISK MANAGEMENT [continued]

Collateral

Receivables from customers

The Company shall perform or (depending on the transaction) endeavour to perform the agreement made with the client if sufficient cash for the transaction and for the broker's fee payable to the Company and other costs and fees payable by the client are available to the Company in full upon the entry into of the transaction with the client and thereafter in accordance with the provisions of the Company's Business Rules.

If the client does not make available sufficient cash for the transactions made with the Company, then the Company may carry out constrained liquidation in respect of the transactions performed in part or in whole by the Company and affected by the insufficiency of cash without any further request. If the client has a Coverage and Collateral Agreement in place, then the provisions of the Coverage and Collateral Agreement and the Business

Rules, or if there is no Coverage and Collateral Agreement, then only the provisions of the Business Rules shall be applicable to the rules of constrained liquidation.

The Company only becomes entitled to constrained liquidation when under the agreement made with the client the Company becomes obliged to perform the agreement. If the Company exercises its right to constrained liquidation, then on the basis of the constrained liquidation it shall also be entitled to exercise its right to seek satisfaction from any instrument of the client held by or made available to the Company as a security deposit or exercise its right of set-off against any instrument of the client held by or made available to the Company and becomes entitled to seek satisfaction from any other collateral without further notice.

The client accepts that when exercising its right to seek satisfaction from the security deposit, or any other right of set-off or right to seek satisfaction, the Company may seek satisfaction without delay for all its claims arising out of outstanding fees or costs, default interest or fines for default in payment even if the client did not receive any request for payment or any notice to that effect in respect of such liabilities or the period of time granted in the request for payment / notice to that effect has not expired.

The Company has the right to seek satisfaction from the Instruments held as a security deposit, which serve as collateral for any claim plus related costs arising on any grounds against the client as a main obligor, co-debtor or collateral debtor. When becoming entitled to seek satisfaction, the Company may seek satisfaction directly from the security deposit. Moreover the provisions of the Business Rules shall govern the provision of collateral for the payment obligation of the client vis-à-vis the Company and the due performance by the client.

The Company may grant investment loans to its clients. The purpose of an investment loan is to complement the resources available for the purchase of a security intended for purchase making use of the investment loan or to provide credit for the whole purchase price. The purchase of securities with investment loans can take place exclusively with the completion of a commissioned purchase order given by the client to the Company simultaneously with the agreement on the investment loan.

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35. RISK MANAGEMENT [continued]

The client shall provide, as security for its liabilities originating from an investment loan, the following collaterals:

- the securities purchased with the use of that investment loan
- floating collateral: collateral required by the Company, during the term of the loan and in the period from the coming into effect of the investment loan agreement and the disbursement of the loan, calculated according to the daily decrease in the price of the security concerned in that transaction and the accumulation of interests.

Subject to compliance of the maximum value of the investment loan allowed for financing at any point of time, the Company may limit the stock of investment loans and deferred payments for any given security. The maximum size of an investment loan that can be granted to a client is determined on the basis of their client rating.

The Company may, on the basis of a separate agreement, allow deferred financial settlement for clients. On this basis, the client shall meet its payment obligation at the latest on the 15th day from its due date.

If the Company allowed the client a deferred financial settlement, the total quantity of the securities purchased in the transaction affected by the deferred financial settlement shall be used as collateral for the benefit of the Company, in addition to which, the client is obliged to provide the collateral determined by the Company (basic and floating collateral), continuously, until the financial settlement of the transaction.

According to the above mentioned, Erste Investment Ltd. referred the clients' securities to as collateral for all the receivables from customers up to the amount of the claim. The fair value of the client's securities owned handled by the Company, amounted to HUF 1,305,287,217 thousands and 1,176,989,057 on December 31, 2016 and 2015 respectively.

Receivables from securities trading

Receivables from securities trading include the following:

- Receivables from trading on the Budapest Stock Exchange shows the balance of receivables resulting from securities transactions concluded on the stock exchange on own account around the statement of financial position date (not trade on commission).
- Receivables from OTC market trading include receivables from security transactions concluded on the OTC market on own account (not trade on commission).
- Other receivables from KELER Zrt. include settlement and deposit accounts held with the clearinghouse and amounts transferred to the Stock Exchange Settlement Fund maintained by the clearinghouse.

"Receivables from securities trading" derive from the difference between the trade date and the settlement date of the deals. Security delivery and bank transfer however occur the same day, so this kind of transactions means covered receivables.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal controls and procedures. Erste Investment manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by Internal Audit.

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36. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

At the Annual General Meeting held on 24 April 2017 the shareholders approved to distribute dividends of HUF 2,500 million after the year 2016, i.e. HUF 12,500 per share.

Purchase of Citibank's Hungarian retail banking and cards business

In February 2017 Erste Bank Hungary completed one of the largest bank portfolio acquisitions in the last 10 years by acquiring the Hungarian consumer banking business of Citibank Europe plc.

The transaction includes the takeover of the following financial instruments, migrated into the Erste Investment Ltd. as of 4 February 2017.

	number of accounts	amount in billion forint
securities under management	7,625	144,06

Based on detailed analysis of Erste Investment business and organization, Erste Bank Hungary decided to create an integrated Capital Markets and Wealth Management division within Erste Bank Hungary to realize significant revenue upside in Private Banking, Erste World and Treasury, cost synergies and substantial tax benefits.

The decisions and procedural actions to be taken in order to conclude the merger are in progress.

Approved by the Board of Directors on September 18, 2017 Budapest



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Róbert Cselovszki, Géza Ráner
President General Director and Managing Director