Independent Auditors' Report

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

Opinion

We have audited the 2017 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 2017, which shows total assets of MHUF 1,033,859 and retained profit for the year of MHUF 13,210, 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 2017, 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 for the purposes of our audit of the consolidated annual financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), 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.

Key Audit Matters

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

Valuation of loan loss provison (MHUF 670,672)

See Notes IV/2 and VI/2 in the Supplementary Notes.

The key audit matter	*How the matter was addressed in our audit*
Impairment of receivables from customers is considered to be a key audit matter due to the significance of receivables from customers and because the determination of impairment by management is complex and requires judgement. Without an appropriate impairment allowance the carrying amount of receivables from customers may be overstated. The individual impairment of individually significant non-performing loans is based on the collateral value of the collaterals securing the loans. Assessing the evaluation of performing loans with a track record of liquidity issues or (past) payment difficulties and the review of parameters applied in the determination of the collateral value of collaterals is challenging from an audit perspective. For retail loans, the Bank calculates collective impairment by segmenting into groups by product. An estimate of the probability of default and the potential loss given default is applied to determine the collective impairment provision (taking the location and other parameters of collaterals also into account in the case of mortgage loans). Checking the models used to predict probability of default and loss given default estimates and assessing the appropriateness of management judgement required for the determination of the model parameters is challenging from an audit perspective.	Our audit procedures included: Testing the key controls over impairment and collateral calculations, checking the calculation of days in default prepared by the system and analysing the discussions at the monthly Provision and Portfolio Quality Review meetings. Performing a loan review for a sample of individually significant customer loans. Our sampling methodology ensured that the conclusion reached based on the review of the sample could be extended to the entire population. Our loan review included interviews with account managers, checking days in default, checking client and collateral monitoring, consideration of assumptions applied by the Bank and re-performance of key calculations. We reviewed assumptions based on our professional judgement and industry knowledge. We assessed collateral values with reference to valuations performed by valuers approved by the Bank. We independently assessed statements applied by management in relation to model parameters, performed re-calculations for the parameters applied, and evaluated current economic conditions.

Other Information

The other information comprises the 2017 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.

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements.

With respect to the consolidated business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In our opinion the 2017 consolidated business report of the Group is consistent, in all material respects, with the 2017 consolidated annual financial statements of the Group and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the consolidated business report of the Group, therefore, we do not express an opinion in this respects.

We confirm that the information referred to in Section 95/C and Section 134 (5) the Act on Accounting has been provided in the consolidated business report.

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 and disclosing, as applicable, matters related to going concern; and, management is responsible for preparing the consolidated annual financial statements on a going concern basis. Valuation made by management shall be based on the principle of going concern, unless the use of this principle is precluded by any provision, or if any fact or circumstance prevails, which precludes the Group to continue as a going concern.

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 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 for the preparation of the consolidated annual financial statements 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by members meeting on 15 April 2016 to audit the consolidated annual financial statements of the Group for the financial year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;

• we have not provided to the Group the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is the signatory of this report.

Budapest, 21 March 2018

KPMG Hungária Kft.

Registration number: 000202

Gábor Agócs
Partner, Professional Accountant
Registration number: 005600

This is an English translation of the Independent Auditors' Report on the 2017 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.

Budapest Bank Zrt. and subsidiaries

Consolidated Financial Statements

(Translation from Hungarian original)

31 December 2017

Budapest, 21 March, 2018

Koppány, Dr. Lélfai	Katalin Deák, Keresztyénné
Chairman of the Board and Chief Executive Officer	Chief Finance Officer

Statistic code: 10196445641911401

BALANCE SHEET (FINANCIAL INSTITUTIONS)

in million HUF

			Description	31/12/2016	Previous year Adjustments	31/12/2017
a			b	c	d	e
01	**1.**		**FINANCIAL ASSETS**	**17 569**	-	**20 827**
02	**2.**		**SECURITIES**	**161 160**	-	**172 215**
03		a)	available for sale	82 513	-	83 494
04		b)	for investment purposes	78 647	-	88 721
05	**2/A.**		**valuation difference of securities**	**724**	**-**	**853**
06	**3.**		**RECEIVABLES FROM FINANCIAL INSTITUTIONS**	**166 746**	-	**68 642**
07		a)	on sight	10 661	-	7 565
08		b)	other receivables from financial services	156 085	-	61 077
09		ba)	due within one year	156 085	-	61 077
10			Of which: - subsidiaries	-	-	-
			- associated companies	-		-
11			- affiliated companies	-	-	-
12			- National Bank of Hungary	106 058	-	45 675
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	**3/A.**		**valuation difference of receivables from financial institutions**	**-**	**-**	-
24	**4.**		**RECEIVABLES FROM CUSTOMERS**	**590 729**	-	**670 672**
25		a)	from financial services	589 101	-	667 665
26		aa)	due within one year	289 206	-	325 550
27			Of which: - subsidiaries	-	-	-
			- associated companies	-		-
28			- affiliated companies	-	-	-
29		ab)	due more than one year	299 895	-	342 115
30			Of which: - subsidiaries	-	-	-
			- associated companies	-		-
31			- affiliated companies	-	-	-
32		b)	receivables against customers from investment services (35.+36.+37.+38.+39. row)	1 628	-	3 007
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	1 628	-	3 007
38		bd)	receivables from KELER	-	-	-
39		be)	receivables from other investment services	-	-	-
40	**4/A.**		**valuation difference of receivables from customers**	**-**		**-**
41	**5.**		**BONDS AND OTHER SECURITIES**	**20 467**	-	**54 750**
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	20 467	-	54 750
46		ba)	available for sale	20	-	18 839
47			Of which: -issued by subsidiaries	-	-	-
			- associated companies	-		-
48			- issued by affiliated companies	-	-	-
49			- repurchased own shares	-		-
50		bb)	for investment purposes	20 447	-	35 911
51			Of which: -issued by subsidiaries	-	-	-
			- associated companies	-		-
52			- issued by affiliated companies	-	-	-
53	**5/A.**		**valuation difference of bonds and other securities**	**-**	**-**	**-**
54	**6.**		**SHARES AND OTHER SECURITIES**	**2 385**	-	**2 537**
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	2 385	-	2 537
59		ba)	available for sale	2 385	-	2 537
60		bb)	for investment purposes	-	-	-
61	**6/A.**		**valuation difference of shares and other securities**	**-**	**-**	**-**
62	**7.**		**SHARES FOR INVESTMENT PURPOSES**	**241**	-	**240**
63		a)	shares for investment purposes	241	-	240
64			of which: - shares in financial institutions	-	-	-
65		b)	revaluation of shares for investment purposes	-	-	-
66			of which: - shares in financial institutions	-	-	-
67	**7/A.**		**valuation difference of shares for investment purposes**	**-**	**-**	**-**
68	**8.**		**SHARES IN AFFILIATED COMPANIES FOR INVESTMENT PURPOSES**	**-**	-	**-**
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	**9.**		**INTANGIBLE ASSETS**	**8 377**	-	**9 605**
77		a)	intangible assets	8 377	-	9 605
78		b)	revaluation of intangible assets	-	-	-

Statistic code: 10196445641911401

in million HUF

	Description		31/12/2016	Previous year Adjustments	31/12/2017
a	b		c	d	e
79	**10.**	**TANGIBLE ASSETS**	**13 869**	-	**13 157**
80	a)	tangible assets serving the activities of financial institutions	9 787	-	9 646
81	aa)	real estate	6 331	-	6 249
82	ab)	technical equipment, machinery and vehicles	3 035	-	3 266
83	ac)	construction-in-progress	421	-	131
84	ad)	prepayments on construction-in-progress	-	-	-
85	b)	tangible assets serving the non-financial activities	4 082	-	3 511
86	ba)	real estate	-	-	-
87	bb)	technical equipment, machinery and vehicles	4 061	-	3 511
88	bc)	construction-in-progress	21	-	-
89	bd)	prepayments on construction-in-progress	-	-	-
90	c)	revaluation of tangible assets	-	-	-
91	**11.**	**OWN SHARES**	-	-	-
92	**12.**	**OTHER ASSETS (93+94+97)**	**10 743**	-	**12 626**
93	a)	inventories	25	-	16
94	b)	other receivables	10 718	-	12 610
95		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
96		- affiliated companies	-	-	-
97	c)	Receivables from consolidated Tax	-		-
98	**12/A.**	**valuation difference of other receivables**	**-**	**-**	**-**
99	**12/B.**	**positiv valuation difference of derivatives**	**789**	**-**	**1 872**
100	**13.**	**PREPAYMENTS AND ACCRUALS (101+102+103)**	**5 402**	-	**5 863**
101	a)	income accruals	5 045	-	5 337
102	b)	expense accruals	357	-	526
103	c)	deferred expenses	-	-	-
104	**TOTAL ASSETS**		**999 201**	-	**1 033 859**
105		**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]**	**572 323**		**538 247**
106		**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]**	**421 476**	-	**489 749**

Statistic code: 10196445641911401

BALANCE SHEET (FINANCIAL INSTITUTIONS)

in million HUF

		Description	31/12/2016	Previous year Adjustments	31/12/2017
a		b	c	d	e
107	1.	**LIABILITIES TO FINANCIAL INSTITUTIONS**	**151 283**	-	**160 614**
108	a)	on sight	1	-	5
109	b)	liabilities deposited for a set period of time	151 281	-	160 608
110	ba)	due within one year	21 374	-	31 613
111		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
112		- affiliated companies	-	-	-
113		- National Bank of Hungary	17 925	-	27 974
114		- liabilities to KELER	-		-
115	bb)	due more than one year	129 907	-	128 995
116		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
117		- affiliated companies	-	-	-
118		- National Bank of Hungary	96 157	-	64 982
119		- liabilities to KELER	-		-
120	c)	liabilities from investments services	1	-	1
121		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
122		- affiliated companies	-	-	-
123		- liabilities to KELER	-		-
124	1/A.	**valuation difference of liabilities to financial institutions**	**-**		-
125	2.	**LIABILITIES TO CUSTOMERS**	**684 260**	-	**699 155**
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	675 761	-	687 254
131	ba)	on sight	549 123	-	568 566
132		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
133		- affiliated companies	-	-	-
134	bb)	due within one year	121 798	-	115 775
135		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
136		- affiliated companies	-	-	-
137	bc)	due more than one year	4 840	-	2 913
138		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
139		- affiliated companies	-	-	-
140	c)	liabilities from investments services	8 499	-	11 901
141		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
142		- affiliated companies	-	-	-
143	ca)	liabilities to investment in stock exchange activity	-	-	-
144	cb)	liabilities to OTC investments	-	-	-
145	cc)	liabilities to customers from investment services	8 499	-	11 901
146	cd)	liabilities to KELER	-	-	-
147	ce)	liabilities to other investment services	-	-	-
148	2/A.	**valuation difference of liabilities to customers**	**-**	**-**	**-**
149	3.	**ISSUED BONDS AND OTHER, INTEREST-BEARING SECURITIES**	-	-	-
150	a)	issued bonds	-	-	-
151	aa)	due within one year	-	-	-
152		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
153		- affiliated companies	-	-	-
154	ab)	due more than one year	-	-	-
155		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
156		- affiliated companies	-	-	-
157	b)	other issued negotiable, interest-bearing securities	-	-	-
158	ba)	due within one year	-	-	-
159		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
160		- affiliated companies	-	-	-
161	bb)	due more than one year	-	-	-
162		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
163		- affiliated companies	-	-	-
164	c)	Securities according to the accounting standards but other negotiable, interest-bearing documents according to the Securities Law	-	-	-
165	ca)	due within one year	-	-	-
166		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
167		- affiliated companies	-	-	-
168	cb)	due more than one year	-	-	-
169		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
170		- affiliated companies	-	-	-
171	4.	**OTHER LIABILITIES**	**17 193**	-	**17 833**
172	a)	due within one year	17 193	-	17 833
173		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
174		- affiliated companies	-	-	-
175		- other contributions of members of saving societies	-	-	-
176	b)	due more than one year	-	-	-
177		Of which: - subsidiaries	-	-	-
		- associated companies	-		-
178		- affiliated companies	-	-	-
179	c)	Liabilities from consolidated Tax	-	-	-
180	4/A.	**negativ valuation difference of derivatives**	**471**	**-**	**1 933**
181	5.	**ACCRUALS**	**7 132**	-	**7 135**
182	a)	income accruals	437	-	818
183	b)	expense accruals	6 695	-	6 317
184	c)	deferred income	-	-	-
185	6.	**RESERVES**	**7 196**	-	**7 505**
186	a)	Reserves for pension and severance payments	-	-	-
187	b)	Reserves on contingent and future liabilities	6 340	-	6 951
188	c)	general risk reserve	-	-	-
189	d)	other reserve	856	-	554
190	7.	**SUBORDINATED DEBT**	**150**	-	**150**
191	a)	subordinated loan	-	-	150
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	31/12/2016	Previous year Adjustments	31/12/2017
200	**8.**		**SHARE CAPITAL**	**19 396**	-	**19 396**
201			from which: - repurchased own shares on face value	-	-	-
202	**9.**		**ISSUED, UNPAID SHARE CAPITAL (-)**	-	-	**-**
203	**10.**		**SHARE PREMIUM**	**-**	-	**-**
204		a)	premium from issue of shares	-	-	-
205		b)	other	-	-	-
206	**11.**		**GENERAL RESERVE**	**2 638**	-	**4 028**
207	**12.**		**RETAINED EARNINGS**	**106 463**	-	**99 648**
208	**13.**		**CAPITAL ENGAGED**	**-**	-	**-**
209	**14.**		**VALUATION RESERVE**	724	-	**853**
210		a)	valuation reserve of revaluation	-	-	-
211		b)	valuation reserve of valuation at fair market value	724	-	853
212	**15.**		**NET PROFIT (LOSS) FOR THE YEAR (+-)**	**11 991**	-	**13 210**
213	**16.**		**CHANGES IN SUBSIDIARIES' EQUITY (+,-)**	**(9 696)**	-	**2 399**
214	**17.**		**CHANGES DUE TO THE CONSOLIDATION (+,-)**	**-**	-	**-**
215		a)	from debt consolidation	**-**	-	-
216		b)	from internal profit consolidation	-	-	-
217	**18.**		**MINORITY INTEREST**	**-**	-	**-**
218	**TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS**			**999 201**	-	**1 033 859**
219			**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]**	**718 460**	-	**747 627**
220			**LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]**	**134 897**	-	**132 058**
221			**SHAREHOLDER'S FUND [8 - 9 + 10 + 11 ± 12 + 13 + 14 ± 15 + 16 + 17 + 18]**	**131 516**	-	**139 534**

Off-Balance Sheet Items

		Description	31/12/2016	Previous year Adjustments	31/12/2017
222		Commitments and contingent liabilities	273 017	-	294 239
223		Futures liabilities	63 138	-	47 686
224		**Total off-balance sheet liabilities**	**336 155**	-	**341 925**
225		**Total off-balance sheet receivables**	**34 053**	-	**48 062**

Budapest, 21 March, 2018

Koppány, Dr. Lélfai
Chairman of the Board and Chief Executive Officer

Katalin Deák, Keresztyénné
Chief Finance Officer

Statistic code: 10196445641911401

PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)

in million HUF

		Description	2016	Previous year Adjustments	2017
a		b	c	d	e
1	**1.**	**INTEREST INCOME**	**43 168**		**40 079**
2	a)	interest income from fixed interest-bearing securities	5 335		5 855
3		Of which: - subsidiaries	-		-
4		- associated companies	-		-
5		- affiliated companies	-		-
6	b)	other interest income	37 833		34 224
7		Of which: - subsidiaries	-		-
8		- associated companies	-		-
9		- affiliated companies	-		-
10	**2.**	**INTEREST EXPENSE**	**2 158**		905
11		Of which: - subsidiaries	-		-
12		- associated companies	-		-
13		-affiliated companies	-		-
14		**NET INTEREST INCOME**	**41 010**		**39 174**
15	**3.**	**DIVIDEND RECEIVED**	**-**		**-**
16	a)	joint ventures	-		-
17	b)	affiliated companies	-		-
18	c)	associated companies	-		-
19	d)	other	-		-
20	**4.**	**FEE INCOME**	**30 253**		**31 920**
21	a)	fee income of other financial services	28 157		29 690
22		Of which: - subsidiaries	-		-
23		- associated companies	-		-
24		- affiliated companies	-		-
25	b)	fee income of investment services	2 096		2 230
26		Of which: - subsidiaries	-		-
27		- associated companies	-		-
28		- affiliated companies	-		-
29	**5.**	**FEE EXPENSE**	**6 451**		**7 407**
30	a)	fee expense of other financial services	6 393		7 340
31		Of which: - subsidiaries	-		-
32		- associated companies	-		-
33		- affiliated companies	-		-
34	b)	fee expense of investment services (excluding expense of trading activities)	58		67
35		Of which: - subsidiaries	-		-
36		- associated companies	-		-
37		- affiliated companies	-		-
38	**6.**	**NET INCOME OF FINANCIAL SERVICES [6/a.-6/b.+6/c.-6/d.)**	**1 604**		**2 914**
39	a)	income of other financial services	5 473		5 944
40		Of which: - subsidiaries	-		-
41		- associated companies	-		-
42		- affiliated companies	-		-
43		- valuation difference	-		-
44	b)	expense of other financial services	3 627		2 921
45		Of which: - subsidiaries	-		-
46		- associated companies	-		-
47		- affiliated companies	-		-
48		- valuation difference	-		-
49	c)	income of investment services (income of trading activities)	1 758		2 278
50		Of which: - subsidiaries	-		-
51		- associated companies	-		-
52		- affiliated companies	-		-
53		- release of provision on securities available for sale	-		-
54		- valuation difference	880		1 450
55	d)	expense of investment services (income of trading activities)	2 000		2 387
56		Of which: - subsidiaries	-		-
57		- associated companies	-		-
58		- affiliated companies	-		-
59		- provision charge on securities available for sale	-		-
60		- valuation difference	1 596		1 578
61	**7.**	**OTHER INCOME**	**95 101**		**109 260**
62	a)	income of non-financial and non-investment services	90 424		102 225
63		Of which: - subsidiaries	-		-
64		- associated companies	-		-
65		- affiliated companies	-		-
66	b)	other income	4 677		7 035
67		Of which: - subsidiaries	-		-
68		- associated companies	-		-
69		- affiliated companies	-		-
70		- release of provision on inventories	15		91
71	ba)	profit increasing item due to consolidation	-		-

Statistic code: 10196445641911401

in million HUF

			Description	2016	Previous year Adjustments	2017
72	**8.**		**OPERATING COSTS**	**39 260**		**38 711**
73	a)		personal type costs	25 101		24 953
74		aa)	salaries and wages	18 106		18 531
75		ab)	other personal type costs	1 410		1 491
76			of which: - social securities	218		189
77			- pension related costs	60		41
78		ac)	affix of wages	5 585		4 931
79			of which: - social securities	5 087		4 399
80			- pension related costs	-		-
81	b)		other operating costs (materials)	14 159		13 758
82	**9.**		**DEPRECIATION**	**4 406**		**5 050**
83	**10.**		**OTHER EXPENSES**	**105 634**		**120 198**
84	a)		expenses of non-financial and non-investment services	87 728		99 262
85			Of which: - subsidiaries	-		-
86			- associated companies	-		-
87			- affiliated companies	-		-
88	b)		other expenses	17 906		20 936
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	**11.**		**PROVISION CHARGE ON RECEIVABLES AND ON CONTINGENT AND FUTURE LIABILITIES**	**11 023**		**2 100**
95	a)		provision charge on receivables	6 693		1 032
96	b)		provision charge on contingent and future liabilities	4 330		1 068
97	**12.**		**RELEASE OF PROVISION ON RECEIVABLES AND ON CONTINGENT AND FUTURE LIABILITIES**	**13 923**		**7 571**
98	a)		release of provision on receivables	12 114		6 806
99	b)		release of provision on contingent and future liabilities	1 809		765
100	12/A.		General risk reserve release	-		-
101	**13.**		**PROVISION CHARGE ON SECURITIES PORTFOLIO**	3		**305**
102	**14.**		**RELEASE OF PROVISION ON SECURITIES PORTFOLIO**	-		**-**
103	**15.**		**NET INCOME OF FINANCIAL SERVICES**	**15 114**		**17 068**
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]**	**12 418**		**14 105**
105			**NET INCOME OF NON-FINANCIALAND NON-INVESTMENT SERVICES [7.a)-10.a)]**	**2 696**		**2 963**
106	16.		Extraordinary revenues	791		19
107	17.		Extraordinary expenditures	488		393
108	**18.**		**NET PROFIT (LOSS) OF EXTRAORDINARY ITEMS (16-17)**	**303**		**(374)**
109	**19.**		**PROFIT BEFORE TAXATION (±15±18)**	**15 417**		**16 694**
110	**20.**		**TAXATION**	2 358		2 094
111	a)		Tax difference due to consolidation (±)	-		-
112	**21.**		**PROFIT AFTER TAXATION (±19-20)**	**13 059**		**14 600**
113	**22.**		**CHANGE AND RELEASE OF GENERAL RESERVES (±)**	1 068		1 390
114	**23.**		**NET PROFIT (LOSS) FOR THE YEAR (±21±22-23)**	**11 991**		**13 210**

Budapest, 21 March, 2018

Koppány, Dr. Lélfai
Chairman of the Board and Chief Executive Officer

Katalin Deák, Keresztyénné
Chief Finance Officer

Budapest Bank Zrt. and Subsidiaries

Notes to the Consolidated Financial Statements

31 December 2017

Budapest, 21 March, 2018

Koppány, Dr. Lélfai Chairman of the Board and Chief Executive Officer	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) 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, 2017 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 95 branches.

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 Ldt.

A brief overview of the business activities of the subsidiaries:

1) **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 2017 the balance sheet total of Budapest Equipment Finance Ltd. was HUF 4,052 million, company's registered capital amounted to HUF 10 million, its shareholders' equity was HUF 637 million, and the net profit was HUF 135 million.

2) 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 2017 the balance sheet total was HUF 96,202 million, the company's registered capital amounted to HUF 62 million, its shareholders' equity was HUF 8,295 million, and its result was HUF 606 million profit.

3) **Budapest Fund Management Ltd. (Budapest Alapkezelõ Zrt.)** was established in 1992. It manages the increasing number of investment funds grounded by the company. As of the end of 2017 the balance sheet total of Budapest Fund Management Ltd. amounted to HUF 2,981 million, its registered capital was HUF 500 million, its shareholders' equity was HUF 2,792 million. The company's current year profit was HUF 1,499 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 65 million for the financial year 2017.

The Bank set its balance sheet preparation day to January 5th of the year following the statement date, except for risk provision, which is February 15th and the dividend payment of the subsidiaries, which is March14th. Comparing to 2016 the date of balance sheet preparation (which used to be was January 12th) was moved ahead due to the IRFS conversion and due to the 2018 regulatory reporting requirements.

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 based on the National Bank (MNB) decree on "prudential requirements on non performing and restructured receivables".

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. The Bank-group's receivable valuation system is based on the National Bank (MNB) decree 39/2019. (X.11.) on "prudential requirements on non performing and restructured receivables".
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 2017. In summary these loans are not reclassified into better qualification category, than the category used before restructuring.

The outstanding contractual restructured receivable was 71.7 billion HUF, the book value was HUF 46.8 billion of as of 31st December 2017.

During 2017, 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 preforming 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 2017, 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 1st 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.
The Bank-group covers the interest rate risk of fixed loans and leases (mostly corporate loans and mortgages) with interest rate swaps. these deals are partly involved in a hedging relation with the fixed rate loans. The hedge is renewed in each month, this way the new loans are involved in the hedge relationship.

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 2017

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 718 million was been transferred to the Országos Betétbiztosítás Alap (National Deposit Insurance Fund) in the year 2017. HUF 486 million was paid in the Befektetős Védelmi Alap (Investor Protection Fund). Budapest Bank, as the member of the Szanálási Alap (Bank Resolution Fund), transferred HUF 296 million to the fund in 2017.

Overall: the Bank-group operated in a profitable way in 2017

In 2017, the annual report of Budapest Bank-group is signed by Mr. Koppány, Dr. Lélfai, Chief Executive Officer of the Bank (1082 Budapest, Baross utca 21. IV floor 1/A) 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 2017

	Company			
	Name	Address (seat)	Purchase value (in HUF MM)	Voting rights
1. Participation in subsidiaries involved in the consolidation	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.	1 946	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%
	VISA Europe Ltd.	1 Sheldon Square London W2 6TT	-	0,00%

* There was a withdrawment of 3 416 million HUF from the capital of Eszközfinanszírozó Zrt.

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

31 December 2017

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 Lízing Zrt.	6 380	100	62	8 295	606
Budapest Alapkezelő Zrt.	10	100	500	2 792	1 499
Budapest Eszközfinanszírozó Zrt.	1 946	100	10	637	135
Total:	**8 336**		**572**	**11 724**	**2 240**

* There was a withdrawment of 3 416 million HUF from the capital of Eszközfinanszírozó Zrt.

V/3. Equity consolidation adjustments of Budapest Bank Zrt. as parent company

31 December 2017

Subsidiary	BB Zrt's participation in the subsidiary % (a)	The subsidiaries' equity without the profit of the year before payment of Dividend 31 december 2016 HUF MM (b)	Purchase price of the shares HUF MM (c)	Equity consolidation difference 1994 HUF MM (d)	Modification of positive equity consolidation difference due to new shares HUF MM (e)	Depreciation of positive equity consolidation HUF MM (f)	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)
Budapest Lízing Zrt.	100,00%	7 689	6 380	133	-	133	-	1 309
Budapest Alapkezelő Zrt.	100,00%	2 694	10	(4)	-	-	(4)	2 680
Budapest Eszközfinanszírozó Zrt.*	100,00%	502	1 946	(146)	-	-	(146)	(1 590)
Total:		**10 885**	**8 336**	**(17)**	**-**	**133**	**(150)**	**2 399**

* There was a withdrawment of 3 416 million HUF from the capital of Eszközfinanszírozó Zrt.

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 2017

in HUF MM

Description	Changes in Gross Value				
	Opening balance	During the year			Closing balance
		Increase	Decrease	Reclass	
I. Total intangible assets	**25 747**	**4 661**	**858**	**-**	**29 550**
a/ Rights and licenses	823	-	-	(808)	15
b/ Intellectual properties	24 924	4 661	858	808	29 535
c/ Capitalised value of foundation/restructuring	-	-	-	-	-
II.1 Tangible assets serving financial institutions's activities	**25 584**	**2 464**	**1 689**	**-**	**26 359**
a/ Properties and related rights	13 005	552	116	-	13 441
b/ Technical equipment, machinery and vehicles	12 158	1 912	1 283	-	12 787
c/ Assets under construction	421	-	290	-	131
d/ Advances for assets under construction	-	-	-	-	-
II.2 Tangible assets related to non-financial services	**6 473**	**1 294**	**2 261**	**-**	**5 506**
a/ Properties and related rights	-	-	-	-	-
b/ Technical equipment, machinery and vehicles	6 452	1 294	2 240	-	5 506
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 2017

in HUF MM

Description	Accumulated depreciation						
	Opening balance	During the year			Of which		Closing balance
		Increase	Decrease	Reclass	Planned depreciation	Extraordinary depreciation	
I. Total intangible assets	**17 370**	**3 227**	**652**	**-**	**3 226**	**1**	**19 945**
a/ Rights and licenses	15	-	-	-	-	-	15
b/ Intellectual properties	17 355	3 227	652	-	3 226	1	19 930
c/ Capitalised value of foundation/restructuring	-	-	-	-	-	-	-
II.1 Tangible assets serving financial institutions's activities	**15 797**	**2 055**	**1 139**	**-**	**2 055**	**-**	**16 713**
a/ Properties and related rights	6 674	585	67	-	585	-	7 192
b/ Technical equipment, machinery and vehicles	9 123	1 470	1 072	-	1 470	-	9 521
c/ Assets under construction	-	-	-	-	-	-	-
d/ Advances for assets under construction	-	-	-	-	-	-	-
II.2 Tangible assets related to non-financial services	**2 391**	**819**	**1 215**	**-**	**817**	**2**	**1 995**
a/ Properties and related rights	-	-	-	-	-	-	-
b/ Technical equipment, machinery and vehicles	2 391	819	1 215	-	817	2	1 995
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.

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

V/5. Inventories

in HUF MM

Description	As of 31 December 2016	As of 31 December 2017
Precious metals for sale	-	
Office materials	-	
Printed materials	-	
Stock	1	
Mediated services	3	5
Stock purchased in the scope of Lease contracts	15	
Repossessed cars, leased assets	40	11
Provision on Stock/Equipment against receivables	(34)	
Other	-	
Total :	**25**	**16**

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

in HUF MM

Description	Total of 31 December 2016	Total of 31 December 2017	Breakdown of the portfolio of 31 December 2017 in maturity split				
			On sight	within 3 months	within 3 months and 1 year	within 1 year and 5 years	Over 5 years
		1 = 2+3+4+5+6	2	3	4	5	6
I. Receivables from financial institutions	**166 746**	**68 642**	**7 565**	**61 077**	**-**	**-**	**-**
On sight	**10 661**	**7 565**	7 565	-	-	-	-
Other receivables from financial institutions	**156 085**	**61 077**	**-**	**61 077**	**-**	**-**	**-**
- Within one year	**156 085**	**61 077**	-	61 077	-	-	-
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	106 058	45 675	-	45 675	-	-	-
- Over one year	**-**	-	**-**	**-**	**-**	**-**	**-**
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	-	-	-	-	-	-	-
II. Receivables from customers	**590 729**	**670 672**	**103 508**	**49 028**	**176 021**	**211 436**	**130 679**
Receivables from financial services	**589 101**	**667 665**	**100 501**	**49 028**	**176 021**	**211 436**	**130 679**
- Within one year	**289 206**	**325 550**	100 501	49 028	176 021	-	-
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
- Over one year	**299 895**	**342 115**	**-**	**-**	**-**	211 436	130 679
of which: from subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
Receivables from investment services	**1 628**	**3 007**	3 007	-	-	-	-
Total:	**757 475**	**739 314**	**111 073**	**110 105**	**176 021**	**211 436**	**130 679**

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

in HUF MM

Description	31 December 2017					31 December 2016
	EUR	**Non EUR**			Total	Total
		USD	HUF	Other		
1. Cash	**963**	**168**	**19 597**	**99**	**20 827**	**17 569**
2. State Bonds	**20 386**	**4 488**	**148 194**	**-**	**173 068**	**161 884**
3. Receivables :	**130 494**	**14 526**	**601 848**	**5 056**	**751 924**	**768 193**
a) On sight	5 164	810	-	1 591	7 565	10 661
b) Maturing within one year	29 953	13 648	353 000	2 636	399 237	456 009
- to financial institutions	927	13 252	44 349	2 549	61 077	156 085
- to customers	29 026	396	296 065	63	325 550	289 206
- other receivables	-	-	12 586	24	12 610	10 718
c) Maturing over one year	95 377	66	245 843	829	342 115	299 895
- to financial institutions	-	-	-	-	-	-
- to customers	95 377	66	245 843	829	342 115	299 895
d) From inverstment services	-	2	3 005	-	3 007	1 628
4. Securities (bonds)	**30 957**	**-**	**23 793**	**-**	**54 750**	**20 467**
5. Shares and other securities	**-**	**-**	**2 537**	**-**	**2 537**	**2 385**
6. Shares for sale/ for investment purposes	**12**	**-**	**228**	**-**	**240**	**241**
7. Shares in affiliated companies	**-**	**-**	**-**	**-**	**-**	**-**
8. Intangible Assets	**-**	**-**	**9 605**	**-**	**9 605**	**8 377**
9. Tangible Assets	**-**	**-**	**13 157**	**-**	**13 157**	**13 869**
10. Inventories	**-**	**-**	**16**	**-**	**16**	**25**
11. Positive valuation difference of derivatives	**-**	**-**	**1 872**	**-**	**1 872**	**789**
12. Prepayments	**1 078**	**82**	**4 703**	**-**	**5 863**	**5 402**
Total: (1+ 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12)	**183 890**	**19 264**	**825 550**	**5 155**	**1 033 859**	**999 201**

V/8. Reserves movements from 1 January 2017 to 31 December 2017

in HUF MM

Description	Opening balance	Reserve (usage)	Charge	Reserve (release)	Reclassification */ Foreign Exchange	Closing balance
1. Reserve for pension and severence	-					-
2. Reserve on contingent and future liabilities	6 340	(765)	1 068	(1 706)	2 014	6 951
3. General risk reserve	-					-
4. Ohter reserve	856	(10)	9	(38)	(263)	554
Total :	**7 196**	**(775)**	**1 077**	**(1 744)**	**1 751**	**7 505**

* Reserve on good portfolio as per the Accounting actis classified as other expense (942 mHUF)

Additionally the reserve for future expenses were reclassified to reserve on contigent and future liabilities (263 mHUF).

V/9. Provision charge/release on assets from 1 January 2017 to 31 December 2017

in HUF MM

	Opening balance	Charge	Provision release of written-off receivables	Release	Foreing Exchange / Other *	Closing balance
1. Provision on securities	-					-
2. Provision on other financial investments	10	2				12
3. Provision on receivables	92 645	1 032	(10 497)	(6 806)	(5)	76 369
4. Provision on other receivables	438	40		(257)	271	492
5. Provision on inventories, which were received against receivables	119			(91)	34	62
Total :	**93 212**	**1 074**	**(10 497)**	**(7 154)**	**300**	**76 935**

* Including opening balance reclass

V/10. Securities breakdown and safe custody securities

31 December 2017

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
Government bonds	II. Securities	142 329	147 176	147 176	148 459	DEMAT	KELER	32 719	DEMAT	KELER
Discount Treasury Bond; Semi-annual Hungarian Government Securities; Treasury Savings Bills	II. Securities	25 893	25 892	25 892	25 893	DEMAT	KELER	25 970	DEMAT	KELER
Bonds issued by Financial Institutions	V. Bonds and other securities	54 416	54 730	54 730	56 329	DEMAT	KELER		DEMAT	KELER
Investment fund quotas	VI. Shares and other securities	2 537	2 537	-	2 538	DEMAT	KELER	172 902	DEMAT	KELER
Compensation Coupon	VI. Shares and other securities	94	20	20	20	FIZIKAI	ÉRTÉKTÁR	1	FIZIKAI	ÉRTÉKTÁR
Shares	VII-VIII. Shares for invetment purposes and in affiliated companies for investment purposes	190	190	-	190	FIZIKAI	ÉRTÉKTÁR	999	DEMAT	KELER
Shares	VII-VIII. Shares for invetment purposes and in affiliated companies for investment purposes	26	50	-	50	DEMAT	KELER	50	FIZIKAI	ÉRTÉKTÁR
Other security	VI. Shares and other securities							3 891	FIZIKAI	ÉRTÉKTÁR
Total:		**225 485**	**230 595**	**227 818**	**233 479**			**236 532**		

Note: the financial assets due to customers on the bankaccounts managed within the Bank regarding to commission investment activity is 11 901 HUF MM at 31 December 2017.

* 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 2016	Total of 31 December 2017	Breakdown of the portfolio of 31 December 2017 in maturity split				
			On sight	within 3 months	within 3 months adn 1 year	within 1 year and 5 years	Over 5 years
		1 = 2+3+4+5+6	2	3	4	5	6
I. Liabilities to financial institutions	**151 283**	**160 614**	**192**	**24 758**	**6 669**	**82 109**	**46 886**
On sight	**1**	**5**	5	-	-	-	-
Deposited from financial services	**151 281**	**160 608**	**186**	**24 758**	**6 669**	**82 109**	**46 886**
- Within one year	21 374	31 613	186	24 758	6 669	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	17 925	27 974	-	22 082	5 892	-	-
- Over one year	129 907	128 995	-	-	-	82 109	46 886
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
National Bank of Hungary	96 157	64 982	-	-	-	26 959	38 023
From investment services	**1**	**1**	1	-	-	-	-
II. Liabilities to customers	**684 260**	**699 155**	**580 467**	**67 121**	**48 654**	**2 913**	**-**
Other liabilities from financial services	**675 761**	**687 254**	**568 566**	**67 121**	**48 654**	**2 913**	**-**
- On sight	549 123	568 566	568 566	-	-	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
- Within one year	121 798	115 775	-	67 121	48 654	-	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
- Over one year	4 840	2 913	-	-	-	2 913	-
of which: to subsidiaries	-	-	-	-	-	-	-
affiliated companies	-	-	-	-	-	-	-
From investment services activity	**8 499**	**11 901**	**11 901**	**-**	**-**	**-**	**-**
VII. Subordinated Debt	**150**	**150**	**-**	**-**	**-**	**-**	**150**
Total:	**835 693**	**859 919**	**580 659**	**91 879**	**55 323**	**85 022**	**47 036**

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

in HUF MM

Descripton	31 December 2017					31 December 2016
	EUR	Non EUR			Total	Total
		USD	HUF	Other		
1. Liabilities on sight	**105 550**	**13 345**	**445 984**	**3 692**	**568 571**	**549 124**
- to financial institutions	-	-	4	1	5	1
- to customers	105 550	13 345	445 980	3 691	568 566	549 123
2. Short-term (within one year) liabilities	**11 365**	**5 321**	**147 089**	**1 446**	**165 221**	**160 365**
- to financial institutions	186	-	31 427	-	31 613	21 374
- to customers	9 107	4 974	100 343	1 351	115 775	121 798
- on issued securities	-	-	-	-	-	-
- other liabilities	2 072	347	15 319	95	17 833	17 193
3. Long-term (over one year) liabilities	**35 048**	**63**	**96 797**	**-**	**131 908**	**134 747**
- to financial institutions	34 920	63	94 012	-	128 995	129 907
- to customers	128	-	2 785	-	2 913	4 840
- on issued securities	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-
4. Liabilities from Investment services	**1 301**	**111**	**10 490**	**-**	**11 902**	**8 500**
- to financial institutions	-	-	1	-	1	1
- to customers	1 301	111	10 489	-	11 901	8 499
5. Negative valuation difference of derivatives	**-**	**-**	**1 933**	**-**	**1 933**	**471**
6. Accruals	**120**	**10**	**7 003**	**2**	**7 135**	**7 132**
7. Provision	**120**	**-**	**7 385**	**-**	**7 505**	**7 196**
8. Subordinated debt	**-**	**-**	**150**	**-**	**150**	**150**
9. Shareholders' fund	**-**	**-**	**139 534**	**-**	**139 534**	**131 516**
Total: (1+ 2 + 3 + 4 + 5 + 6 +7 +8 +9)	**153 504**	**18 850**	**856 365**	**5 140**	**1 033 859**	**999 201**

V/13. Breakdown of Prepayments and Accruals

in HUF MM

Nr.	Description	As of 31 December 2016	As of 31 December 2017	Nr.	Description	As of 31 December 2016	As of 31 December 2017
	Prepayments				**Accruals**		
1.	Accrued interest	2 606	1 871	1.	Accrued interest	705	807
2.	Accrued commission	125	903	2.	Accrued commission	0	0
3.	Accrued costs and expenses	357	434	3.	Accrued costs and expenses	5 069	4 831
4.	Accrued interest on Securities	2 047	2 062	4.	Accrued interest on Securities	0	0
5.	Accrued interest on derivatives (IRS, HIRS, CIRS)	205	421	5.	Accrued interest on derivatives (IRS, HIRS, CIRS)	187	247
6.	Ohter	62	172	6.	Ohter	1 171	1 250
	Total:	**5 402**	**5 863**		**Total:**	**7 132**	**7 135**

V/14. Income and expenditure from investment related services

in HUF MM

Nr.	Description	Income		Expenditure	
		2016	2017	2016	2017
1.	Commissionaire activities	1 970	2 118	58	65
2.	Trading activities	877	2 281	404	2 387
3.	Safe custody activities	127	1	0	0
4.	Other activities	880	108	1 596	2
	Total:	**3 854**	**4 508**	**2 058**	**2 454**

V/15. Changes in issued own shares

31 December 2017

Description	Type of share	Face Value (HUF)	Number of shares	Value HUF MM
Opening total 2017. január 1.				19 396
Closing total 2017. december 31.				19 396
Breakdown of closing total:				
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 2016	Interest, fees and commissions in suspense As of 31 December 2017
Base interest	21 351	19 356
Late payment interest	5 460	4 483
Fees	1 799	1 596
Commissions	2 746	2 918
Total:	**31 356**	**28 353**

During 2017 1 486 MM HUF flowed in from the amount which had not been credited as income as of 31 December 2016.

V / 17. Open position of currency SWAP deals

31 December 2017

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

										In million	**original**	**Currency**
Deal Type	Customer Name	Buy		Sell		Buy		Sell		Start Date	Maturity Date	Fair Value
		Starting Amount		Starting Amount		Maturity Amount		Maturity Amount				MM HUF
FX Swap	COMMERZBANK AG	JPY	5	HUF	12	HUF	12	JPY	5	2017.12.11	2018.01.11	-
FX Swap	COMMERZBANK AG	EUR	4	HUF	1 250	HUF	1 246	EUR	4	2017.12.22	2018.01.05	6
FX Swap	MFB RT.	EUR	5	HUF	1 573	HUF	1 573	EUR	5	2017.12.08	2018.03.08	22
FX Swap	MFB RT.	EUR	20	HUF	6 237	HUF	6 235	EUR	20	2017.12.27	2018.01.10	31
FX Swap	MFB RT.	EUR	20	HUF	6 221	HUF	6 220	EUR	20	2017.12.28	2018.01.31	16
FX Swap	OTP BANK RT.	EUR	10	HUF	3 120	HUF	3 119	EUR	10	2017.12.27	2018.01.10	18
												93

Budapest Bank Zrt. has currency swap contracts with other commertial 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 derivaties. 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 receceivable 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 +48 million HUF interest income in 2017. In the end of 2017 the fair value of the open currency swap deals was +93 million HUF. Forwards did not have significant impact neither on cash flow or on the resulst. The fair value of the open forward deals was -23 million HUF at the end of 2017.

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

31 December 2017

Deal Type	Amount MM HUF	Currency	Maturity Date	Interest rate on received interest	Interest rate on paid interest	Market value MM HUF	P&l effect * MM HUF
HIRS**	95 990	HUF	2019	-0,65 % -- 0,33 %	BUBOR 6M	372	-69
IRS - planned hegde to fixed income government securities	96 000	HUF	2019	BUBOR 6M	0 %	312	312
IRS - planned hegde to fixed income government securities	18 000	HUF	2019	0,89 % -- 1,08 %	BUBOR 6M	-284	-105
IRS - planned hegde to fixed income government securities	9 000	HUF	2021	BUBOR 6M	0 %	174	174
IRS - planned hegde to fixed income government securities	18 000	HUF	2021	1,03 % -- 1,46 %	BUBOR 6M	-443	-387
IRS - planned hegde to fixed income government securities	9 000	HUF	2022	BUBOR 6M	0 %	271	271
IRS - planned hegde to fixed income government securities	8 000	HUF	2025	2,23 % -- 2,26 %	BUBOR 6M	-573	-448
IRS - planned hegde to fixed income government securities	1 000	HUF	2027	1,81%	BUBOR 6M	-12	-87
IRS - planned hedge to loans	800	HUF	2018	0,63 % -- 0,74 %	BUBOR 6M	-5	-2
IRS - planned hedge to loans	2 900	HUF	2019	0,21 % -- 1,01 %	BUBOR 6M	-18	-14
IRS - planned hedge to loans	1 900	HUF	2020	0,5 % -- 1,17 %	BUBOR 6M	-27	-20
IRS - planned hedge to loans	15	EUR	2021	-0,17 %	EURIBOR 3M	3	18
IRS - planned hedge to loans	6 300	HUF	2021	0,73 % -- 1,31 %	BUBOR 6M	-115	-112
IRS - planned hedge to loans	8 800	HUF	2022	0,75 % -- 1,72 %	BUBOR 6M	-165	-158
IRS - planned hedge to loans	600	HUF	2023	0,96 % -- 1,98 %	BUBOR 6M	-15	-11
IRS - planned hedge to loans	600	HUF	2024	1,18 % -- 2,14 %	BUBOR 6M	-20	-18
IRS - planned hedge to loans	200	HUF	2025	1,83 % -- 2,29 %	BUBOR 6M	-12	-12
IRS - planned hedge to loans	1 000	HUF	2026	1,58 % -- 2,50 %	BUBOR 6M	-41	-41
IRS - planned hedge to loans	1 900	HUF	2027	1,78 % -- 2,71 %	BUBOR 6M	-98	-131
						-696	-840

Deal Type	Forward receivables		Forward liabilities		Maturity Date	Interest rate	Interest rate	Market Value	P&l effect *
	Amount	Currency	Amount	Currency		on interest received	on paid interest	M HUF	M HUF
CIRS	368	HUF	1	EUR	2022	0 %	-1,68%	9	0
CIRS	16 944	HUF	54	EUR	2026	0 %	-1,73 % -- -1,16 %	556	280
								565	280

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 the Bank applies macro hedge accounting between fixed income loans and interest rate swap deals. All the deals are still open.

* Interest income end expense excluded.

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

V/19. Changes of Shareholders' Equity in 2017

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	106 463	11 991	18 806 **	-	99 648
Valuation Reserve	724	129		-	853
Capital Engaged	-				-
General Reserve	2 638	1 390		-	4 028
Profit for the year	11 991	1 219		-	13 210
Changes in Subsidiaries Equity	(9 696)	12 095 *		-	2 399
Changes due to Consolidation	-				-
SHAREHOLDERS' FUND	**131 516**	**26 824**	**18 806**	**-**	**139 534**

Notes:

* The negative change of the subsidiary equity due to the merge of Budapest Autófinanszírozó was transferred to Retained Earnings.

Furthermore, the results of the subsidiaries of 2016 are also presented here.

** Paid dividend of 6 710 mFt is presented here.

**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	-	1
CAD	-	-
CHF	9	2
CZK	-	-
DKK	1	-
EUR	1 296	770
GBP	19	12
HUF	689	1 523
JPY	-	-
NOK	-	18
PLN	71	69
SEK	1	-
RON	-	-
USD	449	142
Összesen	**2 535**	**2 537**

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

in HUF MM

Descripton	Book value	
	31 December 2016	31 December 2017
I.) GOVERNMENT SECURITIES	**161 884**	**173 068**
a) available for sale	83 237	84 347
b) for investment purposes	78 647	88 721
II.) BONDS AND OTHER SECURITIES	**20 467**	**54 750**
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	20 467	54 750
ba) available for sale	20	18 839
Of which: -issued by subsidiaries	-	-
- issued by affiliated companies	-	-
- repurchased own shares	-	-
bb) for investment purposes	20 447	35 911
Of which: -issued by subsidiaries	-	-
- issued by affiliated companies	-	-
III.) SHARES AND OTHER SECURITIES	-	-
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	-	-
IV.) SHARES FOR INVESTMENT PURPOSES	-	-
a) shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
b) revaluation of shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
V.) SHARES IN AFFILIATED COMPANIES FOR INVESTMENT PURPOSES	-	-
a) shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
b) revaluation of shares for investment purposes	-	-
of which: - shares in financial institutions	-	-
Listed securities total:	**182 351**	**227 818**

VI Additional information

VI/1. Financial ratios*

		2016		2017	
PROFITABILITY RATIOS					
Marge	Profit after taxation / Revenue	13 059 / 190 467	**6,86%**	14 600 / 197 071	**7,41%**
ROA	Profit after taxation / Average total assets	13 059 / 982 183	**1,33%**	14 600 / 1 016 530	**1,44%**
ROE (1)	Profit after taxation / Shareholders' funds	13 059 / 131 516	**9,93%**	14 600 / 139 534	**10,46%**
ROE (2)	Profit after taxation / Share capital	13 059 / 19 396	**67,33%**	14 600 / 19 396	**75,27%**
ROE (3)	Net income of financial services / Shate capital	12 418 / 131 516	**9,44%**	14 105 / 139 534	**10,11%**
CAPITAL COVERAGE RATIOS					
Gearing	Balance sheet total / Shareholders' funds	999 201 / 131 516	**7,60**	1 033 859 / 139 534	**7,41**
LIQUIDITY AND COVERAGE					
Liquidity ratio	Liquid assets / Short term liabilities	572 323 / 718 460	**0,80**	538 247 / 747 627	**0,72**
Loans in percentage of deposits	Total loans and leases / Total deposits	757 475 / 835 543	**90,66%**	739 314 / 859 769	**85,99%**
ASSET QUALITY RATIOS					
Risk Provision and reserve %	Provision and reserve / Balance sheet total	100 408 / 999 201	**10,05%**	84 439 / 1 033 859	**8,17%**
Risk Provision and reserve Coverage	Provision and reserve / Shareholders' funds	100 408 / 131 516	**76,35%**	84 439 / 139 534	**60,52%**
EFFECTIVITY RATIOS					
Profit per employee	Profit after taxation / Average no. of employees	13 059 / 2 914	**4,48**	14 600 / 2 911	**5,02**
Wage Cost effectiveness	Profit after taxation / Total slaries & wages	13 059 / 18 106	**72,13%**	14 600 / 18 531	**78,79%**

* 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
31 December 2017							
1. Commercial receivables	**438 112**	**725**	**14 145**	**452 982**	**14 261**	**3,12%**	**3,15%**
- Corporate loans and leases	421 278	647	12 878	434 803	13 065	2,96%	3,00%
- Loans to private individuals	16 834	78	1 267	18 179	1 196	6,97%	6,58%
2. Consumer receivables	**218 500**	**3 735**	**68 181**	**290 416**	**61 919**	**23,48%**	**21,32%**
- Mortgages	130 457	1 720	30 472	162 649	24 503	18,73%	15,06%
- Other Consumer loans	88 043	2 015	37 709	127 767	37 416	29,51%	29,28%
3. Other receivables	**449**	**-**	**187**	**636**	**189**	**29,40%**	**29,72%**
Total :	**657 061**	**4 460**	**82 513**	**744 034**	**76 369**	**11,09%**	**10,26%**
31 December 2016							
1. Commercial receivables	**378 923**	**914**	**19 007**	**398 844**	**19 622**	**4,77%**	**4,92%**
- 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%	2,18%
2. Consumer receivables	**195 791**	**5 111**	**81 449**	**282 351**	**72 996**	**28,85%**	**25,85%**
- 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%
3. Other receivables	**519**	**9**	**23**	**551**	**27**	**4,11%**	**4,98%**
Total :	**575 233**	**6 034**	**100 479**	**681 746**	**92 645**	**14,74%**	**13,59%**

VI/3. Off-balance sheet items

in HUF MM

Description	As of 31 December 2016	As of 31 December 2017
Commitments and contingent liabilities	**273 017**	**294 239**
- unused overdraft facilities, non-disbursed approved loans	132 486	152 266
- guarantees of indebtedness	35 201	42 512
- other commitments	102 378	98 360
- letters of credit	2 952	1 101
Futures liabilities	**63 138**	**47 686**
- payment liabilities on swap transactions	4 089	4 090
- spot transactions	1 563	2 535
- spot security transactions	-	-
- liabilities on swap and CCIRS transactions	26 321	35 575
- liabilities of nondelivery forwards	5	-
- liabilities of devivery forwards	2 407	5 486
- securites sold by repo deal at redemption price	28 753	-
- other off-balance sheet liabilities	-	-
Total off-balance sheet liabilities:	**336 155**	**341 925**
Off-balance sheet receivables		
- receivables on swap transactions	3 492	3 777
- spot transactions	1 563	2 537
- spot security transactions	-	-
- receivables on swap and CCIRS transactions	26 324	35 717
- receivables of nondelivery forwards	4	-
- receivables of deivery forwards	2 409	5 456
- other off-balance sheet receivables	261	575
Total off-balance sheet receivables:	**34 053**	**48 062**

Notes:
Value of assets obtained as collateral or guarantee deposit related to financial services is 416 512 million HUF (excluding assigned revenue and receivable assignement) as of 31 December 2017.
Value of collateral placed by Budapest Bank 92 564 million HUF.

VI/4. Extraordinary income and expense

in HUF MM

Nr.	Description	Amount	
		2016	2017
1.	Given donations	(122)	(174)
2.	Received donations	-	-
3.	Write-off of receivables and losses	-	-
4.	Debt assumption and waived claims	(36)	(230)
5.	New government bill reserve	665	10
6.	Overpayment related to new government bill	(100)	2
7.	Foreign currency contracts conversion to HUF	112	-
8.	Loss of remitted receivable	(197)	12
9.	Other	(19)	6
	Total:	**303**	**(374)**

VI/5. Corporate tax base adjustments in 2017

in HUF MM

Profit before taxation decreasing items	Amount	Profit before taxation increasing items	Amount
1. Depreciation, amortisation based on Tax Law	7 475	1. Depreciation, amortisation based on Accounting Law	7 383
2. Reversal of provision for future liabilities and contigencies	1 950	2. Provision created for future liabilities and contigencies	2 119
3. Reversal of impairment on receivables, investments - acceptable by Tax Law	265	3. Written-off of receivables not qualifying uncollectible, waived claims	154
4. Self-revision and tax audit correction items accounted as revenue	1 750	4. Self-revision and tax audit correction items accounted as expense	60
5. Dividend received	1 400	5. Support provided without repayment obligation, assumed liabilities	40
6. Banking tax (P&L based)	1 639	6. Non-deductible losses due to penalty.	49
7. Other	1 691	7. Other	32
Total:	**16 170**	**Total:**	**9 837**

VI/6. Corporate tax calculation

in HUF MM

Nr.	Description	31 December 2017					
		Based on the standalone financial statements of the group members					Based on the consolidated income
		Budapest Bank Zrt.	Budapest Eszközfinanszírozó Zrt.	Budapest Lízing Zrt.	Budapest Alapkezelő Zrt.	Total	
1.	**Profit before taxation**	**15 774**	**672**	**1 647**	**135**	**18 228**	**16 694**
2.	Decreasing items of the corporate tax base	13 122	768	18	2 262	**16 170**	16 170
3.	Increasing items of the corporate tax base	6 873	824	12	2 128	**9 837**	9 837
4.	**Tax base**	**9 525**	**728**	**1 641**	**1**	**11 895**	**10 361**
5.	**Corporate tax charge**	**-**	**66**	**148**	**0**	**213**	213
6.	**Corporate tax relating to previous years**	240	1	1	-	**242**	242
7.	**Banking tax (P&L based)**	1 639				**1 639**	1 639
8.	**Total tax charge**	**1 879**	**67**	**149**	**0**	**2 094**	**2 094**

VI/7. Breakdown of costs according to cost types

in HUF MM

Nr.	Description	2016	2017
1.	**Material expenses**	1 238	924
2.	Wage cost	18 106	18 531
3.	Other personal type payments	523	415
4.	Other fees	4	15
5.	Benefit in kind which do not increase the corporate tax base and representation cost	865	1 032
6.	Benefit in kind which increases the corporate tax base	4	1
7.	Other payments	14	28
8.	**Personal expenses (2.+3.+4.+5.+6.+7.)**	19 516	20 022
9.	Social contribution	4 927	4 176
10.	Health contribution	209	229
11.	Educational contribution	272	290
12.	Other personal type expenses	177	236
13.	**Social security expenses (9.+10.+11.+12.)**	5 585	4 931
14.	Cost of transport and storage	259	213
15.	Rental fees	2 209	2 362
16.	Maintenance cost	3 142	3 690
17.	Marketing cost	1 859	2 017
18.	Training cost	157	142
19.	Travelling and delegation cost	90	104
20.	Post and telephone costs	1 108	1 141
21.	Intellectual services	2 542	1 687
22.	Other services used	1 555	1 478
23.	**Material type services used (14.+15.+16.+17.+18.+19.+20.+21.+22.)**	12 921	12 834
24.	**Depreciation**	4 406	5 050
25.	**Other costs**	-	-
26.	Subcontructors performance	-	-
27.	Reinvoiced capital work in progress	-	-
28.	Loss related to injury	-	-
29.	Cost of good sold	86 582	98 214
30.	Depreciation	1 146	1 048
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.	**Expenses of non-financial and non-investment services (26.+ ... +36.) / ***	87 728	99 262
38.	**Total / 1. + 8. + 13. + 23. + 24. + 25. + 37. / :**	**131 394**	**143 023**

* 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	2016	2017
1.	Other income and expense related to financing activity	321	741
2.	Non-recoverable VAT	(1 667)	(1 529)
3.	Local taxes	(2 013)	(1 961)
4.	Insurance fee related to poducts	185	276
5.	Subcontractor activity / recharged invoices	(220)	(99)
6.	Membership fees, commissions	(1 649)	(1 951)
7.	Other income and expense related to previous years	1 731	1 942
8.	Other income and expense related to fixed assets	(424)	(44)
9.	Banking Tax*	-	(105)
10.	Transaction duty	(9 875)	(10 940)
11.	Special tax on investment services	(144)	-
12.	Income from non-financial corporations	3 747	3 365
13.	Operation expense of non-financial corporations	(1 574)	(1 480)
14.	Other income and expense	1 049	847
	Összesen	**(10 533)**	**(10 938)**

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

in HUF MM

Nr.	Description	2016	2017
01.	Interest income	43 168	40 079
02.	+ Income on other financial services	33 630	35 634
03.	+ Other income (without reserve usage, without reserve reversal, without inventory provision, and without the reversal of exrtaordinary depreciation.)	999	4 880
04.	+ Income on investment related services (without reversal of security provision)	3 854	4 508
05.	+ Income on non-financial and non-investment related services	90 424	102 225
06.	+ Dividends received	-	-
07.	+ Extraordinary income	658	9
08.	- Interest expenses	(2 158)	(905)
09.	- Expenditures on of other financial services (without securities provision)	(10 020)	(10 261)
10.	- Other expenditures (without reserves, without inventory provisions, without extraordinary depreciation)	(18 099)	(18 042)
11.	- Expenditure on investment related services (without securities provision)	(2 058)	(2 454)
12.	- Expenses on non-financial and non-investment related activity	(87 728)	(99 262)
13.	- Operating costs	(39 260)	(38 711)
14.	- Extraordinary expenditures	1 213	(174)
15.	- Taxes	(2 358)	(2 094)
16.	- Dividends paid	-	(6 710)
17.	**OPERATING CASH FLOW (Lines 01.-16.)**	**12 265**	**8 722**
18.	± Change in liabilities	18 856	26 323
19.	± Change in receivables	(19 201)	20 022
20.	± Change in inventories	(79)	9
21.	± Change in securities among current assets	(8 291)	(20 257)
22.	± Change in investments	1 583	(25 537)
23.	± Change in construction (including advances)	(346)	-
26.	± Change in intangible assets	(3 395)	(4 215)
24.	± Change in tangible assets (excluding constructions)	(1 704)	(1 351)
25.	± Change in prepayments	(1 079)	(461)
27.	± Change in accruals	(1 124)	3
28.	+ Stock issue at selling price	-	
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.	**NET CASH FLOW (Lines 17.-33.)**	**(2 515)**	**3 258**
34.	Of which: - change in cash (in HUF and foreign currency)	2 825	1 673
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)	(5 340)	1 585

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) 31 December 2017	Main conditions
1. Interest free employee loans				Long-term loan
- Board of Directors	-	-	-	Real Estate collateral
- Supervisory Board	-	-	-	
1. Subtotal:	**-**	**-**	**-**	
2. Employee loans on preferential rate				Long-term loan
- Board of Directors	-	-	-	Real Estate collateral
- Supervisory Board	7	3	4	
2. Subtotal:	**7**	**3**	**4**	
3. Mortgage				Long-term loan
- Board of Directors	25	1	24	Real Estate collateral
- Supervisory Board	-	-	-	
3. Subtotal:	**25**	**1**	**24**	
4. Personal Loan				
- Board of Directors	-	-	-	Long-term loan
- Supervisory Board		-	-	No collateral
4. Subtotal:	**-**	**-**	**-**	
Total:	**32**	**4**	**28**	

The members of the Board of Directors and Supervisory Board have 1.610.000 Ft credit line on current account and 6.000.000 Ft credit line on credit card under standard contract terms of Budapest Bank.

VI/11. Salaries and Wages in 2017

in HUF MM

Description	Type of employee		Total
	Manual worker	White collar	
1. Salaries and wages	**48**	**19 857**	**19 905**
a. Payroll cost	45	18 486	18 531
b. Other personal related payments	3	1 371	1 374
2. Salaries and wages paid on sick leave	1	**116**	**117**
Total (1+2) :	**49**	**19 973**	**20 022**

VI/12. Number of employees

Period	Average Number of employees		
	Manual worker	White collar	Total
2016	-	2 914	**2 914**
2017	19	2 892	**2 911**

VI/13. Large loans

in HUF MM

Description	As of 31 December 2016	As of 31 December 2017
The total of large loans as at balance sheet closing date	17 070	-
Number of clients, having large loans	1	-

VI/14. Remuneration of the Board of Directors and the Supervisory Board in 2017

Description	Number of people entitled to remuneration	Amount fo remuneration in HUF MM
Work Council	-	-
Board of Directors	5	18
Supervisory Board	6	14
Total :	**11**	**32**

VII.
CONSOLIDATED BUSINESS AND NON-FINANCIAL REPORT

BUDAPEST BANK GROUP

31 December 2017

CONSOLIDATED BUSINESS AND NON-FINANCIAL REPORT

Contents

A. General introduction

Budapest Bank Group

Budapest Bank was established in 1987 as one of the very first Hungarian commercial banks. It is a dominant player of the local banking market, and is one of the eight large Hungarian banks. The Bank Group was transferred to state ownership on 29 June 2015: Corvinus Nemzetközi Befektetési Zrt. forming part of MFB (Magyar Fejlesztési Bank) Group purchased Budapest Bank Zrt.'s 100 per cent package from GE Capital. The Bank Group's principal members are subsidiaries owned 100 per cent by the Bank: Budapest Alapkezelő Zrt, Budapest Lízing Zrt. and Budapest Eszközfinanszírozó Zrt.

Executives of Budapest Bank[1]

name	organisational unit	title
Dr. Koppány Lélfai	Office of the Chief Executive	Chairman of the Board and Chief Executive Officer
Viktor Tóth	Office of the Chief Executive	Deputy Chief Executive for Business Operations
András Puskás	Office of the Chief Executive	Deputy Chief Executive for General Operations
Dr. Krisztián Németh	Legal and Compliance	Head of Legal and Compliance
Gyula Fatér	Retail Division	Head of Retail Division
Bálint Kelemen	IT	Head of IT
Frigyes Lasetzky	Operations	Head of Operations and Quality Assurance
Zsolt Mizera	Risk Management	Head of Risk Management
Imre Szabó	Internal Audit	Head of Internal Audit
Dr. Csaba Sándor	HR and Communication	Head of HR and Communication
Balázs Toldi	Corporate Division	Head of Corporate Division
Keresztyénné Katalin Deák	Finance	Head of Finance
László Somodi	Bank Security and Property Management	Head of Bank Security and Property Management

Until 31 March 2017 György Zolnai served as Budapest Bank's Chief Executive, while from 1 April until the end of the year Viktor Tóth served as Acting Chief Executive.

Bank's auditor: KPMG Hungária Kft., Gábor Agócs acting as registered auditor. In addition to the annual audit, KPMG carried out the following audit assignments during the course of 2017: interim balance sheet audit for Autófinanszírozási subsidiary's merger with the Bank, professional review of impairment regulations, review for compliance with the statutory regulations and the relevant internal regulations of the mortgage receivables portfolio offered by the Bank, mandatory audit of the data provided for the Hungarian Competition Authority, statutory audit of preparations for switchover to IFRS vis-a-vis the National Bank of Hungary, interim audit related to capital withdrawal of Eszközfinanszírozó.

[1] At the time of drafting of report (20 March 2018)

B. 2017 Business Report

B.1 Results of the 2017 business year

In 2017 Budapest Bank Group continued its operations within the framework of the self-financing model. At the end of 2017 the deposit portfolio accounted for 68% of the Bank Group's liabilities, while refinancing resources (and liabilities to other credit institutions) accounted for 16%. With a 3% increase in total assets, deposits increased by 2%, while refinancing resources rose by some 6%. The percentages of deposits and refinancing resources did not change significantly within the total portfolio of liabilities last year.

We may, however, observe a major rearrangement in deposits: the percentage of business deposits increased from 84% to 95%, at the expense of other deposits. The reason for this is that the resource portfolio of the National Land Fund Management Organisation (NFA) originating from escrow accounts which was at the Bank Group's disposal on a temporary basis decreased from HUF 99 billion to HUF 6 billion. This loss of resources was compensated for to a greater extent by a rise in business deposits (in particular, corporate and retail sight deposits), and to a lesser extent by an increase in the Fund Manager's deposit portfolio. Parallel with the fall in BUBOR, the percentage of sight deposits within the portfolio of business deposits increased considerably (from 75% to 81%).
The composition of refinancing resources also changed. The role of the Growth Credit Programme (NHP) as a refinancing resource declined (from 75% to 58%). This fall was offset by the appearance of mortgage bond refinancing (due to compliance with the Mortgage Funding Adequacy Ratio) and a rise in interbank resources.

In 2017 the Bank Group's retail credit portfolio embarked on a course of growth: based on the gross credit portfolios, there was a 5% increase compared with the end of the year before. As part of this, mortgage loans increased by 3%, unsecured loans by 11%, while the portfolio of automobile credit facilities was 3% higher than the December 2016 closing portfolio.

We may conclude that mortgage lending increased in excess of the market average: the new volume exceeded that of the year before by 63%.
This is due to a number of circumstances: reassessment of the process of mortgage lending (as part of which lending assessment times decreased considerably), the launch of more intensive marketing activities compared with the year before, the Bank Group's customised credit facility with preferential interest known as its flagship product (*Egyenlítő*), and the outstanding positions achieved with third-party sales partners.

The Bank Group set out to increase its share in the credit card market significantly. In line with this goal, it issued almost 90,000 new credit cards which represents a 49% increase compared with the year before. The strategic partnerships entered into with the store chains Tesco, Media Markt and Euronics played a major role in the increased volume of card issuance. Cooperation with Media Markt started on 16 January 2017, with the Bank acting as its exclusive financing agent, and therefore in 2017 this partner was the principal engine of growth.
The volume of new personal loans increased by 66% compared with the year before. In addition to a sector-level increase, this expansion was also boosted by intensive marketing activities and the strengthening of loan replacement products.

The volume of new automobile loans increased by 30% compared with the year before. The corporate segment is responsible for almost 70% of this new volume. The importance of the Growth Credit Programme (NHP) within the new volume of corporate automobile loans decreased.

As a new strategic initiative launched in 2016, Budapest Bank Group takes part in the state land sales programme coordinated by the National Land Fund Management Organisation (NFA). The Bank Group's role is comprised of two banking services provided on a market basis: it receives security in the capacity of escrow agent from farmers intending to bid for land, and later in the process it acts as an intermediary for the awarded bidders by taking delivery of applications for land loans provided by MFB and disbursing funds. The Bank Group

successfully closed the contract phase of the MFB-NHP Land Purchase Credit Programme in March 2017: it accepted 4,920 transactions in total to the value of almost HUF 134 billion. In 2017 the Bank Group realised a commission revenue of almost HUF 300 million in connection with the NFA Programme.
The credit portfolio of the Bank Group's corporate division increased significantly in 2017 there was a 13% increase in the gross portfolio, including an 8% increase in corporate lending and a 30% increase in the lease portfolio. In addition to overall positive processes in the macro-economy, the sales network with nation-wide coverage and intensive sales activities also boosted the expansion of lending.
We also managed to further our positions in the field of transaction banking: the Bank Group came second among its competitors in the opening of new accounts. Foreign currency conversion profits were boosted by the fact that during the course of the year treasury activities were transferred to the Corporate Division, and as a result, there is now even closer cooperation between the two units.
Our corporate strategy continues to focus on the SME segment accounting for almost 82% of our credit portfolio. At the same time, the Bank Group also opened up in the direction of the segment of large companies whose portfolio increased by HUF 20 billion in a year.
Since 2016 the Bank Group has taken part in the operation of MFB points created for the allocation of MFB EU funds. In 2017 the Group realised a commission revenue of almost HUF 200 million in connection with MFB points, while MFB points represent a further significant customer acquisition potential as well.

The Bank Group continues to lay a great deal of emphasis on technological innovations: the senior management created a Digital Strategy and appointed a digital manager. In May 2017 we launched, together with Telenor, our joint virtual card-based mobile payment service. The user interface of the Internetbank facility has been renewed, and the Online Investment System has been incorporated into Budapest Internetbank service. As a result, from now on the Bank Group's customers may reach both investment and account keeping services directly from the Internetbank facility.

At the end of last year Budapest Bank Group's network consisted of 95 bank branches. The bank branches located in the territory of Budapest qualify as business establishments, while those located outside Budapest operate as branch offices.
In accordance with the statutory regulations, there is a Works Council at the Bank Group. Employment policy decisions are adopted in agreement with the Works Council of the day.

In the context of demerger from GE, another major challenge the Bank Group was compelled to face – in addition to independent financing – was the replacement of the systems supplied by GE. Other than the replacement of the card system, all projects related to separation from GE were closed successfully.

B.2. Asset quality and portfolio

During the course of 2017 the Bank Group's total assets increased from HUF 999 billion to HUF 1,034 billion. Liquid assets, low-risk government securities and receivables from credit institutions amounted to HUF 263 billion on 31 December 2017. This sum represents 25% of the total assets.

The net portfolio of lending receivables from customers increased significantly, amounting to HUF 670.7 billion at the end of 2017. In 2017 the Bank Group continued to focus on the portfolio of small and medium-sized enterprises. Similar to the year before, the Bank came second among large banks as regards the number of accounts opened by small and medium-sized businesses, among others, by taking advantage of the cross-selling opportunities offered by the MFB points. The portfolio of credit placed with small and medium sized enterprises, including lease and calculated without impairment, amounted to HUF 344 billion which clearly indicates the central role occupied by this segment in the Bank's strategy.

The Bank's retail credit portfolio is also significant: without impairment, it amounted to HUF 335 billion.

During the course of 2017 the amount of impairment of receivables decreased significantly, from HUF 92.6 billion to HUF 76.4 billion in response to an improvement in the quality of the portfolio. At the end of 2017 there was an overall 10.3% impairment / gross receivables coverage ratio.

The Bank provided for the necessary impairment losses and provisions.

B.3. Asset-liability structure and liquidity

The Bank's foreign currency-based placements and liabilities decreased significantly in 2015 due to the mandatory conversion into forints of mortgage and automobile loans under the relevant legislation.

Twenty per cent of total assets are denominated in foreign currencies (19% in 2016); most of the foreign currency assets are denominated in EUR, USD and CHF.

Some 17% of the Bank's total liabilities (16% in 2016) are denominated in foreign currencies; most of the foreign currency liabilities are also denominated in EUR, USD and CHF.

Due to the Bank's business policy which seeks to avoid risks and in the absence of significant open foreign currency positions, the Bank can only be affected by currency fluctuations to a lesser degree. The Bank had no significant open foreign currency positions at the end of the year.

The Bank continues to have an asset portfolio with an extremely high liquidity level, and as a result it is in a long-term interbank lender position on the Hungarian money market. Its liquid assets, credit institution receivables and securities account for some 31% of its total assets.

The Bank has participated in the Growth Credit Programme launched by the National Bank of Hungary right from the beginning. The year-end portfolio increased to HUF 93 billion which the Bank placed to businesses.

The Bank managed the interest risks arising from the different repricing trends of assets and liabilities primarily with its harmonious, risk-avoiding pricing and portfolio management practice, by keeping them within a pre-determined level. It continuously monitors interest risks to transaction-level depth in relation to the totality of the balance sheet items. Since 2016 interest rate swaps have been concluded with a view to minimising the interest risks of the increasing portfolio of assets bearing fixed interest.

On the whole, Budapest Bank maintained a very intensive liquidity, cash flow and interest rate management practice throughout the year.

B.4. Capital position

There was a change of owners at Budapest Bank in 2015. Corvinus Nemzetközi Befektetési Zrt. proceeding on behalf of the State became the 100% owner whose ownership rights are exercised by Magyar Fejlesztési Bank Zrt.

The change of owners did not affect the Bank Group's stable capital position; its issued capital amounts to HUF 19,396 million. At the end of 2017 the Bank Group's equity, including the subject-year profit of HUF 13,210 million, amounted to HUF 139,534 million.

The Bank has formed a general reserve of HUF 4,028 million from its after-tax profit in the past few years.

The Bank Group's capital adequacy ratio is above the mandatory 10.36%.

B.5. Profitability

The Bank Group's after-tax profit is HUF 14,600 million which represents an increase of HUF 1.5 billion compared with the year before.
Primarily the following items were responsible for the change in profits:

- The Bank's net interest revenues decreased by HUF 1.8 billion compared with the year before mainly in consequence of a general decline in interest rates.
- The net profit of financial transactions increased by HUF 1.3 billion in 2017 compared with the year before primarily as a result of the Bank's more active treasury operations which had a positive impact on the overall profits.
- In 2016 the Bank made a one-time profit of HUF 1,559 million on the sale of its shares, while in 2017 there was no such one-off item.
- In 2017 the net positive effect on profits of the formation and release of provisions and impairment losses was HUF 2.6 billion higher than in 2016.
- General administrative expenditures decreased by HUF 0.5 billion in 2017.

Changes in 2017:
Net interest earnings decreased by 4% that is by HUF 1.8 billion compared with a year earlier in consequence of a general fall in interest rates.

Credit interest rates followed market fluctuations (fundamentally market reference interest-based pricing), and the Bank continues to pursue a transparent pricing strategy for customers and a "fair banking" pricing practice. In the case of retail and corporate tied-up and savings HUF deposits, the Bank carries out interest adjustments in harmony with any central bank interest adjustments and the development of money market yields, pursuing at all times a transparent pricing strategy that equally favours already existing and new customers.

Net commission and fee revenues did not change significantly. The net profit of financial transactions increased considerably compared with the corresponding 2016 figures. This improvement stemmed mostly from the Bank's more active treasury activities which had a positive effect on profits. Net "other (revenues)/expenditures" of business activities did not change significantly. In total the net profit of the three items increased by 11% which resulted in an excess profit of HUF 1.6 billion.

The total combined amount of general administrative expenditures and depreciation charge represents a 0.22% increase of HUF 95 million compared with the year before which stems from an increase of HUF 0.6 billion in depreciation.

The improvement of the quality of the portfolio and the approximation of impairment methods to "near IFRS" standards continued in 2017. In consequence, the net amount of the formation and utilisation of the impairment losses and provisions relating to loans and off-balance-sheet items resulted in an improvement of HUF 2.6 billion compared with 2016.

On the whole, the Bank Group maintained profitable operations in 2017 as well.

C. 2017 non-financial report

C.1. Business model

The Bank Group provides comprehensive financial services for its retail and corporate customers. A description of the Bank Group's products – account products, bank cards, savings, loans, insurance – and services can be found on the Bank's website at www.budapestbank.hu.

In the first two years of state ownership, not only did Budapest Bank Group manage to maintain its profitable operations, but its position as a financial institution also gained in strength significantly. Budapest Bank Group operating as a member of the MFB Group plays an important role in the effective realisation of the government's economic policy goals, such as SME lending, mediation of state land loans or the channelling to Hungarian families of housing grants.

Plans

- The Bank Group's current business and risk strategy plan covers the period between 2018 and 2022.
- This is Budapest Bank's first business plan which is based on the IFRS accounting standards (the reason being that effective as of 01 January 2018 bookkeeping is switching over to the IFRS 9 accounting standards, in harmony with the relevant statutory regulations).

Business model

- Unchanged business model: ambitious (above-market) growth, dividend payments in line with owner expectations, stable liquidity, with promotions in the medium term.
- The Bank continues to shape its portfolio on the basis of conservative risk management and a cautious business policy which results in a predictable profit course.
- According to its strategy, the Bank seeks to position itself as an active, universal financial institution, and it has therefore concentrated on the maintenance of its branch and sales network and the swift replenishment of any free capacity.
- Main challenges of 2018: bookkeeping under IFRS 9 as of 01 January 2018, PSD2 compliance as of 13 January 2018, replacement of card system, further expansion of new credit card partner relations, digital strategy and extension of activities of MFB points.
- There was a strategic change in the retail segment last year as part of which the Bank designated the further reinforcement of mortgage lending and credit card activities as the two focus points of growth. It was necessary to reconsider the entire process of mortgage lending because the Bank had a lower share in the mortgage market than warranted by its size and natural weight. The new strategy seeks to eliminate this former competitive disadvantage, and relies primarily on more intensive product and process development.
- The corporate credit portfolio continues to remain highly diversified by industry standards. The corporate strategy continues to focus on the SME segment which accounts for some 82% of the corporate credit portfolio. The Bank did not significantly reduce the number of its dealers even during the crisis, and therefore it is able to support its intensive sales activities with a sales network which covers the entire country.
- MFB points continue to offer the Bank a major further customer acquisition potential which may even be followed by a resulting strong wave of cross-selling within 1 to 2 years.

- It contributes to the improved results of the Bank's foreign currency conversion activities that treasury activities were recently moved to the corporate division, and in consequence there is closer cooperation between the two units which will be followed by more active product sales according to plans.

Main business priorities:

- In the interest of maintaining a long-term and sustainable profit-generating capability, the Bank Group does not wish to change the fundamental principles of its operations, and outlined major opportunities for growth with a view to the attainment of its strategic goals.
- The goal is to maintain our position among the 4 remaining large national banks;
- We seek to maintain the trend of growth above the market average achieved in 2017;
- Corporate loans (gross): 6% CAGR (annual average growth rate during the period between 2017-2022)
- Retail and micro loans (gross): 9% CAGR;
- Top 3 role in the case of the following products: credit cards, micro, auto financing;
- Reconsidered sales and operational processes in the field of mortgage lending
- Savings products: system development, introduction of structured products

C.2. Corporate social responsibility

Corporate social responsibility is observed at every level of our activities. Our Corporate Social Responsibility ("CSR") strategy focuses on responsible practices and operations in our entire operating environment, and commitment to our customers, staff members and civil society in general. Its key elements concentrate on the development of financial culture and awareness, commitment to communal values, voluntariness and equal opportunities.

As a responsible company, we strive to play an active role in the life of civil society and to provide help with the management of social problems. In addition to making donations, we operate a complex support system: through our own foundations and in cooperation with recognised civil society organisations we take part in the improvement of financial awareness among members of the public, and support culture, intellectual life, education and the socially disadvantaged. We encourage our staff members, too, to take part as volunteers in activities which serve to promote the development of communities. Our colleagues themselves identify some of the causes to be supported. We publish CSR newsletters via our internal communication channels several times a year. On our internal communication intranet called Világ (*World*) as well as in our customer magazine entitled MOST! (*NOW!*), too, we regularly publish articles related to corporate social responsibility.

The implementation of Budapest Bank's corporate social responsibility programmes is integrated into the Bank's operations and is overseen by the Bank's Management: the Chief Executive and the Deputy Chief Executive responsible for HR and Communications. The Bank's Communication Department is in charge of the coordinated implementation of the various programmes.

Development of financial culture

We were the first among domestic financial institutions to engage in the development of financial culture, and as a result we have accumulated more than 25 years of experience in this field. Our goal is to help members of the public to make informed and thoroughly considered financial decisions, and to contribute to enhanced financial awareness. To this end, we have launched a number of initiatives which help members of the public in large numbers with acquiring the financial skills they require. The tender funds of our Foundation "Budapest Bank for Education and Hungarian Financial Culture" have contributed to financial and economics training programmes in Hungary and beyond the borders since 1991.

The competence enhancement training programmes and club events of our project "Springboard, Budapest Bank –Finances for Women" (*Dobbantó*) launched in 2010 have helped more than 2,000 female entrepreneurs to acquire the financial and entrepreneurial skills necessary for operating a successful business.

Hungary joined the initiative European Money Week, in which almost 30 countries participate, in 2015, and the volunteers of our Bank take part in the events of the programme. Our staff members regularly deliver lectures on topics related to finance in educational institutions also beyond the framework of the programme.

The economics and finance contest Money Star (*PénzSztár*) which was organised for secondary school students in 2016 and 2017 with Budapest Bank acting as its main sponsor is an excellent means to develop financial culture and awareness, in particular at a young age. We took part in the organisation of the individual rounds and in the jury of the event as main sponsor.

For community values

In 1991 we established the Foundation "Budapest Bank for Budapest" for the purpose of contributing to the development of civil society in the capital, to the preservation and enhancement of its intellectual and cultural values, and to the preservation of the city's built-up and natural features.

In 2006 our Békéscsaba Bank Operations Centre started its operation with just 30 staff members, while today we employ almost 800 people at the Centre. As a result, we have become one of Békés County's largest employers. Right from the beginning we have played an active role in the life of the city and supported local communities. Since 2006 we have supported local educational institutions, local athletes (handball, volleyball, football, gymnastics, etc.) and the city's most prestigious events with grants worth HUF 200 million. For years we have supported the most important local events, including the Sausage Festival and the Békéscsaba-Arad-Békéscsaba Super Marathon. Since 2013 we have also helped civil society organisations seeking to promote the development of the city with calls for proposals. The Municipality of the County-Ranked City of Békéscsaba acts as our partner in the implementation of this programme: both in defining the topics of the calls as before each round we jointly select the areas where we believe grants would be particularly useful, and in raising the funds for the calls for proposals. In 2017 we received 32 applications in response to a call for proposals, as part of which 19 awarded organisations received non-repayable grants between HUF 100,000 and 500,000, amounting to HUF 6 million in total. During this programme we also closely cooperate with the Resource (*Erőforrás*) Foundation United Way Hungary as civil partner and with the newspaper Békés Megyei Hírlap as media partner.

Volunteer work

Volunteer work has almost two decades of tradition in our corporate culture. We organise our volunteer campaign Day of Care twice annually: in the spring and in the autumn. As part of the programme, our staff members and their family members contribute to the renewal of child, youth, educational and health care institutions with their work as volunteers. Not only the staff members of our two head offices, but equally the staff members of our bank branches throughout the country take part in the initiative in order to establish closer ties with local communities and to jointly contribute to the improvement of local institutions. Every year hundreds of staff members provide help with around 2,600 hours of volunteer work.

Additionally, our colleagues regularly organise donations – such as charity cake fairs, collection of clothing – and blood donations. Every December they organise charity cake fairs at our Budapest and Békéscsaba headquarters and send the proceeds of the fairs to civil-society organisations concerned with the welfare of children. In 2017 our colleagues donated the Budapest proceeds of HUF 211,000 to the Intarzia Foundation of the Association of Káposztásmegyer Large Families, while the HUF 82,000 raised in Békéscsaba was offered to the Viharsarok Foundation for Saving Prematurely Born Babies for the procurement of a blood pressure monitor.

C.3. Environmental protection

At Budapest Bank we make every effort to minimise the impact of our activities as a company on the environment. We pay particular attention to saving energy and significantly reducing our CO2 emissions causing greenhouse effects. From among our self-organising groups, the staff initiative "Green Office" is concerned with promoting the development and improvement of an environmentally aware workplace culture and environment. It is coordinated by the property management unit. Additionally, we draw attention to the importance of protecting our environment through internal communication.

Our environment-friendly measures:

- a contracted partner recycles the shredded materials removed from our premises,
- we collect PET bottles,
- we use environment-friendly salt to counter road slipperiness in winter,
- we seek to minimise the impact on the environment of heating and air-conditioning equipment by carrying out the inspections required under the relevant regulations in a timely manner.

The energy efficiency projects of the past few years have been typically carried out in conjunction with the refurbishment of branches as part of which we have modernised lighting, engineering features and uninterrupted power supply equipment. In the future we are going to continue the upgrading of lighting in our branch network, and the development of the fluid cooling equipment in the central building is also on the agenda. We shall further look into the possibility of covering the entirety of the electricity needs of our central office buildings and branches from green electricity generated in Hungary as of 2019.

<u>Environmental compliance</u>

Budapest Bank ensures that the level of emitted pollutants complies with the statutory limits by fully observing the legal rules relating to the point source air pollution and diffuse source air pollution of equipment operated by the Bank.

<u>Energy consumption</u>

Protecting our environment and using our resources in an optimal manner are tasks we must accomplish together, as is the task of making sure that our development is sustainable. Budapest Bank is committed to raising its staff members' energy awareness. The purpose of our energy-related activities is to minimise energy consumption and energy costs by using as little of the resources of our environment as we can whilst still maintaining the same level of comfort for our staff members and customers. We also seek to enhance our employees' energy awareness through regular communication.

Property Management deals with energy issues within the Bank. This unit employs a full-time energetics expert.

Act 57 of 2015 on Energy Efficiency requires Budapest Bank as a large company to carry out energy audits every four years, and to employ a legally independent energy consultant. The energy consultant prepares monthly and annual reports on our energy consumption on the basis of the data supplied by us, and takes part in the development of a more energy-conscious approach for our company.

C.4. Employment policy

Forty per cent of the some 2,800 employees work in the Budapest head office, 26 per cent work at the Békéscsaba Banking Operations Centre and the remaining 34 per cent work in the national branch network.

We established the Békéscsaba Banking Operations Centre in 2006 where almost 800 people work at present, and in consequence Budapest Bank is one of Békés County's largest employers.

Our highly qualified staff members who are also motivated on a long-term basis play a key role in our success, and we therefore pay particular attention to creating a supportive, family-friendly working environment as well as to maintaining a healthy balance between work and private life. We introduced atypical forms of employment in 2002 which our staff members take advantage of primarily at times when changes occur in their circumstances (e.g. upon the birth of a child, a change in their state of health).

We keep track of our staff members' activities, monitor and recognise their individual development, and assist their careers with a variety of professional training programmes and courses. We adjust our pay system to individual performance levels.

The Collective Agreement regulates any items with a significant impact on employees. Changing these items is subject to the consent of the trade union.

Percentage of employees covered by the Collective Agreement: 100%.

We operate a Works Council and consult with the trade union on issues concerning employees. We implement any changes in cooperation with them, ensuring maximum representation for staff members. In the context of any planned changes, we take account of the feedback received from interest representations. All aspects of our operations are fully documented; these documents are accessible to all employees and can be electronically retrieved in the directory of regulatory documents. Any changes planned to be made in our instructions and guidelines are preceded by a comprehensive review process involving interest representations (these consultations are also fully documented), and they can only enter into force following the approval of those involved in the review process. All staff members are informed of changes, and new regulations can only enter into force following due notification. In the case of any concern, employees may contact the ombudsmen, even anonymously, if they are reluctant to inform their senior or line managers of their problems. The trade union and the Works Council, too, investigate employee concerns. Should the need arise – and if necessary, with the involvement of the senior management – they may propose new procedural regulations to avoid the given operation/procedure/decision-making process giving rise to concern. Regular senior management meetings facilitate the identification and management of cross-effects where the senior HR manager identifies the expected impacts on employees and updates HR managers in the interest of receiving more direct feedback. The HR report on corporate events, including results and plans, forms a regular part of the senior management forum. It serves to provide general information and to identify potential risks in light of which the final concept may be subject to change.

Whenever there is a statutory obligation regarding the notification of employees concerning major changes with an impact on them, we fully observe any such obligation. The Collective Agreement prescribes minimum notification times in respect of certain issues:

Notification by employee: - drawing on paid time off work

Notification by employer: - working arrangements and changes therein – issuance of leave

As a general practice, the Management does not introduce changes with retroactive effect. Depending on the issue – with regard to the recommendations of interest representations, if the given change affects a larger group of employees – employees are typically informed of any anticipated major changes 2 to 4 weeks before.

We employ some 250 interns annually. Interns working for our Bank are given responsible assignments; our rotation programme ensures that they acquire comprehensive experience. We have always laid a great deal of emphasis on succession training and education. One of the milestones of this effort was the creation of the Interns Cooperation Programme (*Gyakornoki Összefogás Program, GYÖP*). In recognition of our internship programme, we received the industry and people's choice prizes of the Colibri Internship Awards – renamed in 2017 as the Zynternship Awards – also in 2017, after having claimed the awards in 2015 and 2016.

We started our initiative Banker Academy in 2016 in order to acquaint young people who are interested in the banking sector and are motivated to improve themselves professionally with our choice of internship and early career programmes by resorting to the use of new methods. As part of this, we created the programme's continuously updated microsite (which can be accessed at www.hellobb.hu as of 2017) and Facebook page (https://www.facebook.com/hellobudapestbank/). Additionally, our staff members regularly attend university and college events and job fairs, and we also organise internal programmes for interns and prospective interns.

In 2017 we came third among the best large companies in the contest for the title "Responsible Employer of the Year" invited by Országos Foglalkoztatási Közalapítvány Nonprofit Kft. (OFA, *National Employment Public Endowment*), while we were awarded the title "Family-friendly company" in the call for proposals of the Three Princes, Three Princesses Movement.

Our Bank supports groups organised spontaneously by staff members on the basis of their interests. Since 2017 these have renewed and operated in the following six Staff Member Initiative groups and have actively shaped our corporate culture:

BB Friends of Animals TEAM	**WORKING PARENTS TEAM**	**HEALTH TEAM**	**CHARITY TEAM**	**WOMEN FOR WOMEN TEAM**	**GREEN OFFICE TEAM**
Promoting responsible pet keeping, charity and community building.	Helping prospective and practising working parents with various initiatives.	Developing health culture, enhancing staff members' health awareness.	Coordinating and representing charitable staff member initiatives.	Supporting women's equal opportunities, with special focus on promoting women's career development.	Supporting the development and improvement of an environment-conscious workplace culture and environment
TEAM LEADERS Budapest: Péter Erdős Andrea Csóri Békéscsaba: Brigitta Pribojszki	TEAM LEADERS Budapest: Mónika Farkas Márta Győri Békéscsaba: Krisztovánné Lídia Kósa	TEAM LEADERS Budapest: Zsuzsa Mátraházi Békéscsaba: Nikoletta Bohus	TEAM LEADERS Budapest: Mária Péter Ágnes Székely Békéscsaba: Irén Rétlaki	TEAM LEADERS Budapest: Eszter Rita Nagy Evelyn Rékási Békéscsaba: Molnárné Edit Nagy Mikóváriné Margó Szilágyi	TEAM LEADERS Budapest: Zita Benke Péter Eszenyi Békéscsaba: Tímea Molnár Nikoletta Bohus

C.5. Social policy

Health and safety at workplace

We play an active role in the preservation of our staff members' health and create an optimal environment for them for the performance of work. The purpose of our health programme is to encourage our staff members and their family members to pay more attention to health preservation. We also assist our colleagues in order to achieve this goal by offering them discount access to sports facilities, organising regular screening tests and health programmes and offering training programmes helping with stress management and quitting smoking. In spring 2017 we organised a Welcome Spring week at both our headquarters, while in the autumn we organised a Health Day: for a whole week the emphasis was on healthy life styles, resting and relaxation, combined with a charitable donation collection campaign.

Budapest Bank Group is committed to providing optimal personal, physical and organisational conditions for the safe performance of work in a way which does not pose a threat to health, in the interest of protecting our employees' health and working capacity and humanising their working conditions, thereby preventing work-related accidents and employment-related illnesses. The Bank provides for the prevention of fire incidents that may pose a threat to life and property and makes available the fundamental conditions necessary for fire-fighting and the enforcement of the fire protection regulations, standards and official requirements to be observed during the installation and use of the relevant equipment by regulating and making available the relevant personal, physical and material conditions. The system of labour and fire protection is organised within the "Bank Security – Physical Security" organisational unit. The responsibilities emerging in the work-related health care segment of labour protection are fulfilled under the auspices of the employment health care service. The interests of employees regarding labour protection are represented by a labour protection representative. A comprehensive audit extending to every member of the branch network as well as to the Budapest and Békéscsaba banking operations centres is carried out minimum once every calendar year which is documented in an illustrated report with photographs, with a fixed deadline. The report is sent to the managers concerned, the head of bank security and property management, the head of physical security, the head of property management, the regional project staff members, the operations staff members, the labour protection representatives and the physician specialising in employment-related health care delegated by the employment health care service provider. Any work-related accidents are recorded in accordance with the protocol of the given regulatory environment, i.e. in minutes of work-related accidents, regional records of work-related accidents and aggregated records of work-related accidents.

Training and education of employees

At Budapest Bank we provide opportunities for professional and personal development for all our employees. Our manifold training system allows them to broaden their knowledge, while those with a managerial aptitude are assisted with becoming managers. We organise an orientation programme for newly-hired staff members. Our new colleagues joining our branch network are required to attend a two-month intensive induction programme. For freshly graduated staff members we operate manager training programmes in five different areas. These are typically two-year programmes and are based on skills and experience that can be obtained in rotation. Every year we organise the Month of Learning series of programmes where staff members can choose from a wide selection of expert lectures, innovative workshops and personal skills development training courses, irrespective of their position and experience. At the Békéscsaba Banking Operations Centre employees are required to attend 80 to 160 hours of training in the first year after their hiring, depending on the area they work in, while those working in call centre areas attend a six-week theoretical and mentoring programme. We particularly support women's career building, inter alia with our twelve-month women's manager training programme, as part of which we help our best female colleagues to become managers.

Regarding employee training, the Bank's strategic approach is based on the premise of continuously maintaining and further building a development-centred culture. We provide professional and skills development solutions for our staff members which support their individual development, organisational efficiency and the attainment of their career goals. We ensure the maintenance of their expertise by continuously raising the level of their qualifications and adjusting them to the ever higher market and regulatory expectations. By doing so, we motivate our staff members and enhance their commitment which also promotes work force retention, a factor that is clearly related to the reduction of costs. We find during interviews that prospective staff members clearly see our training system as a positive feature. General skills development and manager training programmes are organised under the supervision of the HR Organisation Development and Training Unit, while area-specific training programmes are organised by the given units by concentrating on the implementation of the technical requirements of the day and new technical and professional solutions. Additionally, in the case of the retail division, a dedicated training team is responsible for the training of newly hired sales staff members and the efficiency of their development by specifically focusing on this area.

C.6. Human rights

Diversity and equal opportunities

One of the focus areas of our CSR strategy is equal opportunities. Inclusiveness at the workplace is one of the defining elements of our corporate culture, and therefore we provide equal opportunities for everyone so that they can find advancement according to their abilities and performance. We are a founding and active member of the Hungarian Employers Forum on Equal Opportunities which was created in 2010. We also joined the Integrom Program launched by the Boston Consulting Group in 2014 whose mission is to enable young Roma in the largest possible numbers to work in white-collar positions at the country's large companies. Also at present we employ colleagues with disabilities, and we are making further efforts to increase their number. Regarding the integration of staff members with disabilities, we have several cooperating partners, including the Salva Vita Foundation which supports the employment of people with disabilities.

Equal remuneration

We have no benefits which we only provide for full-time employees. All benefits are due to every employee in employment with us for minimum three months under the same conditions. Our cafeteria benefit is a favourable benefit option for those in the lower income brackets, including part-time employees, as in the case of benefits which are comprised of a fixed part and a part that is dependent on the income, the fixed part is independent both of the income and of the working hours.

Our HR Manual contains the detailed rules relating to remuneration. The manual is freely available to all employees who are informed of any changes therein immediately. 100% of our job positions are equally available to both genders, and typically there are both men and women in most positions. We determine the income components and characteristics for each position, regardless of the gender of the person occupying the given position and independently of any other personal characteristics. We annually monitor and adjust them in light of any market changes. Bearing in mind the principles of equal treatment, we examine annually whether there is any significant difference between the salaries of men and women holding the same positions.

Anti-discrimination measures

We believe that our staff members play a key part in the success of our business. At Budapest Bank we are aware that committed and highly qualified staff members who are also motivated on the long-term constitute the basis of our successful operation. The maintenance of an inclusive workplace approach is a defining element of our corporate culture. We offer equal opportunities to everyone so that they find advancement according to their personal performance.

• We adopt any decisions concerning employment on the basis of merit and performance, including education, professional experience, skills, abilities, attitude and performance.

• Decisions cannot be influenced by considerations regarding the individual's origin, skin colour, religion, national or ethnic affiliation, gender (including pregnancy), sexual orientation, sexual identity, age, disabilities or other attributes protected by law.

• No one may refuse to work together or cooperate with any staff members on account of the above attributes.

• We pay particular attention to creating a supportive workplace environment where there can be no harassment, intimidation or humiliation on account of any of the attributes protected by law.

• We fully respect human rights.

Protection of personal data

The protection of personal data is the responsibility of the internal data protection officer who is our legal counsel. Our data protection regulations constitute the framework for data protection, while detailed provisions can be found in the Business Rules, General Terms of Contract, internal regulations and instructions. We carry out internal audits according to the internal audit unit's audit plans, while external audits are conducted as part of the audit of the National Bank of Hungary.

C.7. Anti-corruption measures

Budapest Bank's business activities are based on the Code of Ethics which regulates every area of our operations, including the management of the Bank, lending and communication with customers. The Bank expects every one of its employees to comply with the Code of Ethics, and additionally some of the regulations are also incorporated into the supplier and subcontractor agreements. This value code prescribes full compliance with the legal rules applicable to our business activities and the manifestation of honest, fair, reliable and ethical practices. We are convinced that there is only one kind of success with which we can preserve our reputation and earn our customers' trust; namely success achieved through the manifestation of ethical practices. To this end our staff members make every effort to meet the most stringent expectations in the field of ethical business practices.

The first item of Budapest Bank's Code of Ethics is the prohibition of corruption. During the course of business communication of any nature, the offering or acceptance of bribes is strictly forbidden, and the very appearance of bribery of any kind must be avoided. Every employee must take care to avoid even the impression of giving or accepting incentives the purpose of which is the unethical gaining of business advantages, whether in official licensing procedures conducted by the authorities, in any information or offers provided for customers/partners or in the course of credit assessment, etc.

• No one can promise or offer others monetary or any other incentive representing monies' worth whose purpose is the unethical gaining of business advantages.

• The same applies to the acceptance of presents and entertainment: it is forbidden to accept any incentive whose evident purpose is the unethical gaining of business advantages.

• We conduct stringent checks for the purpose of preventing and uncovering any act of bribery. These stringent checks also extend to the appointment and management of third parties proceeding for and on behalf of the Bank Group during the course of business transactions.

• We keep accurate accounting and other records to ensure that they appropriately reflect the actual nature of all transactions.

• Employees must take care to avoid commissions which appear to be disproportionately high compared with the service rendered.

C.8. Risks related to Bank's activities, statutory compliance and performance indicators of non-financial nature

The Bank's activities, business relations, products and services convey a number of minor or major risks as regards the issues of statutory compliance, environmental protection, social and employment policy, corruption, the fight against bribery, and human rights.

As Budapest Bank is not engaged in production activities, but is a provider of financial services, environmental risks are lower. These primarily require compliance with Act 57 of 2015 on Energy Efficiency.

As on average Budapest Bank employs more than 2,800 persons, employment policy risks are a particular priority. In addition to general compliance with the Labour Code, this means the fulfilment of the expectations of the Works Council, successful labour audits and compliance with the health and safety regulations relating to the workplace.

Due to the Bank's activities as a financial institution, the fight against risks arising from corruption and bribery is another major priority. Therefore Budapest Bank has operated a compliance unit since 2000, as part of which we also seek to meet the needs and expectations of our customers, in addition to statutory compliance. The compliance unit takes part in all processes related to products, from product design through product pricing to monitoring, including customer and marketing communication. We seek to ensure – as the number one priority – that our products and services are transparent and practical, and to only offer customers products and services which they genuinely need. The compliance unit plays a crucial role in our operations: it takes part in almost every phase of product development, from sales all the way to the drafting of customer information documents. We also do a great deal for developing financial culture in Hungary to enable customers themselves to assess their own financial situation. We treat responsible lending and responsible banking as a particular priority, and seek to offer transparent products and easy-to-understand communication in connection with them. Developing financial culture is another priority of ours. Responsible thinking beyond mere compliance with regulations is a very strong element of our corporate-business culture.

We pay particular attention to enabling our customers to select the banking product or service that is best suited to their needs and financial situation. Our information brochures draw customers' attention to both the specificities of products and to potential risks. Our advisors make every effort to ensure that customers understand all relevant information, and also inform customers of all the parameters of the products they wish to buy. Since 2009 we have applied responsible banking standards which contribute to enabling customers to make informed decisions about their finances. One of the most important elements of these standards is the system of post-sales calls which help to find out whether customers received all necessary product information. We pay particular attention to clear and easy-to-understand communication in the case of credit products when it is necessary to consider not only the needs, but also the possibilities of customers. We prepare our staff members for providing accurate information for customers, and additionally we have also made available on our website all consumer protection information which may be helpful before the adoption of a financial decision (e.g. consumer protection information pages, calculators).

The Bank has introduced a number of performance indicators of a non-financial nature for the assessment of the above risks, and measures them on a regular basis. These are the following, among others:

Mandatory health screening tests

Mandatory training records statistics

Ombudsman statistics

Monitoring of compliance with workplace safety regulations (e.g. fire alert, clean desk)

Customer complaints office, complaint registration and statistics

Money laundering reporting

Budapest, 21 March 2018

Dr. Koppány Lélfai	Keresztyénné Katalin Deák
Chairman of the Board and Chief Executive Officer	Head of Finance