



FHB MORTGAGE BANK PLC

ANNUAL REPORT FOR YEAR 2015



**FHB Mortgage Bank
Public Limited Company**

Business Report for 2015

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1 OVERVIEW OF FHB MORTGAGE BANK PLC.

1.1 HISTORY AND ACTIVITIES OF FHB MORTGAGE BANK

FHB Mortgage Bank Public Limited Company ("FHB", "Mortgage Bank", "FHB Mortgage Bank" or "the Bank") was established by the Hungarian State on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank provided mortgage banking services through its Head Office and regional representative offices located in Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

The Bank received its license to operate as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds on 6 March 1998. The Bank commenced operation as of 16 March 1998.

On 31 October 2003 the Hungarian Financial Supervisory Authority (HFSA) granted permission for FHB Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange. The ordinary shares were listed on the Budapest Stock Exchange on 24 November 2003.

FHB Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. The capital increase was executed by issuing dematerialized dividend preference shares (Series "B") and dematerialized ordinary shares (Series "C"). The newly issued Series "B" and "C" shares will not be listed over.

Due to the capital increase on 31 December 2015 FHB Mortgage Bank Plc. had series "A", "B" and "C" shares. Majority (77.8%) of FHB shares is owned by domestic institutional investors

FHB Group's shareholder structure as of 31 December 2015:

Description of owner	Total equity*					
	At the beginning of actual year			End of actual period		
	%	%	Qty	%	%	Qty
Series "A" shares listed on BSE						
Domestic institution/company	61.33%	61.71%	40,475,017	38.63%	44.55%	41,911,917
Foreign institution/company	21.67%	21.67%	14,297,742	10.73%	12.38%	11,642,388
Domestic individual	7.49%	7.49%	4,943,054	6.15%	7.09%	6,669,193
Foreign individual	0.07%	0.07%	45,045	0.02%	0.02%	16,326
Employees, senior officers	0.22%	0.22%	148,055	0.07%	0.08%	77,808
Treasury shares	0.38%	0.00%	253,601	0.23%	0.00%	253,601
Government held owner	7.32%	7.32%	4,832,225	4.45%	5.14%	4,832,225
Other	1.52%	1.52%	1,005,271	0.56%	0.63%	596,552
<i>Share series sub-total</i>	<i>100.0%</i>	<i>100.0%</i>	<i>66,000,010</i>	<i>60.84%</i>	<i>69.89%</i>	<i>66,000,010</i>
Series "B" shares non-listed on BSE						
Domestic institution/company	0.00%	0.00%	0	13.05%	0.00%	14,163,430
<i>Share series sub-total</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0</i>	<i>13.05%</i>	<i>0.00%</i>	<i>14,163,430</i>
Series "C" shares non-listed on BSE						
Domestic institution/company	0.0%	0.0%	0	26.11%	30.11%	2,832,686
<i>Share series sub-total</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0</i>	<i>26.11%</i>	<i>30.11%</i>	<i>2,832,686</i>
	100.00%	100.00%	66,000,010	100.00%	100.00%	82,996,126

*The "B" and "C" series shares issued on December 30 2015, were registered with the resolution of the Court of Registration on February 24, 2016.

1.2 OVERVIEW OF FHB BANKING GROUP

The Board of Directors of the Bank accepted a strategic plan in February 2006 focusing on the expansion of the banking activity and branch network as a midterm target. In the framework of this, the Bank set up several new subsidiaries, including FHB Commercial Bank Ltd. widening significantly the range of provided services. FHB Mortgage Bank is the parent company of the Group. (The Bank and its subsidiaries are jointly referred to as the Group or Banking Group.)

In 2012, the Strategic Plan for the business years 2013-2015 was adopted by the Board of Directors of FHB Mortgage Bank. The new strategy was built on the results achieved with the previous plans, the possible advantages from the strategic partnership with Allianz and the commitment of the employees of the Group and identified straightforward and challenging goals regarding the development of the Group. FHB would like to become a customer- and service-driven medium bank based on the previously adopted conception of "The bank of the families" providing customer based service supported by an organisational culture where the achievement of the common goals is reached with the strong co-operation of the employees.

In 2013, FHB Mortgage Bank managed several acquisition, there through broadened the banking group and the range of activities.

The Bank signed a contract in July 2013 to buy close to 100% of ordinary shares of Diófa Alapkezelő Zrt. (Diófa Asset Management Ltd.). The specified contractual conditions required for the effective transfer of the shares were satisfied by the parties on September 2, 2013, so close to 100% of ordinary shares of Diófa Asset Management went to the ownership of FHB Mortgage Bank.

As a result of several months of negotiations, FHB has signed first a letter of intent, and then on 10 July 2013, a purchase agreement with the shareholders of Díjbeszedő Holding Ltd. ("DBH"), to the business shares of Díjbeszedő Üzemeltetési és Szolgáltatási Kft. (in English: Díjbeszedő Operational and Service Ltd; hereinafter the "DÜSZ Ltd.") that come into being after a demerge from DBH. In course of the demerge DÜSZ own 51% of the shares of Díjbeszedő Faktorház Ltd. (DBF), 75% of the shares of DíjNET Ltd. and 50% of the shares of Díjbeszedő Informatikai Ltd. (DBIT).

Related to the transaction of the business shares, FHB and the Magyar Posta (Hungarian Post) entered into a strategic cooperation, and in the scope of that they cooperate in the ownership and control of FHB Invest (previously DÜSZ) Ltd., DBH and the jointly controlled companies, furthermore in course of the harmonization of the business activities of FHB Invest Ltd. and the members of the DBH Group.

Based on the Agreement between FHB Group and Magyar Posta, FHB Invest Ltd. acquired 50% of shares of Magyar Posta Befektetési Zrt (Hungarian Post Investment Services Ltd., hereinafter the "MPBSZ Ltd.") in December, 2013.

According to the Syndicate Agreement the subsidiaries of the FHB Invest Ltd. (DBF, DíjNET, DBIT and MPBSZ) are jointly controlled subsidiaries of FHB and Magyar Posta, which means 50% effective impact on these companies independently of the ownership. From the subsidiaries mentioned above the FHB Invest, DBF and MPBSZ are under consolidated supervision according to the National Bank of Hungary (NBH) resolution received on 24 January 2014.

At the beginning of 2014 FHB Mortgage Bank Plc. gained 25% shares in Magyar Takarékszövetkezet Asset Management Ltd. by capital increase, through which FHB Mortgage Bank obtained (during the year, in two steps) 13,76% indirect qualifying holding in Bank of Hungarian Savings Cooperatives Co. Ltd. after the permission of National Bank of Hungary.

At 29 December 2014 the purchase of FHB Life Annuity Ltd.'s 175 ordinary shares, which represents 100% of share capital, closed successfully. In the transaction the two party was FHB Mortgage Bank Plc. as vendor and National Asset Management Ltd, as buyer (who acting on behalf of the Hungarian State).

Based on the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv), FHB Mortgage Bank Plc. and the under its qualifying holding and prudential supervisory FHB Commercial Bank Ltd. became a member of Integration Organisation of Cooperative Credit Institution (SZHISZ) on September 23, 2015.

From September 24, 2015, the joint and several responsibilities defined in the Section 4 of Article 1 of Szhitv cover also Mortgage Bank and Commercial Bank, according to the decision of the Board of Directors of Takarékbank Ltd.

Based on the resolution H-EN-I 654/2015 of NBH dated 16 October 2015 the Mortgage Bank, FHB Commercial Bank, FHB Lízing Ltd., Díjbeszedő Faktorház Ltd., FHB Real Estate Ltd., FHB Invest Ltd., Magyar Posta Investment Services

Ltd. and the Diófa Asset Management Ltd are companies supervised on a consolidated basis with Bank of Hungarian Savings Cooperatives Co. Ltd. The referred decision of the NBH also stipulated that the aforementioned investments of FHB Mortgage Bank Plc. are managed aggregately with the Mortgage Bank in compliance with prudential requirements formulated in the CRR¹.

As parent company of FHB Group, the Mortgage Bank exercises proprietary supervision over the Group companies.

1.2.1 FHB Commercial Bank Ltd.

In line with the midterm strategic plan for the years 2006-2010, Board of Directors of FHB Mortgage Bank decided to establish FHB Commercial Bank Ltd. (FHB Commercial Bank or Commercial Bank) in February 2006. FHB Commercial Bank Ltd. was established from HUF 5,996 million equity including HUF 3,996 million capital reserve and HUF 2,000 million registered capital. At the beginning, 90% of the shares of the Bank were owned by FHB Mortgage Bank and 10% by FHB Services Ltd. After receiving its licence, banking operation started on 5 December 2006 in the Central Branch in Budapest. In 2007, the Bank broadened its branch network and gradually took over the distribution of retail and corporate loans from the Mortgage Bank and started funding activity due to continuously developing account and bank card services. In 2008 the Bank launched its SME business line, and then in 2010 its investment services business line.

Allianz Bank merged into FHB Commercial Bank as of 1 April 2011. The merger boosted the number of employees, number of branches and financial assets, as well. Product portfolio broadened due to the acquisition.

The Commercial Bank provides agency services for Mortgage Bank and other group members, according to which Commercial Bank sells FHB Mortgage loans handles credit portfolio and has got credit care and qualified credit management function.

In September 2014, FHB Mortgage Bank Co. Plc. and Magyar Posta Zrt. (Hungarian Post Ltd.) contracted on the purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd. The closing of the transaction – after the National Bank of Hungary gave the necessary permission to Hungarian Post to get influence – took place on 30 September 2014. Before the purchase of the share package, the General Meeting of FHB Commercial Bank decided on approximately HUF 20 billion capital increase and entitled the FHB Mortgage Bank to takeover the new shares, which was fully implemented by the Mortgage Bank. The capital increase was registered in the company register on 1 October 2014.

In November 2013 the Bank established FHB Card Centre Ltd. (that was renamed to Hungarian Card Service Plc. in March 2014), the activity of which is linked to card related electronic payment platform services.

The Commercial Bank's total assets in accordance with Hungarian Accounting Standards (HAS) amounted to HUF 473.8 billion as of 31 December 2015, which decreased by 9.1% the previous year figure (HUF 521.3 billion). Gross loan portfolio of Commercial Bank amounted to HUF 211.6 billion according to HAS, representing 5.2% decrease since the end of the year 2014. The Bank's deposit portfolio increased by 11% (331.1 billion) over the past year.

At the end of 2015 the Commercial Bank had 41 branches countrywide. On 31 December 2015 Commercial Bank managed almost 208 thousand retail and more than 12 thousand corporate current accounts to which 165 thousand retail and 7.2 thousand corporate cards belonged.

FHB Commercial Bank's balance sheet profit was HUF 1,990 million loss in 2015, its shareholders' equity at year end was HUF 37.3 billion; and capital adequacy ratio (according to HAS) was 20.00% on 31 December 2015, higher than it was (17.63%) a year ago.

¹ The Regulation 575/2013 / EU of European Parliament and Council from 26 June 2013, amending prudential requirements of regulation 648/2012 / EU for credit institutions and investment firms

1.2.2 FHB Real Estate Ltd.

FHB Real Estate Ltd. was established on 7 February 2006 based with a share capital of 100 million HUF. At the beginning, 95% of the shares of the Bank were owned by FHB Mortgage Bank and 5% by FHB Services Ltd. FHB Real Estate Ltd. received its licence on 8 May 2006 and started its operation on 1 December 2006. Since 2009 FHB Mortgage Bank is the sole owner of the company.

FHB Real Estate Ltd. was established for the purpose of promoting the implementation of the tasks laid down in FHB Mortgage Bank Plc.'s strategy, specifically to undertake real estate collateral valuation, real estate investment, sales and management services, and as a real estate valuation agent for FHB Group. In addition to Group companies, FHB Real Estate Ltd. provides real estate related services to external customers.

The Company closed the year 2015 with HUF 25.6 million profits. The Company's registered capital was HUF 70 million and shareholders' equity HUF 207 million at the end of the year.

1.2.3 FHB Lízing Ltd.

The private limited company FHB Real Estate Lease Ltd. was established on 15 December 2004. The company started business on 28 August 2005 with an initial capital of HUF 50 million consisting solely of cash contributions. The company is a financial enterprise. Based on the application of the Company, in December 2014, the National Bank of Hungary permitted new activities. Number of the modified licence is H-EN-I-825/2014. According to the NBH license, the Company is authorised to provide financial leasing services without any limitation and to provide cash loans limited to consumer loan products.

The company joined FHB Group in 2009; its sole shareholder was FHB Services Ltd. On 17 November 2011 FHB Services Ltd sold its share in FHB Real Estate Leasing Ltd. to FHB Life Annuity Ltd. FHB Life Annuity Ltd. sold the company to FHB INVEST Ltd. (former name: Díjbeszedő Operational and Service Ltd.) at 24 November 2014. FHB Real Estate Lease Ltd. is 100% owner of the shares of Central European Credit d.d. and FHB DWH Services Ltd.

The Company's name was changed simultaneously to broadening of its business activities as 15 June 2015 to FHB Lízing Private Limited Company.

The company's capital increased once in 2015, and the capital increase amounted to HUF 440 million.

The Company closed the year 2015 with HUF 614 million losses. Shareholder's equity of the Company according to HAS amounted to HUF 55.5 million as at 31 December 2015; registered capital was HUF 130 million and capital reserves amounted to HUF 2.9 billion.

1.2.4 Diófa Asset Management Ltd.

Diófa Asset Management Ltd. had been established by Évgyűrűk Pension Fund in February 2009. On 8th July 2013, FHB Mortgage Bank signed a contract to buy close to 100% of the ordinary shares of the Diófa Asset Management Ltd. After the change in ownership, Diófa Asset Management is a fully consolidated member of FHB Group and belongs to common supervision since September 2013.

Before the acquisition, Diófa Asset Management was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients. From September 2013 Diófa Asset Management Ltd. still sustains its former focus areas, in addition new retail funds have been launched in the branch network of FHB Banking Group. Sales volume of FHB Forte Short Bond Fund, FHB Money Market Fund and FHB Absolute Yield Fund surpassed HUF 13.2 billion.

The Company started two new funds at the beginning of 2014, which were sold initially by Magyar Posta Befektetési Zrt. (Magyar Posta Investment Services Ltd.) through the network of Magyar Posta (Hungarian Post). In 2015, Diófa Asset Management began a significant reconstruction in its investment funds sold for its retail customers. Before the change, in several cases Diófa Asset Management managed different investment funds having the same profile that were sold independently from each other in some distribution networks. Due to the fact that during the process the funds having similar profile were pooled and transformed, a unified and well-constructed portfolio structure was created. The aim of

reforming the portfolio structure was to improve the efficiency of sales and marketing activity and to cut down the administration burdens. The Asset Management plans a further merge in the future.

The net value of assets of Hungarian Post Takarék Real Estate Fund almost reached HUF 81.4 billion at the end of the year, while market value of Hungarian Post Money Market Fund amounted more than HUF 23.9 billion. The Hungarian Post Takarék Real Estate Fund is sold in the network of FHB Commercial Bank, and in the network of Takarékbank (Bank of Hungarian Savings Cooperatives Co. Ltd.), due to this, in 2015, the Fund achieved outstanding growth and at the end of the year it became Hungary's second-largest real estate fund.

Total net value of assets under management increased to HUF 393.0 billion from HUF 338.7 on December 31, 2014.

Asset Management Ltd. closed with HUF 737.5 million profit after tax the year 2015; subscribed capital amounted to HUF 196.2 million and shareholders' equity HUF 317.9 million.

1.2.5 FHB INVEST Investment and Real Estate Management Ltd.

The DÜSZ was established by splitting-off from Díjbeszedő Holding Ltd. on 30 September 2013. In course of the demerge DÜSZ own 51% of the shares of Díjbeszedő Faktorház Ltd., 75% of the shares of DíjNET Ltd. and 50% of Díjbeszedő Informatikai Ltd. In December 2013, DÜSZ Ltd. acquired 50% share of Magyar Posta Befektetési Zrt (Hungarian Post Investment Services Ltd.) and as a result of that its proportion of ownership in DíjNET Ltd. changed to 51%.

From 2014, DÜSZ Ltd. is going to be subsidiary of FHB Group dealing with facility management and with real estate rental. The Board of Directors of FHB Mortgage Bank (who exercising ownership rights) decided at 16 December 2014, that the new company name of DÜSZ will be FHB INVEST Investment and Real Estate Management Ltd.

The company's subscribed capital and shareholder's equity according to HAS was HUF 636 million and HUF 7.0 billion, respectively, and profit after tax of the year was HUF 3.6 billion as of 31 December 2015.

FHB Mortgage Bank and its significant investments as at 31 December 2015:

Subsidiaries / other investments	Shareholders										
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	FHB Lizing Ltd.	Diófa Asset Management Ltd.	FHB INVEST Ltd.	Díjbeszedő IT Ltd.	Magyar Takarék Asset Management Ltd.	Bank of Hungarian Savings Cooperatives Co. Ltd.	DOM-P IT Services Ltd.	Total
FHB Commercial Bank Ltd.	51.00%	-	-	-	-	-	-	-	7.39%	-	52.02%
FHB Real Estate Ltd.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
Káry-Villa Ltd.	-	-	100.00%	-	-	-	-	-	-	-	100.00%
Diófa Asset Management Ltd.	89.19%	-	-	-	-	-	-	-	-	-	89.19%
Diófa Real Estate Management Ltd.	-	-	-	-	100.00%	-	-	-	-	-	89.19%
FHB INVEST Ltd.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
FHB Lizing Ltd.	-	-	-	-	-	100.00%	-	-	-	-	100.00%
Central European Credit d.d.	-	-	-	100.00%	-	-	-	-	-	-	100.00%
FHB DWH Ltd.	-	-	-	100.00%	-	-	-	-	-	-	100.00%
Díjbeszedő Faktorház Ltd.	-	-	-	-	-	51.00%	-	-	-	-	51.00%
DíjNET Ltd.	-	-	-	-	-	51.00%	-	-	-	-	51.00%
Díjbeszedő IT Ltd.	-	-	-	-	-	50.00%	-	-	-	-	50.00%
Díjbeszedő Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	-	-	24.98%
Magyar Posta Investment Services Ltd.	-	-	-	-	-	50.00%	-	-	-	-	50.00%
Hungarian Card Service Plc.	-	99.18%	-	-	-	-	0.82%	-	-	-	52.00%
Magyar Takarék Asset Management Ltd.	25.10%	-	-	-	-	-	-	-	-	-	25.10%

Subsidiaries / other investments	Shareholders										
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	FHB Lizing Ltd.	Diófa Asset Management Ltd.	FHB INVEST Ltd.	Dijbeszedő IT Ltd.	Magyar Takarékszövetkezet Asset Management Ltd.	Bank of Hungarian Savings Cooperatives Co. Ltd.	DOM-P IT Services Ltd.	Total
Bank of Hungarian Savings Cooperatives Co. Ltd.	-	-	-	-	-	-	-	54.82%	-	-	13.76%
DOM-P IT Services Ltd.	-	-	-	-	-	13.91%	-	-	13.91%	-	15.83%
MPT Security Ltd.	-	-	-	-	-	9.99%	-	-	40.00%	-	15.50%
MA-TAK-EL Ltd.	-	-	-	-	-	40.00%	-	40.00%	-	20.00%	53.21%

2 MACROECONOMIC ENVIRONMENT IN 2015

2.1 THE HUNGARIAN ECONOMY IN 2015²

Figures	2013	2014	2015
GDP increase (%)	1,9%	3,7%	2,9%
Industrial production growth (%)	0,9%	7,6%	7,5%
Consumer prices (%)	1,7%	-0,2%	-0,1%
Unemployment rate (%)	10,2%	7,7%	6,8%
Budget deficit (billion HUF)	-933	-826	-1 219
Current balance of payments (million EUR)*	4 162	2 356	4 245
National Bank of Hungary base rate (% , end of the year)	3,00%	2,10%	1,35%
EUR exchange rate (end of the year)	296,9	314,9	313,1

* contains data of the first 3 quarters in case of 2015

Source: Hungarian Central Statistical Office (HCSO), National Bank of Hungary (NBH)

Hungarian economy experienced counter effects in 2015: on one hand European and US economies grew at a slower than expected pace, while emerging economies (with China being in the main focus) slowed down. These unfavourable impacts were counterbalanced by the development of the external funding environment: further monetary easing in the EMU and the US monetary tightening cycle, which was unfolding slower than previously expected, contributed to a lower than predicted global interest rate environment. The Hungarian economy was also supported by dropping energy prices by the end of 2015, which improved the country's external balance indicators through enhanced terms of trade and also decreased its vulnerability to external shocks.

Hungarian economy growth slowed down from previous year's 3.7% YY due to the lower dynamics of investments and the sharp drop of agriculture burdened by unfavourable weather conditions. On the production side the performance of industry—with expanding export capacities— and the service sector significantly improved on the back of intensifying domestic consumption that contributed to the pick-up in household consumption on the income side. The above was also backed by the continued strong dynamics (more than 4% YY) of salaries in real terms, ongoing improvement on the employee market (unemployment rate diminished to 6.8% YY from 7.7% YY) and by the additional income remaining at the households due to the financial institutions' settlement with clients as well as the conversion of FX loans. Contribution of net exports to GDP also increased: following the experienced slow-down in investments in the middle of the year new investments begun to operate at full capacities in manufacturing (especially in the vehicle industry) from H2 2015 resulting a 2.9% YY growth on average.

² Based on reports and statistics of NBH and HCSO, and on analysis of Bank of Hungarian Savings Cooperatives Co. Ltd.

Economy growth materialized amid improving external balance conditions: the expenditure side benefited from the maintained strong fiscal discipline and decreased interest expenses, while the income side was boosted by the significant surplus of income and sales taxes due to stronger economic activity, introduced new taxes (road tax), while the impact of eliminating the underground economy also played an increasing role. Budget deficit at 2% of the GDP in 2015 delivered the lowest level in recent years: although public debt has retained its downward path it, stayed above 75% of GDP. Hungary's net financing ability is estimated to have jumped to 10% of GDP in 2015—owing to the higher surplus of trades and services, improved income balance and the record-high inflow from net EU transfers—that contributed to an improvement in external balances. Improved foreign position is demonstrated by the facts, that gross foreign debt, which contains the so called other capital (loans between the parent company and subsidiaries) hardly exceeded 100% of the GDP by the end of 2015, while net foreign debt shrunk close to 30% of GDP.

Compared to the previous years, the faster economic growth was accompanied by low headline inflation: the 12 months-rate has not increased over 1% by the end of 2015, while annual average CPI moved into negative territory again (-0,1%). The low level of price increase is due to decreasing energy prices and other elements outside the scope of the monetary policy, and the stable, 1-1.5% core inflation, which is pretty far from the 3% medium term inflation target of the central bank. The NBH—reacting to the low inflation environment and to the continuously grinding European yield environment—cut the base rate by further 75 bp to 1.35% in five steps from March to July 2015. Later, the monetary easing cycle was carried on through using other elements of its monetary toolkit and transforming the system of monetary policy tools. It further developed the framework of self-financing programme by gradually diverting free liquidity of banks from the two-week central bank instrument, partly into the three-month deposits—considered as the new base instrument—, partly into the government security market (providing preferential swap facility), which helped stabilising long-term government bond yields. NBH continued its Funding for Growth Scheme (FGS) introduced in 2013 and amended several times since then, providing more than HUF 2100 billion (out of which HUF 800 billion in 2015) funding for the SMEs, mostly in the form of preferential, new investment loans.

HUF exchange rate reflected improved stability in 2015 – during the year it fluctuated in a narrower range, while its annual average was close to 310 versus the euro. It is important to highlight, that its volatility has mitigated compared to those emerging currencies considered as vulnerable (i.e. Turkish Lira, South-African Rand), which were classified in the same risk class in a few years ago. The phasing out of the FX loans, the spectacularly improving foreign balances and the strong economic growth together mitigated the sovereign risk of Hungary, and these positive trends helped the stability of HUF exchange rate and improved the assessment of international rating agencies. In 2015 S&P upgraded the Hungarian sovereign rating from BB to BB+, Fitch and Moody's have already given the same rating with positive outlook suggesting further upgrade. In 2016 Hungary may regain the investment grade rating level at all international rating agencies.

The number of dwelling construction permits issued shows significant growth compared to previous year, while number of new housing constructions decreased in relation to preceding year. Number of issued residential building permits increased to 12,515 in 2015, by 29.9% more than in 2014. The most intense increase was recorded in Central Hungary and in Northern Great Plain (+53.5% and 53.2% compared to 2014, respectively.) The number of planned new homes in Budapest increased by 72.8% to 3,170 - in a measure significantly exceeding changes at country level. Building permits issued in the county seats grew by 18.1% to 3,145, while in other towns an increase of 23.4%, in villages 16.7% was observable compared to 2014.

The number of new homes built decreased by 8.9% to 7,612 from 8,358 in 2014. Compared to the number of flat construction in the preceding year a growth could be seen merely in Western Transdanubia and in Southern Great Plain (7.2% and 1.6%). In terms of territorial units the number of flats built decreased in Budapest and in villages by 4%, while in county seats by 14.2% compared to 2014. The proportion of flats built by enterprises grew from 38.7% to 39.4% (2,999 pcs); the proportion of flats built by natural person practically remained unchanged (58.8%, 4,476 pcs). Among others in consequence of realignment among main contractors the average territory of flats brought into use was 101 sq.m., practically the same as in previous year.

2.2 THE BANKING SECTOR IN 2015³

Total assets of credit institutions amounted to HUF 32,886 billion at the end of 2015, 0.4% higher than at the end of 2014. According to preliminary data, the cumulative pre-tax profit was HUF 38.9 billion in 2015, significantly better than the HUF 486 billion loss of 2014, but the significant negative result in 2014 was due in a great part to provisions made for expected loss thanks to Settlement Act. Out of 135 credit institutions the pre-tax profit of 82 credit institutions was HUF 304.3 billion, while the pre-tax loss of 53 credit institutions was HUF 265.5 billion. Credit institution branches made HUF 30.4 billion pre-tax loss.

Gross loan portfolio of credit institutions decreased by 7.9% in 2015. Volume of household's loans decreased continuously during the year, representing 12.5% fall resulted mainly from the execution of Settlement Act. The volume of housing loans decreased by 10% during the year.

17.4% (HUF 1,017.8 billion) of total gross HUF household loan portfolio (HUF 5,830 billion) was past due more than 90 days at the end of 2015. Among household loans the share of loans past due was 27.8% (at the end of 2014 was 30.7%) and share of loans past due more than 90 days decreased to 17.6% from 19.0% in 2014 that shows the improvement of household loan portfolio. After HUF conversion 35.3% of remaining HUF 53 billion household FX loans was past due more than 90 days compared to 14.5% on 31 December 2014.

In case of non-financial corporations' HUF loan volume (HUF 3,211 billion) 8.7% was past due more than 90 days that also shows an improvement compared to 13.1% at the end of 2014. The proportion of all past due loans among forint loan portfolio was 12.3% as of 31 December 2015, at the end of 2014 it was 18.1%. The 11.0% of the 2,726 billion total FX loan portfolio was past due more than 90 days, which represents decline compared to 14.5% at the end of 2014

The restructured loans amounted to HUF 2,294 billion at the end of the year lowered by 22.7% compared to 2014th year-end level. 40.9% of restructured HUF loan portfolio fell into arrears, 13.9% within 90 days, while 27.0% over 90 days.

The share of deposits of the funding of the sector grew in 2015 (51.6% from 48.9% in 2014) amounted to –HUF 16,984 billion. Household's deposits represented 41.4% of total deposits.

2.2.1 Retail mortgage lending

Although the disbursement of retail mortgage loans shows increase quarter-on-quarter until the end of third quarter, in the fourth quarter a slight decrease can be seen. The yearly disbursement amounted nearly HUF 400 billion, which volume (HUF 399.7 billion) is significantly higher than in 2014 (HUF 273.6 billion), the increase is 46.1%.

2.2.1.1 Mortgage loan volumes

Based on data published by National Bank of Hungary, volume of retail mortgage loans amounted to 4,722 billion HUF as at 31 December 2015. Volume decreased by HUF 720 billion compared to year-end data of 2014 (5,442 billion HUF). Volume of FX loans thanks to HUF conversion fell by 99.4%, but also due to this cause HUF denominated loans increased by 122.6 %, total volume of mortgage loans decreased by 13.2%.

Volume of housing loans amounted to HUF 3,009 billion as of 31 December 2015, representing yearly decrease of HUF 332 million. HUF loans grew by HUF 1,406 billion while FX housing loans fell down by HUF 1,738 billion during a year.

General-purpose mortgage loans amounted to HUF 1,713 billion as of 31 December 2015 with a HUF 388 billion year-on-year decline. Decrease of HUF-denominated general-purpose loans grew by HUF 1,183 billion, at the same time FX-based general-purpose loans were down by HUF 1,571 billion.

Thanks to HUF conversion of FX loans, proportion of FX mortgage loans decreased from 61.2% in 2014 to 0.5% as of 31 December 2015.

³ Based on reports and statistics of NBH

2.2.1.2 Home protection measures

In 2014, pursuant to the Uniformity Decision of Supreme Court (Curia) concerning consumer loan agreements provided by financial institutions, the Parliament passed the law of Settlement of certain issues related to consumer loan agreements (Settlement Law), decided the conversion of FX loans into HUF, and also approved the Fair-banking law. The CXLV law related to settlement with clients having non-mortgage and cancelled loan agreements denominated in foreign currency entered into force in 2015. The conversions and the settlements took place by deadline in line with the above mentioned regulations.

National Asset Management Ltd.

Among the steps of the 'Home Protection Action Plan' can be found the establishment of the National Asset Management Ltd (NET), to purchase the properties of the most indigent debtors. The related Act CLXX of 2011 provides details about the criteria and the process of the purchase of the properties ensuring residence to the indigent debtors by the National Asset Management Ltd. After 20 June 2012 the properties can be offered for the Hungarian Property Management Ltd. without marked as available for forced sale. The purchase price of the properties is determined by the Hungarian Property Management Ltd. as 35-55% of the original market value depending on the size of the town.

Thanks to the modifications of the Act CLXX of 2011 in December 2012, and July 2013, and also to the regulatory changes entered into force on 1 September 2015 affecting the NET program; the number of the entitled customers was expanded.

The initiation to get the entitled customers in the program is continuous, in the third and fourth quarter of 2015 there was perceptible that the number of offered real estates started to increase as the consequence of the above-mentioned regulatory change.

Until 31 December 2014 756 real estates have been offered for the National Asset Management Ltd, and behind them there were 1,568 transactions. The NET has paid the purchase price of 640 real estates (1,325 loans).

Settlement Rules Act, Forint Conversion Act and Fair Bank Act

Act XXXVIII of 2014 on the Settlement of certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions (hereinafter Curia act) was proclaimed on 18 July 2014. The act was decided in connection with the Civil Law Uniformity Decision No. 2/2014 of the Curia, which was taken on 16 June 2014.

On 24 September 2014 the Hungarian Parliament adopted Act XL of 2014 on the Rules of Settlement laid down in Act XXXVIII of 2014 certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions, and other particular provisions (hereinafter: "Settlement Rules Act"), and on the basis of this act the financial institutions had to repay their consumers any overpayments arising from unilateral amendments and the exchange rate gap that was declared as null and void.

The Settlement Act clarified the provisions of the Curia Act; accordingly the Settlement Act is not applicable to credit cards, overdraft facilities and state-subsidized housing loans. Furthermore the amount which will be repaid to the customers can be reduced by the amount of Bank's discounts.

In addition Act LXXVII of 2014 on the Settlement of issues related to the change in the foreign currency denomination of certain household loans and interest rate rules was also published. The act provided for the forint conversion of debts resulting from retail foreign exchange and foreign exchange based mortgage agreements on 1 February 2015 (hereinafter: "Forint Conversion Act").

The amendment of Act CLXII of 2009 on Providing loans for consumers and other related acts (Consumer Credit Act) (Act LXXVIII of 2014, hereinafter the so called Fair Bank Act) laid down the new contractual terms and conditions for consumer loan agreements not affected by the settlement and all new consumer loan agreements, as did the Forint Conversion Act in respect of agreements affected by the settlement.

Act CXLV of 2015 on the Settlement of issues related to the conversion of claims arising from consumer loans entered into force on 5 October 2015, including foreign currency non-mortgage loan agreements between the consumer and the financial institution, and claims recorded in foreign currency arising from terminated foreign currency loan agreements.

The settlement and forint conversion resulted in an expense of HUF 12.4 billion for the Bank, which was partly compensated by pending overdue interest and revenues from fees and commissions. From the provisions generated in 2014 for expected loss as a result of the Settlement Act, in 2015 the Mortgage Bank used the total amount of HUF 10,340 million.

Personal bankruptcy

The CV law related to the debt settlement of natural persons (the so called „Personal bankruptcy law”) entered into force on 1st of September 2015. The main aim of the law is to settle the debt of natural persons facing payment difficulties using the necessary property and incomes, and to restore the solvency of natural persons in the regulated framework of extrajudicial and judicial procedure of the debt settlement law.

2.2.1.3 Family Housing Allowance ('CSOK')

Family Housing Allowance (CSOK) has been available since 1 July 2015, as its predecessor it still aims to support families with children to purchase homes, but it contains significant improvements compared to the earlier social housing subsidy (szocpol). The non-refundable single subsidy granted by the Hungarian State is available for buying or building new housing, and also for buying second hand homes and for expansion. The amount of the allowance depends on a number of factors: the number of children and the size of the property and its energy efficiency rating.

From 30 June 2015 the FHB Group was among the first to start with the new CSOK available for a wider group of people than heretofore; there was a large demand for the new type of subsidy during the year.

By the end of 2015 around 600 loan applications had been approved, from which the number of disbursed loans reached 350 with the total volume amounting to HUF 394 million. In case of 40% of 'CSOK' applications clients submitted loan applications as well. In terms of contracted subsidy volume FHB's market share is estimated to have exceeded 10.0%.

2.2.2 Other retail loans

Consumer loans of households have been decreasing in 2015 as well. Decrease in volume was 7.3%, and the main fall appeared in case of car purchase loans and of overdrafts, while volume of consumer loans for purchase of goods or other increased. Personal loans representing 36.3% of consumer loans; contribution of card loans reached 21.9%.

3 BUSINESS AND FINANCIAL RESULTS OF FHB MORTGAGE BANK⁴

3.1 MAJOR FINANCIAL INDICATORS

The balance sheet total calculated on the basis of the Hungarian Accounting Standards was 32,9% or HUF 206.9 billion lower than the previous year's figures. The balance sheet total was HUF 421.0 billion at the end of 2015. Earnings before tax were HUF 4,055 million loss.

The special banking tax reduced the result by HUF 1,824 million the credit institution levy related to exchange rate protection scheme by HUF 29 million and the takeover of the fulfilment of Hungarian Banking Association fine HUF 144,1 million respectively.. The FHB Mortgage Bank's result would be HUF 2,057 million loss without special banking tax and above mentioned one-offs.

in HUF million	31/12/2014	31/12/2015	Change
Balance sheet total	627,831	420,966	-32.9%
Loans, gross	128,568	103,103	-19.8%
Securities issued	305,272	257,284	-15.7%
Shareholders' equity	33,237	29,182	-12.2%
Regulatory capital ¹	65,958	62,413	-5.4%
Total risk exposure amount	175,810	140,433	-20.1%
Capital adequacy ratio	37.52%	44.44%	6.9%-pt
Profit / (Loss) before tax	-19,378	-4,055	-79.1%
Profit / (Loss) for the year	-19,378	-4,055	-79.1%
CIR (operating costs / operating income), % ²	829.12%	66.43%	-92.0%-pt
ROAA (return on average assets) %	-3.19%	-0.77%	-75.8%-pt
ROAE (return on average equity) %	-45.14%	-12.99%	-71.2%-pt

3.2 RETAIL AND CORPORATE LENDING

The gross amount of loans was HUF 103.1 billion at the end of 2015. The volume at year-end was HUF 128.6 billion as of 31 December 2014, which was HUF 25.5 billion or 19.8% higher than the amount of 2015. 92.4% of the loan portfolio, HUF 95.3 billion is retail loans, which is HUF 24.4 billion lower than the amount as of 31 December 2014 (HUF 119.7 billion). The corporate loans amounted to HUF 7.6 billion at the end of 2015, which is HUF 2.1 billion lower than in 2014 (HUF 9.7 billion). 92.6% (HUF 95.3 billion) of the loan portfolio is denominated in HUF, the sum of loans denominated in foreign currencies were HUF 7.6 billion as of 31 December 2015. The total amount of disbursed loans is HUF 5.0 billion for 2015, which is HUF 2.1 billion less than the disbursed amount of 2014 (HUF 7.1 billion). From the HUF 5.0 billion disbursing in 2015 the brand new transactions give HUF 4.0 billion. The total disbursed loans were retail loans in 2015.

Main part of lending was generated by housing and general purpose mortgage loans. Housing loans amounted to HUF 74.0 billion in 2015 resulting 77.7% among retail loans. Volume of general purpose loans amounted to HUF 15.9 billion decreasing 35.9% compared to 2014 – representing 16.7% among retail loans in 2015 (in 2014 it was 20.7%)

The land development portfolio amounted to HUF 1.7 billion at the end of 2015, 19.8% less than the previous year's figure. Reversed mortgages amounted to HUF 2.8 billion at the end of 2015 and lowered by 7.0% compared to 2014.

Corporate loans were down by 21.3% year-on-year mainly due to the decrease of commercial real estate loans. Over amortisation of loans, portfolio clearing measures had an impact on decrease of loan volume.

The Mortgage Bank's portfolio-based share of retail mortgage loans was 2.0% at the end of 2015, which is a 17 basis points decrease compared to the previous year.

⁴ This financial analysis contains data and tables calculated from controlling point of view, therefore due to reclassification some figures can differ from data reported in other parts of financial statements.

3.3 REFINANCING

As of 31 December 2015 the portfolio of refinanced loans decreased by 34.0% or HUF 66.5 billion year-on-year and amounted to HUF 129.8 billion. This volume includes HUF 82.7 billion receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to HUF 47.1 billion. Loans denominated in HUF contributed 99.6% to the 2015 year-end refinanced loan portfolio as opposed to 38.5% at the end of 2014. Refinanced loan disbursements amounted to HUF 1.0 billion in 2015 including HUF 862 million contributed by the Commercial Bank.

3.4 PORTFOLIO QUALITY, PROVISIONING

As of 31 December 2015 the Bank's rated assets amounted to HUF 368.5 billion, pending commitments amounted to HUF 1.2 billion (HUF 369.8 billion total) and future commitments (from swap transactions) to HUF 59.1 billion.

Breakdown of portfolio by classification, loss in value and provisions

in HUF million	31/12/2014			31/12/2015		
	Total receivables	Impairment and provisions	Distribution	Total receivables	Impairment and provisions	Distribution
Performing	505,359	-	-	312,521	-	-
To be monitored	24,507	660	2.69%	43,234	1,362	3.15%
Below average	9,439	1,709	18.1%	4,413	734	16.6%
Doubtful	10,082	4,122	40.9%	7,244	3,388	46.8%
Bad	3,305	2,757	83.4%	2,333	2,007	86.0%
Total	552,692	9,248	1.7%	369,745	7,491	2.0%

Receivables from customers amounted to HUF 103.5 billion (28.0% of the portfolio excluding swap), moreover, according to the contracts, HUF 1.2 billion of lending liability (0.3%) was maintained at the measurement time. HUF 21.9 billion claims and HUF 0.1 billion commitments were classified as "to be monitored" or "bad" related to 6,684 loan agreements from the total receivables from customers with HUF 6.4 billion total impairment and provisions. The refinancing loan portfolio amounted to HUF 129.8 billion (35.0%) classified as performing.

The Bank had outplacements at eleven commercial banks in the form of fixed-term and sight deposits, amounting to HUF 94.6 billion (25.6%).

The Bank holds stakes in five companies: FHB Commercial Bank Ltd., FHB Real Estate Ltd, FHB Invest Ltd., Diófa Asset Management Ltd. and Magyar Takarék Asset Management Ltd. The total face value of investments is HUF 41.0 billion (11.1%) from which HUF 35.3 billion classified as non-performing, HUF 5.7 billion as performing. Mortgage Bank formed HUF 1,058 million impairment on investments at the end of 2015.

Future commitments amounting to HUF 59.1 billion at the balance sheet date are classified as performing.

The ratio of performing portfolio improved in the total portfolio, and ameliorated in the loan portfolio (at receivables from customers and at commitments) compared to the values measured at the end of 2014.

As of 31 December 2015, 84.5% of the classified portfolio (excluding swaps) was performing (compared to 91.5% as of 31 December 2014). The ratio of below average, doubtful and bad receivables was 3.8% (4.1% as of 31 December 2014), and the ratio of category 'to be monitored' was 11.7% (4.4% as of 31 December 2014).

In the loan portfolio, the performing rate was 79.0% (65.1% as of 31 December 2014), the combined rate of below average, doubtful and bad loans was 13.4% (16.9% as of 31 December 2014), and the 'to be monitored' category was 7.6% (18.0% as of 31 December 2014).

The average loss in value showed increase compared to the previous measurement time both in the total portfolio (without swap) (2.0%) and in the loan portfolio (6.1%).

3.5 MORTGAGE AND SENIOR BOND ISSUES

In 2015 FHB Bank made 25 transactions (20 issuances and 5 repurchases) contrary to the 13 transactions in 2014.

In 2015, the Bank has HUF 76.4 billion new capital market funds (euro funds calculated at the EUR exchange rate as of the date of the issuance). The face value of issued bonds amounted to HUF 75.4 billion mortgage bonds, and HUF 1 billion unsecured bonds were issued.

In accordance with the relevant statutory provisions the Bank has undertaken to keep a stricter mortgage bond coverage ratio. Accordingly, the aggregate amount of ordinary collateral (net of loss in value) plus supplementary collateral principal exceeded each day the aggregate nominal value of outstanding mortgage bonds in circulation. The same adequacy rule prevailed with respect to interest-to-interest.

In accordance with the provisions of the Act on Mortgage Loan Companies and Mortgage Bonds and in keeping with its Rules on Collateral Registration, the Bank monitored the loan cover situation and the compliance with the requirement of proportionality. In order to ensure appropriate mortgage bond cover the Bank verified, upon disbursement of the loan, whether the conditions for ordinary collateral were met.

The net collateral value of real estate covering mortgage bonds issued by the Bank was HUF 292.6 billion as of 31 December 2015, 25.7% less than the figure as of 31 December 2014 (393.6 billion HUF)

Value of mortgage bonds and assets involved as collateral as of 31 December 2015

in HUF million	31/12/2014	31/12/2015	Change
Outstanding mortgage bonds in circulation			
Face value	199,488	195,084	-2.2%
Interest	38,804	40,676	4.8%
Total	238,292	235,760	-1.1%
Value of the regular collateral			
Principal	276,905	207,402	-25.1%
Interest	116,722	85,178	-27.0%
Total	393,627	292,580	-25.7%
Value of assets involved as supplementary collateral			
Bonds guaranteed by the government	0	17,007	-
Total	0	17,007	-

As of 31 December 2015, the present value of ordinary collateral was HUF 258.2 billion and the present value of mortgage bonds was HUF 226.7 billion, thus the present value of collateral exceeded that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 113.9% in the same period.

As of 31 December 2015 net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 115.0%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 209.4%.

3.6 BALANCE SHEET STRUCTURE

As of 31 December 2015 the balance sheet total of the Bank was HUF 421 billion, 32.9% lower than in 2014. The bulk of the annual decrease in total assets was generated by interbank placements, refinanced loans and gross loans to customers. Interbank placements decreased by HUF 87.4 billion, refinanced loans by HUF 66.3 billion, while gross loans to customers decreased by HUF 25.5 billion year-on-year. On the liabilities side, the decrease was dominated by interbank funds, bonds issued and provisions and reserves. Changes in interbank funds decreased liabilities by HUF 157.6 billion, bonds issued by HUF 43.6 billion, while decrease of provisions and reserves was HUF 10.2 billion. Shareholders' equity declined by HUF 4.1 billion compared to previous year.

in HUF million	31/12/2014	31/12/2015	Change
Assets			
Interest earning assets	570,282	376,329	-34.0%
Interbank placements	172,071	84,637	-50.8%
Securities	63,422	48,798	-23.1%
Refinanced loans	196,121	129,791	-33.8%
Loans to customers, gross	128,568	103,103	-19.8%
Subordinated loan	10,000	10,000	0.0%
Other interest earnings assets	100	0	-100.0%
Impairment and provision	-9,014	-6,407	-28.9%
Cash	15	1,754	-
Investments	39,924	39,914	0.0%
Tangible assets, inventory	830	490	-41.0%
Intangible assets	1,614	1,297	-19.6%
Other assets	24,180	7,589	-68.6%
Total assets	627,831	420,966	-32.9%
Liabilities			
Interest bearing liabilities	544,670	338,837	-37.8%
Mortgage bonds	199,488	195,084	-2.2%
Bonds issued	105,784	62,200	-41.2%
Interbank funds	204,051	46,441	-77.2%
Subordinated debt	35,268	35,069	-0.6%
Other interest bearing liabilities	79	43	-45.6%
Other liabilities	39,566	52,762	33.4%
Provisions and reserves	10,358	185	-98.2%
Shareholders' equity	33,237	29,182	-12.2%
Total liabilities and equity	627,831	420,966	-32.9%

3.6.1 Interest earning assets

The Bank's interest earning assets decreased from HUF 570.3 billion as of 31 December 2014 by 34% to HUF 376.3 billion by the end of 2015. The portfolio of refinanced loans decreased by 33.8% year-on-year; net loans to customers sold by the Mortgage Bank through the Commercial Bank and its network of agents was 19.8%, or HUF 25.5 billion less than in the reference year and amounted to HUF 103.1 billion. Loans to customers contributed 27.4% to interest earning assets at the end of the year (increased by 4.9%).

The aggregate portfolio of mortgage loans (net of provisions) amounted to HUF 226.5 billion as of 31 December 2015, which is 28.3% (HUF 89.2 billion) lower than the base period figure.

The collateral value of real estate covering mortgage loan principal receivable amounted to HUF 704.1 billion as of 31 December 2015, 12.9% short of the reference period's figure (HUF 808.6 billion). Thus the average loan-to-value of coverage (LTV) ratio was 29.3% as of 31 December 2015, lower than the 2014 LTV of 34.3%.

3.6.2 Intangible assets and investments

The value of invested assets (net of provisions) was HUF 39.9 billion as of 31 December 2015, which is nearly on the same level as in 2014. As of 31 December 2015, FHB Mortgage Bank's net holdings in the jointly controlled companies were as follows: HUF 34.2 billion in FHB Commercial Bank, HUF 648 million in FHB Real Estate, HUF 169 million in Diófa Asset Management Ltd., HUF 4.6 billion in FHB INVEST Ltd. and HUF 253 million in Magyar Takarékszövetkezet Asset Management Ltd.

The net value of intangible assets as of 31 December 2015 was HUF 1.3 billion, which contains the goodwill related to shares of Diófa Asset Management Ltd. (total HUF 833.7 million), which major part makes up of FHB Invest Ltd. goodwill.

3.6.3 Other assets

The Bank's other assets amounted to HUF 7.6 billion and decreased by 68.6% in 2015. The bulk of other assets were contributed by accruals amounting to HUF 5.1 billion. As of 31 December 2015 the Bank had repurchased Treasury shares amounting to HUF 207.2 million.

3.6.4 Interest bearing liabilities

3.6.4.1 Mortgage bonds and senior bonds issued

As of 31 December 2015, 57.6% of interest bearing liabilities was contributed by the Bank's mortgage bond portfolio that ensures long-term funding for mortgage loans. As of 31 December 2015, mortgage bonds issued by the Bank amounted to HUF 195.1 billion HUF, 2.2% lower than the previous year's figure.

Senior bonds completing the securities activity of mortgage bond issuance resulted in a book value of HUF 62.2 billion as of the 31 December 2015, decreasing by 41.2% compared to the previous year-end figure.

3.6.4.2 Interbank funds

Interbank borrowings amounted to HUF 46.4 billion as of 31 December 2015. The contribution of bank group interbank deposits was 61.9% or HUF 28.7 billion, while liability in respect of related companies 38.1%, HUF 17.7 billion.

3.6.4.3 Subordinated liabilities

The Bank possessed a nominal value of EUR 112 million (HUF 35.1 billion) in basic capital qualifying bond as of 31 December 2014, and the stock of this was also EUR 112 million (HUF 35.3 billion) at 31 December 2014.

3.6.4.4 Other interest bearing liabilities

The aggregate value of deposits from clients on collateral accounts related to project loan transactions was HUF 43 million as of 31 December 2015, 45.6% lower than the HUF 79 million in the previous year.

3.6.5 Other liabilities

Other liabilities amounted to HUF 52.8 billion representing 33.4% growth compared to 2014. First of all this line item includes passive accruals amounting to HUF 20.1 billion at the end of 2015. The two dominant components of passive accruals are accrued interest expenses (HUF 8.3 billion) and accruals related to foreign exchange gains on mortgage bonds (HUF 7.7 billion).

3.6.6 Shareholders' equity

As of 31 December 2015 the shareholder's equity of the Bank amounted to HUF 29.2 billion, decreasing by 12.2% year-on-year due to the loss per balance sheet.

FHB Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. The capital increase was executed by issuing dematerialized dividend preference shares

(Series "B") and dematerialized ordinary shares (Series "C"). Value of the Bank's own funds was HUF 62.4 billion at 31 December 2015. The capital adequacy ratio was 44.44% (one year ago 37.52%). CET1 ratio stood at 21.94% as of 31 December 2015 while 27.27% at the end of previous year.

3.6.7 Off-balance sheet items

Within the Bank's off-balance sheet items, amount of unused credit lines was HUF 393.2 million. Future liabilities decreased from previous year's HUF 531.6 billion to HUF 59.1 billion, including HUF 37.7 billion hedge transactions related to mortgage and unsecured bonds issued and HUF 20.7 billion FX swaps liabilities as of 31 December 2015. Demands from hedge transactions amounted to HUF 37.5 billion and demands from currency swaps to HUF 20.7 billion.

3.7 PROFIT & LOSS STRUCTURE

in HUF million	31/12/2014	31/12/2015	Change
Net interest income	8,807	4,560	-48.2%
Interest income	43,309	30,154	-30.4%
Interest expense	-34,502	-25,594	-25.8%
Net fees and commission income	-1,027	-417	-59.4%
Fee and commission received	715	982	37.3%
Fee and commission paid	-1,742	-1,399	-19.7%
Net result of financial transactions	-7,798	-1,018	-86.9%
Other income and expenditure	-2,504	-14,025	460.1%
Other operating income	2,414	6,837	183.2%
Other operating expenditure	-4,918	-20,862	324.2%
Gross operating income	-2,522	-10,900	332.2%
Operating expenses	-5,778	-6,029	4.3%
Net provisioning and loan losses	-11,078	12,874	-216.2%
Profit/loss before tax	-19,378	-4,055	-79.1%
Taxation expense	0	0	-
Profit/loss after tax	-19,378	-4,055	-79.1%
Profit/loss after tax w/o special banking tax and one-offs	944	-2,057	-318.0%
General reserve	194	0	-100.0%
Profit / loss per balance sheet	-19,184	-4,055	-78.9%

The Bank's gross operating income was HUF – 10.9 billion in 2015, which is significantly higher than the result in 2014.

As a key component of gross operating income, net interest income reduced by 48.2% year-on-year. Operations throughout the year generated a total of HUF 6.0 billion costs, which means 4.3% increase compared to 2014.

3.7.1 Net interest income

The HUF 4.6 billion net interest income generated in 2015 emerged as the balance of HUF 30.2 billion interest income (30.4% lower than in 2014) and HUF 25.6 billion interest expense (25.8% decrease).

As of the interests of customers' loans show decrease of HUF 6.9 billion, and swap deals' interests are down by 52.8%.

Interest expenses showed lower decrease than interest incomes in 2015. Among expenses securities' interest expenses play the most significant role, its amount declined by HUF 3.6 billion compared to 2014. Interest expenses of SWAPs generated HUF 4.9 billion decrease.

The net interest margin on average total assets was 0.8% as of 31 December 2015 and 1.47% as of 31 December 2014.

3.7.2 Net fees and commissions

In 2015 the net fees and commission income amounted to HUF 0.4 billion loss, after net fee income in 2014 was HUF 1.0 billion loss.

Among fee and commission paid securities' fees reduced by 37.5%, while the agent fee which is the main part of the fee on commission expenses to FHB Commercial Bank decreased by 21.6% (HUF 1.3 billion) in 2014.

3.7.3 Net profit from financial transactions

The performance of net result of financial transactions was quite different compared to 2014 result increased by HUF 6.8 billion year-on-year and amounted to HUF 1.0 billion loss. Both the result of foreign exchange transactions and mortgage bonds showed profit in 2015: foreign exchange transactions performed HUF 1.9 billion and mortgage bonds generated HUF 468 million gain.

3.7.4 Other income and expenditure

The result of other income and expenditure shows negative amount (HUF 2.0 billion) in 2015. It decreased by 6.3%, HUF 2.0 billion income was generated by internal services (main items were IT, accounting and real estate rental services). Gain from provision – for settlement law - releasing was HUF 10.2 billion.

The most significant volume of other expenses was the expenditures of settlements of Fair Banking Act (HUF 12.4 billion).

The expenses of loan factoring and loan write-off amounted to HUF 3.3 billion.

3.7.5 Operating expenses

in HUF million	31/12/2014	31/12/2015	Change
General administrative costs	2,836	3,323	17.2%
Personnel expenses	2,111	1,885	-10.7%
- wages and salaries	1,456	1,281	-12.0%
- other personnel expenses	196	197	0.5%
- social security contributions	459	407	-11.3%
Direct costs of banking activity	528	528	0.0%
Costs of internal services	12	16	33.3%
Depreciation	292	276	-5.5%
TOTAL OPERATING EXPENSES	5,779	6,029	4.3%

There was no significant change in structure of operating expenses in 2015, but the total expenses increased by 4.3% to HUF 6.0 billion especially because general administrative expenses increased by 17.2%. The main part of this cost group IT costs and property related costs, but significant item in consulting fees and telephone charges as well. Nearly a third of operating expenses called personnel expenses particularly due to outsource of certain activities decreased by 10.7%.

3.7.6 Impairment and loan losses

In 2015 the Bank released HUF 2.6 billion net reserve for impairment and provisions. The impairment of receivables amounted HUF 2.4 billion and HUF 5.2 billion provisions and reserves reversals.

At the end of 2015, the Company implied a provision of HUF 144.1 million due to Hungarian Competition Authority (GVH) fine relating to the participation in Hungarian Banking Association's database 'BankAdat'.

3.7.7 Change in general reserve

There were no changes in the stock of general reserve in 2015.

4 LIQUIDITY MANAGEMENT

In accordance with the Group's strategy the Mortgage Bank ensures the entire Group's liquidity through regular business relations with other Group companies.

The Group's liquidity position was constantly stable in 2015. Treasury Department managed FHB's liquidity in the examined period in accordance with the Group's liquidity management framework established in the past. Stable background and existing solvency have been characteristics of all Group members. In the course of Group liquidity management primarily FHB Mortgage Bank was acting on the capital-and money markets, while other Group members—including FHB Bank Ltd.—have always closed their position with the parent bank. However, it has been already experienced that the Commercial Bank was becoming more independent in certain business lines.

The appearance of Commercial Bank as an independent market player became necessary due to changes in the legal environment. Optimization of certain legal entities' market appearance is indispensable since the new liquidity ratios do

not support the aggregation and consolidation of positions. Hence, it became regular that both banks appeared on the markets in case of certain products and deal types parallel in the third quarter. The Treasury Department of Mortgage Bank, as the professional leader, managed the positions safely and also supervised Commercial Bank's independent activity in compliance with referring limits and regulations.

The closing balance of the nostro accounts of the Group was HUF 2.9 billion, in Mortgage Bank this amounted to HUF 1.2 billion. The amount of margin deposits of the Group in HUF was HUF 1.1 billion (Mortgage Bank 1.08), in EUR in FHB Commercial Bank it was EUR 8 million and the net margin position of the Mortgage Bank's deposited interbank showed a net balance of EUR 5.7 million at the end of 2015. The Group's net margins placed with counterparties amounted to EUR 13.7 million (about HUF 4.3 billion) and HUF 1.1 billion, ie. a total of HUF 5.4 billion.

As of 31 December 2015, the consolidated securities portfolio contained mainly government bonds (HUF 46.4 billion, EUR 12.2 million and USD 0.6 million), and other mostly state guaranteed securities (HUF 52.5 billion and EUR 58.4 million). (The portion of the securities held by the Mortgage Bank - HUF 31 billion and EUR 4 million government bonds and HUF 15 billion and EUR 5 million securities with a state guarantee –are held solely due to liquidity and risk management purposes.)

Available liquid securities of the Group amounted to HUF 184.0 billion (including exclusively the unencumbered security portfolio, nostro accounts, net overnight interbank- and overnight NBH deposits).

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

Risks inherent in the Group's business are managed on group level with the governance of Mortgage Bank. The primary purpose of risk management is to protect the Group's financial strength and goodwill and to support the deployment of capital in such competitive business activities, which increase shareholder value. The Group applies uniform risk management principles for the parent bank and the subsidiary companies under consolidated supervision as well.

Risk management identifies, evaluates and analyses the exposure of the Group and its members under consolidated supervision. It processes information gained and develops risk guidelines and sets up limits on exposures and operates risk management systems. The Group is basically exposed to credit, liquidity, market and operational risks.

In case of credit risk the Bank—in line with its goals—managed to maintain and to improve the quality of the retail portfolio when the conversion of FX loans went through. Also, the Bank was successful in expanding exposures to the client base available through its strategic partner Magyar Posta owing to its prudent risk management policy. In case of the corporate client base FHB aimed at—and succeeded—to increase exposures building a portfolio with good quality.

In order to maintain the diversified funding structure, FHB raised funds in the form of security issuance tapping the capital market several times in 2015, whereas maturing debt was rolled over through raising long-term fund. The ratio of deposits collected in the network of Hungarian Post (Magyar Posta) is increasing within the total deposit volume.

The Bank had a significant liquid asset buffer in the examined year, primarily in the form of government bonds. Removal of the CHF/EUR peg had a neutral impact on the Bank's balance sheet, as FX risk related to the conversion of residential mortgage loans was fully hedged.

FHB Mortgage Bank Co. Plc and its subsidiary FHB Bank Ltd. became members of the Integration Organization of Cooperative Credit Institutions (SZHISZ) on September 23, 2015. In accordance with the resolution of Takarékbank's—the central bank of SZHISZ—Board of Directors common risk policies of the SZHISZ was extended to FHB Mortgage Bank and FHB Bank on September 24, 2015, when the two banks also became covered by joint and several liability based on Section (4) Article 1 of Szhitv. FHB Mortgage Bank and its affiliated subsidiaries became parts of the Group under prudential consolidation led by Takarékbank. As a result of the above FHB Group integrated into the risk management system of SZHISZ.

In order to strengthen its capital position FHB Mortgage Bank increased its share capital in December 2015 that can be considered in the regulatory capital based on the respective resolution of the National Bank of Hungary (NBH) and the approval and the registration by the Court of Registration.

5.2 CREDIT RISK

As far as credit risk management is concerned the main tasks—apart from the daily routines—FHB Group performed in 2015 were the following:

The system of lending limits of the corporate sector has been revised in Q1 2015 setting the direction of risk-taking policy as well. New indicators, showing not only the deadlines but the status and comprehensiveness of the relevant process, were built in the monitoring process of corporate sector exposures. These measures improve the risk management's analysis of clients' financial position. Risk management reviewed the results of monitoring on a quarterly basis and prepared a report on the results of evaluation. From the beginning of March the rating process of standard corporate clients will take place through the new IT-based scoring system.

The most important task in relation to retail segment was the preparation for loan replacements as a consequence of financial settlement with clients. Risk Management took part in defining conditions, determining the range of documents, setting the pricing of the offered replacement loan product. Further fine-tuning of existing personal loans took place, while the development of new products for personal lending had been in progress.

FHB started offering a new personal loan product in Hungarian Post's network in June 2015. Risk Management was involved in defining risk conditions of the product with further calibration and also took part in educating trainers responsible for Hungarian Post employees.

Based on practical experiences and questions raised internal rules of eligible income in terms of retail lending were amended and fine-tuned several times during the year. Specific risk parameters in reference to mortgage loans have been amended as well.

Retail Risk Management became responsible for the receptions of unique loan applications different from standard conditions in case of all retail loan products from July.

Personal loan for debt settlement was introduced in the network of Hungarian Post with the contribution of the risk management department in the fourth quarter. Risk management also participated in setting up conditions and establishment of credit approval process of the debit card campaign introduced for FHB employees.

FHB Leasing Ltd.— besides financial leasing of properties – expanded its activity with the leasing of equipment, of which risk management conditions have to be set up.

5.3 LIQUIDITY AND MATURITY RISK

Maintaining liquidity is an essential element of the banking activity. The Bank maintains its liquidity by coordinating the maturity of its assets and liabilities. In the framework of ALM activity the Bank mitigates the maturity risk through the repurchase of the securities issued and new issuances. At the same time, it applies maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times. The Bank regularly reviews prepayments initiated by clients prior to term and takes into consideration their impact on managing market and liquidity risks.

FHB Group seeks to diversify its sources with respect to type of resources and distribution channel. In addition to the issue of capital market instruments addressing institutional investors, deposits are collected and securities sold in its branch network as well as in the network of Hungarian Post.

The Group's liquidity plans, financial position are prepared along scenarios based on different assumptions, which take into account the effects of stress situations. The stock of liquid assets is constantly high.

5.4 EXCHANGE RATE RISK

The Mortgage Bank is a specialized credit institution, which narrows the scope of business where exchange rate-related risks may arise. Moreover, the Bank's business policy is to keep exchange rate risk at a low level.

The Banking Group intends to immediately hedge the exchange risks related to its core business, as allowed by market circumstances. Therefore, an open FX position may occur primarily due to liquidity management, settlements related to lending and refinancing, or active and passive provisions in currencies in which the Bank keeps nostro account.

Due to the HUF conversion of the retail mortgage loans, the retail FX loan portfolio shrunk to marginal level, becoming an inherent risk.

5.5 INTEREST RATE RISK, EXCHANGE RATE RISK

Interest rate risk stems from interest rate changes, which affect the value of financial instruments. The Bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in accordance with each other.

The Bank is monitoring the interest rate risk on a continuous basis by Gap analysis, VaR calculations and sensitivity analysis and mitigates by setting limits. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as repurchase of mortgage bonds, swap transactions as well as mortgage bond maturities and interest rates corresponding to assets are involved in order to ensure the harmony between assets and liabilities.

The Bank manages the risk related to investment services through setting limits.

5.6 OPERATING RISK

The Bank manages operational risks by developing and improving internal rules and regulations, by providing appropriate training to the staff involved in the workflows and by creating and developing further built-in control mechanisms. The management devotes important role to feedback, verifying and controlling the efficiency of the measures to mitigate risks.

The operational risk loss data and key risk indicators are collected and analysed.

On the basis of the annual self-evaluation of potential operational risk factors arising from the activities the Group put together and update operational risk map, and identify rare events with high losses, which events' impacts are assessed by the scenario analysis.

5.7 OTHERS

In the Q2 2015 the institutional members of the FHB Banking Group have fully met the transparency requirements of CRR and published the mandatory information about the risk management, the capital adequacy and the remuneration policy.

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

FHB Mortgage Bank Co. Plc.'s organization significantly changed on May 22, 2015. The operational structure of the Bank was altered as a result of the demerger of certain departments previously lead by the IT Directorate. IT departments were outsourced to DOM-P Ltd in the framework of SLA, under which it provides the software background, wide-ranging developments, operation and maintenance functions all necessary for such a quality service required by prudent operation in accordance with the mutually agreed and defined rules.

Responsibilities within the Administration and HR Directorate were rationalized as a result of the partial revision of the unit. IFRS and Accountancy Department was eliminated, however at the same time units under the governance of the department continued operating as independent departments: Department of Accountancy of Mortgage Bank and Group members, Department of Taxation, Department of IFRS and Consolidation. Professional leadership of the new departments and the other existing departments of the directorate is practiced by the Director of Administration and HR.

From April 1, 2015 onwards, the Independent Department of Portfolio Classification and Analysis practices its responsibilities and functions on Group level.

The number of full time equivalent employees as of 31 December 2015 was 129.4 as opposed to the 180.7 as of 31 December 2014.

7 POST-BALANCE SHEET DATE EVENTS

In January 2016 the National Bank of Hungary (NBH) launched its new lending programme, the Growth Supporting Programme (GSP). The aim of the GSP to support the SME-s' sustainable lending, i.e. it stimulates the lending activity of the banks. The GSP contains two elements: the third, so called phasing out section of the former growth supporting programme, i.e. the Funding for Growth Scheme (FGS), and the introduction of the Market Lending Scheme (MLS). The latter is a new package, which helps banks to return to the market based lending, providing positive incentives. The main aim for the year of 2016 of the NBH is to increase lending portfolio for corporates and SMEs by HUF 250-400 billion during the year, which means a 5-10% increase compared to the present portfolio.

Pursuant to the entry into force on 1st January 2016 of the government regulation No. 265/2011 (XII.6.) about the housing subsidy many amendments were published related to Non- Refundable Family Home Creating Benefit "CSOK". Some definitions, application conditions and the possible requested amounts were amended. Earlier the maximum supported amount cannot exceed the HUF 3.25 million, now the maximum amount is HUF 10 million for the eligible applicants. The subsidy still depends on the number of the children and the total useful area of the flats, but following the amendments the donated money does not depend on the energy class of the flat.

The Hungarian Competition Authority (GVH) imposed a fine of HUF 4.015 billion on the Hungarian Banking Association for the operation of 'BankAdat' database on January 12, 2016. FHB Mortgage Bank Co. Plc. and FHB Commercial Bank Ltd. sign a contract to take over the fulfilment of the respective fine, which implies a HUF 151.9 million provisioning for the two financial institutions in 2015.

In accordance with the Board decision as of December 28, 2015 the Bank increased its share capital, whereby the new shares were to be issued privately. As a result of the above transaction 14,163,430 pcs of 'B' series as dividend preference shares and 2,832,686 pcs of 'C' series as ordinary shares were issued in the total capital amount of HUF 30.5bn. The Court of Registration approved and registered the capital increase with its resolution on February 24, 2016.

NBH gave permission with its resolution as of March 10, 2016 to consider the issued 'B' and 'C' shares as Tier 1 capital.

Budapest, 5 April, 2016

dr. Zoltán Spéder
Chairman of the Board of Directors

Gyula Köbli
Chief Executive Officer

FHB Mortgage Bank Plc.

*Annual report and
Independent Auditor's Report*

December 31, 2015

Translation of the Hungarian original

INDEPENDENT AUDITORS' REPORT

To the shareholders and the Board of Directors of FHB Mortgage Bank Plc.

Report on the Financial Statements

We have audited the accompanying financial statements of FHB Mortgage Bank Plc. (the "Bank") for the year 2015, which comprise the balance sheet as at December 31, 2015 – which shows total assets of HUF 420,966 million and the loss for the year of HUF 4.055 million –, and the related profit and loss account for the year then ended and the supplement comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and effective Hungarian laws and other regulations pertaining to audit. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of FHB Mortgage Bank Plc. as at December 31, 2015, and its financial performance for the year then ended in accordance with the Act on Accounting.

Other Matters

We issued our auditors' report dated April 5, 2016 on the financial statements submitted for the General Meeting. The effects of subsequent events were examined until that date.

The financial statements were approved by the General Meeting on April 28, 2016. Our procedures regarding the subsequent events occurred after April 5, 2016 were limited to the General Meeting's decision on the approval of the financial statements.

Other Reporting Obligation: Report on the Business Report

We have examined the accompanying business report of FHB Mortgage Bank Plc., for the year 2015.

Management is responsible for the preparation of this business report in accordance with the Accounting Act.

Our responsibility is to assess whether the accounting information in the business report is consistent with that contained in the financial statements prepared for the same business year. Our work with respect to the business report was limited to assessing the consistence of the business report with the financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the business report of FHB Mortgage Bank Plc., for the year 2015 corresponds to the figures included in the financial statements of FHB Mortgage Bank Plc., for the year 2015.

Budapest, April 28, 2016

The original Hungarian version has been signed.

Kornél Bodor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
000083

Tamás Horváth

registered statutory auditor
003449



**FHB Mortgage Bank
Public Limited Company**

Annual Report

31 December 2015

**Balance Sheet
Profit and Loss Statement
Notes to Accounts**

(translation)

Budapest, 5 April 2016

BALANCE SHEET ASSETS

in HUF Million

Item No	Identification of item	31 December 2014	31 December 2015
a	b	c	d
1	1. Liquid assets	1,194	1,804
2	2. Treasury bills and similar securities	53,436	32,347
3	a, held for trading	53,436	32,347
4	b, held as financial fixed assets	-	-
5	3. Loans and advances to credit institutions	377,014	224,378
6	a, repayable on demand	941	1,139
7	b, other loans and advances in connection with financial services	376,073	223,239
8	ba, with remaining maturity of less than one year	183,202	63,646
9	Showing separately: -to affiliated companies	23,448	1,752
10	-to other companies linked by virtue of participating interests	-	-
11	-to the NBH	-	-
12	bb, with a remaining maturity of more than one year	192,871	159,593
13	Showing separately: -to affiliated companies	86,765	57,713
14	-to other companies linked by virtue of participating interests	-	-
15	-to the NBH	-	-
16	c, in connection with investment services	-	-
17	Showing separately: -to affiliated companies	-	-
18	-to other companies linked by virtue of participating interests	-	-
19	4. Loans and advances to customers	119,093	95,760
20	a, in connection with financial services	119,093	95,760
21	aa, with a remaining maturity of less than one year	19,867	15,557
22	Showing separately: -to affiliated companies	1,043	247
23	-to other companies linked by virtue of participating interests	-	-
24	ab, with a remaining maturity of more than one year	99,226	80,203
25	Showing separately: -to affiliated companies	200	117
26	-to other companies linked by virtue of participating interests	-	-
27	b, in connection with investment services	-	-
28	Showing separately: -to affiliated companies	-	-
29	-to other companies linked by virtue of participating interests	-	-
30	ba, receivables in connection with investment services on the exchange markets	-	-
31	bb, receivables in connection with investment services outside the exchange markets	-	-
32	bc, receivables from customers in connection with investment services	-	-
33	bd, claims from clearing corporations	-	-
34	be, receivables in connection with other investment services	-	-
35	5. Debt securities, including fixed-income securities	9,987	16,451
36	a, issued by local governments and other public bodies (not including treasury bills and similar securities)	-	-
37	aa, held for trading	-	-
38	ab, held as financial fixed assets	-	-
39	b, securities issued by other borrowers	9,987	16,451
40	ba, held for trading	9,987	16,451
41	Showing separately: -issued by affiliated companies	-	-
42	-issued by other companies linked by virtue of participating interests	-	-
43	-own shares repurchased	-	-
44	bb, held as financial fixed assets	-	-
45	Showing separately: -issued by affiliated companies	-	-
46	-issued by other companies linked by virtue of participating interests	-	-

Item No	Identification of item	31 December 2014	31 December 2015
a	b	c	d
47	6. Shares and other variable-yield securities	-	-
48	a, shares and participations in corporations held for trading	-	-
49	Showing separately: -issued by affiliated companies	-	-
50	-issued by other companies linked by virtue of participating interests	-	-
51	b, variable-yield securities	-	-
52	ba, held for trading	-	-
53	bb, held as financial fixed assets	-	-
54	7. Shares and participations in corporations held as financial fixed assets	-	10
55	a, shares and participations in corporations held as financial fixed assets	-	10
56	Showing separately: -participating interests in credit institutions	-	-
57	b, adjusted value of shares and participations in corporations held as financial fixed assets	-	-
58	Showing separately: -participating interests in credit institutions	-	-
59	8. Shares and participating interests in affiliated companies	39,924	39,904
60	a, shares and participations in corporations held as financial fixed assets	39,924	39,904
61	Showing separately: -participating interests in credit institutions	35,282	35,282
62	b, adjusted value of shares and participations in corporations held as financial fixed assets	-	-
63	Showing separately: -participating interests in credit institutions	-	-
64	9. Intangible assets	1,617	1,297
65	a, intangible assets	1,617	1,297
66	b, adjusted value of intangible assets	-	-
67	10. Tangible assets	698	482
68	a, tangible assets for financial and investment services	695	480
69	aa, land and buildings	231	189
70	ab, machinery, equipment, fittings, fixtures and vehicles	458	290
71	ac, tangible assets in course of construction	6	1
72	ad, payments on account	-	-
73	b, tangible assets not directly used for financial and investment services	3	2
74	ba, land and buildings	-	-
75	bb, machinery, equipment, fittings, fixtures and vehicles	3	2
76	bc, tangible assets in course of construction	-	-
77	bd, payments on account	-	-
78	c, adjusted value of tangible assets	-	-
79	11. Own shares	207	207
80	12. Other assets	6,094	3,219
81	a, stocks	344	180
82	b, other receivables	5,750	3,039
83	Showing separately: -from affiliated companies	1,232	950
84	-from other companies linked by virtue of participating interests	-	-
85	13. Prepayments and accrued income	18,567	5,107
86	a, accrued income	15,018	3,803
87	b, accrued costs and expenses	3,549	1,304
88	c, deferred charges	-	-
89	TOTAL ASSETS	627,831	420,966
	Showing separately: CURRENT ASSETS (1+2.a.+3.c.+3.a.+3.ba.+4.aa.+4.b.+5.aa.+5.ba.+6.a.+6.ba.+11+12)	274,928	134,370
	FIXED ASSETS (2.b.+3.bb.+4.ab.+5.ab.+5.bb.+6.bb.+7+8+9+10)	334,336	281,489

BALANCE SHEET LIABILITIES AND EQUITY

in HUF Million

Item No	Identification of item	31 December 2014	31 December 2015
a	b	c	d
90	1. Amounts owed to credit institutions	204,051	46,440
91	a, repayable on demand	-	-
92	b, with agreed maturity dates or periods of notice in connection with financial services	204,051	46,440
93	ba, with remaining maturity of less than one year	204,051	17,688
94	Showing separately: -to affiliated companies	202,092	17,688
95	-to other companies linked by virtue of participating interests	-	-
96	-to the NBH	-	-
97	bb, with remaining maturity of more than one year	-	28,752
98	Showing separately: -to affiliated companies	-	28,752
99	-to other companies linked by virtue of participating interests	-	-
100	-to the NBH	-	-
101	c, in connection with investment services	-	-
102	Showing separately: -to affiliated companies	-	-
103	-to other companies linked by virtue of participating interests	-	-
104	2. Amounts owed to customers	713	744
105	a, savings deposits	-	-
106	aa, repayable on demand	-	-
107	ab, with remaining maturity of less than one year	-	-
108	ac, with remaining maturity of more than one year	-	-
109	b, other liabilities in connection with financial services	713	744
110	ba, repayable on demand	634	701
111	Showing separately: -to affiliated companies	-	-
112	-to other companies linked by virtue of participating interests	-	-
113	bb, with remaining maturity of less than one year	79	43
114	Showing separately: -to affiliated companies	-	-
115	-to other companies linked by virtue of participating interests	-	-
116	bc, with remaining maturity of more than one year	-	-
117	Showing separately: -to affiliated companies	-	-
118	-to other companies linked by virtue of participating interests	-	-
119	c, in connection with investment services	-	-
120	Showing separately: -to affiliated companies	-	-
121	-to other companies linked by virtue of participating interests	-	-
122	ca, liabilities in connection with investment services on the stock exchange markets	-	-
123	cb, liabilities in connection with investment services outside the stock exchange markets	-	-
124	cc, liabilities to customers in connection with investment services	-	-
125	cd, liabilities to clearing corporations	-	-
126	ce, liabilities in connection with other investment services	-	-
127	3. Debts evidenced by certificates	305,272	257,284
128	a, debt securities in issue	305,272	257,284
129	aa, with remaining maturity of less than one year	124,313	78,079
130	Showing separately: -to affiliated companies	2,412	11,045
131	-to other companies linked by virtue of participating interests	-	-
132	ab, with remaining maturity of more than one year	180,959	179,205
133	Showing separately: -to affiliated companies	35,352	10,739
134	-to other companies linked by virtue of participating interests	-	-
135	b, other debt securities issued	-	-
136	ba, with remaining maturity of less than one year	-	-
137	Showing separately: -to affiliated companies	-	-
138	-to other companies linked by virtue of participating interests	-	-
139	bb, with remaining maturity of more than one year	-	-
140	Showing separately: -to affiliated companies	-	-
141	-to other companies linked by virtue of participating interests	-	-

FHB Mortgage Bank Public Limited Company

Cg 01-10-043638

in HUF Million

Item No	Identification of item	31 December 2014	31 December 2015
a	b	c	d
142	c, debt instruments treated as securities for accounting purposes, which are not recognized as debt securities under the Capital Markets Act	-	-
143	ca, with remaining maturity of less than one year	-	-
144	Showing separately: -to affiliated companies	-	-
145	-to other companies linked by virtue of participating interests	-	-
146	cb, with remaining maturity of more than one year	-	-
147	Showing separately: -to affiliated companies	-	-
148	-to other companies linked by virtue of participating interests	-	-
149	4. Other liabilities	608	31,918
150	a, with remaining maturity of less than one year	608	31,918
151	Showing separately: -to affiliated companies	320	985
152	-to other companies linked by virtue of participating interests	-	-
153	-other contributions received from members in respect of co-operative credit institutions	-	-
154	b, with remaining maturity of more than one year	-	-
155	Showing separately: -to affiliated companies	-	-
156	-to other companies linked by virtue of participating interests	-	-
157	5. Accruals and deferred income	38,324	20,144
158	a, deferred income	24,872	9,084
159	b, deferred costs and expenses	13,452	11,060
160	c, deferred income	-	-
161	6. Provisions for liabilities and charges	10,358	185
162	a, provisions for pension and severance pay	-	-
163	b, provisions for contingent liabilities and for (future) commitments	166	41
164	c, general risk provisions	-	-
165	d, other provisions	10,192	144
166	7. Subordinated liabilities	35,268	35,069
167	a, subordinated loan capital	-	-
168	Showing separately: -to affiliated companies	-	-
169	-to other companies linked by virtue of participating interests	-	-
170	b, other contributions received from members in respect of co-operative credit institutions	-	-
171	c, other subordinated liabilities	35,268	35,069
172	Showing separately: -to affiliated companies	-	-
173	-to other companies linked by virtue of participating interests	-	-
174	8. Subscribed capital	6,600	6,600
175	Showing separately: - own shares repurchased on nominal value	25	25
176	9. Subscribed capital called but unpaid (-)	-	-
177	10. Capital reserve	26,530	26,530
178	a, difference between the par value and the purchase price of shares and securities (premium)	26,530	26,530
179	b, other	-	-
180	11. General reserve	-	-
181	12. Profit reserve (±)	19,084	-100
182	13. Tied-up reserves	207	207
183	14. Revaluation reserve	-	-
184	15. Profit or loss for the financial year (±)	-19,184	-4,055
185	TOTAL LIABILITIES	627,831	420,966
186	Showing separately: SHORT-TERM LIABILITIES [1.a.+1.ba.+1.c.+2.aa.+2.ab.+2.ba.+2.bb.+2.c.+3.aa.+3.ba.+3.ca.+4.a.]	329,685	128,429
187	LONG-TERM LIABILITIES [1.bb.+2.ac.+2.bc.+3.ab.+3.bb.+3.cb.+4.b.+7]	216,227	243,026
188	EQUITY CAPITAL [8-9+10+11+12+13+14+15]	33,237	29,182

Off-balance sheet items

Item No	Identification of item	31 December 2014	31 December 2015
a	b	c	d
189	CONTINGENT LIABILITIES	4,466	1,801
190	FUTURE LIABILITIES	531,640	59,091
191	TOTAL OFF-BALANCE SHEET LIABILITIES	536,106	60,892
192	COLLATERALS	327,027	230,678
193	FUTURE RECEIVABLES	531,640	58,633
194	TOTAL OFF-BALANCE SHEET ASSETS	858,667	289,311

Date: Budapest, April 5, 2016

Gyula Köbli
CEO

Márton Oláh
Business Deputy-CEO

FHB Mortgage Bank Public Limited Company

Cg 01-10-043638

PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)

in HUF Million

Item No.	Identification of item	1 January, 2014 - 31 December, 2014	1 January, 2015 - 31 December, 2015
a	b	c	d
1	1. Interest received and similar income	43,314	30,159
2	a) interest received and similar income from fixed-income securities	2,632	963
3	Showing separately: -from affiliated companies	-	-
4	-from other companies linked by virtue of participating interests	-	-
5	b) other interest received and similar income	40,682	29,196
6	Showing separately: -from affiliated companies	4,105	3,428
7	-from other companies linked by virtue of participating interests	-	-
8	2. Interest paid and similar charges	34,502	25,594
9	Showing separately: -to affiliated companies	7,831	5,346
10	-to other companies linked by virtue of participating interests	-	-
11	BALANCE (1-2)	8,812	4,565
12	3. Income from securities	-	39
13	a, income held for trading from shares and participations in corporations (dividends and profit-sharing)	-	-
14	b, income from participating interests in affiliated companies (dividends and profit-sharing)	-	39
15	c, income from other securities (dividends and profit-sharing)	-	-
16	4. Commissions and fees received or due	711	977
17	a, in connection with other financial services	711	977
18	Showing separately: -from affiliated companies	118	397
19	-from other companies linked by virtue of participating interests	-	-
20	b, in connection with investment services (not including trading operations)	-	-
21	Showing separately: -from affiliated companies	-	-
22	-from other companies linked by virtue of participating interests	-	-
23	5. Commissions and fees paid or payable	1,742	1,399
24	a, in connection with other financial services	1,655	1,280
25	Showing separately: -to affiliated companies	1,609	1,263
26	-to other companies linked by virtue of participating interests	-	-
27	b, in connection with investment services (not including trading operations)	87	119
28	Showing separately: -to affiliated companies	47	94
29	-to other companies linked by virtue of participating interests	-	-
30	6. Net profit or net loss on financial operations [6.a)-6.b)+6.c)-6.d)]	-7,798	-1,057
31	a, in connection with other financial services	2,289	10,732
32	Showing separately: -from affiliated companies	-	12
33	-from other companies linked by virtue of participating interests	-	-
34	b, in connection with other financial services	10,087	11,789
35	Showing separately: -to affiliated companies	-	93
36	-to other companies linked by virtue of participating interests	-	-
37	c, in connection with investment services (income from trading operations)	-	-
38	Showing separately: -from affiliated companies	-	-
39	-from other companies linked by virtue of participating interests	-	-
40	d, in connection with investment services (expenses on trading operations)	-	-
41	Showing separately: -to affiliated companies	-	-
42	-to other companies linked by virtue of participating interests	-	-
43	-value adjustments in respect of securities held for trading	-	-
44	-valuation difference	-	-

FHB Mortgage Bank Public Limited Company

Cg 01-10-043638

PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)

in HUF Million

Item No.	Identification of item	1 January, 2014 - 31 December, 2014	1 January, 2015 - 31 December, 2015
a	b	c	d
45	7. Other operating income	2,414	4,405
46	a, income from operations other than financial and investment services	2,214	2,105
47	Showing separately: -from affiliated companies	2,166	2,024
48	-from other companies linked by virtue of participating interests	-	-
49	b, other income	200	2,300
50	Showing separately: -from affiliated companies	38	28
51	-from other companies linked by virtue of participating interests	-	-
52	-value readjustments in respect of stocks	-	-
53	8. General administrative expenses	5,486	5,753
54	a, staff costs	2,110	1,885
55	aa, wages and salaries	1,468	1,293
56	ab, other employee benefits	184	185
57	Showing separately: -social security costs	9	7
58	-costs relating to pensions	3	3
59	ac, contributions on wages and salaries	458	407
60	Showing separately: -social security costs	395	345
61	-costs relating to pensions	-	-
62	b, other administrative expenses (materials and supplies)	3,376	3,868
63	9. Depreciation	292	276
64	10. Other operating charges	4,368	7,837
65	a, charges on operations other than financial and investment services	38	18
66	Showing separately: -to affiliated companies	-	-
67	-to other companies linked by virtue of participating interests	-	-
68	b, other charges	4,330	7,819
69	Showing separately: -to affiliated companies	1	-
70	-to other companies linked by virtue of participating interests	-	-
71	-value adjustments in respect of stocks	-	-
72	11. Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	12,520	2,445
73	a, value adjustments in respect of loans and advances	2,134	2,383
74	b, risk provisions for contingent liabilities and for (future) commitments	10,386	62
75	12. Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	2,511	15,458
76	a, value readjustments in respect of loans and advances	2,283	5,020
77	b, risk provisions for contingent liabilities and for (future) commitments	228	10,438
78	13. Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	1,058	-
79	14. Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	-	-
80	15. Profit or loss on ordinary activities (1-2+3+4-5+6+7-8-9-10-11+12-13+14)	-18,816	6,677
81	Show PROFIT OR LOSS ON FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5+6+7.b)-8-9-10.b)-11+12-13+14]	-20,992	4,590
82	PROFIT OR LOSS ON OPERATIONS OTHER THAN FINANCIAL AND INVESTMENT SERVICES (7.a)-10.a)]	2,176	2,087
83	16. Extraordinary income	-	2,441
84	17. Extraordinary charges	562	13,173
85	18. Extraordinary profit or loss (16-17)	-562	-10,732
86	19. Profit or loss before tax (+15+18)	-19,378	-4,055
87	20. Taxes on income	-	-
88	21. Profit or loss after tax (+19-20)	-19,378	-4,055
89	22. General reserve (±)	-194	-
90	23. Profit reserves used for dividends and profit-sharing	-	-
91	24. Dividend and profit-sharing payable	-	-
92	Show: -to affiliated companies	-	-
93	-to other companies linked by virtue of participating interests	-	-
94	25. Profit or loss for the financial year (+21/+22+23-24)	-19,184	-4,055

Date: Budapest, April 5, 2016

Gyula Köbli
CEOMárton Oláh
Business Deputy-CEO



**FHB Mortgage Bank
Public Limited Company**

NOTES TO ACCOUNTS

31 December 2015

(translation)

Budapest, 5 April 2016

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31 December 2015

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I. GENERAL NOTES

I/1. Description of FHB Land Credit and Mortgage Bank Public Limited Company

FHB Mortgage Bank Public Limited Company (hereinafter FHB Plc, FHB Mortgage Bank Plc, Bank) was established on 21 October 1997 under the name of FHB Land Credit and Mortgage Bank Company.

The Bank's share capital is HUF 6,600,001,000 Ft, the total amount of which was contributed in cash.

The Bank's share capital is comprised of 66,000,010 registered shares of HUF 100 par value each.

The share capital includes the following types of shares:

- 66,000,010 ordinary Class A registered shares at a total nominal value of HUF 6,600,001,000.

The management of the bank decided to raise the share capital with issuing new limited (closed) circulation shares this decision was based on and in accordance with the authority given to the management in the 4/2015. (12. 28) resolution which was accepted at the extra ordinary shareholders' meeting of the company held on 28th December 2015. The market value of the new shares – 30,456,537,930 HUF – was received on the bank account by 30th December 2015.

The Registry Court has registered the new nominal shares at the value of 4,249,029,000 HUF on 24th February 2016.

14,163,430 individual 100 HUF face value B Class (preference) shares

2,832,686 individual 1.000 HUF face value C Class ordinary shares

The remaining 26,216,508,930 HUF was booked in to the Capital Reserve in February 2016.

After the registered share capital of the bank is 10,849,030,000 HUF

FHB Plc.'s ownership structure

Shareholders	Number of shares (pcs)		Ownership share in the share capital (%)	
	31. 12. 2014.	31. 12. 2015.	31. 12. 2014.	31. 12. 2015.
Series „A” ordinary shares listed on the Budapest Stock Exchange				
Domestic institutional inventors / companies	40,475,017	41,911,917	61,33%	38,63%
Foreign institutional inventors / companies	14,297,742	11,642,388	21,67%	10,73%
Domestic private individuals	4,943,054	6,669,193	7,49%	6,15%
Foreign private individuals	45,045	16,326	0,07%	0,02%
Management, employees	148,055	77,808	0,22%	0,07%
FHB Mortgage Plc.	253,601	253,601	0,38%	0,23%
MNV Ltd.	4,832,225	4,832,225	7,32%	4,45%
Other	1,005,271	596,552	1,52%	0,56%
Total Series „A”	66,000,010	66,000,010	100,00%	60,84%
Series „B” preference shares non listed on Budapest Stock Exchange		2016.02.24.		2016.02.24.
Domestic institutional inventors / companies	0	14,163,430	0,00%	13,05%
Total Series „B”	0	14,163,430	0,00%	13,05%
Series „C” shares non listed on Budapest Stock Exchange		2016.02.24.		2016.02.24.
Domestic institutional inventors / companies	0	2,832,686	0,00%	26,11%
Total Series „C”	0	2,832,686	0,00%	26,11%
TOTAL		82,996,126	100,00%	100,00%

The Bank's operations are provided for by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (new Credit Institution Act), as well as Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.

The Bank's core business as a specialized credit institution includes provision of long-term loans secured by mortgaged properties as a collateral, and issue of special long-term securities (mortgage bonds).

In 2011 the FHB Mortgage Bank Plc. significantly revamped its investments to be able to be up to the challenges of the market. On one hand the Allianz Bank Limited, which was acquired in the course of 2010, was merged by acquisition into the FHB Commercial Bank in H1 of 2011 on the other hand. In the second half of the year the FHB Service Limited – after its assets and liabilities were reviewed and restructured – was sold outside the Group, and along with it the majority of the previously outsourced activities were insourced to the banks. The revamp was completed in December 2011.

Accordingly, as of 31 December 2015 the members of the FHB Group under consolidated supervision are as follows:

- FHB Mortgage Bank Plc.,
- FHB Commercial Bank Ltd.,
- FHB Leasing Ltd.,
- FHB Real Estate Ltd.,
- FHB Invest Befektetési és Ingatlankezelő Ltd.,
- Diófa Alapkezelő Ltd.,
- Díjbeszedő Faktorház Ltd.,
- Magyar Posta Befektetési Szolgáltató Ltd.

The bank has entered into the Integration Organization of Cooperative Credit Institution consequently in the H-N-I-654/2015. resolution of the Hungarian National Bank has been the declared that members of the FHB Group which are under the supervision of the FHB simultaneously are under the combined supervision of the Takarékszövetkezet Bank (Saving Bank) Group. However the FHB Group is obliged to prepare sub-consolidated report. In the combined supervisory report of the Takarékszövetkezet Bank Group consolidates to the FHB Group.

In the course of 2015 the business relations between the FHB Group members further broadened in line with the strategic concept of the Group.

The scope of services provided by the FHB Mortgage Bank Plc. as follows:

- Full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision;
- Provision of full-fledged material conditions in the context of lease and operation agreements – except the branch offices of the Commercial Bank;
- Partial operation of the IT infrastructure required for the operation. These services have been outsourced to the DOM-P Informatikai Szolgáltató Ltd. in May 2015.

The FHB Commercial Bank, as the agent of the FHB Mortgage Bank Plc., entirely does direct lending furthermore complete loan aftercare and qualified loan management, and at the same time the FHB Commercial Bank, in order to have favorable funding costs, has majority of its loans refinanced by the FHB Mortgage Bank Plc.

The FHB Leasing Ltd. provides mortgage based financing to retail and corporate customers, furthermore sells leasing products.

The FHB Real Estate Ltd. especially helps to carry out the tasks specified in the FHB Mortgage Bank Plc.'s strategic concept with the FHB Group's activities including cover valuation, real estate sales, furthermore real estate management and real estate valuation.

After the acquisition the Diófa Alapkezelő Ltd. – besides carrying on and strengthening real-estate investments, pension fund wealth management and tailor made solutions for institutional clients – handles new retail funds which have been launched in the branch network of FHB Group.

The FHB Invest Ltd. core business is the management and leasing of self-owned real estate on group level.

In accordance with the Act 2013 / CXXXV. (Szhity) about the Integration of the Cooperative Credit Institutions and about the modification of certain economic regulations the FHB Mortgage Bank Plc. as well as the FHB Commercial Bank Ltd. (where the FHB Mortgage Bank holds majority ownership) became a member of the Integration Organization of Cooperative Credit Institutions (SZHISZ) on 23rd September 2015.

From 24th September 2015 the joint and several responsibilities defined in the Section 4 of Article 1 of Szhity cover also Mortgage Bank and Commercial Bank, according to the decision of the Board of Directors of Takarékszövetkezet Bank Ltd. The FHB Mortgage Bank and FHB Commercial Bank became member of the Guaranty Community of Savings Cooperatives.

FHB Mortgage Bank's operation for the past period is characterized by the following key data and indicators:

Major financial indicators	FHB data	
	31 Dec 2014	31 Dec 2015
Balance sheet total (million HUF)	627,831	420,966
Mortgage loans (million HUF)	315,675	226,487
Mortgage bonds outstanding (million HUF)	199,488	195,084
Bonds outstanding (million HUF)	105,784	62,200
Own equity (million HUF)	33,237	29,182
Adjusted capital (million HUF)	65,958	62,413
Capital adequacy ratio (%)	37.52	44.44
After-tax profit (million HUF)	-19,378	-4,055
CIR (operating costs / gross operating profit) (%)	829.1	66.43
ROAA (return on average assets) (%)	-3.19	-0.77
ROAE (return on average equity) (%)	-45.14	-12.99

I/2. Key elements of the accounting policy

The aim of the accounting policy is to set up the accounting of economic and financial events and establish the technicalities of accounting; to synchronize financial activities and their accounting; to determine the key

operating principles and conditions of accounting in order to help the Bank's various investors understand and follow the company's actual financial position and profitability through the Bank's annual reports.

The accounting policy is based on the provisions of Act C of 2000. It applies Government Decree No. 250/2000 on the Special Provisions regarding the Annual Reporting and Book-Keeping Obligations of Credit Institutions and Financial Enterprises, and also observes the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, Act CXX of 2001 on the Capital Market, as well as relevant provisions of the Hungarian National Bank and the Ministry National Economy in order to assist the Bank in realizing its primary objectives.

Since the FHB Mortgage Bank became the member of the Integration Organization of the Cooperative Credit Institutions (SZHISZ) it is directly subject to the integrated Accounting Policy and Evaluation regulation of assets, liabilities and other off-balance sheet items.

In accordance with the provisions of the Accounting Act, the Bank applies double-entry book keeping and issues annual reports.

The balance sheet is prepared in accordance with Annex 1 of Government Decree No. 250/2000 and the profit and loss statement is made in a vertical format, as required by Annex 2 of the same Decree.

The Bank's accounting systems

The Bank uses BANKMASTER for client registration, accounting and basic transactions, which transfers data by controlled posting into the Bank's general ledger, SAP integrated company management system.

Error distorting true and fair view

Errors identified in the course of audits performed by external bodies or the internal audit department shall be considered to be errors distorting true and fair view for the purposes of the Bank if the shareholders' equity in the balance sheet of the business year before the year in which the error was disclosed changes by at least 20%.

Level of material and minor errors

Errors identified in the course of various audits shall always be considered to be material for the purposes of the Bank, if the aggregate impact of such errors, in the year in which the errors were disclosed, result in any changes (increases or decreases) in the shareholders' equity, financials or income in excess of 2% of the audited business year's balance sheet total. When the 2% of balance sheet total not exceeding of HUF 1 million, the margin for the above errors is HUF 1 million.

Balance sheet

Within the scope of the accounting principles the Bank set for the balance sheet date to be 31st December of the year of reporting. The balance sheet is prepared in 8 workdays after the balance sheet date.

Tangible Assets under the purchase value of HUF 50,000 shall be accounted in a lump sum by the Company as costs at the time of the purchase.

Balance sheet and off balance sheet foreign exchange liabilities and receivables shall be recorded by the Bank at the NBH's (National Bank of Hungary) exchange rate valid as of the balance sheet date.

Within accruals, apart from general terms, the Bank's special terms include the following: accrual of interest earned and owed, as well as accrual (for the time of maturity) of negative or positive variances (exchange rate variances) between the proceeds from the issue of interest-bearing securities and their par value. Accruals and deferrals shall be registered at contract value.

Liabilities to customers include credit related interest and capital repayments paid in by customers but not yet due as well as cash received as surety from customers based on customer contracts. The utilization of surety for credit repayment takes place in circumstances stipulated in the contract.

Profit and Loss Statement

The Profit and Loss Statement calculates the retained profit of the year, while observing the provisions for the accumulation and accounting of credit institution reserves and impairment losses.

Depreciation and amortization on tangible and intangible assets is reported monthly pro rata temporis, by including changes that occur during the year.

The Bank when accounting foreign currency swaps aiming liquidity, which usually mature within one year, examines the swaps not closed before balance sheet date and realizes the profit or loss proportionate to the current year in interest income or interest expense. Thereafter the Bank determines the foreign currency difference originating from the revaluation of swap related currency amount. These transactions are accounted as the foreign currency swaps for interest arbitrage according to the regulations of the Government Decree. Depending on the nature of profit or loss, profit is accounted to deferred income; loss is accounted to accrued expense, and will be released when the swap deal will be closed.

Notes to the Financial Statements

The notes to the financial statements contain the numerical data and narrative explanations, which help shareholders, investors and creditors to have a better understanding and analysis of certain lines in the balance sheet and the P/L statement. These notes provide additional information on the Bank's activities, as well as details on certain balance sheet and P/L data. Depending on their contents, data are grouped by the Bank in the Notes to the financial statement in the following sections:

- General notes,
- Specific notes,
- Information.

Business Report

Apart from the events of the accounting period, the Bank discusses issues and plans with significant present and future reference in its Business Report.

The Business Report contains information on:

- the analysis of the Bank's activities and course of business with regards to the accounting period, as well as their future impact;

- significant events occurring after the balance sheet date;
- changes with an impact on the ownership structure;
- the human resources policy;
- the research and development;
- the presentation of the branches; and
- any additional information considered important by the Bank.

I/3. Information

1. Information on shareholders with significant or majority interest

None of the Bank's shareholders has a majority interest under Act V of 2013 on Civil Code.

2. Information on the Bank's risks in excess

Section 392 of regulation no 575/2013/EU prescribes that risks are considered in excess when the total risks provided for a customer or group of connected customers is equal to or exceeds 10% of the credit institution's solvency capital (own funds). As of 31 December 2015 the Bank had receivables HUF 33,537 million against Takarékbank and HUF 10,041 million against the Hungarian branch of ING Bank N.V. which according to above mentioned regulations qualifies as high risk.

3. Compliance with mortgage lending provisions

- Within the total balance of mortgage loans, 99.52% have a maturity over five years compared to the minimum requirement of 80.0% as stipulated by Subsection (1) Section 5 of Act XXX of 1997.
- Total outstanding mortgage loan balance does not exceed 70% of the collateral value of real estate as provided for by subsection (3), Section 5 of Act XXX of 1997. The rate was 32.07% as of 31 December 2015.

4. Compliance with the provisions on investment

As at 31 December 2015 the Bank have the following investments:

FHB Commercial Bank Ltd.,

FHB Real Estate Ltd.

Diófa Alapkezelő Ltd.

FHB Invest Befektetési és Szolgáltatási Ltd.

Magyar Takarékbefektetési és Vagyongazdálkodási Ltd.

All of the Bank's investments are in conformity with Section 9(1) of Act XXX of 1997 providing limitations of direct and indirect ownership. The aggregate value of investment by the Bank does not exceed 10% of the adjusted capital, as set for by Section 9(2) of the Act as well as the restricting for the investee activity and investment rate.

5. Compliance with the provisions on the issue of mortgage bonds

- As of 31 December 2015, surpassing the provisions of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – HUF 195,084 million – of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to HUF 207,402 million considered as ordinary collateral.
- As of 31 December 2015, surpassing the provisions of Paragraphs (1, 2b) Section 14 of Act XXX of 1997, the Bank's interest on net ordinary collateral exceeded the interest on the nominal value of mortgage bonds outstanding, HUF 40,676 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 85,178 million.
- On December 31 2015. in accordance with to Article 14 (11) of Act XXX supplementary collateral was utilized through issuing securities in the capital value of 17,000 million HUF with the payment guaranty of the Hungarian State.
- Pursuant to Section 14(1) of the Act on Mortgage Banks and Mortgage Bonds mortgage banks must at all times have sufficient cover assets of a value higher than the sum of the face value of and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(43) of Act XLVIII of 2004, as of 1 January 2006 mortgage banks must also at all times ensure cover for mortgage bonds at present value.

The rules of calculating the present value of assets used as cover for mortgage bonds are set forth by Decree 40 of 2005 (9 December) by the Minister of Finance. The Decree provides for the present value of mortgage bonds and cover assets to be assessed for each banking day. In cases where the present value of cover assets does not exceed the present value of outstanding mortgage bonds in circulation the mortgage bank must proceed to supplement the missing cover as stipulated in the rules of collateral registration.

Since the statutory provisions described above entered into effect FHB has established, on a daily basis, the present value of mortgage bonds as well as collateral relying on the zero coupon yield curve determined from the actual yield curve at any time, and ensures their adequacy.

As of 31 December 2015 the present value of ordinary collateral was HUF 258,206 million and that of mortgage bonds was HUF 226,712million, which means the present value of cover assets exceeded the present value of outstanding mortgage bonds in circulation.

Pursuant to the provisions of the Decree by the Minister of Finance cited above the Bank has applied a quarterly sensitivity test since 2006 to check the availability, at present value, of collateral exceeding the nominal value and interest in HUF in the case of changes in interest rates and/or exchange rates. The effect of changes in the interest rate on present value is examined statically, by parallel shifting of the zero coupon yield curve 250 base points upwards and downwards. The static method of analysis is also used in the assessment of exchange rate risk as provided for by the Decree of the Minister of Finance.

The sensitivity analysis conducted on 31 December 2015 showed the surplus cover of the mortgage bonds in circulation and the present value of their coverage as required by the relevant statutory provisions.

6. Information on mortgage bonds issued

- As of 31 December 2015 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 704,069 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 25,295 million as of 31 December 2015.

- The Bank organized repurchase of previously issued listed and non-listed mortgage bonds and bonds five times during 2015. From FJ15NF01 mortgage bonds repurchase was executed four times in the nominal value of 24,973,380,000 HUF during the above period. From FK15NF01 bond repurchase was executed one time and as a result of transaction all together 1,518 billion HUF nominal value stock was repurchased. The repurchases reduced the liquidity and renewal risks deriving from the expiration structure. With the timely coordination of repurchasing and issuing the Bank extended the expirations of its mortgage bonds portfolio which in return upgraded the asset-liability structure of Bank.

7. Information on the rating of banking activities, accounting of impairment and provisions

The Bank has carried out the rating of receivables and liabilities. On 31 December 2015, the portfolio of receivables and liabilities, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments, was HUF 369,755 million in total. As a result of the rating, based on the Government decree and internal regulations, 84.53% of the total portfolio is problem-free prime, 11.69% is on the watch list, 1.19% is classified as sub-prime, 1.96% is rated as doubtful, and 0.63% as bad debt.

As of 31 December 2015, the Bank recorded HUF 6,407 million impairment from receivables and a risk provision of HUF 25 million for contingencies/liabilities.

On basis of the qualification of strategic investments at the end of the year 2015, the Bank booked impairment in the amount of HUF 1,058 million to its subsidiary, the FHB Commercial Bank Ltd.

8. Impairment of other receivables

As of 31 December 2015 no such losses were recorded by the Bank.

9. Information on the Bank's shares

- The Bank assigned KELER Ltd. to maintain the Register of Shares in accordance with the relevant legal provisions.

Payment of dividends for the years 2003 through 2006 is also carried out by KELER Ltd. The income from the expired liabilities was booked as an extraordinary income on 30 June 2013.

In 2015 dividend payment has not been made.

10. Derivative deals

- As of 31 December 2015 the following OTC hedging futures are recorded by the Bank:
 - interest swap transactions, in which cases the value of future liabilities undertaken was HUF 663 million, and the value of related future receivables was HUF 431 million.
 - foreign exchange swaps with future receivables of, EUR 102 million (HUF 31,938 million) and HUF 5,586 million, and related future liabilities of CHF 10 million (HUF 2,894 million), EUR 11 million (HUF 3,293 million) and HUF 31,515 million.

- In relation to the OTC hedging futures existing on 31 December 2015, the P/L statement already recorded), HUF 246 million accrued interest, as well as HUF 29 million (CHF 0.1 million), HUF 8 million (EUR 0.03 million) and HUF 9 million interest expenditure.
- Swaps for hedging purposes are based on mortgage bonds denominated in EUR, HUF-denominated bonds and EUR-denominated long-term interbank loans. The swap parameters (amount and type of foreign exchange, interest, maturity etc.) are identical with the parameters of the mortgage bond and FX loan.
- Liquidity swaps involve CHF 6 million (HUF 1,736 million), EUR 38 million (HUF 11,899 million) and HUF 7,043 million future receivables and EUR 23 million (HUF 7,045 million), HUF 13,682 million future liabilities.
- HUF 2 million deferred interest expense were accounted related to liquidity swaps open at the end of period.

11. Other banking information

- In accordance with the Government Decree, the value of pending interest – which is 32.84 % of interest on receivables from customers, reported in 2014 – was HUF 2,023 million as of 31 December 2015 (2014: HUF 2,822 million) and the value of pending interest type commission was HUF 250 million (2014: HUF 536 million). In the reported period the Bank received HUF 711 million from interest that was pending before the year of reporting, of which HUF 25 million was accrued in the 2014 financial statement.
- The principal receivable value of state guarantees for receivables was HUF 3,972 million (2014: HUF 27,354 million) and collateral value of deposits was HUF 43 million and the collateral value of liens amounted to HUF 722,871 million (2014: HUF 830,623 million). The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 2,582 million as of 31 December 2015. The cooperation agreement with the credit institutions includes a deficiency guaranty and loss sharing in favor of the Bank. Within the deficiency guaranty, the partner bank takes over a certain amount of liabilities, which the Bank recorded as non-recurring losses/provision on loans and advances. The partner bank undertakes deficiency guarantee to the extent of lending losses suffered by the Bank that cannot be recovered by any other means. According to the loss-sharing agreement, the syndicated partner undertakes 40-60% of losses/provision on loans and advances.
- Within the amounts of the receivables from customers the contractual value of restructured assets was HUF 10,039 million as of 31 December 2015; its value according to the registration was HUF 7,111 million.
- On 31th December (2015. upon the request of the FHB Mortgage Bank) 51 terminated deals were in foreclosure procedure. The total value of these deals on 31th December 2015. HUF 395.8 million. During 2015 the FHB Mortgage Bank did not initiate any new foreclosures due to legal restrictions (Act XXXVIII/2014) joined in 147 third party foreclosures. There were no successful repayments from real estate foreclosures in the period because in 2015 foreclosures were suspended due to Act XXXVIII/2014., Act XL/2014., Act CV./2015.
- In order to reduce losses from mortgage lending, the following real estate were taken over due to foreclosure by 31 December 2015. The data of the acquired real estate

Number	13 pieces
Legal characteristics	
Taken into possession	12 pieces
Taken into ownership, but accession	
not yet realized	1 piece
Sold from the properties received	4 pieces

- Till 31 December 2015 the Bank offered 113 pieces of properties (2014: 178 pieces) to the NET (National Asset Management Ltd), to which 265 pieces of transactions were related (2014: 338) pieces. From the offered properties in 2014 and 2015 150 pieces of properties (2014: 190 pieces) were purchased in the amount of HUF 481.5 million and together with that 285 pieces of transactions in the amount of HUF 877 million (2014: 304 pieces and HUF 1,008 million) were closed till 31 December 2015.
- As of 31 December 2015, the amount of principal repayment from mortgages for the reported year was HUF 70,525 million, of which HUF 27,626 million was mortgage repayment from customers and 42,899 was repayment from credit institution refinancing.
- As set forth by the provisions of the Government Decree, during the preparation of the balance sheet the Bank has to move the amount of receivables and liabilities that is due in the year following the reported year from long term to short term receivables and liabilities. Accordingly, the Bank restructured HUF 27,612 million from long-term receivables from customers and HUF 12,056 million from long-term receivables from credit institutions into short-term receivables. From long-term liabilities due to issued mortgage bonds HUF 67,167 million, due to issued bonds HUF 10,912 million were moved to short-term liabilities.
- HUF 32,347 million of listed government securities were reported by the Bank in the 31 December 2015 balance sheet as treasury bills and similar securities.
- The closing balance of inventories contains purchased inventory amount to HUF 11 million, properties held for sale amounted to HUF 160 million and repossessed real estate amounted to HUF 33 million on 31 December 2015. For the repossessed real estate HUF 11 million impairment loss was recognized.
- The Expenditures on investment services” line item of the profit and loss statement recorded HUF 120 million sales expenditures related to the sales of mortgage bonds.
- As a result of sales of services within the Group companies, as of 31 December 2015 the Bank had receivables from subsidiaries amounting to HUF 839 million in the following breakdown:

FHB Commercial Bank Ltd.	HUF 823 million
FHB Real Estate Ltd.	HUF 16 million

The Bank recorded HUF 982 million liabilities for services extended by its subsidiaries in the following breakdown:

FHB Commercial Bank Ltd.	HUF	979 million
FHB Real Estate Ltd.	HUF	3 million

The FHB Mortgage Bank Plc. records assets in relation to the FHB Commercial Bank Ltd. records assets amounting to HUF 600 million longer than one year interbank deposit and among it is liabilities EUR 2 million (HUF 626 million) USD 0.02 million (HUF 57 million) and HUF 17,000 million as shorter than one year interbank deposit. As of 31 December 2015 due over 12 months interbank deposit was HUF 28,752 million

- The part of the members of FHB Group are subject to group taxation headed by FHB Mortgage Bank Plc. No VAT is incurred by services extended within the tax group.

12. Additional information

- The Bank has no pension payment obligations to its previous senior management members.
- The Bank did not provide long-term loans for its associated enterprise. The Bank did not create or use provisions for its subsidiary.
- The Bank did not record any export sales to countries within or outside of the European Union. The Bank did not receive any export subsidies.
- The Bank did not receive any disbursement without return from subsidy programs. Subsidy programs include subsidies and allocations disbursed from central government, local government and/or international funds, as well as other business enterprises for the upkeep and development of activities.
- The Bank did not engage in research and development activities in 2015.
- The Bank does not own any tangible assets intended for direct environmental protection purposes, nor any hazardous waste and pollutants. The Bank does not have any present or future environmental obligations or environmental protection costs.
- In 2015 the Bank was not a member of the National Deposit Insurance Fund not of any voluntary deposit insurance fund, institution protection fund or investor protection fund.
- The Bank's assets are not encumbered with mortgage or any other similar rights.
- The Bank did not carry out any reverse transactions in 2015.
- The Bank has HUF 10 million investment in the Integration Organization of the Cooperative Credit Institutions (SZHISZ)

13. Changes in the legal and regulatory environment and its effect on the financial statements of the Bank

The following governmental programs and legal regulations had significant impact on the activities of the Bank during the year of 2015.

a) Settlement, Forint Conversion, Fair Bank Act

Act XXXVIII of 2014 on the Settlement of certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions (hereinafter: "Curia Act") was proclaimed on 18 July 2014. The act was decided in connection with the Civil Law Uniformity Decision No. 2/2014 of the Curia, which was taken on 16 June 2014.

On 24 September 2014 the Hungarian Parliament adopted Act XL of 2014 on the Rules of Settlement laid down in Act XXXVIII of 2014 certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions, and other particular provisions (hereinafter: "Settlement Rules Act"), and on the basis of this act the financial institutions had to repay their consumers any overpayments arising from unilateral amendments and the exchange rate gap that was declared as null and void.

The Settlement Act clarified the provisions of the Curia Act; accordingly the Settlement Act is not applicable to credit cards, overdraft facilities and state-subsidized housing loans. Furthermore the amount which will be repaid to the customers can be reduced by the amount of Bank's discounts.

In addition Act LXXVII of 2014 on the Settlement of issues related to the change in the foreign currency denomination of certain household loans and interest rate rules was also published. The act provided for the forint conversion of debts resulting from retail foreign exchange and foreign exchange based mortgage agreements on 1 February 2015 (hereinafter: "Forint Conversion Act").

The amendment of Act CLXII of 2009 on Providing loans for consumers and other related acts (Consumer Credit Act) (Act LXXVIII of 2014, hereinafter the so called Fair Bank Act) laid down the new contractual terms and conditions for consumer loan agreements not affected by the settlement and all new consumer loan agreements, as did the Forint Conversion Act in respect of agreements affected by the settlement.

Act CXLV of 2015 on the Settlement of issues related to the conversion of claims arising from household loans entered into force on 5 October 2015, including foreign currency non-mortgage loan agreements between the consumer and the financial institution, and claims recorded in foreign currency arising from terminated foreign currency loan agreements.

The settlement and forint conversion resulted in an expense of HUF 12.4 billion for the Bank, which was partly compensated by suspended interest and revenues from fees. From the provisions generated in 2014 for expected loss as a result of the Settlement Act, in 2015 the Mortgage Bank used the total amount of HUF 10,340 million.

b) Family Housing Allowance

Family Housing Allowance (CSOK) has been available since 1 July 2015, as its predecessor it still aims to support families with children to purchase homes, but it contains significant improvements compared to the earlier social housing subsidy (szocpol). The non-refundable single subsidy granted by the Hungarian State is available for buying or building new housing, and also for buying second hand homes and for expansion. The amount of the allowance depends on a number of factors: the number of children and the size of the property and its energy efficiency rating.

From 30 June 2015 the FHB Group was among the first to start with the new CSOK available for a wider group of people than heretofore; there was a large demand for the new type of subsidy during the year.

14. Other information

- As a result of the revamp of the Group the FHB Mortgage Bank Plc. has been keeping its books and accounts since December 2011 despite of the previous practice.

The responsible person for the leadership and management of accounting of FHB Mortgage Bank Plc
Gyula Köbli

Public data on record:

Gyula Köbli Registration number: 005394 Residence: 1192 Budapest, Szent Imre u. 4.

- In the 2015 business year the Company employed Deloitte Auditing and Consulting Ltd. (seated: 1068 Budapest, Dózsa György út 84/C., corporate registration number: 01-09-071057; auditors' chamber id: 000083; Hungarian Financial Supervisory Authority id: T-000083/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Mr. Tamás Horváth (mother's name: Veronika Grósz; address: 1028 Budapest, Bölény u. 16; auditors' chamber id: 003449; Hungarian Financial Supervisory Authority id: E003449; hereinafter referred to as: „personally assigned auditor”).

The audit fee of the Auditor for performing the annual audit of the financial reports of the Company on year 2015 was HUF 14.6 million. In addition to the annual audit, the Bank assigned the Deloitte Ltd to perform other non-audit services, and paid all together HUF 3.9 million for them.

- The following persons are authorised to represent FHB Mortgage Bank Public Limited Company and sign the Company's annual report:

Gyula Köbli

Chief Executive Officer

1192 Budapest, Szent Imre u. 4.

Márton Oláh

Deputy Chief Business

1145 Budapest, Columbus u. 56.

- The Bank's Annual Report can be inspected at the Company's registered office and on its website www.fhb.hu.
- The Company's registered office: 1082 Budapest, Üllői út 48.

**I /4. Changes in own equity
31 December 2015**

Data in million HUF

	Subscribed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve	Balance Sheet profit	Total own equity
31 December 2014	6,600	26,530	-	19,084	207	-19,184	33,237
Use of general reserve	-	-	-	-	-	-	-
2014 profit	-	-	-	-19,184	-	19,184	-
Creation of fixed reserve	-	-	-	-	-	-	-
2015 profit	-	-	-	-	-	-4,055	-4,055
31 December 2015	6,600	26,530	-	-100	207	-4,055	29,182

II. SPECIFIC PART

II / 1. Changes in gross values of intangible and tangible assets

31 December 2015

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rights		61	-	-	61	-
b/ Intellectual products		2,374	-	84	1,189	1,269
c/ Goodwill		152	-	734	52	834
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	9.	2,587	-	818	1,302	2,103
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	354	-	1	-	355
b/ Plant, machinery installations, vehicles	10. ab)	771	-	47	252	566
c/ Investments	10. ac)	6	-	50	55	1
d/ Advances on investments	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	10. a)	1,131	-	98	307	922
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Investments	10. bc)	-	-	-	-	-
d/ Advances on investments	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	10. b)	10	-	-	-	10

II / 2. Changes in accumulated depreciation of intangible and tangible assets

31 December 2015

Data in million HUF

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Description	Balance sheet line	Changes in accumulated depreciation				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rights		22	-	6	28	-
b/ Intellectual products		948	-	109	251	806
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	9.	970	-	115	279	806
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	123	-	43	-	166
b/ Plant, machinery installations, vehicles	10. ab)	313	-	117	154	276
c/ Investments	10. ac)	-	-	-	-	-
d/ Advances on investments	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	10. a)	436	-	160	154	442
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	7	-	1	-	8
c/ Investments	10. bc)	-	-	-	-	-
d/ Advances on investments	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	10. b)	7	-	1	-	8

II / 3. Changes in net values of intangible and tangible assets

31 December 2015

Data in million HUF

Description	Balance sheet line	Changes in net values	
		Opening balance	Closing balance
I. Intangible assets :			
a/ Valuable rights		39	-
b/ Intellectual products		1,426	463
c/ Goodwill		-	-
d/ Value of formation / reorganization		152	834
Total intangible assets :	9.	1,617	1,297
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)	231	189
b/ Plant, machinery installations, vehicles	10. ab)	458	290
c/ Investments	10. ac)	6	1
d/ Advances on investments	10. ad)	-	-
Total tangible assets of financial services:	10. a)	695	480
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)	-	-
b/ Plant, machinery installations, vehicles	10. bb)	3	2
c/ Investments	10. bc)	-	-
d/ Advances on investments	10. bd)	-	-
Total tangible assets of non-direct financial services:	10. b)	3	2

II / 4. Changes in depreciation of intangible and tangible assets in the subject year

31 December 2015

Data in million HUF

Description	Planned depreciations	Over-plan depreciations, shrinkage
I. Intangible assets		
1/ Valuable rights	6	28
2/ Intellectual products	109	252
3/ Goodwill	-	-
4/ Value of formation / reorganization	-	-
Total intangible assets	115	280
II.1. Tangible assets of financial services:		
1/ Land and buildings	43	-
2/ Plant, machinery installations, vehicles	116	155
3/ Investments	-	-
Total tangible assets of financial services:	159	155
II.2. Tangible assets of non-direct financial services		
1/ Land and buildings	-	-
2/ Plant, machinery installations, vehicles	2	-
Total tangible assets of non-direct financial services:	2	-
III. Depreciation of tangible and intangible assets of a value below HUF 50,000 each accounted in a sum	21	7
Total :	276	435

**II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2015**

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2015	Portfolio of 31 December 2015 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More than 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	63,646	54,528	9,118	-	-	-	-
- Long term	3.bb)	159,593	-	-	89,376	45,366	16,702	8,149
Accounts receivable from customers :								
- Short term	4. aa)	15,557	8,349	7,208	-	-	-	-
- Long term	4. ab)	86,610	-	-	34,114	32,018	12,117	8,361
- Accounted value loss	from 4. ab)	-6,407	-	-	-	-	-	-
Total :		318,999	62,877	16,326	123,490	77,384	28,819	16,510

**II / 6 . Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)
31 December 2015**

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2015	Portfolio of 31 December 2015 without value loss broken down by residual times to maturity						
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More than 15 years	No maturity
		1 = 2+...+8	2	3	4	5	6	7	8
Accounts payable to credit institutions :									
- Short term	1. ba)	17,688	17,684	4	-	-	-	-	-
- Long term	1. bb)	28,752	-	-	28,752	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+	43	43	-	-	-	-	-	-
	2. bb)	-	-	-	-	-	-	-	-
- Long term	2. ac)+	-	-	-	-	-	-	-	-
	2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	78,079	6,912	71,167	-	-	-	-	-
- Long term	3.ab)	179,205	-	-	153,910	25,295	-	-	-
Subordinated accounts payable	7.	35,069	-	-	-	-	-	-	35,069
Total:		338,836	24,639	71,171	182,662	25,295	-	-	35,069

II / 7 . Items to modify corporate tax base
31 December 2015

Data in million HUF

Items to decrease pre-tax profit	Amount	Items to increase pre-tax profit	Amount
1. Planned and over-plan depreciation applicable according to the provisions of Corporate Tax Act.	1,392	1. Planned depreciation accounted as cost according to Accounting Act.	1,385
2. Reversal of provision for expected liabilities and future costs	10,250	2. Provision for future liabilities and expected costs	159
3. Income from dividend received	39	3. Tax penalties / Penalties to the Taxation Authority	74
4. Items to increase pre-tax profit of the previous years (revenues, expenses)	6	4. Items to decrease pre-tax profit of the previous years (expenses)	0
5. 20% of subsidies to non-profit organizations	6	5. Expenses that are not ordinary business expenses	0
6. Subsidies received according to Corporate Tax Act 29/ZS	270	6. Other increasing item (expenses related to the settlement and forint conversion)	12,135
Total:	11,963	Total:	13,753

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Pre-tax profit (19 of P&L statement):	-4,055
The amount of the released receivables which was reimbursed by the State	30
Corporate income tax base (after the deduction of the revenues which are exempt based on the Special Banking Tax Act)	-4,085
Items to increase pre-tax profit	13,753
Items to decrease pre-tax profit	11,963
Corporate tax base:	-2,295
Tax payable	0

II / 8 / a. Changes in provisions

31 December 2015

Data in million HUF

Description	Opening balance	Of credit losses	Creation of provision	Reversal of provision	FX differences	Closing balance
1. Provision for securities	-	-	-	-	-	-
2. Provision for accounts receivables	-	-	-	-	-	-
3. Provision for inventories	-	-	-	-	-	-
4. Provision for financial investments	-	-	-	-	-	-
5. Provision for off-balance-sheet items	166	-	62	189	2	41
6. Provision for possible future obligation	10,340	-	-	10,249	-91	-
7. Margin of provision for possible future obligation	-148	-	-	-	148	-
8. Provision for possible future costs	-	-	-	-	-	-
9. Provision for general risks	-	-	-	-	-	-
10. Other provisions	-	-	144	-	-	144
Total provisions : (1. - 8.)	10,358	-	206	10,438	59	185

II / 8 / b. Changes in impairment losses

Description	Opening balance	Reversal of impairment of previous period	Reverse for impairment for the period	Provision for impairment in the period	FX differences	Closing balance
1. Impairment loss of accounts receivable from banks	-	-	-	-	-	-
2. Impairment loss of accounts receivable from customers	9,083	5,021	1,700	4,084	-39	6,407
3. Exchange difference of impairment loss of customers	-69	-	-	-	69	0
4. Impairment loss of investment shares	1,058	-	-	-	-	1,058
5. Impairment loss of repossessed property collaterals	16	9	-	4	-	11
6. Impairment loss of properties held for sale	0	-	-	13	-	13
Total value losses: (1. - 4.)	10,088	5,030	1,700	4,101	30	7,489

II / 9. CASH-FLOW

Data in million HUF

No.	Description	31 December 2014	31 December 2015
01.	Interest received	43,314	30,159
02.	+ Incomes from other financial services	3,000	11,709
03.	+ Other incomes (without use of provision and reversal of surplus provision, impairment loss of inventories and over-plan depreciation)	200	2,300
04.	+ Incomes from investment services (except for reversal of impairment loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	2,214	2,105
06.	+ Dividend received	-	39
07.	+ Extraordinary income	-	2,441
08.	- Interest paid	-34,502	-25,594
09.	- Expenses on other financial services (without impairment loss of securities)	-11,742	-13,069
10.	- Other expenses (except for creation of provision and impairment loss, over-plan depreciation)	-4,331	-7,616
11.	- Expenses on investment services (without impairment loss of securities)	-87	-119
12.	- Expenses on services other than financial and investment ones	-38	-18
13.	- General administration costs	-5,486	-5,753
14.	- Extraordinary expenses (without taxation in subject year)	-562	-13,173
15.	- Corporate tax payable in the period	-	-
16.	- Dividend paid (payable)	-	-
17.	Operating cash flow (lines 01.-16.)	-8,020	-16,589
18.	± Changes in accounts payables	48,291	-174,457
19.	± Changes in accounts receivables	-88,425	181,317
20.	± Changes in inventories	-194	164
21.	± Changes in portfolio of securities in current assets	39,401	14,625
22.	± Changes in financial investments	7,773	10
23.	± Changes in portfolio of investments (including advances)	-6	5
24.	± Changes in portfolio of intangible assets	270	205
25.	± Changes in portfolio of tangible assets (without investments)	-208	50
26.	± Changes in accruals	267	13,460
27.	± Changes in deferrals	1,417	-18,180
28.	+ Issue of shares at selling price	-	-
29.	+ Funds received without compensation according to relevant rules of law	-	-
30.	+ Funds handed over without compensation according to relevant rules of law	-	-
31.	- Nominal value of withdrawn own shares, property bonds	-	-
32.	NET CASH FLOW (lines 17.-29.)	566	610
	Out of which: - changes in cash	1	
	- changes in bank money (accounting and other sight deposit with NBH)	565	610

II / 10. Maturities of major items of accrued interests and deferred costs and expenses

31 December 2015

Data in million HUF

Description	Balance sheet line	Items of 31 December 2015 broken down by maturities				31 December 2015 = 1+2+3+4
		Within 3 months 1	Between 3 months and one year 2	More than 1 year but, less than 2 3	More than 2 years 4	
Accrued interest	From 13. a)					
- Accrued interests on redeemed own securities		12	96	-	-	108
- Accrued interests from accounts receivable from customers		2,757	-	-	-	2,757
- Accrued interests from credit institutions from refinancing loans		176	-	-	-	176
- Accrued interests of interbank deposits		6	7	-	-	13
- Accrued interest of hedge transactions		1	162	-	-	163
- Commission for arrangement of state subsidies		10	-	-	-	10
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		2,731	7,217	546	-	10,494
- Deferred interest on hedge transactions		236	38	-	-	274
- Deferred interest on interbank loans		17	-	-	-	17

II / 11. Assets and liabilities in foreign currencies
31 December 2015

Data in million HUF

ASSETS		Amount in balance sheet	Of which in foreign currency, value in HUF	LIABILITIES		Amount in balance sheet	Of which in foreign currency, value in HUF
1.	Cash	1,804	2	1.b.	Liabilities towards credit institutions from financial services	46,440	688
2.a.	Government securities	32,347	1,252	2.b.	Other liabilities to customers from financial services	744	8
3.a.	Receivables from credit institutions	1,139	1,139	3.	Liabilities from securities issued	257,284	12,149
3.b.	Other receivables from financial services	223,240	4,743	4.a.	Other liabilities	31,917	4
4.a.	Loans and advances to customers	95,760	6,726	5.a.	Deferred income	9,084	25
5.ba.	Debt securities, including fixed interest securities issued by other issuer	16,451	1,636	5.b.	Accrued costs and expenditures	11,060	548
12.b.	Other receivables	3,039	35	7.c.	Other subordinated liabilities	35,069	35,069
13.a.	Accrued income	3,803	70				
13.b.	Deferred costs and expenditures	1,304	175				

III. INFORMATIVE PART

III / 1/a Informative data on direct participations of the Bank

31 December 2015

Data in million HUF

Name of the enterprise\ Registered office	Share in investment	Registered value of the investment	Enterprise's							
			Total equity	Registered capital	Unpaid capital	Retained Earnings	Tied up reserve	Capital reserve	Revaluation reserve	2015 profit
FHB Real Estate Ltd 1082 Budapest Üllői út 48.	100.0%	648	207	70	-	-404	-	515	-	26
FHB Commercial Bank Ltd 1082 Budapest Üllői út 48.	51.0%	34,224	37,261	8,681	-	8,923	-	21,647	-	-1,990
Diófa Alapkezelő Ltd. 1062 Budapest, Andrásy út 105.	89.2%	169	317	196	-	88	17	16	-	-
FHB INVEST Ltd.(Díjbeszedő Operating and Servicing Ltd.) 1082 Budapest Üllői út 48.	100.0%	4,610	7,046	636	-	2,856	-	0.1	-	3,554
Magyar Takarékné Befektetési és Vagyongazdálkodási Ltd 1092 Budapest, Ferenc krt. 44.1/2	25.1%	253	1,061	1,008	-	438	-	-	-	-385
Total		39,904	45,892	10,591	-	11,901	17	22,178	-	1,205

III / 1/b Informative data on indirect participations of the Bank

31 December 2015

Data in million HUF

Name of enterprise	Registered office	Share in property	Subscribed capital
Magyar Kártya Szolgáltató Ltd.	1082 Budapest, Üllői út 48.	50.99%	305
FHB Lízing Ltd.	1082 Budapest, Üllői út 48.	100.00%	130
Central European Credit d.d. (Croatia)	10000 Zagreb, Marulićev trg 10, Croatia	100.00%	8
FHB DWH Ltd.	1082 Budapest, Üllői út 48.	100.00%	5
Diófa Ingatlankezelő Ltd. (former: Hitelunió Pénzügyi és Szolgáltató Ltd.)	1062 Budapest, Andrássy út 105.	89.19%	10
Káry-villa Real Estate Ltd.	1082 Budapest, Üllői út 48.	100.00%	3
Díjbeszedő Faktorház Ltd.	1117 Budapest, Budafoki út 107-109.	51.00%	500
Díjbeszedő Informatikai Ltd.	1117 Budapest, Budafoki út 107-109.	50.00%	672
Magyar Posta Kártyaközpont Ltd.	1117 Budapest, Budafoki út 107-109.	24.98%	10
DÍJNET Ltd.	1117 Budapest, Budafoki út 107-109.	51.00%	5
Magyar Posta Befektetési Szolgáltató Ltd.	1062 Budapest, Andrássy út 105.	50.00%	140
Magyar Takarékszövetkezeti Bank Ltd.	1122 Budapest, Pethényi köz 10.	13.76%	3,390
Takarék Faktorház Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	13.76%	275
Takinfo Informatikai Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	7.21%	210
Banküzlet Vagyonkezelő Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	6.74%	79
MTB Ingatlan Ltd.	1122 Budapest, Pethényi köz 10.	13.76%	4
Integration Organization of Cooperative Credit Institution	1051 Budapest, Nádor utca 31.	0.00714%	
MA-TAK EL Ltd.	1082 Budapest, Üllői út 48.	40.00%	5
MPT Security Ltd.	1152 Budapest, Telek u. 5.	9.992%	1,203
DOM-P Informatikai Szolgáltató Ltd.	1027 Budapest, Kapás u. 11-15.	13.91%	1,150

III/2. Investments
31 December 2015

Data in million HUF

	FHB Commercial Bank Ltd.	FHB Real Estate Ltd	Díófa Alapkezelő Ltd	FBH Invest Ltd.	DOM-P Ltd.	MPT Ltd.	Magyar Takarék Bef. and Vagyongazd. Ltd.	Total
31 December 2014	34,224	648	188	4,611	0	0	253	39,924
Purchase os shares	-	-	-	-	-	330	-	330
Sales of shares	-	-	-20	-	-700	-330	-	-1,050
Capital increase	-	-	-	-	700	-	-	700
Provision for impairment	-	-	-	-	-	-	-	0
Acquisition	-	-	-	-	-	-	-	0
31 December 2015	34,224	648	168	4,611	0	0	253	39,904

**III / 3. Total emoluments payable to members of Board of Directors
and Supervisory Board on business year
31 December 2015**

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Board of Directors	9	20
Supervisory Board	4	11
Total :	13	31

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Total emoluments payable to Management

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Management	5	104

III / 4. Loans granted to members of Board of Directors, Management and Supervisory Board

31 December 2015

Data in million HUF

Description	Paid	Re - paid	Principal to be re-pad	Essential conditions, interests-bearing
1. Internal loans				
- Board of Directors	-	-	-	Structure as set out in announcement under preferential conditions
- Management	-	-	-	
- Supervisory Boars	-	-	-	Structure as set out in announcement under preferential conditions
1. Total:	0	0	0	

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III / 5 Average statistical personnel staff broken down by staff groups

31 December 2015

PERIOD	Average statistical personnel staff		
	Blue collar	White collar	Total
2014	3	211	214
2015	3	185	188

III / 6. Book value and nominal value of own securities

31 December 2015

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	17,253	17,054
b) Treasury Bills	15,094	15,201
c) MNB bonds	-	-
d) Bonds issued by credit institutions	16,451	16,566
e) Re-deemed own bonds (repurchased by the bank)	-	-
f) Re-deemed own shares (repurchased by the bank)	207	25
Total current assets	49,005	48,846
II. Financial investments, interests in other enterprises		
a) participations in credit institutions	34,224	4,427
b) participations in other enterprises	5,691	1,135
Total financial investments:	39,915	5,562
TOTAL (I. + II.)	88,920	54,408

III / 7 . Extraordinary incomes and expenses
31 December 2015

Data in million HUF

Extraordinary incomes	2,014	2,015	Extraordinary expenses	2,014	2,015
1. Income from expired liabilities / Expired liabilities	-	270	1. Donation	32	29
2. Income from settlement of consumer receivables	-	2,171	2. Expenses from settlement of consumer receivables	-	12,419
			3. Released bad debt	400	725
			4. Assumption of debt	130	-
Total incomes :	0	2,441	Total charges :	562	13,173

III / 8. Off-balance sheet items
31 December 2015

Data in million HUF

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Descriptions	31 December 2014.	31 December 2015.
Pending liabilities		
- Available credit facility on credits extended	146	951
- Loans committed in contract but not yet extended	4,320	850
Total pending liabilities	4,466	1,801
Future obligations	531,640	59,091
Total off-balance sheet liabilities	536,106	60,892
Future receivables	516,820	58,633
Principal receivable value of collateral	327,027	230,678
Total off-balance sheet receivables	843,847	289,311
Collateral value of related property offered	872,638	727,681

Budapest, 5 April 2016

Gyula Köbli
CEO

Márton Oláh
Business Deputy CEO



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