

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

For the business year of

2017

April 2018

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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 2017 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 2017. The Board shall meet as frequently as needed but at least once in every two 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 2017 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 Group¹, establishment of companies, investments, representation of the Company as well as the functioning of the Board of Directors itself.

In 2017 the top level management of the Company comprised of the following persons: the Chief Executive Officer, and the Deputy Chief Executive Officer. Both of them are internal members of the Board until 26 April 2017, when they were dismissed by the Board of the Company. 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 2017*:

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

¹ In this document the FHB Banking Group shall mean the FHB Mortgage Bank and those enterprises that are at least partly owned by it, which are enterprises subject to its consolidated supervision according to the Supervisory Authority in prior of the accession of the FHB Mortgage Bank to the Integration Organization of Cooperative Credit Institutions in 2015. Between 1 January 2017 and 29 December 2017 these enterprises were as follows: FHB Commercial Bank Ltd., FHB Leasing Ltd., FHB Real Estate Ltd, FHB Invest Ltd. Diófa Alapkezelő Ltd, Díjbeszedő Faktorház Ltd, Hungarian Post Investment Ltd. (in Hungarian: Magyar Post Befektetési Zrt.) and from 29 December 2017 also the FHB Commercial Bank.

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-Lyon nais Magyarország 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:

Márton Oláh Deputy – Deputy Chief Executive Officer until 5 December 2016 and then **Chief Executive Officer** Managing Director (Deputy Chief Executive Officer) of the Company until 26 April 2017. He was dismissed on 26

April 2017 by the General Meeting of the Company. In compliance with the resolution of the General Meeting, he was dismissed from his position as Chief Executive Officer by the Board of the Company on 26 April 2017. ;.

Dr. Erik Landgraf – Deputy Chief Executive Officer – between 30 November 2016 and 26 April 2017.

He was dismissed on 26 April 2017 by the General Meeting of the Company. In compliance with the resolution of the General Meeting, he was dismissed from his position as Deputy Chief Executive Officer by the Board of the Company on 26 April 2017.

Dr. Gyula Nagy Chief Executive Officer – since 26 April 2017

He graduated as export trader in 1976 from Budapest Economics University, and he earned the title of doctor in economics in 1981. He worked since 1977 as head of export department at Ganz Árammérőgyár, than as sales representative at Unicbank Rt. and as head of Corporate Partner Relations unit at Citibank Hungary Rt.. He led the Corporate Business Branch of BNP-Dresdner Bank Rt between 1991 and 1995, and of HVB Bank Hungary Rt. between 1995 and 1999. He was member of the Board of Directors and deputy CEO of HVB Bank Hungary Rt. between 1999 and 2001, furthermore he was the CEO of Unicredit Jelzálogbank Zrt. between 2001 and 2007. He has been working for FHB Co. Plc. as head of Partner Refinancing Department since October 2007 leading the refinancing activity of FHB Group. He has master in real estate, and is a member of research and statistic committee of European Mortgage Federation.

Edit Erika Tóth – Deputy Chief Executive Officer – since 26 April 2017

She graduated as economist from Pénzügyi és Számviteli Főiskola *lin English: College of Finance and Accountancy*. She started her professional carrier in 1994 at OTP Bank Nyrt., where she was later the head of the Qualified Claims and of the Corporate Unit, and between 2001 and 2006 the Client Relationship Director. Afterwards she was regional director at MKB Bank Zrt., than between 2010 and 2013 she worked as business director of Hungarocontrol Zrt. Between 2013 and 2014 she worked at Fővárosi Közterületfenntartó Zrt. as sales department head, from 2014 she was business director at MNB Biztonsági Zrt., furthermore between 2014 and 2015 she was registered by Pénzügyi Stabilitási és Felszámoló Nonprofit Kft. as supervisory controller.

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 2017:

Dr. Zsolt Harmath – Chairman – since 2 January 2017

He graduated first in 1999 as economist and became a certified accountant, and later graduated in 2005 as jurist as well. Between 1999 and 2010 he was employed by Magyar Posta Zrt. *lin English: Hungarian Post Ltd.* first as cost analyst controller at the Budapest Directorate, then from 2001 as head of the Economics Unit, from 2003 as Economic deputy director. From 2005 he was responsible for the economic corporate governance at Magyar Posta. From September 2010 he was Controlling, Accounting and Property Valuation Director of Magyar Nemzeti Vagyonkezelő Zrt. *lin English: Hungarian National Asset Management Inc.*, later from 2014 Economic Director. He hold significant positions, among others he was member of the Board of Directors and later Chairman of the Supevisory Board at Rába Nyrt, futhermore Chairman of the Supervisory Board at Volán companies.

Dr. Antal Adorján Kadosa – member of the Supervisory Board – since 2 January 2017

He graduated from the German Unit of Kodolányi János Főiskola, and also from Pázmány Péter Katolikus Egyetem as jurist. He passed the bar exam in 2009, since then works as lawyer. From 2007 he is member of the Board of Directors, owner and public procurement advisor at Első Magyar Közbeszerzési Tanácsadó Zrt., from 2013 member of the Board of Directors, owner and public procurement advisor at PROVITAL Fejlesztési Tanácsadó Zrt. He is member of the Hungarian Criminal Law Associations and Hungarian Criminology Association.

Dr. Mónika Kovács – member of the Supervisory Board – since 2 January 2017

She graduated from Pécsi Tudományegyetem */in English: University of Pécs/* as jurist and started her carrier in 2005 at Magyar Közlöny Lap- és Könyvkiadó Kft.. From 2009 she led the bulleting and electronic publication business unit, and was responsible for the legal unit, customer service, the sales and the editorial. Between 2005 and 2008 she was lecturer at PTE Constitutional Law Unit. Since August 2016 she is member of the Supevisory Board of Magyar Posta Zrt., since October 2016 she is deputy undersecretary of state at the Ministry of National Development in Hungary.

György Pórfy – member of the Supervisory Board – since 2 January 2017

He graduated from Közgazdaságtudományi Egyetem */in English: University of Economics/* as economist and is working in the financial field since 1994 starting at Merkantil Bank, then at BNP-Dresdner Bank Hungária Rt.. He hold leading positions at Kereskedelmi és Hitelbank Rt., and from 2002 he was head of department and executive director at the Corporate Directorate of Unicredit Bank Hungary Zrt.. From 2010 he was CEO of Unicredit Leasing Hungary Zrt., and from 2012 CEO of Unicredit Jelzálogbank Zrt.. From April 2016 he is deputy CEO of Corporate Division of Magyar Takarészövetkezeti Bank Zrt.

Dr. Balázs Reiniger – member of the Supervisory Board – since 2 January 2017

He is attorney at law, head of Reiniger Ügyvédi Iroda. He was born in Budapest in 1977. He graduated in 2001 from Eötvös Loránd Tudományegyetem with honors. He studied law as Hungarian and Finnish scholar at Helsinki University. He spent his trainee years in international law offices, and after passing the bar exam he established his own law office in 2005, in which he is advising national and international companies in civil, business and commercial law related and strategic issues. Between 2007 and 2008 he was chief counsel of PLUS Élelmiszer Diszkont Kft. as well. During his studies and later on he was lecturer of ELTE Roman Law Unit. From 2013 he is judge at Nemzeti Agrárgazdasági Kamara Választottbírósága */in English: Arbitration Court of the Hungarian Chamber of Agriculture/*; from December 2015 he is member of the Közbeszerzési Hatóság Tanácsa */in English: Council of the Public Procurement Authority in Hungary/*, and from April 2016 chairman of the Supervisory Board of Új Világ Nonprofit Kft.

All members of the Supervisory Board are independent members who have no legal relationship with the Company other than under corporate laws. Accordingly, from the members of the Supervisory Board Dr. Zsolt Harmath, dr. Antal Kadosa and György Pórfy were elected by the annual General Meeting as the members of the Audit Committee established in compliance with the provisions of the Credit Institutions Act.

2.3. The Management of the Company

The management of the Company was made up of the following persons in 2017:

Chief Executive Officer –

Márton Oláh – between 5 December 2016 and 26 April 2017

Dr. Gyula Nagy – since 26 April 2017

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

Deputy-Chief Executive Officer

Dr. Erik Landgraf – between 30 November 2016 and 26 April 2017

Edit Erika Tóth – since 26 April 2017

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 2017

3.1. Activities of the Board of Directors in 2017

3.1.1 Summary of the work of the Board of Directors

The Board of Directors held a total of ten meetings in 2017, two of which were joint meetings with the Supervisory Board, and in one case there was an extraordinary meeting 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-three 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 2017 shall be emphasized:

- In 2017 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.
- Also in 2017 the Board of Directors drew special attention to implement the relevant integration rules properly.
- In 2017 the Board of Directors paid special attention to make decisions related to the collective redundancies at the Company concerning the implementation of the Head office project.
- In 2017 the Board of Directors paid special attention to make investment decisions related to sales of the Company's ownership interest.
- In 2017 the Board of Directors paid special attention to take measures to develop a plain mortgage bank profile.
- Similarly to the practice of previous years, as a standing point on the agenda the 2017 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 2017 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 2017 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 2017 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 2017 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 2017. 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.

3.2. Activities of the Supervisory Board in 2017

3.2.1 Summary of the Work of the Supervisory Board

In 2017 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 2017, two of which were joint meetings with the Board of Directors, and the Supervisory Board passed resolutions off scheduled meetings in four cases. 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 2017 internal audit reports,
- Evaluation of the receivables of the Company,
- Concept of the financial plan of the Company for the year 2017,
- 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 2017 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 risk exploring and regularity inspections, and complied with law. Accordingly the inspections among others included inspections on publication and activities outsourced by the Company, 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 its operation, 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 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 2017 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, 2022 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 2017 the Supervisory Board discussed the proposal on the Overview and Review of the Remuneration Policy.

From the members of the Supervisory Board elected by the General Meeting, dr. Zsolt Harmath, dr. Antal Kadosa and György Pórfy were elected as members of the Audit Committee set up under the Credit Institutions Act. Thus the Supervisory Board carried out the duties of the Audit Committee in 2017 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 2017. 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.

4. Internal Safeguards, and evaluation of the 2016/17 business

In 2017 the entire Banking Group's internal audit system 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 CRR², during the period to 31 December 2016. This obligation is no longer required by the National Bank of Hungary (MNB) from 1 January 2017.

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

² 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

Integration's rules on risk management and regularly informs the management bodies of the Integration about the evolution of its risks.

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.

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.
- a) The compliance functions are fulfilled by a separate organization or person at each company in the Banking group, and the Compliance Directorate of the FHB Mortgage Bank Co. Ltd. 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 2017 the fulfilment of compliance tasks has been effectuated by the involvement on banking group level of 13 (thirteen) employees (Director of Compliance Directorate and 12 (twelve) sub-employees) in 2017.

By applying a transaction analyser and filtering software, 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.

The FHB designated and submitted to the HFSA the contact person being responsible for consumer protection issues by each member of the Banking Group. The functions and the related tasks 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 within intervals specified by the respective internal rules.

- 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 Lízing 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 of the internal audit activity is carried out at a bank group level, and the methodological guidance is carried out through the Integration Organization of Cooperative Credit Institutions. The heads of the Internal Audit Departments of the companies report to the local Supervisory Board.

The Internal Audit Departments/Auditor operating at the companies of the FHB Banking group informed the Supervisory Boards of FHB Banking Group's credit institutions and financial institutions as well as the management of the Company 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. Due to its accession to the Integration Organization of Cooperative Credit Institution the Company's internal audit organization carried out the data reporting requirements towards the Internal Audit of the Savings Bank, which is based on the internal audit rules – prepared for the Integration by the Savings Bank – to be applied on a compulsory basis.

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. In 2017 the Internal Audit Department also had 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 2017 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 operation of control system, especially in the field of providing credit and refinancing and their regularity, 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 65 audits within the framework of its approved action plan for 2017. The audits included 28 process review audits, 11 regulatory audits, 13 control and management audits, 4 IT and security audits and 2 follow up audits. 7 special audits were ordered, which were also completed. Where defects were identified, with the agreement of the Supervisory Board and the approval of the Board 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.

4.4. Activities of the Auditor

Also in the 2017 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 2017, 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 votes³ 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.

³ 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 2017

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 26 April 2017. Remuneration Principles show the medium- and long-term perspective of the Savings Bank Group; it provides clear, transparent and clearly predictable framework for granting remuneration, furthermore it applies the principle of proportionality in compliance with Government Decree No. 131/2011. (VII. 18.).

With the effective date of 1 July 2017 the Savings Bank Ltd. amended the directly applicable Integration rules No. 5/2015 on Remuneration Policy. The amended rules were adopted by Resolution No. FB-6/15/2017 by the Supervisory Board of the Savings Bank Ltd., and it was issued as directly applicable rules by Resolution No. IG-7/10/2017. of the Board of Directors of the Savings Bank. At the same time the Board of the Savings Bank Ltd. ordered the companies subject to the consolidated supervision of the Savings Bank Ltd., to issue the rules – except for Annex marked with “KM9” – as their own rules in an unaltered form. By its Resolution No. 93/2017 (09.08.) the Board of Directors of the Company ordered the issue of the implemented Integration rules with the effective date of 1 July 2017.

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

The scope of Guidelines shall be applicable to the key personnel of the companies within the FHB Banking Group:

Key personnel are as follows:

- I. Senior executives (according to the related sectoral laws and the Labor Code of Hungary – members of the Board of Directors and the Supervisory Board, Chief Executive Officers, Deputy Chief Executive Officers, the employer's director and any other person under his direct supervision and authorized to act as the director's deputy) at the companies within the Banking group)
- II. Chief Executives of the heads of departments with control functions (Risk Management, Risk Analysis (risk control) – control, internal audit, compliance)
- III. Other employees, whose activities have a significant effect on risk taking.

The scope of Guidelines shall be applicable to:

- a) **Key personnel – Employees** – including the basic principles for the evaluation of their activities, the principles of remuneration, the conditions of employment contracts, the rules on reimbursement of costs,
- b) **Key personnel – Officers** – including the principles for remuneration.

1. Key personnel – Basic principles for the evaluation of the employees' activities

Achieving the annual business and financial ratio targets of the Company shall mean a predominant factor in the evaluation of the annual performance of the Executives. Moreover, the evaluation shall take into account the progress made in implementing the long term strategy, the strategic thinking, the capacity to identify, discover and respond to business opportunities, establishing and maintaining relations with the market participants/business community as well as the skills of motivating, stimulating and managing peer managers and associates, furthermore the support of these activities.

The annual evaluation shall be documented. In 2017 the FHB Mortgage Bank Co. Plc. decided to gradually introduce the Performance evaluation system from 1 March 2017 that was adopted by Resolution No. 11/2017 (10.02) of the Board of Directors.

The Performance Evaluation System follows the principles of the Directly Applicable Rules No. 5/2015 on the Remuneration Policy of the Integration.

2. Key personnel – Remuneration principles for employees

Property rights or any remuneration provided directly or indirectly, in cash or in kind or otherwise shall mean remuneration for employees. The remuneration shall be a combination of basic and performance-based remuneration.

2.1. *Basic remuneration*: the monthly wage determined in the employment contract, furthermore all such remuneration that may be granted to every employee.

The remuneration shall be considered as basic remuneration, if the award criteria are transparent, pre-determined, reflect professional experience, are permanent, do not encourage risk-taking which exceeds the risk-taking limit of the group member, and may not be withdrawn.

2.2. *All other elements of remuneration* that fail to meet the criteria listed for basic remuneration shall be considered as performance-based remuneration, especially the bonus, productivity bonus, productivity reward, reward, commission, project commission, variable payment or the payment of an amount related to a termination of employment contract by mutual agreement.

Depending on the annual performance, the performance-based remuneration shall be paid for up to amount that is set out in the Principles, for each business year, in accordance with the criteria laid down in the introduced performance evaluation or set out in the bonus scheme.

The person exercising employer's rights shall determine the tasks related to performance-based remuneration within the framework of the **System for Remuneration Policy**, in line with the Rules on Remuneration Policy of the Integration. The tasks are related to the FHB Group's earnings presented in the financial statements that were prepared according to the International Accounting Standards, the annual performance of the controlled department and the individual performances.

The breakdown of targeting shall be in general as follows in case of a Group member operating as a credit institution:

- after-tax profit/loss of the Group member
- risk indicators of the Group member
 - ratio of non-performing loans and changes in the ratio
 - compliance to the capital requirements
 - changes in the indicator(s) to measure liquidity risk

Indicators related to targeting shall be as follows in case of Group members operating as other than a credit institution:

- after-tax profit/loss of the Group member
- additionally minimum two and maximum three indicators of different risks (risk indicators) related to key risks associated with activities

and in case of entities with tasks related to internal control:

- depending on the indicators and performance of the department,
- depending on individual indicators and performance.

The amount of Premium shall be within the range from 5% of the annual basic salary to 100% of the annual basic salary.

Payment shall be excluded, if

- the capital adequacy ratios are below the level prescribed by law or the internal rules of the integration – in case a group member operating as a credit institution,
- the economic result of the group member in the subject year is loss (except if the Board of Directors of FHB Mortgage Bank Co. Plc. decides otherwise),
- the conduct of a key personnel resulted in a loss to the group or a group member.

In line with the rules on the Remuneration Policy of the Integration, because the balance sheet totals of each FHB Group members are less than HUF 500 billion in case of all group members, the deferred payment of performance-based remuneration and the sharing of cash/shares shall not apply as special rules in accordance with the principle of proportionality.

2.3. Remuneration system

In compliance with Section 117 to 121 of the Credit Institutions Act on remuneration policy and the Government Decree issued relating to its implementation, furthermore the related Recommendation of the Central Bank of Hungary (MNB), the management body in its supervisory function shall adopt and periodically review the general principles of the remuneration policy of the Company 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.

3. Key personnel – Optional Remunerations for employees

Key personnel – Employees may be entitled to the followings, based on the decision of the employer.

- a) may use the car owned by the Banking group, in compliance with the applicable internal rules and the relevant laws,
- b) may use the mobile phone within the mobile phone fleet of the employer for job related purposes,
- c) may use a laptop for job related purposes,
- d) is entitled to general and optional benefits granted to non-executive employees, as specified in the rules on remuneration (e.g. cafeteria plan)

4. Key personnel – Conditions of the employment contract, rules on the reimbursement of costs

4.1. Key personnel – Establishing employment: the fundamental employer's rights (concluding, terminating or amending the employment, determining remunerating – including redundancy payments and other remunerations or bonuses) shall be exercised by the person as specified by law, the Statutes as well as the Rules of Procedure of the Board of Directors and the Organizational and Operational Regulations.

4.2. Key personnel – the person exercising employer's rights shall agree with the employee regarding the conditions of employment contract, the rules on the reimbursement of costs, by taking the internal rules and the Principles of Remuneration Policy into consideration.

5. Key personnel – Principles of Remunerating Officers

Determination of the remuneration of Officers shall fall to the exclusive scope of competence of the General Meeting. The amount of the remuneration shall be fixed and payable monthly. The remuneration of Officers shall be determined in a manner to ensure that the rate of remuneration reflects the degree of responsibility, does not put a significant strain on the Company, is proportionate to the job performed by the Officer, to the economic performance of the Company in the preceding year and 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 the 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.

7.2. Remuneration Statement for the year 2017

1/ Members of the Management

Entry into force

Amendment of the Remuneration Policy No. 5/2015 has been effective since 1 July 2017.

The Rules were adopted by Resolution No. FB-6/15/2017 of the Supervisory Board of the Savings Bank and then it was issued as directly applicable rules by Resolution No. IG-7/10/2017 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 Annex marked with “KM9” – as their own rules in an unaltered form.

2/ Officers

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 2016, of which extent was not changed from 2007. Until mid-2017 the 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, did not receive any remuneration. From the second half of 2017 all members of the Board of Directors and the Supervisory Board received remuneration. The remuneration of other officers was 50% of the remuneration of the officers of the Company.

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 2017, the members of the Audit Committee composed of 3 members of the Supervisory Board at the Company.)

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 3 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 2017.)

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 2017, 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 2017, 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 2017, committees did not operate in the Company separately, the Board of Directors and the members of 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, there was no separated Remuneration Committee operating at the Company, its duties were accomplished by the Board of Directors.)

R 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

Yes (Complies) **No** (In 2017, 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 2017, 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 2017 – 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 2017, 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 2017, 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 2017.)

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

Yes (Complies) **No** (In 2017, 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 2017, 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 2017 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 2017 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 (Please explain)

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 2017, 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 2017, 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 2017.)

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 2017, 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 2017, 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 until the annual General Meeting in 2014, then the audit committee included the same members as the Supervisory Board. Since January 2017 the Audit Committee has been composed of 3 members of 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 2017, 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 2017, 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