

**Corporate Governance Report
of FHB Mortgage Bank Co. Plc**

For the business year of

2016

April 2017

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1. Operations of the Board of Directors. Liabilities and the Division of Labour of the Board and the Management

The Board, acting as the legal representative and executive body of the Company represents the Company in dealing with third parties, courts of law and other authorities. The Board manages and organizes the business activities and operations of the Company. The Board makes sure that all conditions required for profitable operations are satisfied.

The structure and operations of the Board are provided for under the Statutes and the Board Rules of Procedure. The Board has the competence to set its own Rules of Procedure. Both the Statutes and the Board Rules of Procedure are available from the official homepage of the Company (www.fhb.hu).

The Board is made up of at least five and no more than eleven members. Until 14 October 2016, the Board of Directors included seven persons, and then it included six and since 30 November 2016 it included five persons. The Board is elected by the General Meeting from the shareholders or from other persons. In 2016 from the members of the Board – the Chief Executive Officer and the Deputy-Chief Executive Officer(s) of the Company – were permanently employed by the Company (internal members) in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises („Credit Institutions Act”), and the provisions of the Rules of Procedure.

Pursuant to the provisions of the Civil Code, Board members are liable for any harm caused to the Company by the breach of the laws, the Rules of Procedure, the General Meeting resolutions or their duties. The Board as a body bears joint and several liability for any harm so caused. Any Board member who did not participate in the passage of the resolution or voted against the resolution and communicated this fact to the Supervisory Board within fifteen days from the passage of the resolution shall be exempted from liability in case the harm is caused by the resolution of the Board.

The Board shall make all of its decisions objectively, for the best interest of all shareholders, attempting to act free from the influence of the management or particular shareholders. In this capacity Board members may not be instructed by a shareholder of the Company or by his employer.

The Board worked pursuant to semi-annual work plans in 2016. The Board shall meet as frequently as needed but at least once in every three months. The Board shall discuss all issues in its competence according to written submissions. The Board shall make its decisions by passing resolutions based on the resolution proposal submitted by the rapporteur. The submissions and the associated resolution proposals are prepared for the Board by the management. The head of the department preparing the submission and the management (chief executive officer or deputy CEO) who professionally supervises the area are liable for the accuracy and exactitude of the submissions. Board members shall receive written notification of the time and the agenda of the board meeting 8 days prior to the meeting. The written submissions are delivered to Board members not later than 3 working days before the meeting.

The Board meeting has a quorum in case more than half of the members are in attendance. Except for the cases identified by the Board Rules of Procedure, the Board passes its resolutions by open vote with a simple majority. A Board member may not vote in any issue in case he is personally affected by the issue under discussion. In case of equality of votes the vote of the Chairman shall decide. The Chairman of the Board may call a secret ballot in case any Board member so requests.

In urgent cases the Board may pass valid resolutions by telephone, fax or any other similar means in case the Company delivers to the Board membership at least electronically the written submission on the issue to be decided and more than half of the Board membership incorporate their vote in a private deed with full probative effect and sends it to the seat of the Company in two days.

The chairman of the Supervisory Board or a member of the Supervisory Board designated by him/her shall take part in the meeting of the Board of Directors as a person invited on a permanent basis. The Chairman of the Board of Directors may invite the auditor, controller or any other person to attend the Board meeting with

consultative powers. In 2016 the Auditor and the supervisor of the Central Bank of Hungary acting in the capacity of controller of the financial mediation system, (the supervisory body is hereinafter referred to as “Supervision”) – liable for the supervision of the Company and the representative of the Savings Bank Ltd. and the Integration Organization of Cooperative Credit Institutions were invited to attend the Board meetings in all cases.

Board members shall elect the Chairman from their own ranks. The work of the Board is chaired by the Chairman. The functions of the Chairman shall be performed by the managing director liable for the prudent operation of the Banking group in the absence of the Chairman.

The duties and the competences of the Board of Directors are identified in detail by the Statutes and the Board Rules of Procedure. The competence of the Board of Directors shall include the strategy, business and financial activities of the Company as well as the operations and the organization of the Company, the rights related to capital increases and own shares, the management of FHB Banking Group, establishment of companies, investments, representation of the Company as well as the functioning of the Board of Directors itself.

In 2016 the top level management of the Company comprised of the following persons: the Chief Executive Officer, and then from 30 November 2016 the Chief Executive Officer and the Deputy Chief Executive Officer responsible for Legal Affairs. Both of them are internal members of the Board during the year. For the members of the management the rights of the employer shall be exercised by the Board of Directors – through the Chairman of the Board.

The Chief Executive Officer is employed by the Company under a labour contract. He is the top ranking senior employee. The Chief Executive Officer undertakes management and control of daily operation in the context of his employment, and performs his duties as member of the Board of Directors under company law. Consequently, his employment shall be governed by the Labour Code; whereas his election to the Board and his board membership shall be (were) governed by the Credit Institutions Act and the provisions of the Civil Code.

The functions of the Board and the Chief Executive Officer are separated as follows. The daily activities of the Company are managed and supervised by the Chief Executive Officer within the confines of the laws, the Statutes of the Company as well as the resolutions of the General Meeting and the Board of Directors. The decision-making on all matters which are not referred to the exclusive competence of the General Meeting and the Board of Directors shall fall within the competence of the Chief Executive Officer. The Chief Executive Officer shall regularly inform the Board of Directors, or the chairman of the Board of Directors between the meetings, on the questions concerning the operation of the Company and the FHB Banking Group. The above division of duties shall not affect the responsibility of the Board of Directors and the members of the Board of Directors defined by legal rules.

Except for the Deputy-Chief Executive Officer, the Chief Executive Officer exercises the rights of the employer over all the employees of the Company. The division of labour and competences of the Chief Executive Officer and the Deputy-Chief Executive Officer are outlined by the Organizational and Operational Bylaws of the Company, and its amendment requiring substantial organizational changes shall be approved of by the Board of Directors.

2. Presentation of the Board of Directors, the Supervisory Board and the Management

2.1. Board of Directors

The Board of Directors of the Company has been made up of the following persons *in 2016*:

Independent external members who have no legal relationship with the Company other than under corporate law:

Dr. Zoltán Spéder – resigned by 14 October 2016

External member and chairman of the Company’s Board of Directors as of 29 April 2008. Between 1991 and 1995 he was a member of the Board of Directors, between 1995 and 2007 he was vice president, from 1996 deputy CEO, as well as head of Strategic and Financial Division of OTP Bank Plc. As of 2007 he is the managing

director of A64 Vagyonkezelő Ltd. He was the chairman of the Supervisory Board of FHB Real Estate Company Limited by Shares until the company was sold in December 2014. Between 16 December 2014 and 30 November 2016 he was the chairman of the Supervisory Board of FHB INVEST Investment and Real Estate Management Limited Liability Company.

Dr. Christian Riener – was dismissed by the General Meeting by 30 November 2016

External member of the Board of Directors of the Company as of 29 April 2008. Partner, member of the board of directors and managing director of VCP Capital Partners and managing director of VCP Finanz Holding Kft.

Ákos Starcz – was dismissed by the General Meeting by 30 November 2016

A member of the Board of Directors since 24 April 2013. Before that, he served as a member of the Supervisory Board of the Company since 20 April 2011.

Zoltán Kovács – was dismissed by the General Meeting by 30 November 2016

He has been a member of the Company's Board of Directors since 28 April 2015. In 2015 he also was the Deputy Chief Executive Officer liable for Premium Clients and Customer Support at the Hungarian Post Ltd, and a member of the Board of Directors of Hungarian Card Ltd., part of the FHB Group.

József Vida – Chairman – Member of the Board of Directors since 30 November 2016 and Chairman of the Board of Directors since 5 December 2016

József Vida is economist; he studied at several universities related to business management, liquidation and bankruptcy. Currently he is graduating from Szent István Egyetem in the field of trust. His banking carrier started at Citibank Zrt. in 1999; in 2003 he switched the position of head of department in the Bank of Hungarian Savings Cooperatives Pte. Ltd. (herein: the "Savings Bank") *in Hungarian: Magyar Takarékszövetkezeti Bank* to active business director of Szentgál és Vidéke Takarékszövetkezet, he was from 2006 CEO here, than President-CEO. He played a significant role in the integrational plans in the past ten years; from 2007 as member of the directors of OTSZ he represented his region through two terms in the highest representation organization. As founder and executive he helped the work of Takaréék Akadémia, and the IT companies like Takinvest Kft. and TAKINFO Kft. He is member of the Board of Directors of Magyar Takarékszövetkezeti Bank Zrt. and is the CEO of the Magyar Takaréék Befektetési és Vagyongazdálkodási Zrt. He led the biggest merge in the credit cooperatives sector, in which from ten credit cooperatives B3 TAKARÉK Szövetkezet was established on 1st September 2015, which is able to serve in Budapest and four counties almost 130 thousand clients. József Vida has contributed to the execution of the governmental integration strategies, supported the performance of the tasks necessary to implement the integration act. In 2014 he was honoured by gróf Sándor Károlyi plaque for his activities pursued in the interest of innovation of the credit cooperatives integration. In July 2016 he was appointed to be the president of the Board of Directors of the Integration Organization of Cooperative Credit Institutions *in Hungarian: Szövetkezeti Hitelintézetek Integrációs Szervezetel*, and he was in that position until 8 December 2016. On 8 December 2016 he was appointed to be a member of the Board of Directors in the Bank of Hungarian Savings Cooperatives Pte. Ltd. Since 18 January 2017 he has been the Chairman of the Board of Directors and the Chief Executive Officer. Besides his work at the credit cooperatives, he is a farmer, breeds Hannover horses and is executive at several dog-raiser organizations (their names in Hungarian: Magyarországi Ebtenyésztők Országos Egyesületeinek Szövetsége, Leonbergi Ebtenyésztők Országos Egyesülete, a Magyarországi Hovawart Ebtenyésztők Országos Egyesülete), in 2016 he graduated from hunting and related services in Csongrád, thus his childhood wow is now fulfilled, and following his family traditions he is hunter as well.

Gábor Gergő Soltész – Internal member until 30 November 2016 and since then external member

He was Deputy-Chief Executive Officer of the Company from February 2013, and a member of the Board of Directors from 24 April 2013. He also was Chief Executive Officer and a member of the Board of Directors of FHB Bank Zrt. He resigned as a Deputy Chief Executive Officer at the Company and Chief Executive Officer and internal member of the Board of Directors at the FHB Bank Ltd. by 31 January 2015; however he is still the member of the Company's Board of Directors.

Attila Mészáros – Member of the Board of Directors since 30 November 2016

He is agrarian engineer, certificated economist, and has two MBA diplomas. He worked for Credit-Lyonnais Magyarországi Bank Zrt., between 2001 and 2007 he was director of Directorate for Relation with Large

Enterprises and Credit Risk Management at K&H Bank Zrt. Between September 2007 and December 2009 he led the restructuring department of MKB Bank Zrt., and was the CEO and chairman of the Board of Directors of the Romanian workout subsidiary of MKB. From November 2011 he worked as financial restructuring advisor first at Ernst&Young Tanácsadó Kft., later at his own company. Between July 2014 and February 2015 he was supervisory agent at five liquidated credit institution appointed by Pénzügyi Stabilitási és Felszámoló Nonprofit Kft. From March 2015 he is the leader of the SSC and subsidiary control at Szövetkezeti Hitelintézetek Integrációs Szervezete, furthermore chairman of the Board of Directors of Bóly és Vidéke Takarékszövetkezet, CEO of Takarékszövetkezeti Informatikai Kft. and member of the Council of Directors of Szövetkezeti Hitelintézetek Tőkefedezeti Közös Alapja.

Internal Board Members, who are employed by the Company:

Gyula Köbli – was dismissed by the General Meeting by 30 November 2016

He has been an internal member of the Board of Directors of the Company since 21 April 2010. He was the Deputy-Chief Financial Officer and the Chief Executive Officer of Finance and Strategy of the Company in prior of his current position. Until 6 February 2017 he was an external member and Chairman of the Board of Directors of FHB Commercial Bank Ltd.

Márton Oláh Deputy – Deputy Chief Executive Officer until 5 December 2016 and since then **Chief Executive Officer** Managing Director (Deputy Chief Executive Officer) of the Company since 1 February 2015; member of the Company's Board of Directors since 28 April 2015. Before the aforementioned date and since he has been the Chairman of the Board of Directors of Diófa Fund Management Ltd. operating as part of the FHB Group. Chief Executive Officer and a member of the Board of Directors of the FHB Bank Ltd. since 1 February 2015.

Dr. Erik Landgraf – Deputy Chief Executive Officer – since 30 November 2016

He graduated in 1988 from Eötvös Loránd University, Faculty of Law. He was court clerk till 1991 at Budakörnyéki Court, than in-house counsel at Corvinbank Rt. till 1995, and chief legal counsel at Konzumbank Rt. till 1997, between 1997 and 1998 leader of the investment department of PK Bank Rt. He has been working for FHB Co. Plc. as legal counsel from 1998, and as chief legal counsel from 2000, where he leads the overall legal activity necessary for the operation of the banking group; furthermore he is the chairman of the Supervisory Board of FHB Bank Zrt.

2.2. Supervisory Board, Audit Committee

The Supervisory Board – that is also the Audit Committee – of the Company was made up of the following persons in year 2016:

Csaba Lantos - Chairman

He has been a member of the Supervisory Board from April 28, 2009 and the chairman thereof from June 15, 2009. From 2000 until 2007 he was the deputy Chief Executive Officer of OTP Bank, and he was a member of the board of directors from 2001 until 2007. He has been the Chairman of the Supervisory Board of BSE from 2005 and he was the chairman of the Supervisory Board of KELER Zrt. from 1993. Currently he manages the group of companies formed from his own investments.

Enikő Márton Uhrin – resigned by 9 May 2016

Member of the Supervisory Board since 21 April 2010 and Chief Financial Officer of the Budapest Property Utilization and Development Plc.

Miklós Szabó

Member of the Supervisory Board since 20 April 2011.

Tibor Kádár

Member of the Supervisory Board since 24 April 2013. The Business Director of CEMP Group and Libri-Shoptline Nyrt. (as known today) since 2009.

István Sebestyén – since 6 May 2016

István Sebestyén graduated from Kandó Kálmán Műszaki Főiskola in 1996 as electrical engineer, then took a postgraduate degree in 1999 in economics in the College of Finance and Accountancy, Budapest. He started his carrier in 1997 at Jászszentlászló Credit Cooperative, and has been working for Fókusz Credit Cooperative since 1999 first as marketing director, than as deputy managing director, from 2004 as managing director. Between 2002 and 2006 he was Supervisory Board member of OTSZ and in 2010 he became the President of this body. From 2014 he is the President of the Board of Directors of Hungarian Savings Bank.

All members of the Supervisory Board are independent members who have no legal relationship with the Company other than under corporate laws. Accordingly, the members of the Supervisory Board were elected by the annual General Meeting in 2014 as the members of the Audit Committee established in compliance with the provisions of the Credit Institutions Act.

The Extraordinary General Meeting of the Company held on 21 November 2016 dismissed the members of the Supervisory Board and elected dr. Zsolt Harmath, dr. Antal Kadosa, dr. Mónika Kovács, György Pórfy and dr. Reiniger Balázs as members of the Supervisory Board from that day on which all the permission of members of the Supervisory Board elected on the Extraordinary General Meeting issued by Central Bank of Hungary (MNB) arrive to the Company, and all member of the Supervisory Board elected on the Extraordinary General Meeting accept their election in writing. The respective permissions were not provided to the Company by 31 December 2016, therefore these resolutions did not enter into force until that day.

2.3. The Management of the Company

The management of the Company was made up of the following persons in 2016:

Chief Executive Officer

Gyula Köbli – until 5 December 2016

Internal member of the Board of Directors. Introduction in Section 2.1.

Chief Executive Officer – since 5 December 2016

Márton Oláh

Internal member of the Board of Directors. Introduction in Section 2.1.

Deputy-Chief Executive Officer

Márton Oláh – until 30 November 2016

Internal member of the Board of Directors. Introduction in Section 2.1.

Deputy-Chief Executive Officer responsible for Legal Affairs

Dr. Erik Landgraf – since 30 November 2016

Internal member of the Board of Directors. Introduction in Section 2.1.

Chief Executive Officer of Business

Gábor Gergő Soltész – until 30 November 2016

Internal member of the Board of Directors. Introduction in Section 2.1.

The detailed presentation of the career of the members of the Board of Directors, Supervisory Board and Management shall be announced on the homepage of the Company (www.fhb.hu).

3. Activities of the Board of Directors and the Supervisory Board in 2016

3.1. Activities of the Board of Directors in 2016

3.1.1 Summary of the work of the Board of Directors

The Board of Directors held a total of nine meetings in 2016, four of which were joint meetings with the Supervisory Board, and in two cases there were extraordinary meetings according to the Rules of Procedure of the body. In addition to the scheduled meetings the Board of Directors passed resolutions off scheduled meetings at twenty-two times. All meetings and out-of-the meeting decision making procedures were duly held and the Board of Directors had a quorum in all cases.

In addition to the tasks identified by the work plan the Board of Directors meetings and the written out-of-the meeting resolutions allowed the Board of Directors to decide on issues in their competence despite the fact that they were not listed in the work plan.

In most cases the agenda of the Board of Directors meetings included written reports, information and other submissions prepared by the management and the head of the affected technical area. The Board of Directors discussed all the issues on its agenda thoroughly. Members of the Board routinely added their own professional comments, observations and clarifications to the submission. When required, they formulated modification proposals.

The following topics discussed by the Board of Directors in 2016 shall be emphasized:

- In 2016 the Board of Directors paid special attention to most important events concerning the Company – which are published in accordance with the capital market rules –, especially the changes within the chief executives and the scope of shareholders of the Company.
- After the accession to the Cooperative Integration the Board of Directors drew special attention to implement the relevant integration rules – especially the risk management rules – properly.
- Similarly to the practice of previous years, as a standing point on the agenda the 2016 Board of Directors meetings always discussed the management report on the business and financial status of the Company and the FHB Banking Group. This allowed the Board to continuously monitor the operations and financial position of the Company. This practice allowed the Board to have sufficient information all through the year on internal and external factors that affected the Company's operations. The Board could assess the unfavourable situations and take the required action to counter them and to support the management with professional advice.
- In 2016 the Board of Directors gave particular attention to the analysis and protection of the quality of the granted credit portfolio and to the method of measures preventing the deterioration of the portfolio of FHB Banking Group. Within the framework thereof effective measures have been taken for the centralization and rationalization of the lending process, and for improving more efficiency of the treatment and recovery of defaulted loans.
- In 2016 the Board of Directors also regularly discussed the management's report on funding, liquidity, market and operational risks of the FHB Banking Group on a regular, quarterly basis.
- In 2016 the Board of Directors also discussed issues related to the implementation of Remuneration Policy.
- All management proposals on the amendment of internal rules that fell in the jurisdiction of the board were found appropriate and all these proposals were approved of according to the resolution proposal or with some minor amendments.

- In 2016 the Board continued to follow up on the inspections by other authorities (Hungarian Tax Authority /"NAV"/, Central Bank of Hungary /MNB/) as well as the elaboration and implementation of the action plan related to the findings of these inspections. None of the inspections found any irregularity or voiced any criticism on the operations of the Board of Directors.
- The Board of Directors constantly obtained information about the operation, business and financial situation of the members of FHB Banking Group through the regular business and financial reports of the management and within the framework of unique items on the agenda. The Board of Directors, as the body exercising shareholder's rights in the name of the Company over certain members of FHB Banking Group, exercised its shareholder rights in point of the member companies in accordance with the law during 2016. Within the framework of the general meetings, the Board adopted the business reports, annual reports of the companies and the made the related and necessary decisions. In addition, the Board of Directors adopted resolutions in its shareholder competence with regard to the operation of the member companies in many cases.
- The management provided regular information for the Board of Directors on the implementation of previous resolutions of the Board of Directors. The management also provided information on the internal rules (instructions) entered into force in the banking group quarterly.

3.1.3. Cooperation of the Board of Directors with other Bodies

The Board of Directors continues to have a cooperative and fair relationship with both the Supervisory Board and the management. The Chief Executive Officer of the Company participated in all Board of Directors meetings. He gave presentations on the current issues affecting the operations of the Company in detail. They also gave exhaustive answers to the questions raised during the discussion of the agenda. The Chairman of the Supervisory Board was always invited to attend the meetings of the Board of Directors to express his views and proposals. This arrangement allowed the shareholders to continuously have a say in the operations of the Company. The chairpersons of these two bodies, the Chief Executive Officer and his deputies held regular consultations and discussions in between the meetings, too.

3.1.4. Changes to the operation of the Board of Directors in connection with the accession to the Integration Organization

The chairman of the Board of Directors shall notify the Integration Organization and the Bank of Hungarian Savings Co-operatives Pte. Ltd. (hereinafter referred to as: the Savings Bank; *in Hungarian: Magyar Takarékszövetkezeti Bank Zrt.*) of the meeting of the Board of Directors, in advance, by sending invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The authorized representatives of the Integration Organization and the Savings Bank shall be entitled to attend the meetings of the Board of Directors with the right of consultation. A resolution on any matter not included in the agenda may only be adopted if all members are present at the meeting or the representative of either the Integration Organization or the Savings Bank is present as invited at the meeting, or if the members or other invitees not present in person at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The Board of Directors may not adopt a valid resolution if the above obligations are breached.

The minutes recorded at the meeting of the Board of Directors shall also be sent to the Integration Organization and the Savings Bank.

The aforementioned provisions shall be applicable *mutatis mutandis* in respect of resolutions adopted by means of telecommunication provided that a meeting must be held in case the Savings Bank and/or the Integration Organization so requests.

The Board of Directors shall be obliged to send its rules of procedure to the Savings Bank and the Integration Organization within 5 days of the adoption or amendment thereof. In the event the adopted rules of procedure are contrary to the regulations relevant to the rules of procedure set forth by the Savings Bank and the Integration

Organization or the Statutes of the Company, the Savings Bank and the Integration Organization shall be entitled to initiate the amendment thereof in which case the Company's Board of Directors shall amend its rules of procedure within 15 days of receipt of the respective initiative of the Savings Bank or the Integration Organization.

Competences of the Savings Bank and the Integration Organization in connection with the Company and thus the Board of Directors are regulated in Section 21 of the Statutes of the Company in detail.

3.2. Activities of the Supervisory Board in 2016

3.2.1 Summary of the Work of the Supervisory Board

In 2016 the Supervisory Board of the Company carried out its functions under pre-approved semi-annual action plans. The action plans included duties from the proprietary functions of the Supervisory Board as well as the review of inspections of the internal audit arm (hereinafter referred to as: "Internal Audit Department") of the Company. The Supervisory Board held a total of five meetings in 2016, four of which were three joint meetings with the Board of Directors, and the Supervisory Board passed resolutions off scheduled meetings in one case. All meetings and out-of-the meeting decision making procedures were duly held and the Supervisory Board had a quorum in all cases.

In addition to supervising the activities pursuant to the Civil Code and the Credit Institutions Act, the Supervisory Board continuously monitored the business and financial position of the Company, the most important topical issues that affected the operations, the meetings of the Board of Directors as well as the resolutions passed by the Board of Directors.

In addition to the functions above the Supervisory Board inspected, discussed and evaluated issues at its own initiative including but not limited to:

- Implementation of the recommendations written in the action plans of the 2016 internal audit reports,
- Evaluation of the receivables of the Company,
- Concept of the financial plan of the Company for the year 2016,
- Quarterly reports on the lending, market, liquidity and operational risks of the Company and the FHB Banking group, and
- the annual report on the activity of the Compliance Directorate.

In 2016 the Supervisory Board continued to follow up on the inspections by Supervision and other authorities as well as the elaboration and implementation of the action plan related to the findings of these inspections. None of the inspections found any irregularity or voiced any criticism on the operations of the Supervisory Board.

The Supervisory Board had detailed discussions on the findings of the Internal Audit Department in various issues as well. The inspections included comprehensive and regularity inspections, and complied with law. Accordingly the inspections among others included inspections of the activities of agents and activities outsourced by the Company, in particular concerning enforcing the contractual obligations, the implementation of review process defined by the EU regulation and directive on the management of lending risk, the management of operational risk, the capital requirement and liquidity compliance. Furthermore they included the regulatory reviews related to the activities of the FHB Banking group and the operation of bank units, the inspection of complaints, product constructions, and the inspections of issues related to the implementation of remuneration policy and IT security and compliance, and check the fulfilment of the Resolution of the NBH.

In compliance with the provisions of the Credit Institutions Act the Internal Audit Department continuously informed the Supervisory Board, the Board of Directors, the management of the Company and the senior officer in charge of the prudential operations of the Banking Group on its findings, as well as the implementation of the action plans prepared on the basis of the findings of the internal audits. The Department provided information on how the control functions worked, on what defects were disclosed that could affect operations and the ability of the Company to meet its objectives.

The Supervisory Board paid special attention to the availability of a comprehensive and effective audit mechanism. In 2016 the entire Banking Group supplemented and further developed the system of internal controls earlier approved by the Supervisory Board in compliance with the applicable laws, the Corporate Governance Recommendations and the recommendation of Supervision on the operations of internal safeguards.

The Internal Audit Department of the Company is in possession of own medium-term strategic objective until the end of 2021 which was approved by the Supervisory Board. The risk map and the audit universe which are the basis of the planning of the Internal Audit Department is annexed to such objective. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors (“IIA”) – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.

In 2016 the Supervisory Board discussed the proposal on the Overview and Review of the Remuneration Policy.

In connection with the amendment of the Credit Institutions Act the annual General Meeting of 2014 adopted a decision to establish the Audit Committee in compliance with the amendment in the Credit Institutions Act, and elected the members of the body. Considering that all members of the Supervisory Board met the requirements prescribed in case of the members of the Audit Committee, the General Meeting elected all members of the Supervisory Board also as members of the Audit Committee. Rules on the Audit Committee are included in the Statutes of the Company and the Rules of Procedure of the Supervisory Board. Thus the Supervisory Board carried out the duties of the Audit Committee in 2016 in carrying out its tasks.

3.2.2. Operations of the Supervisory Board

The agenda of the Supervisory Board meetings mostly included written reports and submissions. There existed no formal division of duties between Supervisory Board members. Due to their different professional competences and experiences individual members of the Supervisory Board held different aspects for the evaluation of particular inspections.

3.2.3. Cooperation of the Supervisory Board with other Bodies

The Supervisory Board fostered a continuous, objective and effective relationship with the Board of Directors, the management and the auditor of the Company in 2016. The Chairman of the Supervisory Board has a standing invitation to the meetings of the Board of Directors. This allowed him to express his views on behalf of the Supervisory Board.

The Chief Executive Officer and/or his Deputies attended every meeting and provided sufficient information to the members of the Supervisory Board by giving exhaustive answers to all the questions raised.

The Chairman of the Board of Directors and the Supervisory Board as well as the Chief Executive Officer held regular consultations and discussions in between the meetings, too.

The auditor of the Company had a standing invitation to the meetings of the Supervisory Board to enable him to assist the work of the Supervisory Board with his professional comments.

3.2.4. Changes to the operation of the Supervisory Board in connection with the accession to the Integration Organization

The Integration Organization and the Savings Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, sent simultaneously with sending the invitation to the members, but at least 5 (five) business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the Savings Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members are present at the meeting or the representative of either the Integration Organization or the Savings Bank is present as invited at the meeting, or if the members or other invitees not present in person

at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The authorized representatives of the Savings Bank and the Integration Organization shall be entitled to attend the Supervisory Board meetings with the right of consultation.

The aforementioned provisions shall be applicable mutatis mutandis in respect of resolutions by means of telecommunication provided that a meeting must be held in case the Savings Bank and/or the Integration Organization so requests.

The Supervisory Board shall send its rules of procedure within 5 days after the adoption or amendment thereof to the Savings Bank and the Integration Organization. Should the adopted rules of procedure be contrary to the regulations established by the Savings Bank or the Integration Organization relating to the rules of procedure, or the Statutes of the Company, the Savings Bank and the Integration Organization shall have the right to initiate their amendment, under which the Supervisory Board of the Company is obliged to amend its rules of procedure within 15 days as of receipt of such motion of the Savings Bank or the Integration Organization.

4. Internal Safeguards, and evaluation of the 2016 business

In 2016 the entire Banking Group supplemented and further developed its internal audit system, which was carried out in compliance with the applicable laws, the Corporate Governance Recommendations and the recommendation of the Supervision on the operations of internal safeguards. This internal audit system includes the internal corporate governance elements, risk management, compliance functions, the checks embedded in the process, the control by management and the independent internal audit function.

As part of the corporate governance efforts the management of the Company coordinates the activities of various control functions related to the departments, checks compliance with the principles, receives the reports of the control functions and in its decisions provides feedback to the findings and experiences of particular control functions.

4.1. Summary of Risk Management Guidelines

With a view to prudent operations and to limit risk exposure the Company wrote and published on its home page the risk management guidelines and methodology of FHB Banking Group.

The risk management guidelines are consistent in the entire FHB Banking Group and include the risk management concepts of the Company as controlling credit institution, the FHB Commercial Bank Ltd. and the subsidiary companies of FHB Banking Group that are under supervision on a consolidated basis. At the time of the accession of the Company and the FHB Bank Ltd. to the Integration Organization of Cooperative Credit Institutions, the Savings Bank extended the Integration's rules on risk management to both credit institutions. The FHB Banking group became subject to the consolidated supervision with the central bank of the Integration, the Savings Bank, from a prudential point of view. According to the decision of the Supervisory Authority, the Company and those enterprises subject to its consolidated supervision in the past that were managed on a consolidated level (Commercial Bank, FHB Leasing, Real Estate, FHB Invest, Diófa, DBF, and MPBSZ) had to comply with prudential requirements on a sub-consolidated basis as prescribed by the CRR¹, during the period to 31 December 2016.

The Board of Directors of the Company approved of the risk management principles of the FHB Banking Group. Its competence also includes the adoption of fundamental framework regulations and methodological principles defining the method of risk management. As a member of the Integration, the FHB Banking group follows the Integration's rules on risk management and regularly informs the management bodies of the Integration about the evolution of its risks.

¹ Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Through the report by the Board member responsible for prudent operations (the Company's Chief Executive Officer), as well as the regular risk reports, the Board of Directors evaluates the operations of the FHB Banking Group including the risk management activities and the risk exposure as well. In case the exposure of the FHB Banking Group is not compliant with the risk strategy, the Board of Directors will take action to reduce risk exposure.

Prudent exposure to risk is a basic value of the FHB Banking Group. Risk management primarily aims to protect the financial standing and goodwill of the FHB Banking Group and to contribute to the allocation of capital to profitable businesses that increase shareholder value. Protection of financial standing involves risk management to reduce the impact of unfavourable events to the capital and profits of the FHB Banking Group. The value of the Group depends on its goodwill. That is why the protection of goodwill is essential.

To meet its objectives risk management calculates and analyses constantly the risk exposure of the FHB Banking Group and of its stakeholders. The information this analysis produces will be processed, risk assumption rules will be created, and risk management systems are run. This information also identifies the amount of capital risk exposure necessitates.

From 1 July 2008, based on the authorization of Supervision, the FHB Banking Group calculates capital requirements for credit risk using the internal ratings based approach, while from 13 December 2011 capital requirements for operational risk is calculated by using the Advanced Measurement Method.

4.2. Risk Management Organization

The Company is in professional charge of overseeing the risk management of the FHB Banking Group, by considering the framework provided by the Integration. The management of all companies of the FHB Banking Group shall report to the risk management organization of the Company on their risk management practices and material changes that affect risk exposure may only be implemented after consultation.

The risk management organizations of the Company and FHB Commercial Bank Ltd. work separately from the operational units. They are overseen by the chief executive officer of the particular bank.

As a separate unit of the risk management functions, the department operates within the entire FHB Banking Group to develop creditor and partner evaluation systems, to calculate the efficiency of these evaluation systems and to regularly assess the risk profile of the portfolio. The risk control field of the Company is responsible for the identification of the calculated business (internal) capital requirements of the FHB Banking Group in general and the two credit institutions of the FHB Banking Group in particular.

4.3. Audits and Feedback

To minimize its risks the Company operates the elements of the internal safeguards in compliance with applicable laws and the recommendations of the regulator. In addition to running the risk management organization this effort includes:

- a) compliance with laws, those principles and requirements in other professional standards and practices which do not qualify to be regulations, recommendations, directives and resolutions by authorities and internal regulations (hereinafter: compliance rules), as well as the prevention and control of the breach and infringement thereof with the department of the Company that is responsible for compliance (hereinafter referred to as: "Compliance Directorate"), and
- b) running the internal audit system whose elements (embedded control by the management and independent internal auditing organization) cover the activities of the Company and all the organizational units of the entire FHB Banking Group which is integrated in the daily activities, possible to monitor and provides regular feedback to the appropriate levels of management and control.

ad a) as a separate unit, the Compliance Officer began its operation in 2008 at the Company. The compliance functions are fulfilled by a separate organization or person at each company in the Banking group, and the Compliance Directorate coordinates and controls the compliance of the members of the Banking group and the observation of compliance rules in the banking group under the direct control of the managing director responsible for prudent operation of FHB Banking Group. The function of the Compliance Directorate is regulated by internal rules (instructions) in accordance with the related recommendation of HFSA. The function of conformity control is exercised under a detailed annual function plan approved by the Compliance Directorate, the managing director responsible for prudent operation of FHB Banking and the Board of Directors.

The aim of its activity is to promote the prudent, responsible and effective operation of the organization(s) in conformity with the legal rules at banking group level, and through the above to promote the effective and smooth operation of the organization and the reservation of confidence of the organization, furthermore, the members of the FHB Banking Group are able to avoid the legal sanctions (supervisory and competition law sanctions, damages, etc.), significant financial losses and defamation.

In 2016 the fulfilment of compliance tasks has been effectuated by the involvement on banking group level of an average of 12 (twelve) employees (Director of Compliance Directorate and 11 (eleven) sub-employees) in 2016.

By applying a transaction analyser and filtering software put in operation in 2012, the Prevention of Money Laundry Department of the Compliance Directorate supports the operation of modern and effective money laundering prevention system, which brings into light and decreases the existing and possible future client risks and furthermore supports significantly the risk management and business procedures.

In accordance with the official circular No. 2/2011 of HFSA FHB designated and submitted to the HFSA the contact person being responsible for consumer protection issues by each member of the Banking Group. The tasks and functions prescribed by such circular are fulfilled by the staff of the Consumer Protection Department of the Compliance Directorate.

The employees at the Capital Market Compliance Department of the Compliance Directorate have a daily, operative type of connection with the front- and back-offices engaged in the provision of capital market services, support the compliance of the branch in legal and compliance issues emerging from their activity (without direct involvement in their respective activity) enabling the efficient decrease of compliance risks.

The Compliance Directorate informed the Board member responsible for prudent operation of FHB Banking Group on "as required" basis and within prescribed intervals in every three months, gave reports before the Executives Meeting of the Banking Group, furthermore to the Company and the Boards of Directors and the Supervisory Boards of each member in the banking group within intervals specified by the respective internal rules.

ad b) Checks embedded in the process and elements of the control by management are incorporated in the job descriptions and the rules of procedure. The principles of application are set out by internal orders on control systems and the organizational and operational rules. The principles of application were written to assist the Company in effective operations, in meeting its objectives, compliance with laws, and disclosure of risks as well as to provide adequate responses to such risks.

An independent internal audit organization is an integral part of the internal control mechanism. By the operation of the law, the Company, FHB Bank Zrt., FHB Lizing Zrt., Diófa Alapkezelő Zrt., Magyar Posta Befektetési Szolgáltató Zrt. and the Díjbeszedő Faktorház Zrt. now all run an independent internal auditing organization and function.

The independence of the Internal Audit organizations of the FHB Banking Group is guaranteed by the rule that under the applicable regulations the internal audit/auditor may not be in charge of any other duty and may not participate in the operations and the decisions of the bank as an executive. The annual audit plan

of the Internal Audit Department is approved of by the Supervisory Board. Additional duties may only be prescribed by the Supervisory Board and the head of the Internal Audit Department as well as the Chief Executive Officers and the managing director responsible for prudent operation of the Banking Group with the agreement of the Supervisory Board. The internal audit departments of the companies are controlled by the Supervisory Boards of the companies. The direct professional oversight and methodological guidance of the internal audit activity is carried out at a bank group level. The heads of the Internal Audit Departments of the companies report to the Supervisory Board.

The Internal Audit Departments/Auditor operating at the companies of the FHB Banking group shall inform the Supervisory Boards of FHB Banking Group's credit institutions and financial institutions as well as the management of the Company and the managing director responsible for the operations of the FHB Banking Group on the findings of the audits conducted pursuant to the provisions of the Credit Institutions Act. The Internal Audit of the Company shall report to the Supervisory Board on its activities and shall report on the work of the control functions, the defects identified. The Internal Audit Department shall continuously monitor and check whether measures were taken to counter the defects identified. This effort is regularly reported and notified to the Supervisory Board and the management of the Company.

The Internal Audit Department shall plan and implement its activities on the basis of risk assessment, analyse and audit the full scale of business procedures. The Internal Audit Department has its own internal audit strategy (long term control plan), internal audit rules and internal audit manual, risk and result assessment methodology, reporting and IT system regulations approved of by the Supervisory Board,. The Internal Audit Department has unlimited authority to access all information and documents required for the audits. The Internal Audit Department prepares its annual internal audit plan accordingly, which plan is approved of by the Supervisory Board. Regarding its scope of competence, it has unlimited access to all information and documents necessary for the inspections.

Through general and subject-matter examinations, and based on experiences of audits in the previous years, by acting upon marketing conditions, in 2016 the principal objective and duty of the Internal Audit Department was to promote the strategic objectives of the Company and the FHB Banking Group, orderly operation and the consolidation of control system, especially in the field of providing credit and regularity of the banking units, furthermore, to comply with the expectations and duties of the executive and inspection bodies of the Company. Furthermore, the principal task and objective for the FHB Banking group, was to reduce risks by reviewing the compliance with regulatory framework in practice, the regularity and enable the regulatory operation of the members of the Banking group. An additional objective was to establish and terminate the deficiencies in the checking within the process and management control with relation to the establishment of the FHB Banking Group, and the examinations may promote the substantive and efficient operation of the control systems, furthermore and additional objective was to receive feedback in order to manage the possibly occurring deficiencies and risks effectively in case of a new activity, work process or product in the framework of an investigation carried out within the shortest available time.

The Internal audit Department carried out 72 audits within the framework of its approved action plan for 2016. The audits included 44 process review audits, 16 regulatory audits, 3 control and management audits, 3 IT and security audits and 6 follow up audits. 7 special audits were ordered, including 2 extraordinary audits, which were also completed. Where defects were identified, with the agreement of the Supervisory Board and the approval of the senior officer responsible for prudent operations an action plan was formulated to remedy the exposed defects, if necessary. The duties in the action plan were carried out by the prescribed time and they were followed up by the Supervisory Board through the Internal Audit Department regularly. Besides, the Banking group Executive Meeting monitors the status of execution of the duties outlined in the Action Plans quarterly.

4.4. Activities of the Auditor

Also in the 2016 business year the Company employed Deloitte Auditing and Consulting Limited (registered office: 1068 Budapest, Dózsa György út 84/C.; corporate registration no: 01-09-071057; registration number at the Chamber of Hungarian Auditors: 000083; Registration number on financial institution qualification at

Supervision: T-000083/94, hereinafter referred to as: “Auditor”) to act as its auditor. The personally appointed auditor of the Auditor was Tamás Horváth (mother's name: Veronika Grósz; place and date of birth: Budapest, 08.03.1969; home address: 1028 Budapest, Bölény u. 16.; Registration number at the Chamber of Hungarian Auditors: 003449; institutional qualification registration number at the Supervision: E003449; hereinafter: „natural person auditor”).

In addition to the performance of the annual audit in 2016, the Deloitte Auditing and Consulting Limited also inspected the data of the issuance prospectuses concerning the issue of mortgage debentures of the Company.

The Auditor performed these assignments in conformity with the contracts, which was duly certified by the Company.

5. Disclosure Policy, Insider Trading Policy

5.1. Disclosure policy

In corporate governance the Board of Directors of the Company gives top priority to transparent operations since the disclosure policy of the Company will fundamentally affect the Company's perception. Disclosure that credibly reports on efficient operations will provide a strategic edge as it reinforces the trust of shareholders and stakeholders in the Company.

The Company shall satisfy all of its reporting and disclosure obligations in compliance with the laws in the format and by the time prescribed. In addition to the statutory reporting obligation the Company and its employees shall also prevent anybody from even suspecting any information abuse. The organized disclosure of information to all shareholders shall make sure that everybody receives the same information at the same time. The management shall make sure that the disclosure policy of the Company complies with the principles identified by the Board of Directors.

The Company makes sure that the information disclosed is truthful, unambiguous and easy to understand. Confidential business information shall be adequately protected. Proper management of confidential information and the adequate and accurate timing of the disclosure should prevent unauthorized access to information and exclude any information abuse. Market players, investors and shareholders shall all be informed about the events affecting the Company in a regulated and public procedure at the same time.

The disclosure policy of the Company gives priority attention to:

- Key objectives of the Company;
- Company policy on key activities, business ethics, partners, competitors and other affected parties;
- Profitability of the Company's business activities;
- Risk factors affecting the operations and the business of the Company as well as the risk management principles of the Company;
- Amount of its regulatory capital, capital requirement;
- Remuneration policy;
- Professional careers of the Company's senior officers and the management as well as the principles of their remuneration;
- Corporate governance practice and structure;
- Ownership structure.

The Company continuously discloses on its homepage the disclosure principles as approved of by the Board of Directors of information that relate to the Company. The efficiency of publication processes is examined by the Internal Audit Department.

5.2. Insider Trading Policy

According to the Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse (market abuse regulation) (hereinafter shall be referred to as “MAR”), persons discharging managerial

responsibilities, as well as persons closely associated with them at the Company (as an issuer), shall notify the Company and the Central Bank of Hungary (MNB), of every transaction conducted on their own account relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto, promptly and no later than three business days after the date of the transaction (Article 19 (1) of MAR). Article 19 (7) and the related Implementing Regulation specify the type of transactions subject to obligation of notification. This obligation of notification shall apply to any subsequent transaction once a total amount of EUR 5,000 has been reached within a calendar year. The threshold of EUR 5,000 shall be calculated by adding without netting all aforementioned transactions (Article 19 (8) of MAR).

According to Article 19 (5) of MAR the Company shall draw up a list of all persons discharging managerial responsibilities and persons closely associated with them.

A person discharging managerial responsibilities within the Company shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report.

6. Exercising Shareholder Rights and the General Meeting

6.1. Exercising Shareholder Rights

Shareholders are entitled to exercise their shareholders' rights in possession of the share and the holder's certificate defined in the provisions of legal rules applicable to securities. A holder's certificate is not required for exercising the shareholders' rights in cases where eligibility is established through the shareholder's verification under the Capital Markets Act and in compliance with the provisions of the Statutes. In addition to the foregoing, entry in the register of shareholders is also required to exercise the rights of shareholders in connection with the General Meeting.

Shareholder's rights may be exercised personally or by proxy (through a representative) or through a shareholder nominee under the Capital Markets Act. According to the provision of the Statutes a member of the Board of Directors and of the Supervisory Board and the Company's senior employee may only proceed as representative, if such person as proxy has obvious and written voting instruction in each and every proposal given by the principal. The Auditor of the Company and the property inspector of the Company may not proceed as representatives. The shareholder may appoint a proxy to represent him at the General Meeting by returning the form included in Annex 1 or Annex 2 to the Statutes and supplied by the Company electronically or by mail. The form shall be returned as a private deed with full probative effect not later than by the end of the working day preceding the day of the General Meeting.

Shareholders shall have a right to a share of the after-tax profits of the Company in proportion to the nominal value of their shares (dividend), pursuant to the laws on accounting, and ordered to be distributed by the General Meeting. Shareholders who are registered in the Company's Register of shareholders on the balance sheet day determined by the General Meeting for dividend payment are entitled to receive dividend. At least 20 business days shall lapse between the date when the resolution on the initial date of dividend payment is passed and the initial date of dividend payment itself.

In case the Company ceases without a legal successor, shareholders are entitled to the assets that shall be divided at the end of the voluntary dissolution pro rata with their shares.

Shareholders are entitled to attend the general meeting, request information and make observations. The Board of Directors may refuse to provide information if such disclosure would breach any bank or business confidential information of the Company. Shareholders are entitled to make proposals and to exercise the rights provided by their shares.

Shareholders shall be entitled to all the minority rights provided for by the Civil Code.

6.2. Summary of General Meeting Rules

The General Meeting is the supreme organ of the Company. The General Meeting shall be convoked by the Board of Directors by means of an announcement published in the media identified by the Statutes at least 30 days prior to the initial date of the General Meeting. Shareholders who indicate in writing their preference to that effect shall also be sent electronic notification of the convocation of the General Meeting in addition to the general media of notification.

The Company shall disclose the material data of the financial statements prepared under the Accounting Act and of the reports of the Board of Directors and the Supervisory Board, as well as the abstracts of proposals to the agenda items and the draft resolutions on the notification media at least twenty-one days prior to the General Meeting.

If the General Meeting has been called in violation of the applicable rules, it may not adopt resolutions unless all shareholders entitled to vote are in attendance and only if none of the shareholders objects to holding the General Meeting.

The General Meeting has a quorum if more than half of the voting shares are in attendance. If the General Meeting has no quorum, the second General Meeting, convoked on a date within ten to twenty-one days from the original date thereof shall have quorum regarding the issues included on the original agenda, irrespective of the number of shares in attendance.

The Chairman may suspend the General Meeting not more than once. In such a case the General Meeting shall resume within thirty days. In such instances the rules for the convocation of the General Meeting and the election of officers shall not apply.

12.1 Each Series "A" ordinary share of a nominal value of HUF 100 (say one hundred forints) shall give right to one vote and each Series "C" ordinary share of a nominal value of HUF 1000 (say one thousand forints) shall give right to ten votes² at the General Meeting. The Company conducts an identification procedure in connection with the General meeting as specified in the Capital Markets Act, the Stock Exchange Rules and in the Rules of KELER Zrt., and the date of the identification procedure may only fall within the period between the 7th and 3rd stock exchange days preceding the General Meeting. A shareholder may only exercise his membership rights at the General Meeting if he owns the share on the date of the identification procedure, and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.

Closure of the register of shareholders shall not limit the right of the holder entered therein to transfer shares after such closure. Nor does the transfer of shares before the day of opening of the General Meeting exclude the right of the holder on the register to participate in the General Meeting and exercise his shareholder rights.

In the issues specified in Article 12.6, the General Meeting shall pass a resolution with at least a three-quarters majority of the votes cast (qualified majority, 75% + 1 vote). In any other issues a simple majority (50% + 1 vote) of the votes cast is sufficient to adopt a resolution. Abstention shall qualify as „no" vote.

The detailed rules on the operations of the General Meeting are identified by Articles 11-13 of the Statutes.

² Holder of the Series "B" dividend preference shares shall not have right to vote, thus he shall not be entitled to vote on the General Meeting. Where the Company does not pay dividends in any financial year, the voting rights of the holders of dividend preference shares shall be equal to the voting rights related to Series "A" ordinary shares, which right may freely be exercised until the annual account for the following financial year is adopted.

7. Remuneration Statement

7.1. Remuneration Principles for the year 2016

As of 1 January 2015 according to Section 117 (5) of the Credit Institutions Act “the management body in its supervisory function shall adopt and periodically review the general principles of the remuneration policy and the management body in its managerial function shall be responsible for overseeing its implementation, and the implementation of the remuneration policy is, at least annually, subject to review by the credit institution’s department of internal control”.

The modification of the Remuneration Principles has been adopted by the General Meeting on 28 April 2016. This updated the principles to the remuneration policy laid down in the Financial Incentive System of FHB Banking group. This policy was replaced by the “Directly applicable Rules on Remuneration Policy No. 5/2015” that entered into force on 1 January 2016. These rules shall apply to the Cooperative Credit Institutions, the Savings Bank and the subsidiary companies of FHB Banking Group that are under supervision on a consolidated basis.

Background:

With reference to the recommendations laid down in the BSE Corporate Governance Recommendations based on Commission Recommendation 2004/913/EC, the General Meeting of FHB Mortgage Bank Plc. establishes a set of guidelines of remuneration (hereinafter: “Guidelines”) for the purposes of evaluating the performance of and remunerating the members of the managing, governing and controlling bodies of the Company. These Guidelines were adopted by Resolution No. 7/2011 (20.04) of the General Meeting held on 20 April 2011, and then were amended by Resolution No. 6/2013 (24.04) of the General Meeting held on 24 April 2013. The adopted Guidelines included the relevant provisions of Act CXII of 1996 on Credit Institutions and Financial Enterprises (“old Credit Institutions Act”), the Government Decree No. 131/2011. (VII.18.) on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities, and legal form of credit institutions and investment enterprises, furthermore the Recommendation No. 3/2011 (VIII. 4.) of the Chairman of the Hungarian Financial Supervisory Authority on the application of the remuneration policy. The current amendment considered the relevant provisions of Act CCCXXXVII of 2013 on Credit Institutions and Financial Enterprises (“Credit Institutions Act”).

The essence of the principles to the remuneration policy can be summarized as follows:

A) Permanent (fixed) remuneration components at the Company:

- with respect to employees: basic salary and benefits (regulated by a Banking group Instruction);
- with respect to officials: emolument.

Determination of the remuneration of the Chairman and the members of the Board of Directors and the Supervisory Board of the Company falls to the exclusive scope of competence of the General Meeting. The amount of the remuneration is fixed, it is payable monthly. The remuneration of these executives is determined in line with their liability; it should not cause too much economic burden for the Company, it should be in line with the work of the executives, the economic results of the Company from the previous year, the number of employees, furthermore it should also be in line with his/her social prestige, his/her position and role in the economic sector. Based on the specific decision of the Board of Directors, the Company may grant the use of a car owned by Banking group and a business card to particular members of the Board of Directors of the Company, for carrying out a special duty, in compliance with the all-time valid internal regulations and tax regulations.

B) Variable, i.e. performance based components of remuneration for the Banking Group:

1. For key personnel:

According to Articles 117 to 121 of Act No. CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (“Credit Institutions Act”), to Government Decree No. 131/2011 (VII. 18) on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities,

and legal form of credit institutions and investment enterprises, and to the recommendation of the Supervision on the application of the Remuneration policy, the rules of performance based remuneration for the key executives of FHB Mortgage Bank Co. Plc. and of the group under its control are established. According to the above, the executives the activities of whom have material impact on the control and risk profiles of financial institutions and executives performing control functions shall be provided with performance based remuneration in the following proportions:

- at least 50% of remuneration shall be issued in shares and
- at least 40% of remuneration shall be paid or provided as deferred remuneration.

Possible components of performance based remuneration:

- stock option remuneration (*In course of the valuation of performance based elements of the remuneration purpose of the Programme shall be to consider the long term performance, ensure effective risk management, furthermore develop and maintain a remuneration practice in harmonization with the performance of the Company, and comply with Articles 117-120 of the Credit Institutions Act. The General Meeting has the sole authority to approve the Programme, including the determination of its scope, the persons covered and any related conditions. The General Meeting may authorize the Board of Directors and/or the Supervisory Board of FHB Mortgage Bank Co. Plc to develop the detailed terms of the Programme and the related performance evaluation system*),
- the basis shall be premium, but could also be other performance remuneration in cash.
- premium may also be granted to key personnel. The premium criteria shall be specified on a discretionary basis by the employer; the employer shall not be obliged to set premiums. If the employer decides to set a premium, the following shall apply.

Special scope of personnel is as follows:

Category I: Senior executives; members of the Board of Directors and the Supervisory Board, managing director according to the Credit Institutions Act.; Chief Executive Officer and deputy Chief Executive Officer, and employer's director, and any other person under his direct supervision and authorized to act as the director's deputy according to Section 208 subsection (1) of the Labor Code of Hungary.

Category II: Chief Executives with risk managing and risk analysing and risk control, internal audit and compliance functions are the chief executives of the heads of
 II.1. Risk management and risk analysis, furthermore risk control
 II.2. Internal audit
 II.3. Compliance departments.

Category III: Employees within the same remuneration category as the aforementioned categories, whose activities has a significant effect on risk taking.

- III.1. Chief executives of the major business (representing a rate not less than 2% in respect of the allocation of capital)
- III.2. Employee with manager's responsibility with obligation to report to persons in Category II or III.1

2. For other scope of personnel:

Components of performance based remuneration:

- bonus (productivity bonus),
- stock option remuneration
- reward
- commission.

3. General incentives for all employees:

- posterior reward, which may not be related to the measured performance of the given person or organizational unit (e.g. 13th month's salary, reward from the chairperson, reward for anniversary, exceptional length-of-service award, reward related to an award).

7.2. Remuneration Statement for the year 2016

1/ *Members of the Management*

Entry into force

Remuneration Policy No. 5/2015 has been effective since 1 January 2016. Except for Section 4.2.1 on the repayment of premium and Section 8.4 on the Rules of the responsibilities of the Remuneration Board that entered into force on 1 June 2016.

The Rules were adopted by Resolution No. FB-W-9/2016 of the Supervisory Board of the Savings Bank and then it was issued as directly applicable rules by Resolution No. IG-9.2/2016 of the Board of Directors of the Savings Bank. At the same time the Board of Directors of the Savings Bank ordered the companies subject to the consolidated supervision of the Savings Bank, to issue the rules – except for Annexes marked with “KM” – as their own rules in an unaltered form.

2/ *Officers*

In 2014, the members of the Board of Directors and Supervisory Board of FHB Mortgage Bank Plc. received a remuneration established by the Company's Annual General Meeting in 2010, of which extent was not changed from 2007. Members of the Boards of Directors and Supervisory Boards of member companies of the Banking Group, save for those who are not in employment relation at any company of FHB Banking Group, in 2011 did not receive any remuneration. The remuneration of other officers was 50% of the remuneration of the officers of the Company.

3/ *Share Option Remuneration*

In 2016 the General Meeting of the Company, by adopting its Resolution No. 8/2016 (28.04), set a Share Option Programme for 1 year:

Eligible persons and the number of shares/options available for grant purposes:

- The value of the maximum entitlement of each of the Chairman of the Board of Directors, the executive members of the Board of Directors, the Chief Executive Officer and the Deputy Chief Executive Officers of the Company is a package of shares with total face value at HUF 3,000,000 (or maximum 30,000 shares/person),
- The value of the maximum entitlement of each non-executive member of the Board of Directors of the Company is a package of shares with total face value at HUF 1,500,000 (or maximum 15,000 shares/person),
- The entitlement can be – or in case of an obligatory legal rule shall be - extended to the senior managers of the FHB Banking Group (maximum 50); the value of the maximum entitlement of such managers is a package of shares with total face value at HUF 1,500,000 based on individual performance evaluation.

(The number of shares/options to be used for Programme purposes may not be higher than 450,000.)

The Annual General Meeting has laid down that the conditions of share remuneration for the business year 2016 approved by the General Meeting have not been fulfilled. Consequently, persons affected by the Programme were not entitled to receive share remuneration after 2016 business year's performance.

Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations

FHB Mortgage Bank Co. Plc (registered office: Hungary-1082 Budapest, Üllői út 48.; registration number: 01-10-043638; hereinafter referred to as: „Company”) as part of the Corporate Governance Report, by completing the following tables, declares to what extent it applied in its own practice of corporate governance the recommendations and suggestions formulated in the different points of the Corporate Governance Recommendations (”CGR”) published by the Budapest Stock Exchange Ltd.

Level of compliance with the Recommendations

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

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

Yes (Complies) No (Please explain)

R 1.1.2 The Company applies the "one share - one vote" principle.

Yes (Complies) **No** (The Company issued Series “B” dividend preference shares, which, as a general rule, have no voting right)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) **No** (The proposals included the suggestions of the Supervisory Board each time. A detailed explanation of the effects of the decision is given by the Board of Directors by answering the concrete questions asked during the General Meeting.)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 1.3.9. Written comments made on the items on the agenda were published two working days prior to the general meeting.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.1.1 The responsibilities of the Managing Body include those laid out in 2.1.1.

Yes (Complies) No (Please explain)

R 2.3.1 The Managing Body held meetings regularly, at times designated in advance.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.5.4 At regular intervals (in connection with the CG Report) the Board of Directors/Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes (Complies) No

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

Yes (Complies) **No** (The Company has not disclosed a single document on the independence of the members of the Board of Directors and the Supervisory Board, but the rules of procedures of both the Board of Directors and the Supervisory Board includes the conflict-of-interest and the independence criteria in connection to its members. Both rules of procedures are disclosed on the website of the Company.)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) **No** (The Supervisory Board was informed on the transactions which fell outside the normal course of the business according to 2.6.2. The transparency of these transactions is ensured by Credit Institutions Act and internal rules based on Credit Institutions Act.)

R 2.6.3 Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes (Complies) No

R 2.6.4 The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitored compliance with those guidelines.

Yes (Complies) **No** (The respective internal rules shall be adopted by the Chief Executive Officer)

The Managing Body established its guidelines regarding insiders' trading in securities and monitored compliance with those guidelines.

Yes (Complies) **No** (The respective internal rules shall be adopted by the Chief Executive Officer)

R 2.7.1 The Managing Body formulated remuneration guidelines regarding the evaluation and remuneration of the work of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.7.2. The Managing Body prepared an evaluation of the work it carried out in the given business year.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.7.3 It is the responsibility of the Managing Body to monitor the performance of and determine the remuneration for the executive management.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.8.1 The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes (Complies) No (Please explain)

The Managing Body requests information on the efficiency of risk management procedures at regular intervals.

Yes (Complies) No (Please explain)

The Managing Body took the necessary steps to identify the major risk areas.

Yes (Complies) No (Please explain)

R 2.8.3 The Managing Body formulated the principles regarding the system of internal controls.

Yes (Complies) **No** (From the internal controls the strategy and principles of risk management were approved by the Board of Directors, while the principles regarding the independent internal audit and the rules on the internal audit were approved by the Board of Directors and also the Supervisory Board.)

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

Yes (Complies) No (Please explain)

R 2.8.4 When developing the system of internal controls, the Managing Body took into consideration the viewpoints included in 2.8.4.

Yes (Complies) **No** (Developing the system of internal controls is shared between the Board of Directors, the Supervisory Board and the management upon the authorization granted by these two boards. These duties were carried out by the boards and the management in their own scope of competence according to the viewpoints included in 2.8.4.)

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

Yes (Complies) **No** (It is partially true in respect for the Company, since developing and maintaining risk management – including credit risks, operational risks, market risks etc. – and the compliance function belongs to the competence of the management, while developing and maintaining the system of independent internal controls belongs to the competence of the Supervisory Board in accordance with the Credit Institutions Act.)

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

Yes (Complies) No (The Internal Audit is obliged to report to the Supervisory Board. In 2016, the members of the Audit Committee and the Supervisory Board were the same at the Company. The independent internal audit function reports to the Supervisory Board.)

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

Yes (Complies) **No** (No organization named “internal audit group” operates at the Company. The independent internal audit department regularly reports on the operation of risk management, internal control mechanisms and corporate governance to the Supervisory Board.)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 2.8.8 The Internal Audit schedule was approved by the Managing Body (Supervisory Board) based on the recommendation of the Audit Committee.

Yes (Complies) **No** (The annual internal audit schedule is approved by the Supervisory Board at the Company, based on the proposal of the independent internal audit department – however the members of the Supervisory Board are also the members of the Audit Committee.)

R 2.8.9 The Managing Body prepared its report for shareholders on the operation of internal controls.

Yes (Complies) No (Please explain)

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

Yes (Complies) **No** (The Board of Directors shall keep the risk management, risk controls and the operation of conformity function from the internal controls under its review and these departments shall report to the Board of Directors with periodicity determined by legal rules and supervisory resolutions/recommendations. The operation of independent internal audit department is reviewed by the management and the Supervisory Board, in accordance with the Credit Institutions Act. The Board of Directors receives the internal audit reports during the year and then presents the operation of the internal controls in every year in the Corporate Governance Declaration.)

R 2.8.11 The Managing Body identified the most important deficiencies or flow in the system of internal controls, and reviewed and re-evaluated the relevant activities.

Yes (Complies) **No** (The Board of Directors did not lay down any relevant deficiencies in respect of the system of internal controls in 2016.)

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

Yes (Complies) **No** (The auditor of the Company was not given any assignment in 2016, that may have resulted in significant additional expense, caused a conflict of interest, or affected normal business practices significantly in any other way.)

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

Yes (Complies) **No** (The auditor of the Company was not given any assignment in 2016, that may have significant influence to the operation of the Company.)

The Managing Body pre-determined in a resolution what circumstances constitute "significant influence".

Yes (Complies) **No** (The Board of Directors considers the events listed in the relevant legal regulation, i.e. in Annex 4 of Decree No. 24/2008 (08.15.) of the Ministry of Finance as events that – based on the individual inspection of the events – may have significant influence to the Operation of the Company.)

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

Yes (Complies) **No** (In 2016, committees did not operate in the Company separately, the Board of Directors and the Supervisory Board (according to the Credit Institutions Act.) accomplished these functions. At the same time, the duties of the Audit Committee, established and elected at the annual General Meeting of 2014, are included in the published Statutes of the Company in detail); the name, CV and the date of election of the members of the Audit Committee – considering that they are also the members of the Supervisory Board – are publicly available on the Company website.)

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

Yes (Complies) **No** (In 2016, committees did not operate in the Company separately; the Board of Directors and the Supervisory Board (according to the Credit Institutions Act.) accomplished these functions.)

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

Yes (Complies) **No** (In 2016, committees did not operate in the Company separately, the Board of Directors and the Supervisory Board (according to the Credit Institutions Act.) accomplished these functions.)

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

Yes (Complies) No

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

Yes (Complies) **No** (The Supervisory Board, including the same members as the Audit Committee at the Company, received accurate and detailed information on the work programme of the internal auditor, and received the auditor's report on problems discovered during the audit.)

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

Yes (Complies) **No** (The Supervisory Board, including the same members as the Audit Committee at the Company, requested the new candidate for the position of auditor for the submission of the disclosure statement declaration according to 3.2.4.)

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

Yes (Complies) **No** (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors.)

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

Yes (Complies) **No** (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors. The Board of Directors ensured the preparation of personnel changes.)

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

Yes (Complies) **No** (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors. The election and appointment of members of the management is in the competence of the Board of Directors that performs this task according to the relevant provisions of the Credit Institutions Act. and the recommendation No. 4/2007. (10.31.) of HFSA.)

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

Yes (Complies) **No** (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors. The Board of Directors evaluated the activity of Board and executive management members each year, and acted in that way also in 2016.)

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

Yes (Complies) **No** (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors.)

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

Yes (Complies) **No** (According to of the provisions of the Credit Institutions Act, the Company is not required to establish a remuneration committee. In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.)

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

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) The Board of Directors made a proposal for the General Meeting on the remuneration for the boards, furthermore, established and approved the system of remuneration of the management)

R 3.4.3 The remuneration of the executive management was approved by the Managing Body based on the recommendation of the Remuneration Committee.

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) The remuneration of the executive management was established by the Board of Directors based on the Remuneration Guidelines determined by the general meeting.)

The remuneration of the Managing Body was approved by the general meeting based on the recommendation of the Remuneration Committee.

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) The remuneration of the members of the Board of Directors was established by the General Meeting based on the recommendation of the Board of Directors.)

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

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) Next year, the Supervisory Board evaluated the fulfilment of the Share Compensation Programme implemented at the Company for the year 2016 and informs (informed) the General Meeting thereon.)

R 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.)

R 3.4.4.1. The Remuneration Committee made proposals on the remuneration of individual persons.

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) Based on the remuneration guidelines amended in 2014 – in accordance with the applicable rules of Credit Institution Act the implementation of the Remuneration Policy of the Integration were approved by the Board of Directors and acknowledged by the Supervisory Board, based on a proposal of the management.)

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

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) The Board of Directors - as the body exercising the employer's rights over the members of the management, via the Chairman of the Board of Directors - reviewed the terms and conditions of contracts concluded with the members of the executive management.)

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

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.) The Board of Directors controlled through the management whether the Company published the Remuneration Guidelines on its website in 2016.)

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

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors. The majority of the members of the Board of Directors are independent.

R 3.5.1 The Managing Body disclosed its reasons for combining the Remuneration and Nomination Committees.

Yes (Complies) **No** (In 2016, there was no separated Remuneration Committee or Nomination Committee operating at the Company, their duties were carried out by the Board of Directors.)

R 3.5.2 The Managing Body carried out the duties of the Remuneration and Nomination Committee and disclosed its reasons for doing so.

Yes (Complies) **No** (In 2016 the duties of the Nomination Committee were accomplished by the Board of Directors. Information on the reasons thereof will be provided at the General Meeting in case of questions of the shareholders in this respect.)

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

Yes (Complies) **No** (In 2016 the duties of the Remuneration Committee were accomplished by the Board of Directors. According to Section 117 to 121 of the Credit Institutions Act, the Company is not required to establish a remuneration committee.)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) **No**

R 4.1.3 The Company's disclosure guidelines include the procedures governing electronic, online disclosure.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

R 4.1.4 The Managing Body assessed the efficiency of disclosure processes.

Yes (Complies) **No** (The Board of Directors has set up the principles of disclosure processes and monitors compliance through the management.)

R 4.1.5 The Company published its corporate events calendar on its website.

Yes (Complies) No (Please explain)

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

Yes (Complies) **No** (The Company informs the shareholders on its business plan based on the annual general meeting by oral presentation)

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

Yes (Complies) No

R 4.1.9 In the annual report and on the website the company discloses information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes (Complies) No (Please explain)

R 4.1.10 The Company provided information on the internal organization and operation of the Managing Body and the Supervisory Board.

Yes (Complies) No

R 4.1.10.1 The Company provided information on the criteria taken into consideration for the evaluation of the work of the Managing Body / Board of Directors, the management, and each member.

Yes (Complies) **No** (The Company provides information on the evaluation criteria on request of the shareholders at its Annual General Meeting.)

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

Yes (Complies) No (Please explain)

R 4.1.12 The Managing Body disclosed its risk management guidelines, including the system of internal controls, the applied risk management principles and basic rules, as well as information about major risks.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) **No** (In 2016, such situation did not occur.)

Level of compliance with the Suggestions

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

S 1.1.3 The Company has an investor relations department.

Yes / No

S 1.2.1 The company published on its website the summary document regarding the conducting of the general meeting and the exercise of shareholders' rights to vote (including voting via proxy)

Yes / No

S 1.2.2 The Company's articles of association are available on the company's website.

Yes / No

S 1.2.3 The Company disclosed on its website information according to 1.2.3 (on the record date of corporate events).

Yes / No

S 1.2.4 Information and documents according to 1.2.4 regarding general meetings (invitations, proposals, draft resolutions, resolutions, and minutes) were published on the company's website.

Yes / No

S 1.2.5 The general meeting of the Company was held in a way that ensured the greatest possible shareholder participation.

Yes / No

S 1.2.6 Additions to the agenda were published within 5 days of receipt, in the same manner as the publication of the original invitation for the general meeting.

Yes / No

S 1.2.7 The voting procedure applied by the Company ensured unambiguous, clear and fast decision-making by shareholders.

Yes / No

S 1.2.11 At the shareholders' request, the company also provided information on the general meeting electronically.

Yes / No (In 2016, no shareholder requested the electronic transmission of the information relating to the General Meeting.)

S 1.3.1 The identity of the chairman of the general meeting was approved by the company's general meeting prior to the discussion of the items on the agenda.

Yes / No

S 1.3.2 The Managing Body and the Supervisory Board were represented at the general meeting.

Yes / No

S 1.3.3 The Company's articles of association render possible that at the initiation of the chairman of the Managing Body or the shareholders of the company, a third party be invited to the company's general meeting and be granted the right of participation in the discussion of the relevant items on the agenda.

Yes / **No**

S 1.3.4 The Company did not prevent shareholders attending the general meeting from exercising their rights to request information, make comments and proposals, and did not set any pre-requisites to do so.

Yes (i.e. the Company did not prevent exercising shareholder's voting rights) / No

S 1.3.5 The Company published on its website within three days its answers to those questions which it was unable to answer satisfactorily at the general meeting. Where the company declined to give an answer it published its reasons for doing so.

Yes / **No** (Every questions of the shareholders were replied in the Annual General Meeting of 2016.)

S 1.3.6 The chairman of the general meeting and the company ensured that in answering the questions raised at the general meeting, national laws and regulations of the Stock Exchange pertaining to disclosure were complied with.

Yes / No

S 1.3.7 The Company published a press release and held a press conference on the decisions passed at the general meeting.

Yes / No

S 1.3.11 The Company's general meeting decided on the different amendments of the articles of association in separate resolutions.

Yes / No

S 1.3.12 The minutes of the general meeting containing the resolutions, the presentation of draft resolutions, as well as the most important questions and answers regarding the draft resolutions were published by the company within 30 days of the general meeting.

Yes / No

S 1.4.1 The dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.

Yes / **No** (In 2016, the Company did not pay dividend for the shareholders.)

S 1.4.2 The Company disclosed its policy regarding anti-takeover devices.

Yes / **No**

S 2.1.2 The rules of procedure define the composition of the Managing Body and all procedures and protocols for the preparation and holding of meetings, the drafting of resolutions and other related matters.

Yes / No

S 2.2.1 The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation and duties, as well as procedures and processes which the Supervisory Board followed.

Yes / No

S 2.3.2 Board members had access to the proposals of a given meeting at least five days prior to the board meeting.

Yes / **No** (Board members, in compliance with the existing Rules, receive the proposals of a given meeting three days prior to the board meeting.)

S 2.3.3 The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.

Yes / No

S 2.4.1 The election of the members of the Managing Body took place in a transparent way, information on candidates was made public at least five days prior to the general meeting.

Yes / No

S 2.4.2 The composition of boards and the number of members complies with the principles specified in 2.4.2

Yes / No

S 2.4.3 Newly elected, non-executive board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members through a tailored induction programme.

Yes / No (Recently elected members of the various bodies of the Company may learn about these requirements immediately when working in a given body.

S 2.5.2 The separation of the responsibilities of the Chairman of the Managing Body from those of the Chief Executive Officer has been outlined in the basic documents of the company.

Yes / No

S 2.5.3 The Company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the executive management's work where the functions of Chairman and CEO are combined.

Yes / **No**

S 2.5.6 The Company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the three years prior to his nomination.

Yes / No

S 2.7.5 The development of the remuneration system of the Managing Body, the Supervisory Board and the executive management serves the strategic interests of the company and thereby those of the shareholders.

Yes / No

S 2.7.6 In the case of members of the Supervisory Board, the company applies a fixed amount of remuneration and does not apply a remuneration component related to the share price.

Yes / No

S 2.8.2 The Managing Body developed its risk management policy and regulations with the cooperation of those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company's daily operations.

Yes / No

S 2.8.10 When evaluating the system of internal controls, the Managing Body took into consideration the aspects mentioned in 2.8.10

Yes / No (It belongs to the competence of the Supervisory Board.)

S 2.8.12 The Company's auditor assessed and evaluated the company's risk management systems and the risk management activity of the executive management, and submitted its report on the matter to the Audit Committee.

Yes / No (however the auditor is invited to all meetings of the Board of Directors, this way it has the possibility to assess and evaluate the Company's risk management systems and the risk management activity of the executive management. In addition, the auditor, within the framework of his/her audit, verifies the accuracy of the published information and the content of data and their values, which concerns the risk management, capital adequacy and remuneration.)

S 2.9.1 The rules of procedure of the Managing Body/ Board of Directors cover the procedure to be followed when employing an external advisor.

Yes / No

S 2.9.1.1 The rules of procedure of the Supervisory Board cover the procedure to be followed when employing an external advisor.

Yes / No

S 2.9.1.2 The rules of procedure of the Audit Committee cover the procedure to be followed when employing an external advisor.

Yes / No (The Audit Committee, including the same members as the Supervisory Board, adopts a decision in this matter individually, if required.)

S 2.9.1.3 The rules of the Nomination Committee cover the procedure to be followed when employing an external advisor.

Yes / No (In 2016, there was no separated Nomination Committee operating at the Company, its duties were accomplished by the Board of Directors.)

S 2.9.1.3 The rules of the Remuneration Committee cover the procedure to be followed when employing an external advisor.

Yes / No (A remuneration committee does not operate at the Company, its tasks are carried out by the Managing Body.)

S 2.9.4 The Managing Body may invite the company's auditor to participate in those meetings where it debates general meeting agenda items.

Yes / No

S 2.9.5 The Company's Internal Audit function co-operated with the auditor in order to help it successfully carry out the audit.

Yes / **No** (It is not allowed by law.)

S 3.1.2 The chairmen of the Audit Committee regularly informs the Managing Body/Board of Directors about the meetings of the committee, and the committees prepared at least one report for the Managing Body and the Supervisory Board in the given business year.

Yes / **No** (Audit committee did not operate at the Company in 2014 until the annual General Meeting, then the audit committee included the same members as the Supervisory Board.)

S 3.1.2.1 The chairmen of the Nomination Committee regularly inform the Managing Body/Board of Directors about the meetings of the committee, and the committees prepared at least one report for the Managing Body and the Supervisory Board in the given business year.

Yes / **No** (A nomination committee does not operate at the Company, its tasks are carried out by the Managing Body.)

S 3.1.2.2 The chairmen of the Remuneration Committee regularly inform the Managing Body/Board of Directors about the meetings of the committee, and the committees prepared at least one report for the Managing Body and the Supervisory Board in the given business year.

Yes / **No** (A remuneration committee does not operate at the Company, its tasks are carried out by the Managing Body.)

S 3.1.4 The company's committees are made up of members who have the capabilities, professional expertise and experience required to perform their duties.

Yes / **No** (Independent committees do not operate at the Company. The members of the Board of Directors and Supervisory Board have appropriate skills, competence and experience necessary for carrying out their duties.)

S 3.1.5 The rules of procedure of committees operating at the company include those aspects detailed in 3.1.5

Yes / **No** (In 2016, committees did not operate in the Company separately, the Board of Directors and the Supervisory Board (according to the Credit Institutions Act.) accomplished these functions.)

S 3.2.2 The members of the Audit Committee/Supervisory Board were fully informed about the accounting, financial and operational peculiarities of the company.

Yes / **No** (In case of the request of the Supervisory Board, including the same members as the Audit Committee, the Company gives any related information for the members.)

S 3.3.3 The Nomination Committee prepared at least one evaluation for the chairman of the Managing Body on the operation of the Managing Body and the work and suitability of the members of the Managing Body.

Yes / **No** (Independent committees do not operate at the Company. The Board of Directors evaluated its own activity, and the chairman of the board had appropriate information about the members' activity arisen from their membership.)

S 3.3.4 The majority of the members of the Nomination Committee are independent.

Yes / **No** (In 2016, no committee operated in the Company separately, the Board of Directors and the Supervisory Board (according to the Credit Institutions Act.) accomplished these functions.) The majority of the members of the Managing Body carrying out the tasks of the Nomination Committee are independent.)

S 3.3.5 The rules of procedure of the Nomination Committee includes those details contained in 3.3.5

Yes / **No** (No committee operated in the Company separately, the Board of Directors and the Supervisory Board accomplished these functions.)

S 3.4.5 The Remuneration Committee prepared the Remuneration Statement.

Yes / **No** (Independent committees do not operate at the Company. However, the Board of Directors ensured the preparation of the remuneration declaration.)

S 3.4.6 The Remuneration Committee exclusively consists of non-executive members of the Managing Body.

Yes / **No** (Remuneration Committee do not operate at the Company. The tasks of the Remuneration Committee shall be exercised by the Board of Directors or by the Supervisory Board.)

S 4.1.4 The disclosure guidelines of the company at least extend to those details contained in 4.1.4

Yes / No

The Managing Body informed shareholders in the annual report on the findings of the investigation into the efficiency of disclosure procedures.

Yes / **No**

S 4.1.7 The Company's financial reports followed IFRS guidelines.

Yes / No

S 4.1.16 The Company also prepares and releases its disclosures in English.

Yes / No