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## Independent Auditors' Report

To the shareholder of Budapest Hitel- és Fejlesztési Bank Zrt.

### *Opinion*

We have audited the 2016 consolidated annual financial statements of Budapest Hitel- és Fejlesztési Bank Zrt. and its subsidiaries (hereinafter referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2016, which shows total assets of MHUF 999,201 and retained profit for the year of MHUF 11,991, and the consolidated income statement for the year then ended, and consolidated supplementary notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance for the year then ended in accordance with Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

### *Basis for Opinion*

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Annual Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated annual financial statements in Hungary, and we have fulfilled our other 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 Information*

The other information comprises the 2016 Consolidated Business Report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any. Our opinion on the consolidated annual financial statements expressed in the Opinion section of our report does not cover the consolidated business report.

In connection with our audit of the consolidated annual financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated business report, based on the Act on Accounting, when reading the consolidated business report we are also responsible for assessing whether the consolidated

This is an English translation of the Independent Auditors' Report on the 2016 consolidated annual financial statements of Budapest Hitel- és Fejlesztési Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete set of consolidated annual financial statements it refers to.



business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements, if any.

Based on the work undertaken in the course of our audit, in our opinion:

- the 2016 consolidated business report of the Group is consistent with the 2016 consolidated annual financial statements of the Group; and
- the consolidated business report has been prepared in accordance with the provisions of the Act on Accounting.

Our opinion on the consolidated business report does not include an opinion based on Section 156 (5) h) of the Act on Accounting due to the fact that there are no other legal requirements that are applicable to the consolidated business report of the Group.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Annual Financial Statements*

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

In preparing the consolidated annual financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Annual Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary 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 consolidated annual financial statements.

As part of an audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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

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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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Budapest, 29 March 2017

KPMG Hungária Kft.

Registration number: 000202

Gábor Agócs  
*Partner, Professional Accountant*  
Registration number: 005600

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## **Budapest Bank Zrt. and subsidiaries**

### ***Consolidated Financial Statements***

(Translation from Hungarian original)

**31 December 2016**

Budapest, 29 March, 2017

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György Zolnai  
Chief Executive Officer

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Katalin Deák, Keresztyénné  
Chief Finance Officer

Statistic code: 10196445641911401

**BALANCE SHEET (FINANCIAL INSTITUTIONS)**

in million HUF

	Description	31/12/2015	Previous year Adjustments	31/12/2016
a	b	c	d	e
01	<b>1. FINANCIAL ASSETS</b>	<b>20 084</b>	-	<b>17 569</b>
02	<b>2. SECURITIES</b>	<b>141 930</b>	-	<b>161 160</b>
03	a) available for sale	61 767	-	82 513
04	b) for investment purposes	80 163	-	78 647
05	<b>2/A. valuation difference of securities</b>	-	-	<b>724</b>
06	<b>3. RECEIVABLES FROM FINANCIAL INSTITUTIONS</b>	<b>198 726</b>	-	<b>166 746</b>
07	a) on sight	6 346	-	10 661
08	b) other receivables from financial services	192 380	-	156 085
09	ba) due within one year	192 380	-	156 085
10	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
11	- affiliated companies	-	-	-
12	- National Bank of Hungary	164 743	-	106 058
13	- receivables from KELER	-	-	-
14	bb) due more than one year	-	-	-
15	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
16	- affiliated companies	-	-	-
17	- National Bank of Hungary	-	-	-
18	- receivables from KELER	-	-	-
19	c) receivables against financial institutions from investment services	-	-	-
20	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
21	- affiliated companies	-	-	-
22	- receivables from KELER	-	-	-
23	<b>3/A. valuation difference of receivables from financial institutions</b>	-	-	-
24	<b>4. RECEIVABLES FROM CUSTOMERS</b>	<b>533 626</b>	-	<b>590 729</b>
25	a) from financial services	533 621	-	589 101
26	aa) due within one year	264 548	-	289 206
27	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
28	- affiliated companies	-	-	-
29	ab) due more than one year	269 073	-	299 895
30	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
31	- affiliated companies	-	-	-
32	b) receivables against customers from investment services (35.+36.+37.+38.+39. row)	5	-	1 628
33	Of which: - subsidiaries	-	-	-
	- associated companies	-	-	-
34	- affiliated companies	-	-	-
35	ba) receivables from investment in stock exchange activity	-	-	-
36	bb) receivables from OTC investments	-	-	-
37	bc) receivables from customers from investment services	5	-	1 628
38	bd) receivables from KELER	-	-	-
39	be) receivables from other investment services	-	-	-
40	<b>4/A. valuation difference of receivables from customers</b>	-	-	-
41	<b>5. BONDS AND OTHER SECURITIES</b>	<b>31 420</b>	-	<b>20 467</b>
42	a) securities issued by municipalities and other government institution (excluding government securities)	-	-	-
43	aa) available for sale	-	-	-
44	ab) for investment purposes	-	-	-
45	b) securities issued by others	31 420	-	20 467
46	ba) available for sale	10 907	-	20
47	Of which: - issued by subsidiaries	-	-	-
	- associated companies	-	-	-
48	- issued by affiliated companies	-	-	-
49	- repurchased own shares	-	-	-
50	bb) for investment purposes	20 513	-	20 447
51	Of which: - issued by subsidiaries	-	-	-
	- associated companies	-	-	-
52	- issued by affiliated companies	-	-	-
53	<b>5/A. valuation difference of bonds and other securities</b>	-	-	-
54	<b>6. SHARES AND OTHER SECURITIES</b>	<b>3 956</b>	-	<b>2 385</b>
55	a) shares available for sale	-	-	-
56	Of which: - issued by subsidiaries	-	-	-
	- associated companies	-	-	-
57	- issued by affiliated companies	-	-	-
58	b) securities with variable yield	3 956	-	2 385
59	ba) available for sale	3 956	-	2 385
60	bb) for investment purposes	-	-	-
61	<b>6/A. valuation difference of shares and other securities</b>	-	-	-
62	<b>7. SHARES FOR INVESTMENT PURPOSES</b>	<b>242</b>	-	<b>241</b>
63	a) shares for investment purposes	242	-	241
64	of which: - shares in financial institutions	-	-	-
65	b) revaluation of shares for investment purposes	-	-	-
66	of which: - shares in financial institutions	-	-	-
67	<b>7/A. valuation difference of shares for investment purposes</b>	-	-	-
68	<b>8. SHARES IN AFFILIATED COMPANIES FOR INVESTMENT PURPOSES</b>	-	-	-
69	a) shares for investment purposes	-	-	-
70	of which: - shares in financial institutions	-	-	-
71	b) revaluation of shares for investment purposes	-	-	-
72	of which: - shares in financial institutions	-	-	-
73	c) Share consolidation difference	-	-	-
74	ca) Of which: - subsidiaries	-	-	-
75	cb) - affiliated companies	-	-	-
76	<b>9. INTANGIBLE ASSETS</b>	<b>7 113</b>	-	<b>8 377</b>
77	a) intangible assets	7 113	-	8 377
78	b) revaluation of intangible assets	-	-	-

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in million HUF

a	Description		31/12/2015	Previous year Adjustments	31/12/2016
	b		c	d	e
79	<b>10.</b>	<b>TANGIBLE ASSETS</b>	<b>14 094</b>	-	<b>13 869</b>
80	a)	tangible assets serving the activities of financial institutions	10 240	-	9 787
81	aa)	real estate	6 628	-	6 331
82	ab)	technical equipment, machinery and vehicles	3 516	-	3 035
83	ac)	construction-in-progress	96	-	421
84	ad)	prepayments on construction-in-progress	-	-	-
85	b)	tangible assets serving the non-financial activities	3 854	-	4 082
86	ba)	real estate	-	-	-
87	bb)	technical equipment, machinery and vehicles	3 854	-	4 061
88	bc)	construction-in-progress	-	-	21
89	bd)	prepayments on construction-in-progress	-	-	-
90	c)	revaluation of tangible assets	-	-	-
91	<b>11.</b>	<b>OWN SHARES</b>	-	-	-
92	<b>12.</b>	<b>OTHER ASSETS (93+94+97)</b>	<b>9 636</b>	-	<b>10 743</b>
93	a)	inventories	22	-	25
94	b)	other receivables	9 614	-	10 718
95		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
96		- affiliated companies	-	-	-
97	c)	Receivables from consolidated Tax	-	-	-
98	<b>12/A.</b>	<b>valuation difference of other receivables</b>	-	-	-
99	<b>12/B.</b>	<b>positiv valuation difference of derivatives</b>	<b>14</b>	-	<b>789</b>
100	<b>13.</b>	<b>PREPAYMENTS AND ACCRUALS (101+102+103)</b>	<b>4 323</b>	-	<b>5 402</b>
101	a)	income accruals	3 832	-	5 045
102	b)	expense accruals	491	-	357
103	c)	deferred expenses	-	-	-
104	<b>TOTAL ASSETS</b>		<b>965 164</b>	-	<b>999 201</b>
105		<b>CURRENT ASSETS [1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12 + a 2/A, 3/A, 4/A, 5/A, 6/A, 12/A és 12/B items of which related to current assets]</b>	<b>569 643</b>		<b>572 323</b>
106		<b>FIXED ASSETS [2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 +12.c) + a 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A és a 12/B items of which related to fixed assets]</b>	<b>391 198</b>	-	<b>421 476</b>

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**BALANCE SHEET (FINANCIAL INSTITUTIONS)**

in million HUF

a	Description		31/12/2015	Previous year Adjustments	31/12/2016
	b	c	d	e	
107	<b>1.</b>	<b>LIABILITIES TO FINANCIAL INSTITUTIONS</b>	<b>145 411</b>	-	<b>151 283</b>
108	a)	on sight	11	-	1
109	b)	liabilities deposited for a set period of time	145 399	-	151 281
110	ba)	due within one year	7 300	-	21 374
111		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
112		- National Bank of Hungary	6 895	-	17 925
113		- liabilities to KELER	-	-	-
114	bb)	due more than one year	138 099	-	129 907
115		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
117		- National Bank of Hungary	105 267	-	96 157
118		- liabilities to KELER	-	-	-
119	c)	liabilities from investments services	1	-	1
120		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
122		- liabilities to KELER	-	-	-
123		- liabilities to KELER	-	-	-
124	<b>1/A.</b>	<b>valuation difference of liabilities to financial institutions</b>	-	-	-
125	<b>2.</b>	<b>LIABILITIES TO CUSTOMERS</b>	<b>663 737</b>	-	<b>684 260</b>
126	a)	saving deposit	-	-	-
127	aa)	on sight	-	-	-
128	ab)	due within one year	-	-	-
129	ac)	due more than one year	-	-	-
130	b)	other liabilities from financial services	658 142	-	675 761
131	ba)	on sight	397 632	-	549 123
132		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
133	bb)	due within one year	252 199	-	121 798
134		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
136	bc)	due more than one year	8 311	-	4 840
137		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
139	c)	liabilities from investments services	5 595	-	8 499
140		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
142	ca)	liabilities to investment in stock exchange activity	-	-	-
143	cb)	liabilities to OTC investments	-	-	-
144	cc)	liabilities to customers from investment services	5 595	-	8 499
145	cd)	liabilities to KELER	-	-	-
146	ce)	liabilities to other investment services	-	-	-
147	<b>2/A.</b>	<b>valuation difference of liabilities to customers</b>	-	-	-
148	<b>3.</b>	<b>ISSUED BONDS AND OTHER, INTEREST-BEARING SECURITIES</b>	-	-	-
149	a)	issued bonds	-	-	-
150	aa)	due within one year	-	-	-
151		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
153	ab)	due more than one year	-	-	-
154		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
156	b)	other issued negotiable, interest-bearing securities	-	-	-
157	ba)	due within one year	-	-	-
158		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
160	bb)	due more than one year	-	-	-
161		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
163	c)	Securities according to the accounting standards but other negotiable, interest-bearing documents according to the Securities Law	-	-	-
164	ca)	due within one year	-	-	-
165		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
167	cb)	due more than one year	-	-	-
168		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
170		- other contributions of members of saving societies	-	-	-
171	<b>4.</b>	<b>OTHER LIABILITIES</b>	<b>25 164</b>	-	<b>17 193</b>
172	a)	due within one year	25 164	-	17 193
173		Of which: - subsidiaries	12 500	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
174		- other contributions of members of saving societies	-	-	-
175	b)	due more than one year	-	-	-
176		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
		- affiliated companies	-	-	-
178	c)	Liabilities from consolidated Tax	-	-	-
179	<b>4/A.</b>	<b>negativ valuation difference of derivatives</b>	<b>38</b>	-	<b>471</b>
180	<b>5.</b>	<b>ACCRUALS</b>	<b>8 256</b>	-	<b>7 132</b>
181	a)	income accruals	353	-	437
182	b)	expense accruals	7 903	-	6 695
183	c)	deferred income	-	-	-
184	<b>6.</b>	<b>RESERVES</b>	<b>4 676</b>	-	<b>7 196</b>
185	a)	Reserves for pension and severance payments	-	-	-
186	b)	Reserves on contingent and future liabilities	3 816	-	6 340
187	c)	general risk reserve	-	-	-



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189	d)	other reserve	860	-	856
190	7.	<b>SUBORDINATED DEBT</b>	<b>150</b>	-	<b>150</b>
191	a)	subordinated loan	-	-	-
192		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
193		- affiliated companies	-	-	-
194	aa)	Equity consolidation difference	150	-	150
195		Of which: - subsidiaries	150	-	150
196	b)	other contributions of members of saving societies	-	-	-
197	c)	other subordinated debt	-	-	-
198		Of which: - subsidiaries	-	-	-
		- associated companies	-	-	-
198		- affiliated companies	-	-	-
		- other companies	-	-	-

Statistic code: 10196445641911401

in million HUF

	Description	31/12/2015	Previous year Adjustments	31/12/2016
200	<b>8. SHARE CAPITAL</b>	<b>19 396</b>	-	<b>19 396</b>
201	from which: - repurchased own shares on face value	-	-	-
202	<b>9. ISSUED, UNPAID SHARE CAPITAL (-)</b>	-	-	-
203	<b>10. SHARE PREMIUM</b>	-	-	-
204	a) premium from issue of shares	-	-	-
205	b) other	-	-	-
206	<b>11. GENERAL RESERVE</b>	<b>1 571</b>	-	<b>2 638</b>
207	<b>12. RETAINED EARNINGS</b>	<b>91 434</b>	-	<b>106 463</b>
208	<b>13. CAPITAL ENGAGED</b>	-	-	-
209	<b>14. VALUATION RESERVE</b>	-	-	<b>724</b>
210	a) valuation reserve of revaluation	-	-	-
211	b) valuation reserve of valuation at fair market value	-	-	<b>724</b>
212	<b>15. NET PROFIT (LOSS) FOR THE YEAR (+/-)</b>	<b>13 195</b>	-	<b>11 991</b>
213	<b>16. CHANGES IN SUBSIDIARIES' EQUITY (+,-)</b>	<b>(7 864)</b>	-	<b>(9 696)</b>
214	<b>17. CHANGES DUE TO THE CONSOLIDATION (+,-)</b>	-	-	-
215	a) from debt consolidation	-	-	-
216	b) from internal profit consolidation	-	-	-
217	<b>18. MINORITY INTEREST</b>	-	-	-
218	<b>TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS</b>	<b>965 164</b>	-	<b>999 201</b>
219	<b>SHORT TERM LIABILITIES [1.a) + 1.ba) + 1.c) + 1/A + 2.aa) + 2.ab) + 2.ba) + 2.bb) + 2.c) + 2/A + 3.aa) + 3.ba) + 3.ca) + 4.a) + 4/A]</b>	<b>687 940</b>	-	<b>718 460</b>
220	<b>LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]</b>	<b>146 560</b>	-	<b>134 897</b>
221	<b>SHAREHOLDER'S FUND [8 - 9 + 10 + 11 ± 12 + 13 + 14 ± 15 + 16 + 17 + 18]</b>	<b>117 732</b>	-	<b>131 516</b>

**Off-Balance Sheet Items**

	Description	31/12/2015	Previous year Adjustments	31/12/2016
222	Commitments and contingent liabilities	253 788	-	273 017
223	Futures liabilities	6 964	-	63 138
224	<b>Total off-balance sheet liabilities</b>	<b>260 752</b>	-	<b>336 155</b>
225	<b>Total off-balance sheet receivables</b>	<b>6 995</b>	-	<b>34 053</b>

Budapest, 29 March, 2017

\_\_\_\_\_  
 György Zólnai  
 Chief Executive Officer

\_\_\_\_\_  
 Katalin Deák, Kereszttyénné  
 Chief Finance Officer

Statistic code: 10196445641911401

**PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)**

in million HUF

a	Description		2015	Previous year Adjustments	2016
	b		c	d	e
1	<b>1.</b>	<b>INTEREST INCOME</b>	<b>48 327</b>		<b>43 168</b>
2	a)	interest income from fixed interest-bearing securities	1 933		5 335
3		Of which: - subsidiaries	-		-
4		- associated companies	-		-
5		- affiliated companies	-		-
6	b)	other interest income	46 394		37 833
7		Of which: - subsidiaries	-		-
8		- associated companies	-		-
9		- affiliated companies	-		-
10	<b>2.</b>	<b>INTEREST EXPENSE</b>	<b>5 680</b>		<b>2 158</b>
11		Of which: - subsidiaries	-		-
12		- associated companies	-		-
13		- affiliated companies	-		-
14		<b>NET INTEREST INCOME</b>	<b>42 647</b>		<b>41 010</b>
15	<b>3.</b>	<b>DIVIDEND RECEIVED</b>			
16	a)	joint ventures	-		-
17	b)	affiliated companies	-		-
18	c)	associated companies	-		-
19	d)	other	-		-
20	<b>4.</b>	<b>FEE INCOME</b>	<b>30 339</b>		<b>30 253</b>
21	a)	fee income of other financial services	27 714		28 157
22		Of which: - subsidiaries	-		-
23		- associated companies	-		-
24		- affiliated companies	-		-
25	b)	fee income of investment services	2 625		2 096
26		Of which: - subsidiaries	-		-
27		- associated companies	-		-
28		- affiliated companies	-		-
29	<b>5.</b>	<b>FEE EXPENSE</b>	<b>6 004</b>		<b>6 451</b>
30	a)	fee expense of other financial services	5 953		6 393
31		Of which: - subsidiaries	-		-
32		- associated companies	-		-
33		- affiliated companies	-		-
34	b)	fee expense of investment services (excluding expense of trading activities)	51		58
35		Of which: - subsidiaries	-		-
36		- associated companies	-		-
37		- affiliated companies	-		-
38	<b>6.</b>	<b>NET INCOME OF FINANCIAL SERVICES [6/a.-6/b.+6/c.-6/d.]</b>	<b>4 698</b>		<b>1 604</b>
39	a)	income of other financial services	9 699		5 473
40		Of which: - subsidiaries	-		-
41		- associated companies	-		-
42		- affiliated companies	-		-
43		- valuation difference	20		-
44	b)	expense of other financial services	5 094		3 627
45		Of which: - subsidiaries	-		-
46		- associated companies	-		-
47		- affiliated companies	-		-
48		- valuation difference	474		-
49	c)	income of investment services (income of trading activities)	160		1 758
50		Of which: - subsidiaries	-		-
51		- associated companies	-		-
52		- affiliated companies	-		-
53		- release of provision on securities available for sale	-		-
54		- valuation difference	-		880
55	d)	expense of investment services (income of trading activities)	67		2 000
56		Of which: - subsidiaries	-		-
57		- associated companies	-		-
58		- affiliated companies	-		-
59		- provision charge on securities available for sale	-		-
60		- valuation difference	-		1 596
61	<b>7.</b>	<b>OTHER INCOME</b>	<b>73 029</b>		<b>95 101</b>
62	a)	income of non-financial and non-investment services	66 941		90 424
63		Of which: - subsidiaries	-		-
64		- associated companies	-		-
65		- affiliated companies	-		-
66	b)	other income	6 088		4 677
67		Of which: - subsidiaries	-		-
68		- associated companies	-		-
69		- affiliated companies	-		-
70		- release of provision on inventories	32		15
71	ba)	profit increasing item due to consolidation	-		-

Statistic code: 10196445641911401

in million HUF

	Description	2015	Previous year Adjustments	2016
72	<b>8. OPERATING COSTS</b>	<b>38 399</b>		<b>39 260</b>
73	a) personal type costs	23 763		25 101
74	aa) salaries and wages	17 047		18 106
75	ab) other personal type costs	1 374		1 410
76	of which: - social securities	204		218
77	- pension related costs	95		60
78	ac) affix of wages	5 342		5 585
79	of which: - social securities	4 879		5 087
80	- pension related costs	-		-
81	b) other operating costs (materials)	14 636		14 159
82	<b>9. DEPRECIATION</b>	<b>3 389</b>		<b>4 406</b>
83	<b>10. OTHER EXPENSES</b>	<b>84 517</b>		<b>105 634</b>
84	a) expenses of non-financial and non-investment services	63 987		87 728
85	Of which: - subsidiaries	-		-
86	- associated companies	-		-
87	- affiliated companies	-		-
88	b) other expenses	20 530		17 906
89	Of which: - subsidiaries	-		-
90	- associated companies	-		-
91	- affiliated companies	-		-
92	- provision charge on inventory	-		85
93	ba) profit decreasing item due to consolidation	-		-
94	<b>11. PROVISION CHARGE ON RECEIVABLES AND ON CONTINGENT AND FUTURE LIABILITIES</b>	<b>9 661</b>		<b>11 023</b>
95	a) provision charge on receivables	8 519		6 693
96	b) provision charge on contingent and future liabilities	1 142		4 330
97	<b>12. RELEASE OF PROVISION ON RECEIVABLES AND ON CONTINGENT AND FUTURE LIABILITIES</b>	<b>11 435</b>		<b>13 923</b>
98	a) release of provision on receivables	10 701		12 114
99	b) release of provision on contingent and future liabilities	734		1 809
100	12/A. General risk reserve release	-		-
101	<b>13. PROVISION CHARGE ON SECURITIES PORTFOLIO</b>	<b>3</b>		<b>3</b>
102	<b>14. RELEASE OF PROVISION ON SECURITIES PORTFOLIO</b>	<b>-</b>		<b>-</b>
103	<b>15. NET INCOME OF FINANCIAL SERVICES</b>	<b>20 175</b>		<b>15 114</b>
104	of which: NET INCOME OF FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5±6+7.b)-8-9-10.b)-11+12-13+14]	17 221		12 418
105	<b>NET INCOME OF NON-FINANCIAL AND NON-INVESTMENT SERVICES [7.a)-10.a)]</b>	<b>2 954</b>		<b>2 696</b>
106	16. Extraordinary revenues	58 428		791
107	17. Extraordinary expenditures	59 654		488
108	<b>18. NET PROFIT (LOSS) OF EXTRAORDINARY ITEMS (16-17)</b>	<b>(1 226)</b>		<b>303</b>
109	<b>19. PROFIT BEFORE TAXATION (±15±18)</b>	<b>18 949</b>		<b>15 417</b>
110	<b>20. TAXATION</b>	<b>4 183</b>		<b>2 358</b>
111	a) Tax difference due to consolidation (±)	-		-
112	<b>21. PROFIT AFTER TAXATION (±19-20)</b>	<b>14 766</b>		<b>13 059</b>
113	<b>22. CHANGE AND RELEASE OF GENERAL RESERVES (±)</b>	<b>1 571</b>		<b>1 068</b>
114	<b>23. NET PROFIT (LOSS) FOR THE YEAR (±21±22-23)</b>	<b>13 195</b>		<b>11 991</b>

Budapest, 29 March, 2017

 György Zolnai  
 Chief Executive Officer

 Katalin Deák, Keresztyénné  
 Chief Finance Officer

***Budapest Bank Zrt. and Subsidiaries***  
***Notes to the Consolidated Financial Statements***  
**31 December 2016**

Budapest, 29 March, 2017

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György Zolnai  
Chief Executive Officer

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Katalin Deák, Keresztyénné  
Chief Finance Officer

*This is the translation of the Financial Statements that were prepared by the Bank.*

## **BUDAPEST BANK-GROUP**

### **IV. GENERAL NOTES**

#### **IV/1. A BRIEF OVERVIEW OF BUDAPEST BANK AND BUDAPEST BANK-GROUP**

Budapest Hitel és Fejlesztési Bank Zrt. ("Budapest Bank", or the "Bank" located: 1138 Budapest, Váci út 193., <http://www.budapestbank.hu/>) was established on January 1, 1987, when the two-tier banking system emerged in Hungary. Budapest Bank was established by the government, state - owned enterprises as well as co-operatives.

In December 1995 Budapest Bank was privatised and acquired by General Electric Capital, EBRD from the State Privatisation and Asset Management Company Ltd. (ÁPV Rt.) General Electric Capital purchased additional shares over time and became a majority shareholder, then in 2012, it has bought out the remaining minority shareholders stake based on pre-emption right described in the capital market act 76/D § 1, becoming 100 % shareholder of the Bank.

GE Capital signed an agreement with the Hungarian Government about the sale of Budapest Bank on February 13, 2015. The actual 100% buyer on behalf of the Government is the Corvinus International Investment Ltd (located: 1027 Budapest, Kapás street 6-12 second floor, [www.corvinus.hu](http://www.corvinus.hu)) managed by the Hungarian Development Bank Ltd. The financial settlement of the purchase was taken place on June 29, 2015.

Budapest Bank Group is fully consolidated in the consolidated Annual Report of Corvinus Nemzetközi Befektetési Zrt (Corvinus International Investment Ltd).

The annual general meeting in 2012 has changed the Bank's operational form to private limited company. The share capital of the Bank as of December 31, 2016 amounted to HUF 19,396 million. The Bank is licensed to conduct the full range of the activities of a credit institution including transactions denominated in Hungarian Forint and foreign currency alike. The branch network of the Bank currently consists of 94 branches and 6 sub-office.

Budapest Bank performs a part of its services via wholly owned subsidiary companies that comprise members of the Bank-group and carry out specialised activities in their capacity as independent business organisations.

**Budapest Auto Finance Ltd.** is engaged to provide consumer auto loans and finance lease. From January 1, 2017, it was merged to the Bank.

**Budapest Equipment Finance Ltd.** provides operative leases to corporate customers.

**Budapest Leasing Ltd.** pursues finances leases and loans to corporate customers.

**Budapest Fund Management Ltd.** manages mutual investment funds started by the Fund Management Ltd.

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**A brief overview of the business activities of the subsidiaries:**

1) **Budapest Auto Finance Ltd. (Budapest Autófinanszírozási Zrt.)** was established by the Bank in 1997 with a registered capital of HUF 50 million as a wholly-owned subsidiary company of Budapest Bank. The company provides private persons as well as business organizations with credit and leasing facilities for the purchase of new and second-hand cars. As of the end of 2016 the balance sheet total of Budapest Auto Finance Ltd. was HUF 62,918 million, its registered capital was HUF 182 million, the company's shareholders' equity was HUF 1,808 million, and the net profit was HUF 91 million.

2) **Budapest Equipment Finance Ltd (Budapest Eszközfinanszírozó Zrt.)** was created in August 2013 by merging Budapest Fleet Ltd. (Budapest Flotta Zrt.) and Equipment Finance Ltd (Eszközfinanszírozó Kft.) to SBB Solution Ltd. (SBB Solution Zrt.). The company deals with operative equipment financing. As at the end of 2016 the balance sheet total of Budapest Equipment Finance Ltd. was HUF 6,105 million, company's registered capital amounted to HUF 9 million, its shareholders' equity was HUF 4,443 million, and the net profit was HUF 178 million.

3) The principal activity of **Budapest Leasing Company Ltd. (Budapest Lízing Zrt.)** is to purchase and lease long-life assets (mainly production equipment), and provide loan to corporate customers. The Bank established Budapest Leasing Company Ltd. in 1992. At the end of 2016 the balance sheet total was HUF 74,567 million, the company's registered capital amounted to HUF 62 million, its shareholders' equity was HUF 7,689 million, and its result was HUF 921 million profit.

4) **Budapest Fund Management Ltd. (Budapest Alapkezelő Zrt.)** was established in 1992. It manages the increasing number of investment funds grounded by the company. As of the end of 2016 the balance sheet total of Budapest Fund Management Ltd. amounted to HUF 2,866 million, its registered capital was HUF 500 million, its shareholders' equity was HUF 2,694 million. The company's current year profit was HUF 1,463 million.

## **IV/2. THE PRINCIPLES OF THE ACCOUNTING POLICY OF BUDAPEST BANK-GROUP**

The Bank-group performs its activities, keeps its books and records pursuant to the provisions of the laws and regulations set forth below:

Act CCXXXVII. of 2013 on credit institutions and financial enterprises,  
Act V. of 2013 on the Civil Code,  
Act C. of 2000 on accounting (Law),  
Act CXX. of 2001 on capital market,  
Government Decree no. 250/2000 (XII.24.) about the specific aspects of the financial statements and accounting responsibilities of credit institutions and financial enterprises.

The Accounting Policy of the Bank-group is based upon the 14 basic principles of accounting as set forth in the Act on Accounting. Independent audit is obligatory for the Bank-group based on the 155. § of the Act of Accounting. The official auditor of the Bank is the KMPG Hungary Kft. (1134 Budapest Váci út 31.), Agócs Gábor (id. number: 005600). The Annual report of the Bank is available on <http://www.budapestbank.hu/>. The Bank-group booked audit fees of HUF 73 million for the financial year 2016.

The Bank set its balance sheet preparation day to January 12<sup>nd</sup> of the year following the statement date, except for risk provision, which is February 15<sup>th</sup> and the dividend payment of the subsidiaries, which is March 14<sup>th</sup>.

Pursuant to the provisions of relevant laws, errors identified in the course of audits/reviews shall be considered to be material for the Bank-group, if the aggregate impact of such errors, either positive or negative ones, are in excess of HUF 5 billion. Errors are considered to be material in all cases when during the audits/reviews in a given year the aggregate impact of such errors effecting the Bank-group's net income or shareholders' equity, either positive or negative ones, are in excess of 2% of total assets.

Changes in previously published data shall be considered to be material for the Bank-group if the sum of such errors reaches the materiality limit.

### **Valuation principles:**

#### ***Cash and equivalents***

The Bank-group aggregates the amount of cash on hand, (including foreign currency), the electronic money, the checks, bank deposits at National Bank of Hungary and at other banks and the cash settlements accounts amongst the cash balances in the balance sheets.

#### ***Securities***

In this section the Bank-group includes securities purchased for non-investment purpose and securities representing lending relations as well as investments by shares.



Securities bought for non-investment purposes are recorded at purchase value less the accumulated interest which is part of the purchase price. The interest included in the purchase price is charged against interest income.

For trading securities (treasury bills and government bonds) the bank uses *mark to market valuation*. For these papers no provision can be made.

The Bank values its fix-rate available for sale securities that are hedged (economically) with interest rate swaps to fair value to other comprehensive income. In case the market value of these securities is lower than the book value then the difference is reserved in the income statement.

The valuation of securities available for sale and held for investment is based on purchase price. For these papers individual rating of the securities is made. Long lasting and material negative difference between book value and the market value a reserve is made. Long lasting and material positive value the difference is released from the reserve.

### ***Receivables from financial institutions and customers***

In this category only the receivables from the bank activity are recorded in the Bank-group consolidated financial statement. In this line the following are included:

- Placements at other banks,
- Receivables customers,

The Bank-group records the receivables denominated in HUF at historical cost. The valuation rules of the receivables denominated in foreign currency is disclosed in the chapter called Valuation of the receivables and liabilities denominated in foreign currencies.

In case of participation in syndicated loans, the Bank-group sets forth only the amount of the loan extended by itself (without the obligation of counterclaim).

On the basis of debtor rating, the Bank-group accounts for provision, if the loss difference between the book value of the receivables and the amount expected to be recovered proves to be long lasting and significant. If the amount of the receivables expected to be recovered significantly exceeds the book value less reserve of the receivables, the difference will be released from the reserve.

### ***Inventories***

The Bank-group includes inventories in the other assets of the balance sheet. Amongst the inventories, it sets forth the assets that directly or indirectly serve the financial activity (for less than one year).

The Bank-group sets forth the inventories at historical cost in the relevant inventory accounts. The Bank-group determines the value of the inventories under the FIFO method.

Repossessed assets for receivables that became the property of the Bank-group and are kept for future resale purposes are accounted at a value at which the Bank-group settled the value of the receivables with the customer.

Reserve for inventory is accounted by the Bank-group if net book value of the asset is higher than the expected return. The reserve on inventories received by the Bank-group as settlement of receivables is accounted as other expense. The release of this reserve is accounted for as decrease of other expense, if these assets are classified and reserved during the year.

### ***Investments***

Financial assets (investments by shares, securities, long term loans, long term bank deposit) that the Bank-group acquires with the purpose to gain long term income (dividend, interest) or to achieve influencing, controlling or directing positions shall be stated as investments in the Bank-group's balance sheet. Valuation adjustments of the invested financial assets are also included in investments.

In compliance with the law the Bank-group capitalises the invested financial assets at historical acquisition cost in its books. The interest included in the purchase price is charged against interest income of the invested financial assets.

The Bank-group recognizes reserve for the difference between the book value of the asset and its market value if it is long term and material. According to the accounting policy the material amount is defined as a difference exceeding 25% and minimum 100 million HUF between the book value and the market value, for a period of more than one year.

### ***Intangible assets***

The Bank-group classifies hereto the intangible assets, the advances provided for intangible assets as well as the valuation adjustment of the intangible assets. The intangible assets comprise the value of rights, business goodwill and intellectual property. The Bank-group sets forth the capitalized value of the foundation, reorganisation and the capitalized value of research and development as well among the intangible assets.

The calculation of the amortisation is carried out with the straight-line method, based on the useful life. The Bank-group uses the amortisation periods stipulated by the Law in the case of the business goodwill, the capitalized value of the foundation and of the reorganisation.

### ***Fixed Assets***

The fixed assets of the Bank-group are accounted, in accordance with the Law, at gross acquisition cost less the residual value that can be expected at the end of the useful service life, the accumulated depreciation of tangible assets under the plan and the over-plan depreciation. In addition to this, it shall be increased with the amount of the release of the over-plan depreciation.

Since 2008, the Bank and its subsidiaries created a VAT group and these entities partially reclaim VAT based on the same ratio. Non reclaimed VAT is expensed.

The fixed assets that have not been put into operation are accounted for as capital projects in progress.

The depreciation charges under the plan shall be determined and accounted for in considering the expected useful life of the relevant assets by using the straight-line depreciation method.

The depreciation keys of individual types of are as follows:

Buildings, fixtures	2 %
Real estate not owned by the Bank-group	6 %
Machines, equipment	14.5 %
Computer equipment	33 %
Vehicles	20 %

The Bank-group accounts for over-plan depreciation as other expenditure, if the book value of the tangible assets remains considerably higher for a longer period, than the market value of these assets.

### ***Liabilities to credit institutions and customers***

These include liabilities originating from financial services, from liquidity and risk management activity, as well as liabilities originating from investment services and other investment services.

### ***Accrual***

The Bank-group records the interest, the interest type income and the fees for the year as accruals, if received before the balance sheet preparation day.

The interest and interest type fees for the period, that are not due before the balance sheet preparation day, can only be recorded as accrual in the balance sheet, if the debtor that they are related to are classified as performing or special watch.

The interests and interest type expenses related to the reporting year paid till the balance sheet preparation day and also the interest due by the balance sheet cut-off date but not yet paid out are recorded as accrued interest expense by the Bank-group.

### ***Valuation of the receivables and liabilities denominated in foreign currencies***

The foreign currency cash on hand balances, the foreign exchange nostro accounts, the receivables, the securities, other financial assets and the liabilities denominated in foreign currency are recorded by the Bank-group in the original currencies and converted into HUF each day at the official foreign exchange rates disclosed by the National Bank of Hungary.

The above assets and liabilities are stated in the balance sheet at the HUF values converted at the official foreign exchange middle rates specified by the NBH, as of the balance sheet cut-off date for the reporting year. When the difference between the book value before the evaluation on the balance sheet cut-off date and the HUF amount of the evaluation on the balance sheet cut-off date adds up to a loss or gain, this balance is recorded in the "net income of financial services" as exchange rate gain or loss.

### ***Allowances for losses and risk reserve***

In accordance with the provisions of the Act on Credit Institutions and Financial Enterprises (Hpt.) the Bank-group can make risk provision for the identified interest and exchange rate risks as well as for the off-balance sheet risk.

The Bank-group calculates the allowance for losses in accordance with its debtors' rating and receivable valuation (as specified in the related internal directives in effect) each month, in its so-called debtors' rating and portfolio system and books the increase/decrease to the allowance in order to arrive at the amount specified by the rating and valuation.

During the valuation the Bank-group reduces the value of the risk-weighted assets and off-balance sheet items by the value of the accepted collaterals. The resulting net risk multiplied by the reserve % assigned to the worst receivable of the debtor will provide the necessary amount of allowance for losses.

**According to the Government Decree no. 250/2000 (Appendix 7, chapter II.11.) and to the Accounting law (paragraph 55 (2)),** the Bank calculates the allowance of losses for small value receivables from credit institutions and customers on a pool basis. Receivables on a pool basis are individually recorded; allowance for losses for them is accounted individually and assigned to the receivable. At the end of receivable they are cancelled at the same time from the books. Small-amount receivables by debtors are determined in HUF 200 million by the bank.

The Bank-group has made all the necessary provisions and reserves.  
The Bank-group does not generate the so-called General Risk Provision.

The Bank-group applies the rules of the 7 appendix of the government decree 250/2000 for determination the impairment amount for restructured loans in its financial statement of 2016. In summary these loans are not reclassified into better qualification category, than the category used before restructuring.

The outstanding contractual restructured receivable was 85 billion HUF, the book value was HUF 53.4 billion of as of 31<sup>st</sup> December 2016.

During 2016, based on paragraph 107 (3) of Act CXII. on credit institutions and financial enterprises, on paragraph 7 (11) of Government Decree no. 250/2000 and on paragraph 41 (1) of Act C. of 2000 on accounting (Law), the members of the Bank-group have created a general reserve for the performing commercial loans/leases to cover future losses.

### ***Shareholders' equity***

The shareholders' equity is comprised of the registered (subscribed) capital, the capital reserve, the retained earnings, the capital engaged, the general reserve, the fair value valuation reserve and the profit of the year (as per the balance sheet).

The shareholders' equity includes also the general reserve retained from the profit after taxes. This reserve is generated in accordance with the rules laid out in Article 83 of the Htp. Constitution of the 10% General Reserve is considered individually on a yearly basis, no extra reserve is made above the compulsory 10%. During 2016, the Bank-group booked the mandatory 10 % reserve.

The components of the Bank-group's shareholders' equity are recorded in the balance sheet at book (carrying) value.

### ***Derivative valuation***

The Bank applies a mark to market valuation in the accounting policy since 1<sup>st</sup> January 2008, for off balance sheet receivables and liabilities arisen from non-hedge trading derivatives. No risk reserve or provision is made in addition to the mark to market valuation.

Future or forward trades with customers are hedged by the Bank on the market with opposite direction deals, so the accounting of these trades are done in accordance with the regulations of the Government Decree no. 250/2000 (XII.24.). FX Swap deals, CIRRS, IRS to cover securities interest rate risk, open at yearend are not considered hedges.

### ***Contingent and future liabilities***

The contingent and future liabilities of the Bank-group are recorded as off-balance sheet items (in the '0'-account class).

Contingent liabilities are mostly liabilities assumed with respect to third parties, which are already in effect on the balance sheet cut-off date but their recognition in the balance sheet depends on future events.

The certain (future) liabilities are comprised of irrevocable commitments that are already in effect on the balance sheet cut-off date but relevant recognition criteria of the contracts have not yet been met, as a consequence, they are not stated in the balance sheet.

### ***Interests accrual and suspension***

Interests and other financial service fees due by the balance sheet cut-off date but not received by the balance sheet preparation date are not stated by the Bank-group as revenues, they are stated as suspended items and recorded only in off balance sheet accounts. The same suspending procedure is applied for interests receivable for the reporting period but not yet due by the balance sheet date where the underlying receivable is assigned to any valuation category of other than performing or special watch . No provision is made by the Bank-group for suspended interest.

## **THE CONSOLIDATION ACCOUNTING POLICY OF BUDAPEST BANK-GROUP**

According to Government Decree 250/2000. (XII.24.) about the annual reporting and book keeping of financial institutions, Budapest Bank Zrt. is required - since 1994 - to prepare consolidated annual reports as well as a Consolidation Accounting Policy.

The Consolidation Accounting Policy of Budapest Bank is based on the provisions of the Act, on the management objectives of Budapest Bank and on the basic accounting principles. The Bank-group developed a reporting and accounting information system that ensures the provision of a true and fair view of the joint financial, equity and income position of the parent company and its subsidiaries.

The consolidated annual report is comprised of the following elements:

- consolidated balance sheet,
- consolidated profit and loss statement,
- consolidated notes.

The objective of the preparation of the consolidated balance sheet is to provide information - by eliminating assets and liabilities resulting from the relationships between the parent company and the subsidiaries - for the shareholders of the Bank-group and its management, the business partners, customers, investors and creditors, on the actual equity and financial position of the Bank-group and on changes in this position.

The consolidated profit and loss statement provides information - by eliminating the revenues and expenditures between the members of the Bank-group - on the performance (profitability) of the Bank-group.

The consolidated notes contains numerical data and narrative explanations and analyses which, in addition to the balance sheet and the profit and loss statement in line with the international requirements, are necessary for the shareholders, management, investors and creditors of the Bank-group.

**The following special balance sheet items are required in the consolidated report:**

***Goodwill***

This is the line where the calculated goodwill is stated. If the amount paid for an acquisition is larger than the amount of the shareholders' equity purchased, the resulting difference is the goodwill. Items can be booked hereto only at the first acquisition or at the time of consolidation in case of a step by step acquisition.

***Corporate tax receivable originating from consolidation***

Where the amount of the tax payable according to the profit and loss statements of the entities involved in consolidation is larger than the tax payable according to the consolidated profit and loss statement the difference is stated by the Bank-group in this line, as carried-over tax receivable.

***Change of subsidiaries' shareholders' equity (+/-)***

The Bank-group reports here the Bank' share of the changes of the shareholders' equity – regulated by the Law - of subsidiaries subsequent to the first consolidation.

***Changes resulting from consolidation (+/-)***

During the consolidation the difference, if any, between the receivable of one entity involved in consolidation and the liability of another entity involved in consolidation is to be stated in the “difference from debt consolidation” line in the consolidated annual balance sheet.

The gain or loss originating from a transaction between two entities involved in consolidation is to be stated in the “the difference in internal profit” line of the consolidated annual balance sheet.

***Minority shares***

The Bank-group states here the amounts of shares in the shareholders' equity of subsidiaries which - as of the balance sheet date - are not held by the Bank as parent company. The shareholders' equity of a subsidiary is divided in accordance with the relevant percentage of the shares held by the shareholders.

At present Budapest Bank holds 100 % of each of the subsidiaries involved in consolidation.

***Negative goodwill***

Where the difference between the purchase price of the investment and the share of the shareholders' equity of the subsidiary is a negative figure, a negative goodwill is recorded in this line.

***Corporate tax liability originating from consolidation***

Where the amount of the tax payable according to the profit and loss statements of the entities involved in consolidation is smaller than the tax payable according to the consolidated profit and loss statement the difference is stated as carried-over tax liability arisen from consolidation.

**The following special net income items – different from the stand alone financials - are required in the consolidated report:**

***Consolidation difference - increasing the profit - resulting from debt consolidation***

If receivables and liabilities are eliminated under identical titles that originate from business transactions between entities involved in consolidation, and the amounts are different due to different evaluation rules laid out in the accounting act, a positive consolidation difference is recorded.

If the current year difference differs from prior year's number the positive change is recorded in this line.

***Consolidation difference - decreasing the profit - resulting from debt consolidation***

The amount originating from the results described above, in terms of a negative difference is stated in this line.

***Dividends, profit sharing received from associated companies***

Here are included the amounts of the dividends received (receivable) by the parent company (in this case the Bank) during the current year from its participation in associated entities along with the changes of the shareholders' equity of the associated companies during the current year.

***Dividends and profit sharing received from other equity investments***

This line of the consolidated profit and loss statement shows the amounts of dividends received (receivable) from equity investments other than subsidiaries or associated companies.

***Corporate tax difference originating from consolidation (+/-)***

The difference between the sum of the individual corporate taxes and the tax calculated on the tax base in the consolidated profit and loss statement is to be stated here either it is a positive or negative difference.

**Additional Notes:**

As established in the Accounting Policy of Budapest Bank Zrt. the following specific tables covering consolidation in the consolidated notes:

- the subsidiaries of Budapest Bank Zrt. involved in consolidation,
- the (direct and indirect) capital share of Budapest Bank Zrt. in the subsidiaries involved in consolidation
- the share belonging to Budapest Bank Zrt. as parent company.

**Definition of consolidation steps:**

In the course of consolidation the Bank carries out the following steps:

- 'preparation' of individual balance sheets and profit and loss statements
- capital consolidation
- debt consolidation
- elimination of internal profits
- consolidation of revenues and expenditures - capital consolidation of associated companies
- establishment of tax difference originating from consolidation
- The consolidation of the impairment on subsidiaries (Quarterly)



#### **IV/3. CHANGES AND MAJOR ECONOMIC EVENTS IN 2016**

The Registry Court registered CDM Hitel- és Fejlesztési Bank Zrt. on the 16<sup>th</sup> January 2015, as the 100 % investment of the Bank. The Registry court of Budapest has deleted the company from the register as of 24<sup>th</sup> November 2016, as the company was voluntarily liquidated. The investment was derecognized in 2016 from the Bank's book.

The Bank-group made one-off HUF 1,559 million gain from the sale of its Visa shares.

The Bank-group's management has reviewed the legal cases and where losses seem to be likely; the appropriate provisions have been made. Management considers that the provision generated for the major legal cases provides a sufficient coverage.

HUF 655 million was been transferred to the Országos Betétbiztosítás Alap (National Deposit Insurance Fund) in the year 2016. HUF 482.5 million was paid in the Befektető Védelmi Alap (Investor Protection Fund). Budapest Bank, as the member of the Szanálási Alap (Bank Resolution Fund), transferred HUF 234 million to the fund in 2016.

Overall: the Bank-group operated in a profitable way in 2016

In 2016, the annual report of Budapest Bank-group is signed by Mr. György Zolnai, Chief Executive Officer of the Bank (1026 Budapest, Orsó u. 35.) and Mrs. Katalin Keresztyén Deák, Chief Finance Officer of the Bank (1161 Budapest, Pálya utca 49).

Zoltán Szűcs is responsible for managing and leading the accounting duties. (Registry number: MK178499 in the Registry of the Accountant listed by Ministry of Finance.)

**V/1. Budapest Bank Zrt. Consolidated subsidiaries and other equity investments  
31 December 2016**

	Company		Purchase value (in HUF MM)	Voting rights
	Name	Address (seat)		
1. Participation in subsidiaries involved in the consolidation	Budapest Autófinanszírozási Zrt.	1138 Budapest, Váci út 193.	11 250	100%
	Budapest Lízing Zrt.	1138 Budapest, Váci út 193.	6 380	100%
	Budapest Alapkezelő Zrt.	1138 Budapest, Váci út 193.	10	100%
	Budapest Eszközfinanszírozó Zrt.	1138 Budapest, Váci út 193.	5 887	100%
2. Other companies, not involved in consolidation	Garantiqa Hitelgarancia Zrt.	1082 Budapest, Kisfaludy utca 32.	190	2,42%
	Kisvállalkozás-fejlesztő Pénzügyi Zrt.	1052 Budapest, Szép u. 2.	50	1,14%
	Swift	Avenue Adele 1 B 1310 La Hulpe Belgium	12	0,02%
	Park Teniszkлуб Zrt.	1114 Budapest, Bartók Béla út 15/d.	0,1	0,30%
	VISA Europe Ltd.	1 Sheldon Square London W2 6TT	-	0,00%

**V/2. Budapest Bank Zrt. equity participation in the subsidiaries which are involved in the consolidation**
**31 December 2016**

Subsidiary	BB Zrt. Direct participation in the subsidiary		Share capital	Shareholder's fund	Current year income
	HUF MM	%	HUF MM	HUF MM	HUF MM
Budapest Autófinanszírozási Zrt.	11 250	100	182	1 808	91
Budapest Lízing Zrt.	6 380	100	62	7 689	921
Budapest Alapkezelő Zrt.	10	100	500	2 694	1 463
Budapest Eszközfinanszírozó Zrt.	5 887	100	9	4 443	178
<b>Total:</b>	<b>23 527</b>		<b>753</b>	<b>16 634</b>	<b>2 653</b>

**V/3. Equity consolidation adjustments of Budapest Bank Zrt. as parent company**  
**31 December 2016**

Subsidiary	BB Zrt's participation in the subsidiary %	The subsidiaries' equity without the profit of the year before payment of Dividend 31 december 2016 HUF MM	Purchase price of the shares HUF MM	Equity consolidation difference 1994 HUF MM	Modification of positive equity consolidation difference due to new shares HUF MM	Depreciation of positive equity consolidation HUF MM	Equity consolidation difference HUF MM (g=d+e-f)	Changes in the shareholders' equity of subsidiary before payment of Dividend /* 31 december 2016 HUF MM (h=b-c+g)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Budapest Autófinanszírozási Zrt.	100,00%	1 716	11 250	-	-	-	-	(9 534)
Budapest Lizing Zrt.	100,00%	6 768	6 380	133	-	133	-	388
Budapest Alapkezelő Zrt.	100,00%	1 231	10	(4)	-	-	(4)	1 217
Budapest Eszközfinanszírozó Zrt.	100,00%	4 266	5 887	(146)	-	-	(146)	(1 767)
<b>Total:</b>		<b>13 981</b>	<b>23 527</b>	<b>(17)</b>	<b>-</b>	<b>133</b>	<b>(150)</b>	<b>(9 696)</b>

Positive equity consolidation difference: 0  
 Negative equity consolidation difference: (150)

**V/4.a. The gross value of intangible and tangible assets of the consolidated companies in 2016**

in HUF MM

Description	Changes in Gross Value				
	Opening balance	During the year			Closing balance
		Increase	Decrease	Reclass	
<b>I. Total intangible assets</b>	<b>24 502</b>	<b>3 941</b>	<b>2 696</b>	<b>-</b>	<b>25 747</b>
a/ Rights and licenses	823	-	-	-	823
b/ Intellectual properties	23 679	3 941	2 696	-	24 924
c/ Capitalised value of foundation/restructuring	-	-	-	-	-
<b>II.1 Tangible assets serving financial institutions's activities</b>	<b>26 600</b>	<b>2 131</b>	<b>3 209</b>	<b>62</b>	<b>25 584</b>
a/ Properties and related rights	12 898	405	298	-	13 005
b/ Technical equipment, machinery and vehicles	13 606	1 293	2 803	62	12 158
c/ Assets under construction	96	433	108	-	421
d/ Advances for assets under construction	-	-	-	-	-
<b>II.2 Tangible assets related to non-financial services</b>	<b>7 140</b>	<b>1 808</b>	<b>2 413</b>	<b>(62)</b>	<b>6 473</b>
a/ Properties and related rights	-	-	-	-	-
b/ Technical equipment, machinery and vehicles	7 140	1 787	2 413	(62)	6 452
c/ Assets under construction	-	21	-	-	21
d/ Advances for assets under construction	-	-	-	-	-

**V/4.b. Accumulated depreciation and current year depreciation on intangible and tangible assets in 2016**

in HUF MM

Description	Accumulated depreciation						
	Opening balance	During the year			Of which		Closing balance
		Increase	Decrease	Reclass	Planned depreciation	Extraordinary depreciation	
<b>I. Total intangible assets</b>	<b>17 389</b>	<b>2 218</b>	<b>2 237</b>	<b>-</b>	<b>2 218</b>	<b>-</b>	<b>17 370</b>
a/ Rights and licenses	15	-	-	-	-	-	15
b/ Intellectual properties	17 374	2 218	2 237	-	2 218	-	17 355
c/ Capitalised value of foundation/restructuring	-	-	-	-	-	-	-
<b>II.1 Tangible assets serving financial institutions's activities</b>	<b>16 360</b>	<b>2 321</b>	<b>2 931</b>	<b>47</b>	<b>2 320</b>	<b>1</b>	<b>15 797</b>
a/ Properties and related rights	6 270	617	213	-	617	-	6 674
b/ Technical equipment, machinery and vehicles	10 090	1 704	2 718	47	1 703	1	9 123
c/ Assets under construction	-	-	-	-	-	-	-
d/ Advances for assets under construction	-	-	-	-	-	-	-
<b>II.2 Tangible assets related to non-financial services</b>	<b>3 286</b>	<b>1 029</b>	<b>1 877</b>	<b>(47)</b>	<b>1 014</b>	<b>15</b>	<b>2 391</b>
a/ Properties and related rights	-	-	-	-	-	-	-
b/ Technical equipment, machinery and vehicles	3 286	1 029	1 877	(47)	1 014	15	2 391
c/ Assets under construction	-	-	-	-	-	-	-
d/ Advances for assets under construction	-	-	-	-	-	-	-

Note: The depreciation of non-financial companies is included in the Expenses of non-financial and non-investment services P/L line.

The depreciation charges under the plan and accounted for in light of the expected useful life of the relevant assets by using the straight-line depreciation method.

<b>Rights related to real estates (II. 1a)</b>	<b>Gross Value (HUF MM)</b>	<b>Cummulated Depreciation (HUF MM)</b>
Right of lease	52	52
Right of usage	2	1

**V/5. Inventories**

in HUF MM

Description	As of 31 December 2015	As of 31 December 2016
Precious metals for sale	-	-
Office materials	-	-
Printed materials	-	-
Stock	1	1
Mediated services	12	3
Stock purchased in the scope of Lease contracts	-	15
Repossessed cars, leased assets	58	40
Provision on Stock/Equipment against receivables	(49)	(34)
Other	-	-
<b>Total :</b>	<b>22</b>	<b>25</b>

**V/6. Receivables to financial institutions and customers in maturity split**

in HUF MM

Description	Total of 31 December 2015	Total of 31 December 2016  1 = 2+3+4+5+6	Breakdown of the portfolio of 31 December 2016 in maturity split				
			On sight	within 3 months	within 3 months and 1 year	within 1 year and 5 years	Over 5 years
			2	3	4	5	6
<b>I. Receivables from financial institutions</b>	<b>198 726</b>	<b>166 746</b>	<b>10 661</b>	<b>156 085</b>	-	-	-
<b>On sight</b>	<b>6 346</b>	<b>10 661</b>	10 661	-	-	-	-
<b>Other receivables from financial institutions</b>	<b>192 380</b>	<b>156 085</b>	-	<b>156 085</b>	-	-	-
<b>- Within one year</b>	<b>192 380</b>	<b>156 085</b>	-	156 085	-	-	-
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	164 743	106 058	-	106 058	-	-	-
<b>- Over one year</b>	-	-	-	-	-	-	-
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	-	-	-	-	-	-	-
<b>II. Receivables from customers</b>	<b>533 626</b>	<b>590 729</b>	<b>82 265</b>	<b>45 997</b>	<b>162 572</b>	<b>187 987</b>	<b>111 908</b>
<b>Receivables from financial services</b>	<b>533 621</b>	<b>589 101</b>	<b>80 637</b>	<b>45 997</b>	<b>162 572</b>	<b>187 987</b>	<b>111 908</b>
<b>- Within one year</b>	<b>264 548</b>	<b>289 206</b>	80 637	45 997	162 572	-	-
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
<b>- Over one year</b>	<b>269 073</b>	<b>299 895</b>	-	-	-	187 987	111 908
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
<b>Receivables from investment services</b>	<b>5</b>	<b>1 628</b>	1 628	-	-	-	-
<b>Total:</b>	<b>732 352</b>	<b>757 475</b>	<b>92 926</b>	<b>202 082</b>	<b>162 572</b>	<b>187 987</b>	<b>111 908</b>



**V/7. Assets in Euro and non-Euro currencies expressed in HUF**

in HUF MM

Description	31 December 2016				31 December 2015	
	EUR	Non EUR			Total	Total
		USD	HUF	Other		
<b>1. Cash</b>	<b>724</b>	<b>132</b>	<b>16 665</b>	<b>48</b>	<b>17 569</b>	<b>20 084</b>
<b>2. State Bonds</b>	<b>14 427</b>	-	<b>147 457</b>	-	<b>161 884</b>	<b>141 930</b>
<b>3. Receivables :</b>	<b>123 405</b>	<b>20 136</b>	<b>619 477</b>	<b>5 175</b>	<b>768 193</b>	<b>741 966</b>
a) On sight	6 888	1 185	-	2 588	10 661	6 346
b) Maturing within one year	57 572	18 764	378 070	1 603	456 009	466 542
- to financial institutions	24 832	18 209	111 597	1 447	156 085	192 380
- to customers	32 740	555	255 782	129	289 206	264 548
- other receivables	-	-	10 691	27	10 718	9 614
c) Maturing over one year	58 945	187	239 779	984	299 895	269 073
- to financial institutions	-	-	-	-	-	-
- to customers	58 945	187	239 779	984	299 895	269 073
d) From investment services	-	-	1 628	-	1 628	5
<b>4. Securities (bonds)</b>	<b>15 524</b>	-	<b>4 943</b>	-	<b>20 467</b>	<b>31 420</b>
<b>5. Shares and other securities</b>	-	-	-	<b>2 385</b>	<b>2 385</b>	<b>3 956</b>
<b>6. Shares for sale/ for investment purposes</b>	<b>11</b>	-	<b>230</b>	-	<b>241</b>	<b>242</b>
<b>7. Shares in affiliated companies</b>	-	-	-	-	-	-
<b>8. Intangible Assets</b>	-	-	<b>8 377</b>	-	<b>8 377</b>	<b>7 113</b>
<b>9. Tangible Assets</b>	-	-	<b>13 869</b>	-	<b>13 869</b>	<b>14 094</b>
<b>10. Inventories</b>	-	-	<b>25</b>	-	<b>25</b>	<b>22</b>
<b>11. Positive valuation difference of derivatives</b>	-	-	<b>789</b>	-	<b>789</b>	<b>14</b>
<b>12. Prepayments</b>	<b>550</b>	<b>5</b>	<b>4 845</b>	<b>2</b>	<b>5 402</b>	<b>4 323</b>
<b>Total: ( 1+ 2+ 3+ 4+ 5+ 6+ 7+ 8+ 9+ 10+ 11+ 12)</b>	<b>154 641</b>	<b>20 273</b>	<b>816 677</b>	<b>7 610</b>	<b>999 201</b>	<b>965 164</b>

**V/8. Reserves movements from 1 January 2016 to 31 December 2016**

in HUF MM

Description	Opening balance	Reserve (write-off)	Charge	Reserve (release)	Foreign Exchange	Closing balance
1. Reserve for pension and severance	-					-
2. Reserve on contingent and future liabilities	3 816		4 330	(1 806)		6 340
3. General risk reserve	-					-
4. Ohter reserve	860	(184)	844	(664)		856
<b>Total :</b>	<b>4 676</b>	<b>(184)</b>	<b>5 174</b>	<b>(2 470)</b>	-	<b>7 196</b>

**V/9. Provision charge/release on assets from 1 January 2016 to 31 December 2016**

in HUF MM

	Opening balance	Charge	Provision release of written-off receivables	Release	Foreing Exchange / Other *	Closing balance
<b>1. Provision on securities</b>	-	-	-	-	-	-
<b>2. Provision on other financial investments</b>	9	1				10
<b>3. Provision on receivables</b>	105 754	6 693	(7 405)	(12 114)	(283)	92 645
<b>4. Provision on other receivables</b>	148	58	(12)	(36)	280	438
<b>5. Provision on inventories, which were received against receivables</b>	52	85		(15)	(3)	119
<b>Total :</b>	<b>105 963</b>	<b>6 837</b>	<b>(7 417)</b>	<b>(12 165)</b>	<b>(6)</b>	<b>93 212</b>

\* Including opening balance reclass

**V/10. Securities breakdown and safe custody securities**
**31 December 2016**

in HUF MM

Description	Securities fully owned by BB Zrt.							Securities owned by third parties		
	Balance Sheet Line	Face Value	Book Value	Listed	Market Value *	Form	Place	Face Value	Form	Place
<b>Government bonds</b>	II. Securities	156 032	161 884	161 884	163 183	DEMAT	KELER	4 776	DEMAT	KELER
<b>Discount T-bills, interest bearing T-bills, Kincstári takarékjegy</b>	II. Securities	-	-	-	-	DEMAT	KELER	24 022	DEMAT	KELER
<b>Bonds of National Bank of Hungary</b>	II. Securities									
<b>Bonds issued by Financial Institutions</b>	V. Bonds and other securities	20 551	20 447	20 447	22 444	DEMAT	KELER			
<b>Investment fund quotas</b>	VI. Shares and other securities	2 385	2 385	-	2 385	0	0	190 664	DEMAT	KELER
<b>Compensation Coupon</b>	VI. Shares and other securities	94	20	20	20	Physical	Treasury	1	Physical	Treasury
<b>Shares</b>	VII-VIII. Shares for investment purposes and in affiliated companies for investment purposes	190	190	-	190	Physical	Treasury	920	DEMAT	KELER
<b>Shares</b>	VII-VIII. Shares for investment purposes and in affiliated companies for investment purposes	26	51	-	51	DEMAT	KELER	50	Physical	Treasury
<b>Other security</b>	VI. Shares and other securities							3 280	Physical	Treasury
<b>Total:</b>		<b>179 278</b>	<b>184 977</b>	<b>182 351</b>	<b>188 273</b>			<b>223 713</b>		

Note: the financial assets due to customers on the bankaccounts managed within the Bank regarding to commission investment activity is 8 499 HUF MM at 31 December 2016.

\* Including provisions on securities and on shares for investment purposes

## V/11. Liabilities to financial institutions and customers in maturity split

in HUF MM

Description	Total of 31 December 2015	Total of 31 December 2016 1 = 2+3+4+5+6	Breakdown of the portfolio of 31 December 2016 in maturity split				
			On sight	within 3 months	within 3 months to 1 year	within 1 year to 5 years	Over 5 years
			2	3	4	5	6
<b>I. Liabilities to financial institutions</b>	<b>145 411</b>	<b>151 283</b>	<b>2</b>	<b>2 003</b>	<b>19 371</b>	<b>85 425</b>	<b>44 482</b>
<b>On sight</b>	<b>11</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deposited from financial services</b>	<b>145 399</b>	<b>151 281</b>	<b>-</b>	<b>2 003</b>	<b>19 371</b>	<b>85 425</b>	<b>44 482</b>
<b>- Within one year</b>	7 300	21 374	-	2 003	19 371	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	6 895	17 925	-	529	17 396	-	-
<b>- Over one year</b>	138 099	129 907	-	-	-	85 425	44 482
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	105 267	96 157	-	-	-	62 282	33 875
<b>From investment services</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>II. Liabilities to customers</b>	<b>663 737</b>	<b>684 260</b>	<b>557 622</b>	<b>75 357</b>	<b>46 441</b>	<b>4 840</b>	<b>-</b>
<b>Other liabilities from financial services</b>	<b>658 142</b>	<b>675 761</b>	<b>549 123</b>	<b>75 357</b>	<b>46 441</b>	<b>4 840</b>	<b>-</b>
<b>- On sight</b>	397 632	549 123	549 123	-	-	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
<b>- Within one year</b>	252 199	121 798	-	75 357	46 441	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
<b>- Over one year</b>	8 311	4 840	-	-	-	4 840	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
<b>From investment services activity</b>	<b>5 595</b>	<b>8 499</b>	<b>8 499</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>VII. Subordinated Debt</b>	<b>150</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150</b>
<b>Total:</b>	<b>809 298</b>	<b>835 693</b>	<b>557 624</b>	<b>77 360</b>	<b>65 812</b>	<b>90 265</b>	<b>44 632</b>

**V/12. Liabilities in Euro and non-Euro currencies, expressed in HUF**

in HUF MM

Description	31 December 2016				31 December 2015	
	EUR	Non EUR			Total	Total
		USD	HUF	Other		
<b>1. Liabilities on sight</b>	<b>89 400</b>	<b>14 891</b>	<b>440 827</b>	<b>4 006</b>	<b>549 124</b>	<b>397 643</b>
- to financial institutions	-	-	-	1	1	11
- to customers	89 400	14 891	440 827	4 005	549 123	397 632
<b>2. Short-term (within one year) liabilities</b>	<b>14 602</b>	<b>4 967</b>	<b>139 262</b>	<b>1 534</b>	<b>160 365</b>	<b>284 663</b>
- to financial institutions	404	-	20 970	-	21 374	7 300
- to customers	11 897	4 634	103 781	1 486	121 798	252 199
- on issued securities	-	-	-	-	-	-
- other liabilities	2 301	333	14 511	48	17 193	25 164
<b>3. Long-term (over one year) liabilities</b>	<b>24 551</b>	<b>182</b>	<b>110 014</b>	<b>-</b>	<b>134 747</b>	<b>146 410</b>
- to financial institutions	24 423	182	105 302	-	129 907	138 099
- to customers	128	-	4 712	-	4 840	8 311
- on issued securities	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-
<b>4. Liabilities from investment services</b>	<b>717</b>	<b>229</b>	<b>7 554</b>	<b>-</b>	<b>8 500</b>	<b>5 596</b>
- to financial institutions	-	-	1	-	1	1
- to customers	717	229	7 553	-	8 499	5 595
<b>5. Negative valuation difference of derivatives</b>	<b>-</b>	<b>-</b>	<b>471</b>	<b>-</b>	<b>471</b>	<b>38</b>
<b>6. Accruals</b>	<b>93</b>	<b>11</b>	<b>7 027</b>	<b>1</b>	<b>7 132</b>	<b>8 256</b>
<b>7. Provision</b>	<b>48</b>	<b>-</b>	<b>7 148</b>	<b>-</b>	<b>7 196</b>	<b>4 676</b>
<b>8. Subordinated debt</b>	<b>-</b>	<b>-</b>	<b>150</b>	<b>-</b>	<b>150</b>	<b>150</b>
<b>9. Shareholders' fund</b>	<b>-</b>	<b>-</b>	<b>131 516</b>	<b>-</b>	<b>131 516</b>	<b>117 732</b>
<b>Total: ( 1+ 2 + 3 + 4 + 5 + 6 +7 +8 +9)</b>	<b>129 411</b>	<b>20 280</b>	<b>843 969</b>	<b>5 541</b>	<b>999 201</b>	<b>965 164</b>

**V/13. Breakdown of Prepayments and Accruals**

Nr.	Description	As of 31 December 2015	As of 31 December 2016	Nr.	Description	in HUF MM	
						As of 31 December 2015	As of 31 December 2016
	<b>Prepayments</b>				<b>Accruals</b>		
1.	Accrued interest	1 748	2 606	1.	Accrued interest	970	705
2.	Accrued commission	112	125	2.	Accrued commission	34	0
3.	Accrued costs and expenses	491	357	3.	Accrued costs and expenses	5 858	5 069
4.	Accrued interest on Securities	1 600	2 047	4.	Accrued interest on Securities	1 379	0
5.	Accrued interest on derivatives (IRS, HIRS, CIRS)	0	205	5.	Accrued interest on derivatives (IRS, HIRS, CIRS)	0	187
6.	Other	372	62	6.	Other	15	1 171
	<b>Total:</b>	<b>4 323</b>	<b>5 402</b>		<b>Total:</b>	<b>8 256</b>	<b>7 132</b>

**V/14. Income and expenditure from investment related services**

in HUF MM

Nr.	Description	Income		Expenditure	
		2015	2016	2015	2016
1.	Commissionnaire activities	2 454	1 970	49	58
2.	Trading activities	127	877	33	404
3.	Safe custody activities	171	127	2	0
4.	Other activities	33	880	34	1 596
	<b>Total:</b>	<b>2 785</b>	<b>3 854</b>	<b>118</b>	<b>2 058</b>



**V/15. Changes in issued own shares**

31 December 2016

Description	Type of share	Face Value (HUF)	Number of shares	Value HUF MM
Opening total 2016. január 1.				19 396
Closing total 2016. december 31.				19 396
<b>Breakdown of closing total:</b>				
Ordinary common stock	Registered share	1 000	19 395 945	19 396

Notes:

Corvinus Nemzetközi Befektetési Zrt. has 100 % shareholding ownership.

**V/16. Interest and fees on non-performing loans which have not been credited as income**

in HUF MM

Description	Interest, fees and commissions in suspense As of 31 December 2015	Interest, fees and commissions in suspense As of 31 December 2016
Base interest	22 287	21 351
Late payment interest	5 811	5 460
Fees	2 233	1 799
Commissions	3 916	2 746
<b>Total:</b>	<b>34 247</b>	<b>31 356</b>

During 2016 1 972 MM HUF flowed in from the amount which had not been credited as income as of 31 December 2015.

**V / 17. Open position of currency SWAP deals**

31 December 2016

**Currency swaps - matured after closing day - for hedging the Bankgroup's Balance Sheet position, non-exchange traded**

Deal Type	Customer Name	Buy		Sell		Buy		Sell		Start Date	Maturity Date	Fair Value MM HUF
		Starting Amount		Starting Amount		Maturity Amount		Maturity Amount				
FX Swap	COMMERZBANK AG	CHF	3	HUF	872	HUF	873	CHF	3	2016.12.07	2017.01.09	5
FX Swap	MFB RT.	EUR	21	HUF	6 515	HUF	6 517	EUR	21	2016.12.23	2017.01.06	(15)
FX Swap	CIB BANK RT.	EUR	4	HUF	1 241	HUF	1 241	EUR	4	2016.12.23	2017.01.06	(3)
FX Swap	ING BANK N.V. MO-I FIÓKTELEPE	EUR	13	HUF	4 017	HUF	4 018	EUR	13	2016.12.28	2017.01.11	(26)
												<b>(39)</b>

Budapest Bank Zrt. has currency swap contracts with other commercial banks to close open FX position. Currency swap contracts are typically maturing within 1 month.

Based on Accounting Policy Budapest Bank applies fair market value accounting from 1st of Jan, 2008 regarding to off B/S items qualified as financial instruments for trading purposes, non-hedging derivative instruments. Reserves and provision can not be accounted on these deals.

Nondelivery deals on commodities and financial instruments, and delivery deals on financial instruments are considered derivatives. Derivative deals can be split into additional 2 groups, they can be trading purposing and for hedging activities. In case of applying fair value accounting non-hedging derivatives can be qualified solely as trading purposing deals.

Fair value of forward legs of non-delivery forwards and delivery currency swaps is determined in the following way: The Bank determines the forward leg (both receivable and payable) of each deals then the difference between spot rate and the discounted (on market rate) forward leg. Market rate is the officially announced HNB currency rate. The basis of the discount factor are market interests, which are BUBOR or LIBOR depending on currency and duration. The formula of the discount factor:  $1 + k/36500 * n$  (k=BUBOR or LIBOR, n=number of days from valuation to maturity). Discounted foreign currency amount is converted into HUF using HNB rates at valuation date. Differences between discounted amounts give the fair value of each deals.

The closed currency swap deals made +50 million HUF interest income in 2016. In the end of 2016 the fair value of the open currency swap deals (including FX Swap, CIRS and CCIRS) was -39 million HUF. Forwards did not have significant impact neither on cash flow or on the result. The fair value of the open forward deals (delivery and non-delivery) was 2 million HUF at the end of 2016.

**V / 18. Interest rate swap and cross-currency interest rate swap deals**

31 December 2016

Deal Type	Amount	Currency	Maturity Date	Interest rate on received interest	Interest rate on paid interest	Market value	P&I effect *
						M HUF	M HUF
HIRS**	48 000	HUF	2019	0.05 % - 0.33 %	BUBOR 6M	369	-689
IRS - planned hedge to fixed income government securities	18 000	HUF	2019	0.89 % - 1.08 %	BUBOR 6M	-179	-179
IRS - planned hedge to fixed income government securities	18 000	HUF	2021	1.03 % - 1.46 %	BUBOR 6M	-56	-56
IRS - planned hedge to fixed income government securities	8 000	HUF	2025	2.23 % - 2.26 %	BUBOR 6M	-125	-125
IRS - planned hedge to fixed income government securities	1 000	HUF	2027	1.81%	BUBOR 6M	74	74
IRS - planned hedge to loans	800	HUF	2018	0.63 % - 0.74 %	BUBOR 6M	-2	-2
IRS - planned hedge to loans	900	HUF	2019	0.85 % - 1.01 %	BUBOR 6M	-5	-5
IRS - planned hedge to loans	700	HUF	2020	1.03 % - 1.17 %	BUBOR 6M	-7	-7
IRS - planned hedge to loans	15	EUR	2021	-0.17 %	EURIBOR 3M	-15	-15
IRS - planned hedge to loans	3 600	HUF	2021	0.94 % - 1.31 %	BUBOR 6M	-3	-3
IRS - planned hedge to loans	400	HUF	2022	1.72 %	BUBOR 6M	-7	-7
IRS - planned hedge to loans	200	HUF	2023	1.98 %	BUBOR 6M	-4	-4
IRS - planned hedge to loans	100	HUF	2024	2.14 %	BUBOR 6M	-2	-2
IRS - planned hedge to loans	700	HUF	2027	1.91 % - 2.32 %	BUBOR 6M	33	33
						71	-987

Deal Type	Forward receivables		Forward liabilities		Maturity Date	Interest rate on interest received	Interest rate on paid interest	Market Value M HUF	P&I effect * M HUF
	Amount	Currency	Amount	Currency					
CIRS	500	HUF	2	EUR	2022	0 %	-1.68%	8	8
CIRS	13 174	HUF	42	EUR	2026	0 %	-1.26 % - -1.76 %	277	277
								285	285

Interest rate swap and cross-currency interest rate swap deals were made to eliminate the interest rate risk of fixed income government securities and fixed income HUF and EUR loans, currently still not in hedge relationship. All the deals are still open.

\* Interest income end expense excluded.

\*\* As a part of the MNB Funding for Lending (Growth Loan) Program preferential interest rate swap deals (HIRS) were made tied to lending activity.

**V/19. Changes of Shareholders' Equity in 2016**

in HUF MM

Description	Opening Value	During the year			Closing Value
		Increase	Decrease	Transfer	
Share capital	19 396	-	-	-	19 396
Issued, unpaid share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Retained Earnings	91 434	15 027* **	-	-	106 463
Valuation Reserve	-	724	-	-	724
Capital Engaged	-	-	-	-	-
General Reserve	1 571	1 067	-	-	2 638
Profit for the year	13 195 *	-	1 204	-	11 991
Changes in Subsidiaries Equity	(7 864)	-	1 832 **	-	(9 696)
Changes due to Consolidation	-	-	-	-	-
<b>SHAREHOLDERS' FUND</b>	<b>117 732</b>	<b>16 818</b>	<b>3 036</b>	<b>-</b>	<b>131 516</b>

Notes:

\*Due to changes in the format of financial statements, dividend paid in 2015 (12 500 mHUF) was added to the profit and deducted from retained earnings.

\*\*The increase in retained earnings includes the changes in the shareholders' equity of subsidiaries and joint ventures.

**V/20. Foreign currency receivables and liabilities  
from unsettled spot deals at year end**

in HUF MM

Currency	Foreing currency receivables	Foreing currency liabilities
AUD	-	-
CAD	-	-
CHF	13	2
CZK	3	3
DKK	2	1
EUR	281	1 091
GBP	1	9
HUF	1 093	315
JPY	-	-
NOK	-	-
PLN	30	17
SEK	-	3
RON	-	1
USD	140	121
<b>Összesen</b>	<b>1 563</b>	<b>1 563</b>

**V/21. Listed securities by Balance Sheet categories at book value**

in HUF MM

Description	Book value	
	31 December 2015	31 December 2016
<b>I.) GOVERNMENT SECURITIES</b>	<b>141 930</b>	<b>161 884</b>
a) available for sale	61 767	83 237
b) for investment purposes	80 163	78 647
<b>II.) BONDS AND OTHER SECURITIES</b>	<b>31 420</b>	<b>20 467</b>
a) securities issued by municipalities and other government institution (excluding government securities)	-	-
aa) available for sale	-	-
ab) for investment purposes	-	-
b) securities issued by others	31 420	20 467
ba) available for sale	10 907	20
Of which: -issued by subsidiaries	-	-
- issued by affiliated companies	-	-
- repurchased own shares	-	-
bb) for investment purposes	20 513	20 447
Of which: -issued by subsidiaries	-	-
- issued by affiliated companies	-	-
<b>III.) SHARES AND OTHER SECURITIES</b>	-	-
a) shares available for sale	-	-
Of which: -issued by subsidiaries	-	-
- issued by affiliated companies	-	-
b) securities with variable yield	-	-
ba) available for sale	-	-
bb) for investment purposes	-	-
<b>IV.) SHARES FOR INVESTMENT PURPOSES</b>	-	-
a) shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
b) revaluation of shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
<b>V.) SHARES IN AFFILIATED COMPANIES FOR INVESTMENT PURPOSES</b>	-	-
a) shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
b) revaluation of shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
<b>Listed securities total:</b>	<b>173 350</b>	<b>182 351</b>

**VI Additional information**
**VI/1. Financial ratios\***

<u>PROFITABILITY RATIOS</u>		2015		2016
<b>Marge</b>	Profit after taxation	14 766	=	13 059
	Revenue	231 418	=	190 467
				<b>6,86%</b>
<b>ROA</b>	Profit after taxation	14 766	=	13 059
	Average total assets	965 164	=	982 183
				<b>1,33%</b>
<b>ROE (1)</b>	Profit after taxation	14 766	=	13 059
	Shareholders' funds	117 732	=	131 516
				<b>9,93%</b>
<b>ROE (2)</b>	Profit after taxation	14 766	=	13 059
	Share capital	19 396	=	19 396
				<b>67,33%</b>
<b>ROE (3)</b>	Net income of financial services	17 222	=	12 418
	Share capital	117 732	=	131 516
				<b>9,44%</b>
<u>CAPITAL COVERAGE RATIOS</u>				
<b>Gearing</b>	Balance sheet total	965 164	=	999 201
	Shareholders' funds	117 732	=	131 516
				<b>7,60</b>
<u>LIQUIDITY AND COVERAGE</u>				
<b>Liquidity ratio</b>	Liquid assets	569 642	=	572 323
	Short term liabilities	687 940	=	718 460
				<b>0,80</b>
<b>Loans in percentage of deposits</b>	Total loans and leases	732 351	=	757 475
	Total deposits	809 148	=	835 543
				<b>90,66%</b>
<u>ASSET QUALITY RATIOS</u>				
<b>Risk Provision and reserve %</b>	Provision and reserve	110 639	=	100 408
	Balance sheet total	965 164	=	999 201
				<b>10,05%</b>
<b>Risk Provision and reserve Coverage</b>	Provision and reserve	110 639	=	100 408
	Shareholders' funds	117 732	=	131 516
				<b>76,35%</b>
<u>EFFECTIVITY RATIOS</u>				
<b>Profit per employee</b>	Profit after taxation	14 766	=	13 059
	Average no. of employees	2 849	=	2 914
				<b>4,48</b>
<b>Wage Cost effectiveness</b>	Profit after taxation	14 766	=	13 059
	Total salaries & wages	17 047	=	18 106
				<b>72,13%</b>

\* Balances in million HUF



**VI/2. Portfolio quality**

in HUF MM

Description	DPD 0-30	DPD 31-90	DPD >90	Total gross receivables	Provisions	NPL (DPD >90) / Receivables	Provision coverage
<b>31 December 2016</b>							
<b>1. Commercial receivables</b>	<b>378 923</b>	<b>914</b>	<b>19 007</b>	<b>398 844</b>	<b>19 622</b>	<b>4,77%</b>	<b>4,92%</b>
- Corporate loans and leases	267 192	519	14 536	282 247	14 819	5,15%	5,25%
- Autofinance loans and leases	101 978	379	4 146	106 503	4 582	3,89%	4,30%
- Loans to private individuals	9 753	16	325	10 094	221	3,22%	2,19%
<b>2. Consumer receivables</b>	<b>195 791</b>	<b>5 111</b>	<b>81 449</b>	<b>282 351</b>	<b>72 996</b>	<b>28,85%</b>	<b>25,85%</b>
- Mortgages	116 172	2 184	39 966	158 322	31 895	25,24%	20,15%
- Consumer loans (PL, SF, CC, OD)	54 402	756	18 672	73 830	17 930	25,29%	24,29%
- Autofinance loans and leases	25 217	2 171	22 811	50 198	23 171	45,44%	46,16%
<b>3. Other receivables</b>	<b>519</b>	<b>9</b>	<b>23</b>	<b>551</b>	<b>27</b>	<b>4,17%</b>	<b>4,90%</b>
<b>Total :</b>	<b>575 233</b>	<b>6 034</b>	<b>100 479</b>	<b>681 746</b>	<b>92 645</b>	<b>14,74%</b>	<b>13,59%</b>
<b>31 December 2015</b>							
<b>1. Commercial receivables</b>	<b>320 793</b>	<b>1 017</b>	<b>21 821</b>	<b>343 631</b>	<b>22 853</b>	<b>6,35%</b>	<b>6,65%</b>
- Corporate loans and leases	231 316	252	16 058	247 626	16 749	6,48%	6,76%
- Autofinance loans and leases	78 008	561	4 519	83 088	4 903	5,44%	5,90%
- Loans to private individuals	11 469	204	1 244	12 917	1 201	9,63%	9,29%
<b>2. Consumer receivables</b>	<b>201 958</b>	<b>4 713</b>	<b>87 835</b>	<b>294 506</b>	<b>82 604</b>	<b>29,82%</b>	<b>28,05%</b>
- Mortgages	112 243	2 914	46 174	161 331	37 731	28,62%	23,39%
- Consumer loans (PL, SF, CC, OD)	54 329	914	21 282	76 525	21 871	27,81%	28,58%
- Autofinance loans and leases	35 386	885	20 379	56 650	23 002	35,97%	40,60%
<b>3. Other receivables</b>	<b>940</b>	<b>10</b>	<b>15</b>	<b>965</b>	<b>19</b>	<b>1,52%</b>	<b>1,96%</b>
<b>Total :</b>	<b>523 691</b>	<b>5 740</b>	<b>109 671</b>	<b>639 102</b>	<b>105 476</b>	<b>17,16%</b>	<b>16,50%</b>

**VI/3. Off-balance sheet items**

Description	in HUF MM	
	As of 31 December 2015	As of 31 December 2016
<b>Commitments and contingent liabilities</b>	<b>253 788</b>	<b>273 017</b>
- unused overdraft facilities, non-disbursed approved loans	129 461	132 486
- guarantees of indebtedness	36 630	35 201
- other commitments	83 991	102 378
- letters of credit	3 706	2 952
<b>Futures liabilities</b>	<b>6 964</b>	<b>63 138</b>
- payment liabilities on swap transactions	-	4 089
- of which subsidiaries	-	-
- spot transactions	3 172	1 563
- spot security transactions	-	-
- liabilities on swap and CCIRS transactions	1 205	26 321
- of which subsidiaries	-	-
- liabilities of nondelivery forwards	5	5
- liabilities of delivery forwards	2 582	2 407
- securites sold by repo deal at redemption price	-	28 753
- other off-balance sheet liabilities	-	-
<b>Total off-balance sheet liabilities:</b>	<b>260 752</b>	<b>336 155</b>
<b>Off-balance sheet receivables</b>		
- receivables on swap transactions	-	3 492
- spot transactions	3 169	1 563
- spot security transactions	-	-
- receivables on swap and CCIRS transactions	1 180	26 324
- receivables of nondelivery forwards	4	4
- receivables of delivery forwards	2 585	2 409
- other off-balance sheet receivables	57	261
<b>Total off-balance sheet receivables:</b>	<b>6 995</b>	<b>34 053</b>

**Notes:**

Value of assets obtained as collateral or guarantee deposit related to financial services is 347 356 million HUF (excluding assigned revenue and receivable assignment) as of 31 December 2016.

Value of collateral placed by Budapest Bank 92 571 million HUF.

**VI/4. Extraordinary income and expense**

in HUF MM

Nr.	Description	Amount	
		2015	2016
1.	Given donations	(130)	(122)
2.	Received donations	-	-
3.	Write-off of receivables and losses	(1)	-
4.	Debt assumption and waived claims	(28)	(36)
5.	New government bill reserve	47 894	665
6.	Overpayment related to new government bill	(46 133)	(100)
7.	Foreign currency contracts conversion to HUF	(2 483)	112
8.	Loss of remitted receivable	(309)	(197)
9.	Other	(36)	(19)
	<b>Total:</b>	<b>(1 226)</b>	<b>303</b>

**VI/5. Corporate tax base adjustments in 2016**

in HUF MM			
Profit before taxation decreasing items	Amount	Profit before taxation increasing items	Amount
1. Depreciation, amortisation based on Tax Law	6 675	1. Depreciation, amortisation based on Accounting Law	6 734
2. Reversal of provision for future liabilities and contingencies	1 712	2. Provision created for future liabilities and contingencies	4 709
3. Reversal of impairment on receivables, investments - acceptable by Tax Law	8	3. Impairment on receivables, investments - non-deductible by the Tax Law	4
4. Dividend received	0	4. Written-off of receivables not qualifying uncollectible, waived claims	51
5. Banking tax (P&L based)	1 683	5. Self-revision and tax audit correction items accounted as expense	65
6. Self-revision and tax audit correction items accounted as revenue	1 921	6. Support provided without repayment obligation, assumed liabilities	30
7. Usage of previous years' tax losses (NOL)	667	7. Non-deductible losses due to penalty.	176
8. Tax credit/support of sports and fund of movie	10	8. Other	61
<b>Total:</b>	<b>12 676</b>	<b>Total:</b>	<b>11 830</b>

**VI/6. Corporate tax calculation**

in HUF MM

Nr.	Description	31 December 2016						Based on the consolidated income
		Based on the standalone financial statements of the group members						
		Budapest Bank Zrt.	Budapest Autófinanszírozási Zrt.	Budapest Eszközfinanszírozó Zrt.	Budapest Lízing Zrt.	Budapest Alapkezelő Zrt.	Total	
1.	<b>Profit before taxation</b>	<b>12 674</b>	<b>91</b>	<b>184</b>	<b>989</b>	<b>1 749</b>	<b>15 687</b>	<b>15 417</b>
2.	Decreasing items of the corporate tax base	8 889	1 100	1 891	776	20	<b>12 676</b>	12 676
3.	Increasing items of the corporate tax base	8 301	1 357	1 764	397	11	<b>11 830</b>	11 830
4.	<b>Tax base</b>	<b>12 086</b>	<b>348</b>	<b>57</b>	<b>610</b>	<b>1 740</b>	<b>14 841</b>	<b>14 572</b>
5.	Corporate tax charge	200	-	6	71	286	563	563
6.	Corporate tax relating to previous years	115	-	0	(3)	-	112	112
7.	Banking tax (P&L based)	1 683	-	-	-	-	<b>1 683</b>	1 683
8.	<b>Total tax charge</b>	<b>1 998</b>	<b>-</b>	<b>6</b>	<b>68</b>	<b>286</b>	<b>2 358</b>	<b>2 358</b>

**Note:**

The tax payable is not 19% of the tax base due to the progressive tax rate and the usage of tax credits relating to the government's FX bill.

**VI/7. Breakdown of costs according to cost types**

in HUF MM			
Nr.	Description	2015	2016
1.	<b>Material expenses</b>	1 353	1 238
2.	Wage cost	17 047	18 106
3.	Other personal type payments	496	523
4.	Other fees	69	4
5.	Benefit in kind which do not increase the corporate tax base and representation cost	797	865
6.	Benefit in kind which increases the corporate tax base	1	4
7.	Other payments	11	14
8.	<b>Personal expenses ( 2.+3.+4.+5.+6.+7.)</b>	18 421	19 516
9.	Pension and health contribution	4 741	4 927
10.	Health contribution	185	209
11.	Educational contribution	252	272
12.	Other personal type expenses	164	177
13.	<b>Social security expenses ( 9.+10.+11.+12.)</b>	5 342	5 585
14.	Cost of transport and storage	246	259
15.	Rental fees	2 299	2 209
16.	Maintenance cost	2 666	3 142
17.	Marketing cost	1 330	1 859
18.	Training cost	169	157
19.	Travelling and delegation cost	86	90
20.	Post and telephone costs	1 154	1 108
21.	Intellectual services	3 487	2 542
22.	Other services used	1 846	1 555
23.	<b>Material type services used ( 14.+15.+16.+17.+18.+19.+20.+21.+22.)</b>	13 283	12 921
24.	<b>Depreciation</b>	3 389	4 406
25.	<b>Other costs</b>	-	-
26.	Subcontractors performance		-
27.	Reinvoiced capital work in progress		-
28.	Loss related to injury		-
29.	Cost of good sold	62 547	86 582
30.	Depreciation	1 440	1 146
31.	Assets received against receivables		-
32.	Material cost		-
33.	Personal cost		-
34.	Social security type costs		-
35.	Cost of used services		-
36.	Other costs		-
37.	<b>Expenses of non-financial and non-investment services ( 26.+ ... +36.) / *</b>	63 987	87 728
38.	<b>Total / 1. + 8. + 13. + 23. + 24. + 25. + 37. / :</b>	<b>105 775</b>	<b>131 394</b>

\* The depreciation of operative leasing portfolio and cost of good sold are showed in this line.

**VI/8. Other income and expense**

in HUF MM			
Nr.	Description	2015	2016
1.	Other income and expense related to financing activity	425	321
2.	Non-recoverable VAT	(2 473)	(1 667)
3.	Local taxes	(2 199)	(2 013)
4.	Insurance fee related to products	449	185
5.	Subcontractor activity / recharged invoices	(221)	(220)
6.	Membership fees, commissions	(1 169)	(1 649)
7.	Other income and expense related to previous years	954	1 731
8.	Other income and expense related to fixed assets	(1 585)	(424)
9.	Banking Tax*	(927)	-
10.	Transaction duty	(10 295)	(9 875)
11.	Special tax on investment services	-	(144)
12.	Income from non-financial corporations	4 402	3 747
13.	Operation expense of non-financial corporations	(1 887)	(1 574)
14.	Other income and expense	3 038	1 049
	<b>Összesen</b>	<b>(11 488)</b>	<b>(10 533)</b>

**Notes:**

To define the other income and expense the parenthetical item serves as expense, the positive sign shows income.

\* Banking Tax is shown on P&L line "20. Taxation" since profit before tax is above the necessary level.

**VI/9. Cash-flow statement**

Nr.	Description	in HUF MM	
		2015	2016
01.	Interest income	48 327	43 168
02.	+ Income on other financial services	37 414	33 630
03.	+ Other income (without reserve usage, without reserve reversal, without inventory provision, and without the reversal of extraordinary depreciation.)	6 088	999
04.	+ Income on investment related services (without reversal of security provision)	2 784	3 854
05.	+ Income on non-financial and non-investment related services	66 941	90 424
06.	+ Dividends received	-	-
07.	+ Extraordinary income	10 666	658
08.	- Interest expenses	(5 680)	(2 158)
09.	- Expenditures on of other financial services (without securities provision)	(11 048)	(10 020)
10.	- Other expenditures (without reserves, without inventory provisions, without extraordinary depreciation)	(21 734)	(18 099)
11.	- Expenditure on investment related services (without securities provision)	(118)	(2 058)
12.	- Expenses on non-financial and non-investment related activity	(63 986)	(87 728)
13.	- Operating costs	(38 399)	(39 260)
14.	- Extraordinary expenditures	(59 654)	1 213
15.	- Taxes	(4 183)	(2 358)
16.	- Dividends paid	(12 500)	-
17.	<b>OPERATING CASH FLOW (Lines 01.-16.)</b>	<b>(45 082)</b>	<b>12 265</b>
18.	± Change in liabilities	117 863	18 856
19.	± Change in receivables	(32 241)	(19 201)
20.	± Change in inventories	402	(79)
21.	± Change in securities among current assets	5 999	(8 291)
22.	± Change in investments	(50 046)	1 583
23.	± Change in construction (including advances)	146	(346)
26.	± Change in intangible assets	(3 212)	(3 395)
24.	± Change in tangible assets (excluding constructions)	486	(1 704)
25.	± Change in prepayments	488	(1 079)
27.	± Change in accruals	(3 089)	(1 124)
28.	+ Stock issue at selling price	50	-
29.	- Capital decrease	-	-
30.	± Change in retained earnings	-	-
30.	+ Cash and cash equivalents received based on law	-	-
31.	+ Cash and cash equivalents given based on law	-	-
32.	- Cancelled own shares	-	-
33.	<b>NET CASH FLOW (Lines 17.-33.)</b>	<b>(8 236)</b>	<b>(2 515)</b>
34.	Of which: - change in cash (in HUF and foreign currency)	(668)	2 825
35.	- money in account(including National Bank of Hungary HUF and FX accounts, and short term deposits, the HUF accounts held at other banks due to legal requirements)	(7 568)	(5 340)



**VI/10. Loans to members of the Board of Directors and Supervisory Board**

Description	Disbursement (HUF MM)	Repayment (HUF MM)	Outstanding debt at year end (HUF MM)	Main conditions
1. Interest free employee loans				Long-term loan
- Board of Directors	-	-	-	Real Estate collateral
- Supervisory Board	-	-	-	
<b>1. Subtotal:</b>	<b>-</b>	<b>-</b>	<b>-</b>	
2. Employee loans on preferential rate				Long-term loan
- Board of Directors	-	-	-	Real Estate collateral
- Supervisory Board	7	2	5	
<b>2. Subtotal:</b>	<b>7</b>	<b>2</b>	<b>5</b>	
3. Mortgage				Long-term loan
- Board of Directors	-	-	-	Real Estate collateral
- Supervisory Board	-	-	-	
<b>3. Subtotal:</b>	<b>-</b>	<b>-</b>	<b>-</b>	
4. Personal Loan				Long-term loan
- Board of Directors	-	-	-	No collateral
- Supervisory Board	-	-	-	
<b>4. Subtotal:</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total:</b>	<b>7</b>	<b>2</b>	<b>5</b>	

The members of the Board of Directors and Supervisory Board have 1.410.000 Ft credit line on current account and 8.000.000 Ft credit line on credit card under standard contract terms of Budapest Bank.

**VI/11. Salaries and Wages in 2016**

in HUF MM

Description	Type of employee		Total
	Manual worker	White collar	
<b>1. Salaries and wages</b>	-	<b>19 411</b>	<b>19 411</b>
a. Payroll cost	-	18 106	18 106
b. Other personal related payments	-	1 305	1 305
<b>2. Salaries and wages paid on sick leave</b>	-	<b>105</b>	<b>105</b>
<b>Total (1+2) :</b>	-	<b>19 516</b>	<b>19 516</b>

## VI/12. Number of employees

Period	Average Number of employees		
	Manual worker	White collar	Total
2015	-	2 849	2 849
2016	-	2 914	2 914

## VI/13. Large loans

in HUF MM

Description	As of 31 December 2015	As of 31 December 2016
The total of large loans as at balance sheet closing date	10 108	17 070
Number of clients, having large loans	1	1

**VI/14. Remuneration of the Board of Directors and the Supervisory Board in 2016**

Description	Number of people entitled to remuneration	Amount fo remuneration in HUF MM
Work Council	-	-
Board of Directors	5	25
Supervisory Board	5	12
<b>Total :</b>	<b>10</b>	<b>37</b>

**VII.**  
***CONSOLIDATED BUSINESS REPORT***

**BUDAPEST BANK-GROUP**

**31 DECEMBER 2016.**

## CONSOLIDATED BUSINESS REPORT

31 December 2016

### **CAPITAL POSITION OF THE BANK-GROUP**

GE Capital, the previous 100% owner, signed an agreement with the Hungarian Government about the sale of Budapest Bank on February 13, 2015. The actual buyer on behalf of the Government is the Corvinus International Investment Ltd managed by the Hungarian Development Bank Ltd.

The ownership change did not affect the capital position of the Bank-group; the share capital was 19,396 million HUF. At the end of 2016, the shareholders' equity, together with the HUF 11.99 billion current year profit, amounted to HUF 131.5 billion.

The Bank-group generates HUF 2,638 million general reserve from its profit after tax in previous years.

The Bank-group's capital adequacy ratio was above the mandatory prescribed level (11.04%).

### **ASSET QUALITY**

The total assets of the Bank-group increased by 4% during 2016, from HUF 965 billion to HUF 999 billion. The low-risk government securities, the inter-bank placements and cash amounted to HUF 345 billion, as of December 31, 2016, representing 35 % of the total assets.

The net financing receivable from customers increased significantly by 11 %, and amounted HUF 590.7 billion at the end of 2016. During 2016, the Bank continually focused on small and medium-size (SME-s) portfolio. Supporting this focus the Bank has joined the MNB Funding for Lending (Growth Loan) Program in 2013, as a result of the program, the small and medium-size portfolio continues to grow. The gross small and medium-size portfolio before provision was 255 billion HUF, which demonstrates the importance of the segment in the Bank-group's strategy.

The gross consumer portfolio of the Bank-group (including the total portfolio of Autofinance subsidiary) amounted to 322 billion HUF.

Provisions on receivables decreased by 13 billion to HUF 93 billion, which reflects a favourable level of 13,5% credit risk provision to customer receivable ratio at the end of 2016. During 2016, the delinquent loans ratio decreased slightly.

## CONSOLIDATED BUSINESS REPORT

31 December 2016

### MANAGEMENT AND BUSINESS POLICY

In 2015 the Bank-group became self-funding, and during 2016 it continued its operation under self-funding model. At the end of 2016, 68% of total liabilities was the deposit balance and 15% refinancing funding (including other liabilities to financial institutions). Total assets increased by 4%, deposits increased by 3%, refinancing funds increased by 4%, so there was no significant shift within the liabilities. Within the deposits there was a significant shift. Within the business deposits –in-line with the decrease of BUBOR- there was significant increase in the ratio of the demand deposit (from 66% to 75%). Within the other deposit it appeared a new type of funding: the NFA ((Nemzeti Földalap Szervezet, National Land Fund Management Organization) deposits, which increased by HUF 83 billion. At the same time the deposits taken from the Alapkezelő (funds under management) deposits decreased willingly by HUF 93 billion, together with the other deposits.

The consumer loan balance of the Bank-group remained stable in 2016, the decrease of the portfolio was slower (the gross loan balance decreased by 2%). The new growth initiatives, approximately offset the running out of old portfolio. This can be explained by several reasons: the new mortgage volume has exceeded by 29% of the prior year, partly due the competitive advantage of the Egyenlítő loan product, partly due to the excellent position in the third party selling partners. Budapest Autó increased its new volume by 22% in 2016 compared to prior year, the increase was significantly caused by the NHP (Funding for Lending program) facility. AS a significant success the decrease of the unsecured consumer portfolio (credit card, private loan, sales finance) has stopped supported by the strategic partnership between the Bank-group and Tesco and Euronics chains.

As a new strategic initiative Budapest Bank participated in the state land auction program coordinated by the Nemzeti Földalapkezelő Szervezet (NFA National Land Fund Management Organization). The Bank provides two type of service on market price: it takes the deposits from the farmers for the licit as a custodian, and as a intermediary takes the loan requests and process the disbursement between the winner and the MFB for land loans. The MFB-NHP Földvásárlási Hitelprogram (MFB-NHP land purchase loan program) can be considered successful, as 3600 contracts in the value of HUF 85 billion were disbursed in 2016 by the Bank-group.

The gross commercial loan balance of the Bank-group has grown significantly in 2016 by 16%. The NHP for the small and medium size corporation lending continued. In the 3<sup>rd</sup> phase of NHP the usage of the Bank-group's facility limit was more than 86% compared to the market average of 67%. In the "Piaci Hitelprogram" (Market Loan Program) the Bank-group reached HUF 27 billion increase versus the originally committed HUF 12 billion. Budapest Lease was the most successful: the total lease balance increased by 41% to HUF 73 billion, the new disbursements increased by 49 % to HUF 47 billion. In the new disbursements the lease segment was market leader in 2016. There were 22 MFB Point opened in the Bank's branch network, as a result at the end of 2016 HUF 15 billion loan disbursement was under discussion.

The Bank-group continues to focus on technology innovations: the internet banking platform has been renewed, the Budapest Mobil Internet application has been in the user acceptance test phase in December 2016. Beside the self-funding the other major challenge of the GE separation was, for Budapest Bank-group in the last two years, the replacement of the IT systems supported by GE. Except the replacement of the Bankcard system the Bank has closed successfully the GE separation projects.

The Budapest Bank network had 94 branches at the end of the year. Branches in the area of Budapest are considered as sites, while branches outside of the Budapest area are considered as branch offices. Employment decisions are made with the agreement of the Workers' Council.



## CONSOLIDATED BUSINESS REPORT

31 December 2016

### EARNINGS

The annual net income after tax of the Bank-group was a HUF 13.1 billion profit, which is a decrease of HUF 1.7 billion compared to prior year.

The changes were mainly caused by the one of items in 2015. From these the largest transaction was that the Bank has sold investments in 2015 for HUF 3,543 million (Mastercard, Visa), while in 2016 it achieved HUF 1,559 million (Visa) from one of sales.

#### Changes in 2016:

The net interest income decreased by 4%, by HUF 1,637 million compared to prior year due to the decreasing interest rate environment.

Interest rates of loans followed market trends (basically applying reference market rates in pricing), keeping transparency and fair banking for its customers in pricing strategy. The Bank-group changed the overall interest rates in respect of both commercial and consumer term and saving deposits, in line with the prime bank and money market rate changes, continuously keeping an eye on existing and new customer's interests and transparency in pricing strategy.

Net fee and commission income slightly decreased by 2%, the net income from financial services decreased significantly by more than HUF 3 billion due to the lack of the 2015 one off items (Mastercard sale). The net other income/expense improved by HUF 1 billion. Together the net result of the three line decreased by 18%, which resulted HUF 2.7 billion decrease in pre-tax profit.

During 2016 the Bank-group focused on effective cost controlling. As a result, although the total assets increased by 4%, the general expenses increased by 2%. Due to the the increasing software investments the amortisation increased by 30%, which resulted HUF 1 billion profit decrease.

During 2016 the portfolio quality improvement and the transformation of the provision methodologies to be IFRS compatible continued. This way the net impact of new provisions, new reserves and the releases was significantly improved by HUF 1.1 billion compared to 2015.

Overall: excluding one-offs and extraordinary items, the Bank-group operated in a profitable way in 2016.

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## CONSOLIDATED BUSINESS REPORT

31 December 2016

### ASSET-LIABILITY MANAGEMENT AND THE LIQUIDITY POSITION OF THE BANK-GROUP

In 2015 the FX loans and liabilities of the Bank decreased significantly due to the compulsory conversion of mortgage and auto loans. 18% of total assets (13% in 2015) are denominated in currencies other than HUF mainly in EUR, USD and CHF.

16% of total liabilities (14% in 2015) are denominated in foreign currencies, mainly in EUR, USD and CHF.

The Bank-group continued to have a high level of liquidity; as a result it is an inter-bank lender in the Hungarian financial market. The low-risk government securities, the inter-bank placements and cash represented 37 % of the total assets.

Changes in currency rates did not affect the Bank-group significantly due to the lack of material open positions in the balance sheet and off balance which reflect the Bank's overall risk avoiding behaviour and policy. The Bank-group had no material open FX position at the end of the financial year.

The Bank-group participated from the beginning in the Funding for Lending program of the National Bank of Hungary. The outstanding balance disbursed to corporate customers was HUF 114 billion at year end.

The Bank-group continued to have a high level of liquidity; as a result it is an inter-bank lender in the Hungarian financial market. The low-risk government securities, the inter-bank placements and cash represented 37 % of the total assets.

The interest rate gap of assets and liabilities was managed by the harmonic, risk avoiding pricing and portfolio management, within the predetermined limits of the Bank-group, the interest rate gap was continuously monitored for the whole balance sheet items at transaction level depth. In 2016 to manage to interest rate risk of the fix rate assets the Bank-group made interest rate swap deals.

Overall, the Bank-group managed to maintain a very strong liquidity-, cash-flow- and interest rate risk management. The Bank-group has made all the necessary provisions and reserves.

Budapest, 29<sup>th</sup> March 2017

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Zolnai György

CEO

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Keresztyénné Deák Katalin

CFO