FHB MORTGAGE BANK PLC

ANNUAL REPORT FOR YEAR 2016

FHB Mortgage Bank Co. Plc.

Business Report for 2016

Budapest, 4 April, 2017

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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.

The shareholder structure of the Company has changed significantly in the last quarter of 2016. On 14 October 2016 A64 Vagyonkezelő Ltd. sold its shares in the Company over the counter to B3 Takarék and Fókusz Takarék, then on 9 December 2016 Bank of Hungarian Savings Cooperatives Co. Ltd. (Takarékbank) bought the block of shares of VCP Finanz Holding Ltd. As a result the Takarékbank and the cooperative credit institutions obtained more than 68% of the shares of the Company by the end of the year.

Due to the capital increase on 31 December 2015 FHB Mortgage Bank Plc. had series "A", "B" and "C" shares. Majority (78.2%) of FHB shares is owned by domestic institutional investors

FHB Group's shareholder structure as of 31 December 2016:

Description of owner	Total equity[1] At the beginning of actual year			End of actual period		
	%[2]	%[3]	Qty	%	%	Qty
Series "A" shares listed on BSE						
Domestic institution/company	38.64%	44.55%	41,911,917	39.04%	45.01%	42,345,991
Foreign institution/company	10.73%	12.38%	11,642,388	10.69%	12.33%	11,597,658
Domestic individual	6.15%	7.09%	6,669,193	5.93%	6.84%	6,435,206
Foreign individual	0.02%	0.02%	16,326	0.02%	0.02%	22,330
Employees, senior officers	0.07%	0.08%	77,808	0.08%	0.09%	87,963
Treasury shares	0.23%	0.00%	253,601	0.23%	0.00%	253,601
Government held owner [4]	4.45%	5.14%	4,832,225	4.45%	5.14%	4,832,225
International Development Institutions [5]	0.00%	0.00%	0	0.00%	0.00%	0
Other	0.55%	0.63%	596,552	0.40%	0.46%	425,036
Share serie sub-total	*60.84%*	*69.89%*	*66,000,010*	*60.84%*	*69.89%*	*66,000,010*
Series "B" shares non-listed on BSE						
Domestic institution/company	13.05%	0.00%	14,163,430	13.05%	0.00%	14,163,430
Share serie sub-total	*13.05%*	*0.00%*	*14,163,430*	*13.05%*	*0.00%*	*14,163,430*
Series "C" shares non-listed on BSE						
Domestic institution/company	26.11%	30.11%	2,832,686	26.11%	30.11%	2,832,686
Share serie sub-total	*26.11%*	*30.11%*	*2,832,686*	*26.11%*	*30.11%*	*2,832,686*
	100.00%	**100.00%**	**82,996,126**	**100.00%**	**100.00%**	**82,996,126**

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 Takarék 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.

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.

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 4963.8 billion as of 31 December 2016, which decreased by 2.1% the previous year figure (HUF 473.8 billion). Gross loan portfolio of Commercial Bank amounted to HUF 229.1 billion according to HAS, representing 8.2% increase since the end of the year 2015. The Bank's deposit portfolio decreased by 9,7% (299.1 billion) over the past year.

At the end of 2016 the Commercial Bank had 41 branches countrywide that performed all of the retail bank services. On 31 December 2015 Commercial Bank managed more than 211 thousand retail and more than 12 thousand corporate current accounts to which 170 thousand retail and 6.7 thousand corporate cards belonged.

FHB Commercial Bank's balance sheet profit was HUF 6.691 million loss in 2016, its shareholders' equity at year end was HUF 30.6 billion; and capital adequacy ratio (according to HAS) was 13.16% on 31 December 2016, higher than it was (20.00%) a year ago.

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.

In 2016 the profile of the company has been expended with a new line of business. The changes in the regulations of financial intermediation resulted in the formation of the Partnership Department – to meet the realized change in market needs – and started credit intermediation activities by involving subcontractors. The goal is to deepen the business relationship between the company and property developers as a baseline and attain a gain in revenue.

The Company closed the year 2016 with HUF 7.8 million profits. The Company's registered capital was HUF 70 million and shareholders' equity HUF 214.9 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 is FHB INVEST Ltd. 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 main goal of the Company in 2016 was the expansion of new branches besides clearing and tiding up portfolios. The volume of leasing and loans amounted to HUF 5.5 billion which contains HUF 4.2 billion of means of production's and truck' leasing.The company's capital increased once in 2016, and the capital increase amounted to HUF 210 million.

The Company closed the year 2016 with HUF 64 million losses. Shareholder's equity of the Company according to HAS amounted to HUF 201.1 million as at 31 December 2016; registered capital was HUF 135 million and capital reserves amounted to HUF 3.1 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.

In 2016 the volume of retail mutual funds grew to HUF 160.5 billion which mostly contains the constantly fast-growing Hungarian Post Takarék Real Estate Fund. This real estate fund jumped by HUF 46 billion from HUF 81.4 billion to HUF 127.4 billion. The structure optimisation, the fund managers started in 2015, ended in the beginning of 2016.

Due to the low yield environment money market interest rates and bonds with short maturity can't provide a satisfying return for investors, so they restructured their invest from these categories into more appealing real estate funds. As a result the value of security funds declined slightly throughout the year. The fund management has widened its portfolio with more options after realizing the investor's interest for these funds with higher yield potentials. In accordance a new equity fund has been established in January 2016, that is called Takarék FHB Apollo Derivatives Investment Fund and a new, more wary mix fund called Hungarian Post Takarék Harmony Mixed Investment Fund in sync with the market trends.

Total net value of assets under management increased to HUF 415.7 billion from HUF 393.0 on December 31, 2015.

Asset Management Ltd. closed with HUF 732.0 million profit after tax the year 2016; subscribed capital amounted to HUF 196.2 million and shareholders' equity HUF 1.0 billion.

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.

At the end of 2015 FHB Invest bought 13.9% shares of DOM-P IT Services Ltd. and 10.0% shares of MPT Security from FHB Mortgage Bank, while acquiring 40.0% of MA-TAK-EL Ltd.

FHB Mortgage Bank and its significant investments as at 31 December 2016:

Subsidiaries	Shareholders										
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	Diófa Asset Management Ltd.	FHB INVEST Llc.	FHB Leasing Ltd.	Díjbeszedő IT Llc.	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 Llc.	-	-	-	100.00%	-	-	-	-	-	-	89.19%
FHB INVEST Llc.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
FHB Lease 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 Llc.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Magyar Posta Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	-	-	24.98%
Magyar Posta Investment Services Ltd.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Hungarian Card Service Plc.	-	99.18%	-	-	-	-	0.82%	-	-	-	50.99%
Magyar Takarék Asset Management Ltd.	25.10%	-	-	-	-	-	-	-	-	-	25.10%
Bank of Hungarian Savings Cooperatives Co. Ltd.	1 db C részvény	1 db C részvény	-	-	-	-	-	54.82%	-	-	13.76%
MPT Security Ltd.	-	-	-	-	10.00%	-	-	-	40.00%	-	15.50%
MA-TAK-EL Ltd.	-	-	-	-	40.00%	-	-	40.00%	-	20.00%	53.21%
DOM-P IT Services Ltd.	-	-	-	-	13.91%	-	-	-	13.91%	-	15.83%

2 MACROECONOMIC ENVIRONMENT IN 2016

2.1 THE HUNGARIAN ECONOMY IN 2016[1]

Figures	2014	2015	2016
GDP increase (%)	4.00%	3.10%	2.00%
Industrial production growth (%)	7.60%	7.40%	0.90%
Consumer prices (%)	-0.20%	-0.10%	0.40%
Unemployment rate (%)	7.70%	6.80%	5.10%
Budget deficit (billion HUF)	-826	-1,237	-848
Current balance of payments (million EUR)*	2,356	3,713	4,245
National Bank of Hungary base rate (%, end of the year)	2.10%	1.35%	0.90%
EUR exchange rate (end of the year)	315	313	311

** contains data of the first 3 quarters in case of 2016*
Source: Hungarian Central Statistical Office (HCSO), National Bank of Hungary (NBH)

In 2016 continuously retrograded impulses reached the Hungarian economy because of foreign demands. On one side the European, which is determining for the country, and the American economy, that usually is a world leader in cyclical improvement, couldn't show an improvement in their growth (only reached a 2% growth rate). On the other side the rise of emerging economies (with China in the lead), which are the motor of growth of the world economy, has declined. These negative effects have been balanced out with the favourable environment of external financing. This includes the lower return environment which was the result of monetary facilitation in the European Union and slower procession of planned aggravations in America. In the beginning of 2016 the fall of energy prices, that caused betterment in term of trades, also helped to improve Hungary's external balance and vulnerability indicators.

The growth of the Hungarian economy slowed from 3.1% (in 2015) to 2% by the end of 2016, which was due to the loss of cyclical EU resources (2007-2014) and to struggle of industry, while the weather-based agriculture performed well throughout the year. The domestic production contributed strongly to the growth rate, thanks to the upturn in demands in the service sector. The growth in domestic demands could have also been seen in the fact that households became the driving force in consumptions. This was thanks to the still significant raise in real wages (over 7%), the continuous improvement in the labour market (unemployment rate dropped from 6.8% to 5.1%) and the jump in consumers' trust. On the other hand the contribution of export barely rose, because the processing industry – mostly the auto industry -, which has been scaled up in recent years, reached its production capacity, while the upgrades on models produced in Hungary may have also resulted in the reduction of output.

The economy growth continued to go on with advancement in the balance condition. The general government controlled its expenses disciplined (the reduction in interest expenditures also helped), while accomplished great surpluses in income, which was mostly thanks to the growth in income- and value added taxes in an improving economic environment but the reduction in grey market and new types of taxes (such as road toll) also contributed to the revenue gain. The public deficit stayed under 2% of GDP throughout the year, which is the lowest in recent years. As a result the sovereign debt continued to decrease without the need of larger financial manoeuvres and ended at 74% of the GDP by the end of 2016. The outer balance indicators also showed great improvements. The outer net financial capacity jumped from 8% of the GDP in 2015 to 8.5% by the end of the fiscal year, which was mostly due to growth in surplus of goods- and service trades and the improvement in income balance, while the net resource flow of EU has fallen. The improvement in Hungary's position is also shown in the decrease of foreign loans: the gross foreign debt containing the so-called other capital (the loans between the company and subsidiaries) sank under the 100% of GDP by the end of 2016 and the net foreign debt dropped to near 14% of the GDP.

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

The growth of economy didn't result in a strengthening in inflationary pressures. Although the inflation in terms of 12 months period reached 1.8% in 2016 because of basic effects, the average throughout the year only stayed at 0.4% low. The underlying inflation's value was 1.5% which indicates that the decreased inflation was caused not only by effects outside of energy prices and other monetary decisions. This rate is quite far from the 3% mid-term goal the central bank issued. As a result the Hungarian National Bank (HNB) – also encouraged by the regressive yield environment in Europe – decreased the base rate of the central bank by 45 bp to 0.90%, after what he stayed on the route to ease monetarily using his other tools. Through the self-financing program the free sources of banks has been moved from three-month bank deposits to sovereign debt markets providing swaps of interest rates with preferential fees. This resulted in the short-term yields of government securities and interbank rates to hit rock bottom and in the stabilization of long-term government bonds. Meanwhile the HNB continued the Loans for Growth Program (NHP) that was first introduced in 2013 and has been renewed ever since. Through this program over HUF 2,652 billion has been issued to small and medium-sized enterprises (HUF 526 billion in 2016) with preferential-termed investment loans.

In 2016 the Hungarian forint was able to keep its stability that it acquired in the previous year. Throughout the year it was moving in a shallow line and its yearly average against the euro ended at a slightly weaker 311 position than in 2015. What is more important that its volatility has decreased compared to those emerging currencies (eg. Turkish lira, South-African rand) whose risk group the forint was also part of just a few years ago. Debt risk of Hungary has been drastically reduced due to a decrease in foreign currency loans, a much improved foreign balance indicators and a strong economy growth which resulted in the strengthening of the forint and a change in the country's credit rating. In 2016 all three big credit rating enterprises have upgraded Hungary's credit rating to "stable", which is investment-grade level.

The total number of dwelling construction permits issued and simple declarations concerning the construction of new dwellings show significant growth compared to previous year, and number of new housing constructions increased too in relation to preceding year. Number of issued residential building permits and simple declarations increased to 31.559 in 2016, by 52.2% more than in 2054. The most intense increase was recorded in South Transdanubia and in Central Transdanubia (+290.2% and 232.6% compared to 2015, respectively.) The number of planned new homes in Budapest increased by 195.4% to 9,364 - in a measure significantly exceeding changes at country level. Building permits issued in the county seats grew by 184.7% to 8,953, while in other towns an increase of 136.6%, in villages 78.0% was observable compared to 2015.

The number of new homes built increased by 31.3% to 9,994 from 7,612 in 2015. Compared to the number of flat construction in the preceding year a decrease could be seen merely in Southern Transdanubia (18.5%). In terms of territorial units the number of flats built increased in Budapest by 44.0% , in county seats by 48.5%, while in other towns by 19.8%, in villages by 11.3% compared to 2015. The proportion of flats built by enterprises grew from 39.4% to 49.6% (4,958 pcs); while the proportion of flats built by natural person decreased from 58.5% to 48.5% (4,852 pcs). Among others in consequence of realignment among main contractors the average territory of flats brought into use was 101 sq.m. last year, it is decreased to 94 sq.m. this year.

2.2 THE BANKING SECTOR IN 2016[2]

Total assets of credit institutions amounted to HUF 34,185 billion at the end of 2016, 4.0% higher than at the end of 2015. According to preliminary data, the cumulative pre-tax profit was HUF 510.3 billion in 2016, significantly better than the HUF 34.3 billion profit of 2015. Out of 111 credit institutions the pre-tax profit of 76 credit institutions was HUF 572.2 billion, while the pre-tax loss of 35 credit institutions was HUF 17.0 billion. Credit institution branches made HUF 46.7 billion pre-tax profit.

Gross loan portfolio of credit institutions increased by 9.2% in 2016. Volume of household's loans increased continuously during the year, representing 3.2% grow resulted mainly from the execution of Settlement Act. The volume of housing loans decreased by 2.8% during the year.

12.6% (HUF 714 billion) of total gross HUF household loan portfolio (HUF 5,650 billion) was past due more than 90 days at the end of 2016. Among household loans the share of loans was 16.7% (at the end of 2015 was 22.3%) and share of

[2] Based on reports and statistics of NBH

loans past due more than 90 days decreased to 12.7% from 17.6% in 2015 that shows the improvement of household loan portfolio. After HUF conversion 25.3% of remaining HUF 45 billion household FX loans was past due more than 90 days compared to 38.5% on 31 December 2015.

In case of non-financial corporations' HUF loan volume (HUF 3,398 billion) 5.4% was past due more than 90 days that also shows an improvement compared to 8.4% at the end of 2015.The proportion of all past due loans among forint loan portfolio was 9.8% as of 31 December 2016, at the end of 2015 it was 12.0%.The 5.5% of the 2,519 billion total FX loan portfolio was past due more than 90 days, which represents decline compared to 10.9% at the end of 2015.

The restructured loans amounted to HUF 1,698 billion at the end of the year lowered by 24.9% compared to 2015th year-end level. 38.1% of restructured HUF loan portfolio fell into arrears, 13.9% within 90 days, while 24.2% over 90 days.

The share of deposits of the funding of the sector grew in 2016 (53.8% from 51.5% in 2015) amounted to –HUF 18,386 billion. Household's deposits represented 39.4% 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 490 billion, which volume (HUF 487.8 billion) is significantly higher than in 2015 (HUF 399.7 billion), the increase is 22.1%.

2.2.2 Mortgage loan volumes

Based on data published by National Bank of Hungary, volume of retail mortgage loans amounted to 4,342 billion HUF as at 31 December 2016. Volume decreased by HUF 380 billion compared to year-end data of 2015 (4,722 billion HUF). Volume of FX loans fell by 16.2%, and HUF denominated loans by 8.0 %, total volume of mortgage loans decreased by 8.0%.

Volume of housing loans amounted to HUF 2.923 billion as of 31 December 2016, representing yearly decrease of HUF 84 billion. HUF loans fell down by HUF 83 billion and FX housing loans by HUF 1 billion during a year.

General-purpose mortgage loans amounted to HUF 1,419 billion as of 31 December 2016 with a HUF 294 billion year-on-year decline. Decrease of HUF-denominated general-purpose loans grew by HUF 291 billion, at the same time FX-based general-purpose loans were down by HUF 3 billion.

FX loans, proportion of FX mortgage loans decreased from 0.5% in 2015 to 0.4% as of 31 December 2016.

2.2.3 Home protection measures

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, however NET Ltd. – with regard to the law limited size of buyable estates – should accept new requests until the beginning of the year 2017. According to the current information the program will not continue or will not be modified.

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. The Bank has 48 Debt Settlement Proceedings at this time.

2.2.4 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 2016 more than 2,400 loan applications had been approved, from which the number of disbursed loans reached 1,700 with the total volume amounting to HUF 4.4 billion. In case of 50% of 'CSOK' applications clients submitted loan applications as well.

2.2.5 Other retail loans

Consumer loans of households have increased in 2016. Rise in volume was 3.5%, and the main fall appeared in case of car purchase loans and of credit card loans, while volume of consumer loans for purchase of goods or other and of consumer loans increased. Personal loans represent 40.8% of consumer loans, while the contribution of card loans reached 18.9%.

3 BUSINESS AND FINANCIAL RESULTS OF FHB MORTGAGE BANK[3]

3.1 MAJOR FINANCIAL INDICATORS

The balance sheet total calculated on the basis of the Hungarian Accounting Standards was 20.8% or HUF 87.6 billion lower than the previous year's figures. The balance sheet total was HUF 333.4 billion at the end of 2016. Earnings before tax were HUF 6,532 million loss.

The special banking tax reduced the result by HUF 867. The FHB Mortgage Bank's result would be HUF 3,342 million loss without special banking tax and other one-offs.

in HUF million	31/12/2015	31/12/2016	Change
Balance sheet total	420,966	333,391	-20.8%
Loans, gross	103,103	91,190	-11.6%
Securities issued	257,284	196,603	-23.6%
Shareholders' equity	29,182	53,116	82.0%
Regulatory capital [1]	62,413	49,921	-20.0%
Total risk exposure amount	140,433	108,024	-23.1%
Capital adequacy ratio	44.44%	46.21%	1.8%-pt
Profit / (Loss) before tax	-4,055	-6,532	61.0%
Profit / (Loss) for the year	-4,055	-6,532	61.0%
CIR (operating costs / operating income), %	192.93%	117.44%	-75.5%-pt
ROAA (return on average assets) %	-0.77%	-1.73%	-1.0%-pt
ROAE (return on average equity) %	-12.99%	-15.87%	-2.9%-pt

[1] from 1 January 2014 there is new regulation about the calculation of regulatory capital
[2] the ratio is calculated without special banking tax

3.2 RETAIL AND CORPORATE LENDING

The gross amount of loans was HUF 91.2 billion at the end of 2016. The volume at year-end was HUF 103.1 billion as of 31 December 2015, which was HUF 11.9 billion or 11.6% higher than the amount of 2016. 92.4% of the loan portfolio, HUF 84.3 billion is retail loans, which is HUF 11.0 billion lower than the amount as of 31 December 2015 (HUF 95.3 billion). The corporate loans amounted to HUF 6.7 billion at the end of 2016, which is HUF 0.9 billion lower than in 2015 (HUF 7.6 billion). 92.5% (HUF 84.2 billion) of the loan portfolio is denominated if HUF, the sum of loans denominated in foreign currencies were HUF 6.9 billion as of 31 December 2016. The total amount of disbursed loans is HUF 5.7 billion for 2016, which is HUF 0.7 billion more than the disbursed amount of 2015 (HUF 5.0 billion). From the HUF 5.7 billion disbursing in 2016 the brand new transactions give HUF 4.7 billion. The total disbursed loans were retail loans in 2016.

Main part of lending was generated by housing and general purpose mortgage loans. Housing loans amounted to HUF 66.4 billion in 2016 resulting 78.7% among retail loans. Volume of general purpose loans amounted to HUF 13.2 billion decreasing 16.6% compared to 2015 – representing 15.7% among retail loans in 2016 (in 2015 it was 16.7%)

The land development portfolio amounted to HUF 1.3 billion at the end of 2016, 22.3% less than the previous year's figure. Reversed mortgages amounted to HUF 2.6 billion at the end of 2016 and lowered by 8.3% compared to 2015.

Corporate loans were down by 11.6% 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 1.9% at the end of 2016.

[3] This financial analysis – considering also investor's needs – 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 2016 the portfolio of refinanced loans decreased by 22.3% or HUF 29.0 billion year-on-year and amounted to HUF 100.8 billion. This volume includes HUF 31.4 billion receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to HUF 69.4 billion. Loans denominated in HUF contributed 89.0% to the 2016 year-end refinanced loan portfolio as opposed to 99.6% at the end of 2015. Refinanced loan disbursements amounted to HUF 33.2 billion in 2016 including HUF 33.1 million contributed by the Commercial Bank.

The Mortgage Bank and the Hungarian Branch Office of AXA Bank Europe SA (and its predecessors) had a refinancing cooperation since 2004 that terminated by 1st of November 2016, because the mortgage of the Hungarian Branch Office of AXA refinanced by the Mortgage Bank has been sold. In accordance in the last quarter of 2016 the outstanding HUF 35.5 billion refinanced debt has been payed which resulted in a drop in refinanced loans and in the change of structures of interest earning assets.

During this year the Mortgage Bank started the preparation of introducing the Mortgage Financing Adequacy Ratio (JMM), resulting in some new refinancing agreements with new partners.

3.4 PORTFOLIO QUALITY, PROVISIONING

As of 31 December 2016 the Bank's rated assets amounted to HUF 296.6 billion, pending commitments amounted to HUF 4.5 billion (HUF 301.1 billion total) and future commitments (from swap transactions) to HUF 26.8 billion.

Breakdown of portfolio by classification, loss in value and provisions

Breakdown of portfolio by classification, loss in value and provisions						
in HUF million	31/12/2015			31/12/2016		
	Total receivables	Impairment and provisions	Distribution	Total receivables	Impairment and provisions	Distribution
Performing	312 521	-	-	243 849	-	-
To be monitored	43 234	1 362	3,15%	46 196	3 688	8,0%
Below average	4 413	734	16,6%	2 112	326	15,4%
Doubtful	7 244	3 388	46,8%	2 851	1 345	47,2%
Bad	2 333	2 007	86,0%	6 058	5 896	97,3%
Total	***369 745***	***7 491***	***2,0%***	***301 066***	***11 254***	***3,7%***

Receivables from customers amounted to HUF 91.4 billion (30.4% of the portfolio excluding swap), moreover, according to the contracts, HUF 4.5 billion of lending liability (1.5%) was maintained at the measurement time. HUF 18.3 billion claims and HUF 3.0 billion commitments were classified as "to be monitored" or "bad" related to 5,758 loan agreements from the total receivables from customers with HUF 7.92 billion total impairment and provisions. The refinancing loan portfolio amounted to HUF 100.8 billion (33.5%) classified as performing.

The Bank had outplacements at thirteen commercial banks in the form of fixed-term and sight deposits, amounting to HUF 62.6 billion (20.8%).

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 41.8 billion (13.9%) from which HUF 35.9 billion classified as non-performing, HUF 5.9 billion as performing. Volume of impairment on investments of Mortgage Bank amounted to HUF 3.3 billion at the end of 2016. Future commitments amounting to HUF 26.8 billion at the balance sheet date are classified as performing on 31st December 2016.

The ratio of performing portfolio deteriorated in the total portfolio, and in the loan portfolio too (at receivables from customers and at commitments) compared to the values measured at the end of 2015.

As of 31 December 2016, 81.0% of the classified portfolio (excluding swaps) was performing (compared to 84.5% as of 31 December 2015). The ratio of below average, doubtful and bad receivables was 3.7% (3.8% as of 31 December 2015), and the ratio of category 'to be monitored' was 15.3% (11.7% as of 31 December 2015).

In the loan portfolio, the performing rate was 77.8% (79.0% as of 31 December 2015), the combined rate of below average, doubtful and bad loans was 11.5% (13.4% as of 31 December 2015), and the 'to be monitored' category was 10.7% (4.3% as of 31 December 2015).

The Integrational Organization of Cooperative Credit Institutions (SZHISZ) prescribed for the FHB Group on the rating date of 31 December 2016, that average loss coverage of outstanding loans with overdue over 90 days must reach 70%. With consideration this prescription the average loss in value showed increase compared to the previous measurement time both in the total portfolio (without swap) (3.7%) and in the loan portfolio (8.3%). For the end of 2016, impairment coverage of non-performing loans past due to 90 days reached 66.7%, which is 23.7%point higher than in 2015.

3.5 MORTGAGE AND SENIOR BOND ISSUES

In 2016 FHB Bank made 9 transactions and issued mortgage- and senior bonds with the value of HUF 45.8 billion.

In 2016, the Bank has HUF 45.8 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 44.2 billion mortgage bonds, and HUF 1.6 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 227.6 billion as of 31 December 2016, 22.2% less than the figure as of 31 December 2015 (292.6 billion HUF)

Value of mortgage bonds and assets involved as collateral as of 31 December 2016

in HUF million	31/12/2014	31/12/2015	31/12/2016	Change
Outstanding mortgage bonds in circulation				
Face value	199,488	195,084	153,385	-21.4%
Interest	38,804	40,676	28,328	-30.4%
Total	**238,292**	**235,760**	**181,713**	**-22.9%**
Value of the regular collateral				
Principal	276,905	207,402	170,890	-17.6%
Interest	116,722	85,178	56,718	-33.4%
Total	**393,627**	**292,580**	**227,608**	**-22.2%**
Value of assets involved as supplementary collateral				
Government and Hungarian Development Bank bonds	0	17,007	8,001	-53.0%
Total	**0**	**17,007**	**8,001**	**-53.0%**

As of 31 December 2016, the present value of ordinary collateral was HUF 203.5 billion and the present value of mortgage bonds was HUF 177.5 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 114.6% in the same period.

As of 31 December 2016 net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 116.6%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 200.2%.

3.6 BALANCE SHEET STRUCTURE

As of 31 December 2016 the balance sheet total of the Bank was HUF 333.4 billion, which is 20.8% lower than in 2015. 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 31.1 billion, refinanced loans by HUF 29.0 billion, while gross loans to customers decreased by HUF 11.9 billion year-on-year. On the liabilities side, the decrease was dominated by mortgage bonds, bonds issued and subordinated liabilities. Changes in mortgage bonds decreased liabilities by HUF 41.7 billion, bonds issued by HUF 19.0 billion, while decrease of subordinated liabilities was HUF 35.1 billion. Shareholders' equity grew by HUF 23.9 billion compared to previous year.

The table below contains the Balance Sheet of the Company in a controlling view structure.

in HUF million	31/12/2015	31/12/2016	Change
Assets			
Interest earning assets	376,329	293,839	-21.9%
Interbank placements	84,637	53,587	-36.7%
Securities	48,798	38,271	-21.6%
Refinanced loans	129,791	100,791	-22.3%
Loans to customers, gross	103,103	91,190	-11.6%
Subordinated loan	10,000	10,000	0.0%
Other interest earnings assets	0	0	-
Impairment and provision	-6,407	-7,848	22.5%
Cash	1,754	87	-95.0%
Investments	39,914	38,470	-3.6%
Tangible assets, inventory	490	478	-2.4%
Intangible assets	1,297	454	-65.0%
Other assets	7,589	7,911	4.2%
Total assets	**420,966**	**333,391**	**-20.8%**
Liabilities			
Interest bearing liabilities	338,837	264,068	-22.1%
Mortgage bonds	195,084	153,385	-21.4%
Bonds issued	62,200	43,218	-30.5%
Interbank funds	46,440	67,433	45.2%
Subordinated debt	35,069	0	-100.0%
Other interest bearing liabilities	43	32	-25.6%
Other liabilities	52,762	15,845	-70.0%
Provisions and reserves	185	362	95.7%
Shareholders’ equity	29,182	53,116	82.0%
Total liabilities and equity	**420,966**	**333,391**	**-20.8%**

3.6.1 Interest earning assets

The Bank’s interest earning assets decreased from HUF 376.3 billion as of 31 December 2015 by 21.9% to HUF 293.8 billion by the end of 2016. The portfolio of refinanced loans decreased by 22.3% year-on-year; net loans to customers sold by the Mortgage Bank through the Commercial Bank and its network of agents was 11.6, or HUF 11.9 billion less than in the reference year and amounted to HUF 91.2 billion. Loans to customers contributed 31.0% to interest earning assets at the end of the year (increased by 3.6%).

The aggregate portfolio of mortgage loans (net of provisions) amounted to HUF 187.0 billion as of 31 December 2016, which is 17.4% (HUF 39.4 billion) lower than the base period figure.

The collateral value of real estate covering mortgage loan principal receivable amounted to HUF 622.8 billion as of 31 December 2016, 11.5% short of the reference period's figure (HUF 704.1 billion). Thus the average loan-to-value of coverage (LTV) ratio was 27.3% as of 31 December 2016, lower than the 2015 LTV of 29.3%.

3.6.2 Intangible assets and investments

The value of invested assets (net of provisions) was HUF 38.5 billion as of 31 December 2016, which is nearly on the same level as in 2015. As of 31 December 2016, FHB Mortgage Bank's net holdings in the jointly controlled companies were as follows: HUF 31.9 billion in FHB Commercial Bank, HUF 648.1 million in FHB Real Estate, HUF 321.5 million in Diófa Asset Management Ltd., HUF 5.3 billion in FHB INVEST Ltd. and HUF 253.1 million in Magyar Takarék Asset Management Ltd.

The net value of intangible assets as of 31 December 2016 was HUF 454 million, which shows the price of the business software's.

3.6.3 Other assets

The Bank's other assets amounted to HUF 7.9 billion and increased by 4.2% in 2016. The bulk of other assets were contributed by accruals amounting to HUF 5.9 billion. As of 31 December 2016 the Bank had repurchased Treasury shares amounting to HUF 207.2 million.

3.6.4 Interest bearing liabilities

3.6.5 Mortgage bonds and senior bonds issued

As of 31 December 2016, 58.1% 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 2016, mortgage bonds issued by the Bank amounted to HUF 153.4 billion HUF, 21.4% lower than the previous year's figure.

Senior bonds completing the securities activity of mortgage bond issuance resulted in a book value of HUF 43.2 billion as of the 31 December 2016, decreasing by 30.5% compared to the previous year-end figure.

3.6.6 Interbank funds

Interbank borrowings amounted to HUF 67.4 billion as of 31 December 2016. The contribution of bank group interbank deposits was 45% or HUF 30.3 billion, while liability in respect of related companies – FHB Commercial Bank Ltd. – represented 55%, HUF 37.1 billion.

3.6.7 Subordinated liabilities

On the 24th of June 2016 the Company has bought back bond with face value of EUR 112 million and ISIN code XS0867086042 without any agreed maturity, then the securities bought back were deleted. The Hungarian National Bank, the competent authority, has given all permissions before the transaction. Due to the repurchase the Bank didn't have any subordinated liabilities by the end of 2016.

3.6.8 Other interest bearing liabilities

The aggregate value of deposits from clients on collateral accounts related to project loan transactions was HUF 32 million as of 31 December 2016, 25.6% lower than the HUF 43 million in the previous year.

3.6.9 Other liabilities

Other liabilities amounted to HUF 15.8 billion representing 70.0% decrease compared to 2015. First of all this line item includes passive accruals amounting to HUF 14.5 billion at the end of 2016. The two dominant components of passive accruals are accrued interest expenses (HUF 4,6 billion) and accruals related to foreign exchange gains on mortgage bonds (HUF 6,1 billion).

3.6.10 Shareholders' equity, capital position

As of 31 December 2016 the shareholder's equity of the Bank amounted to HUF 53.1billion, which is nearly doubled due to last year-end's share issue.

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 49.9 billion at 31 December 2016. The capital adequacy ratio was 46.21% (one year ago 44.48%).

3.6.11 Off-balance sheet items

Within the Bank's off-balance sheet items, amount of unused credit lines was HUF 3.9 billion. Future liabilities decreased from previous year's HUF 59.1 billion to HUF 26.8 billion, including HUF 14.9 billion hedge transactions related to mortgage and unsecured bonds issued and HUF 11.9 billion FX swaps liabilities as of 31 December 2016. Demands from hedge transactions amounted to HUF 14.5 billion and demands from currency swaps to HUF 11.9 billion.

3.7 PROFIT & LOSS STRUCTURE

in HUF million	31/12/2015	31/12/2016	Change
Net interest income	4 560	2 162	-52,6%
Interest income	30 154	18 142	-39,8%
Interest expense	-25 594	-15 980	-37,6%
Net fees and commission income	-417	509	-222,1%
Fee and commission received	982	1 765	79,7%
Fee and commission paid	-1 399	-1 256	-10,2%
Net result of financial transactions	-1 018	1 664	-263,5%
Other income and expenditure	-14 025	-2 008	-85,7%
Other operating income	6 837	2 338	-65,8%
Other operating expenditure	-20 862	-4 346	-79,2%
Gross operating income	**-10 900**	**2 327**	-121,3%
Operating expenses	-6 029	-5 091	-15,6%
Net provisioning and loan losses	12 874	-3 768	-129,3%
Profit/loss before tax	**-4 055**	**-6 532**	61,1%
Taxation expense	0	0	-
Profit/loss after tax	**-4 055**	**-6 532**	61,1%
Profit/loss after tax w/o special banking tax and one-offs	***-2 057***	***-3 342***	62,5%
General reserve	0	0	-
Profit / loss per balance sheet	**-4 055**	**-6 532**	**61,1%**

The Bank's gross operating income was HUF 2.3 billion in 2016 which is significantly higher than the result in 2015.

As a key component of gross operating income, net interest income reduced by 52.6% year-on-year. Operations throughout the year generated a total of HUF 5.0 billion costs, which means 15.6% increase compared to 2015.

3.7.1 Net interest income

The HUF 2.2 billion net interest income generated in 2016 emerged as the balance of HUF 18.1 billion interest income (39.8% lower than in 2015) and HUF 16 billion interest expense (37.6% decrease).

As of the interests of customers' loans show decrease of HUF 3.6 billion, and swap deals' interests are down by 85.9%.

Interest expenses showed lower decrease than interest incomes in 2016. Among expenses securities' interest expenses play the most significant role, its amount declined by HUF 6.4 billion compared to 2015. Interest expenses of SWAPs decrease was HUF 961 million, while the volume of interbank interest expenses decreased by HUF 2.3 billion (82.3%).

The net interest margin on average total assets was 0.6% as of 31 December 2016 and 0.9% as of 31 December 2015.

3.7.2 Net fees and commissions

In 2016 the net fees and commission income amounted to HUF 509 million profit, after net fee income in 2015 was HUF 417 billion loss.

Among fee and commission paid securities' fees decreased by 38.5%, while the agent fee which is the main part of the fee on commission expenses to FHB Commercial Bank decreased by 7.4% (HUF 1.2 billion) in 2015.

3.7.3 Net profit from financial transactions

The performance of net result of financial transactions was quite better in 2016, increased by HUF 2.7 billion compared to last year's so closed the year with HUF 1.7 billion profit. Both the result of foreign exchange transactions and mortgage bonds showed profit in 2016: foreign exchange transactions performed HUF 20.3 million and mortgage bonds generated HUF 1.5 billion gain.

3.7.4 Other income and expenditure

The result of other income and expenditure closed the year with HUF 2,008 million losses, which means 85.7% increase. Amount of other operating income decreased by 65.8% to HUF 2.3 billion, while the amount of other operating expenditure dropped by 79.2% to HUF 4.3 billion.

Income generated by internal services was HUF 1.4 billion in 2016, decreased by 33.4% year-on-year.

The expenses of loan factoring and loan write-off amounted to HUF 1.7 billion.

3.7.5 Operating expenses

in HUF million	31/12/2015	31/12/2016	Change
General administrative costs	3,323	2,754	-17.1%
Personnel expenses	1,885	1,740	-7.7%
- wages and salaries	1,281	1,160	-9.4%
- other personnel expenses	197	209	6.1%
- social security contributions	407	371	-8.8%
Direct costs of banking activity	528	428	-18.9%
Costs of internal services	16	17	6.3%
Depreciation	276	152	-44.9%
TOTAL OPERATING EXPENSES	**6,029**	**5,091**	**-15.6%**

There was no significant change in structure of operating expenses in 2016, but the total expenses decreased by 15.6% to HUF 5.0 billion especially because general administrative expenses decreased by 17.1%. 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 7.7%.

3.7.6 Impairment and loan losses

In 2016 the Bank formed HUF 3,768 million net reserves for impairment and provisions. The consolidated shares' impairment amounted HUF 2.3 billion, impairment of receivables amounted HUF 3,789 million while HUF 2.4 billion provisions and reserves reversals.

3.7.7 Change in general reserve

The Bank did not created general reserve in 2016, which is stable HUF 0 for years.

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 2016. Treasury Department managed FHB's liquidity in the examined period in accordance with the Group's liquidity management framework established in the past. All Groups members have a stable background and a continues ability to pay any time. In June there was a higher distrust in investors than usual - different than the fluctuation of deposits in the bank sector – caused by news articles which resulted in the withdrawals from deposits by institutional investors and big companies. This had a significant effect on the level of the deposits in FHB. Because liquidity management is prepared for such deposit withdrawals and these deposits are invested in liquid assets, these outflows didn't cause any liquidity issues. The stress in the environment has declined during the summer and in the fourth quarter it terminated, which resulted in the restoration of the investors' trust. As a result the amount of deposits started hiking and according to its trend it will shortly reach its degree from before June.

During management of the group's liquidity – due to the fact that the new supervisory standards (LCR, LCRDA) don't support the aggregation and consolidation of positions – transactions in the money and capital markets will carry out in a more complex way to meet the liquidity standards. The adaptation to regulatory environment and the optimisation to worth indicator expectations resulted in the establishment of both banks in the open market regarding certain products and types of businesses. 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 16.3 billion, in Mortgage Bank this amounted to HUF 1.6 billion.

The amount of margin deposits of the Group in HUF was HUF 2.2 billion (Mortgage Bank 0.3), in EUR in FHB Commercial Bank it was EUR 3.54 million and the net margin position of the Mortgage Bank's deposited interbank showed a net balance of EUR 3.91 million and HUF 100 million at the end of 2016. The Group's net margins placed with counterparties amounted to EUR 7.45 million (about HUF 2.3 billion) and HUF 2.3 billion, i.e. a total of HUF 4.6 billion.

As of 31 December 2016, the consolidated securities portfolio contained mainly government bonds (HUF 47.1 billion, EUR 12 million and USD 0.6 million), and state guaranteed securities (HUF 32.6 billion, EUR 25 million and USD 2.33 million) and lesser extent other institutional / corporate bonds (HUF 588.7 million, EUR 24.4 million, USD 8.6 million). (The portion of the securities held by the Mortgage Bank - HUF 28.5 government bonds and HUF 10 billion securities with a state guarantee – are held solely due to liquidity and risk management purposes.)

Available liquid securities of the Group amounted to HUF 180.0 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

The FHB Group's enterprises under the prudential consolidation and control of the FHB Mortgage Bank are also parts of the group under consolidated supervision of the Takarékbank as parent bank, moreover the FHB Mortgage Bank and the FHB Commercial Bank are members of the Integration Organisation of Cooperative Credit Institutions (SZHISZ).

Pursuant to the Integration membership and the consolidated supervision the risk management regulation and also the risk strategy of the Integration applies to the FHB Banking Group.

The mandatory Risk Strategy used by the financial institutions and the corporates under the consolidated supervision approved by the Board of Directors of the Takarékbank covers the following topics: risk culture, risk taking principles, targets, risk types, essential risks, risk appetite, risk tolerance, risk structure, risk management, structure and the organisation of the risk management.

The Integration and its members are striving to create an integrated risk culture covering the whole Integration, supporting the risk identification, measurement and management in accordance with their risk appetite and risk tolerance. The primary tools of the risk culture to be introduced are the elaboration of the inner strategy, regulations, guidelines, the communication and the education of the employees.

In the Integration the FHB Mortgage Bank Co. Plc. is the leading credit institution of the subconsolidated FHB Banking Group. In order to achieve the strategic goals of the Banking Group the FHB Mortgage Bank as parent bank has a twofold – ownership and professional - control over the group members owned directly or indirectly. In the framework of the professional control the FHB Mortgage shall ensure, that the risk management principles, methods, the risk evaluation, measurement and control procedures should be consistent, and harmonized and at the same time should be in compliance with the risk regulation of the Integration.

The primary goal of the risk management is the protection of the financial strength and good reputation of the Banking Group, and the contribution to the utilization of the capital in competitive business increasing the shareholder value. The protection of the financial strength and good reputation means, that the risk management limits the impact of the adverse events on the Group's capital and profit.

The risk tolerance of the Banking Group must be harmonised with the financial resources available for hedging the potential losses. The Banking Group calculates the present and future economic capital needs and the Pillar I. capital requirements relating to quantifiable risk types.

The Banking Group considers the prudent risk taking as a fundamental value.

The Group faces basically credit-, liquidity-, market and operation risks.

5.2 CREDIT RISK

In the field of credit risk management the following tasks - apart from contribution to risk-taking related decisions with analyses and daily routines of participating in decision-making – completed by the Banking Group in 2016 can be highlighted:

Corporate Division's sectorial limit structure was updated in Q1 2016, which set the directions of risk taking. The directive aiming at managing the corporate clients' FX exposures was completed in Q3 2016, which the Group is expected to implement in the near future.

The aims of the directive:

- Accurate presentation of business processes related to corporate clients' FX exposures (speculation, natural exposure, hedging etc.). FX risk analysis and determining the denomination of lending have to be integral parts of risk-taking process.
- Defining the minimum requirements and conditions for lending clients in foreign currency and determining risk management tools for managing clients' actual FX exposure.

- Monitoring of corporate clients' business activity in relation to FX exposures (speculation, natural exposures, exposures originating from funding structure, hedging) has to be integrated into the monitoring/review process.
- Summarizing special contractual clauses in relation to foreign currency lending.

For the retail customer base the main tasks were the participation in the set-up and restructuring of internal processes and rules required by:

- compliance to regulation, such as the CSOK decree issued by the government; amendment of the law on lending to retail customers; actualization of rules on income verification in line with the referring NBH decree.
- product development, such as the accelerated approval process of FHB personal loan; the product development of Posta Premium personal loan, amendment of rules of the debt restructuring personal loan; introduction of Car and Home restoration personal loan product.

As a result of Risk Management Division's initiative and coordination, rules of decision-making and responsibilities were amended and introduced after the approval of the management. These amendments include clarifications, while FHB introduces a power for corporate risk taking dependent on client qualification.

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.

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 Group collects and analyses loss data of operational risk and Key Risk Indicators (KRI). KRIs are reviewed annually. In 2016 more KRIs have been modified and new ones has been defined and introduced.

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.

The Bank has created the Modell inventory in sync with supervisory expectation which was filled with the help of involved departments.

5.7 OTHERS

In the Q2 2016 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.

The co-workers at the risk management department took active part in the project with the goal to construct the United IT System of the Integration.

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

The FHB Mortgage Bank held its annual general assembly on the 28th of April in 2016. During this meeting Levente László Szabó has been elected as a member of the board of directors, while Miklós Szabó and István Sebestyén have been chosen as member of the supervisory committee and the audit committee.

Dr. Zoltán Spéder, the chairman of the board of directors has resigned on 14th October 2016.

The board of directors has called on an extraordinary meeting after a stockholder with at least 1% of the vote rights proposed it. On 21st of November 2016 all members of the board and the supervisory committee have been recalled from office. At the same time dr. Erik Landgraf, Mátron Oláh, Attila Mészáros, Gábor Gergő Soltész and József Vida has been elected as members of the board, while dr. Kadosa Antal, sr. Zsolt Harmath, dr. Mónika Kovács, György Pórfy and dr. Balázs Reiniger have been chosen as members of the supervisory committee for the Company.

At the constituent sitting the board selected József Vida as chairman on 5th of December 2016.

Gyula Köbli has been recalled from his position as chief executive officer on 5th of December 2016 and Márton Oláh has been elected into the position.

The number of full time equivalent employees as of 31 December 2016 was 132.8 as opposed to the 129.4 as of 31 December 2015.

7 POST-BALANCE SHEET DATE EVENTS

The Bank as a result of the discussions started in 2016 has made contracts with 4 new refinancing partners and the first disbursements have made, worth more than HUF 10 billion.

The FHB Bank has joined the 'Examination of savings and process rationalization from combination of central areas of the large banks of Integration' Project proposed by Takarékbank in accordance with the decision of the board and the general assembly. The goal of the project is to harvest the synergy of the merge of head-offices functions of big banks, furthermore to carry out an expert study connected to process assessment which will lead to the recognition of cost saving options, the upgrade of centralized service processes and the development of an implementation plan to carry out the necessary changes.

For future expenses regarding this project the Central Bank, the Commercial Bank and the Mortgage Bank have established provisions to cover pension and severance payments. The Mortgage Bank provided HUF 227 million for this purpose.

Budapest, 4 April, 2017

József Vida
Chairman of the Board of Directors

Márton Oláh
Chief Executive Officer

FHB Mortgage Bank Plc.

Annual report and
Independent Auditor's Report

December 31,2016

Deloitte.

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Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of FHB Mortgage Bank Plc. (the „Bank") for the year 2016 which comprise the balance sheet as at December 31, 2016 (which shows an equal amount of total assets and total liabilities of HUF 333.391 million and a loss for the year of HUF 6.532 million, as well as the related profit and loss account for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

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

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Bank in compliance with the Hungarian ethical requirements pertaining to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of the loan receivables	
(See Sections 7. and II/5 of the Supplementary Notes to the Financial Statements for the details) The relevant impairment charge recorded for loans and advances to customers was an amount of HUF 7,848 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the followings: - valuation of collaterals - probability of default - estimate that future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - evaluate internal controls relating to origination and monitoring of loans, - gained understanding of the Bank 's provisioning process and methodology and parameters used in the calculation of collective impairment losses on loans and receivable in order to evaluate collective impairment - evaluate of specific loan impairments with random sample, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - evaluating the underlying assumption of collective provisioning models, - assess the balloon and bullet conditions of corporate loans and the review of consideration these conditions at individual provisioning, - evaluating of appropriateness of related disclosures.

Key audit matter	Related audit procedures
Capital adequacy	
(See Sections I/1 of the Supplementary Notes to the Financial Statements for the details) HUF 53,116 million equity has been recorded in the balance sheet. For the purpose of maintaining solvency and the ability to fulfil liabilities - must have a solvency margin complying at all times with the amount of the risk of the financial and investment activities performed thereby, and must continuously maintain at least 8 percent capital adequacy ratio. On balance sheet date the amount of regulatory capital is HUF 49,921 million, the capital adequacy ratio is 46,21%. Accordingly, the capital adequacy is considered to be a key audit matter.	We assessed the solvency capital calculation process, the capital requirement calculation methodology, and we performed regulatory capital recalculation as well. Furthermore with random sample we evaluated the appropriateness of the classification of certain risk exposures and the associated weighting. Regarding credit risk and operating risk we evaluated the process of capital requirement calculation, and controls applied during the process. With involving of expert we also assessed the appropriate application of the of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, and disclosures.

Other information

Other information comprises the information included in "Corporate Governance Report at FHB Mortgage Bank Plc."and the business report of FHB Mortgage Bank Plc. for 2016, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of FHB Mortgage Bank Plc. for 2016 corresponds to the financial statements of FHB Mortgage Bank Plc. for 2016 and the business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, our opinion on the business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

The auditor's responsibilities for the audit of the financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

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

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

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

Budapest, April 4, 2017

The original Hungarian version has been signed.

Tamás Horváth
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

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

Registration number of statutory registered auditor: 003449

FHB Mortgage Bank Co Plc

Annual Report

31 December 2016

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(translation)

Budapest, 4 April 2017

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
		ASSETS:		
1	**1.**	**Cash in hand, balances with central banks**	**1 804**	**1 152**
2	**2.**	**Treasury bills**	**32 347**	**28 368**
3		a) held for dealing	32 347	28 368
4		b) held for investment	0	0
5	2/A	Revaluation difference on treasury bills	0	0
6	**3.**	**Loans and advances to credit institutions**	**224 378**	**163 312**
7		a) due on demand	1 139	459
8		b) other receivables from financial services	223 239	162 853
9		ba) maturity up to one year	63 646	31 986
10		Of which: – to affiliated undertakings	1 752	1 769
11		– to significant undertakings	0	0
12		– to other undertakings with participating interest	0	0
13		– to the National Bank of Hungary	0	0
14		– central counterparties	0	0
15		bb) maturity over one year	159 593	130 867
16		Of which: – to affiliated undertakings	57 713	80 013
17		– to significant undertakings	0	0
18		– to other undertakings with participating interest	0	0
19		– to the National Bank of Hungary	0	0
20		– central counterparties	0	0
21		c) receivables from investment services	0	0
22		Of which: – to affiliated undertakings	0	0
23		– to significant undertakings	0	0
24		– to other undertakings with participating interest	0	0
25		– central counterparties	0	0
26	3/A	Revaluation difference on receivables due from credit institutions	0	0
27	**4.**	**Loans and advances to customers**	**95 760**	**82 284**
28		a) receivables from financial services	95 760	82 284
29		aa) maturity up to one year	15 557	14 300
30		Of which: – to affiliated undertakings	247	235
31		– to significant undertakings	0	0
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	80 203	67 984
34		Of which: – to affiliated undertakings	117	0
35		– to significant undertakings	0	0
36		– to other undertakings with participating interest	0	0
37		b) receivables from investment services	0	0
38		Of which: – to affiliated undertakings	0	0
39		– to significant undertakings	0	0
40		– to other undertakings with participating interest	0	0
41		ba) receivables from investment service activities on the stock exchange	0	0
42		bb) receivables from over-the-counter investment service activities	0	0
43		bc) receivables from investment services to customers	0	0

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
44		bd) receivables from central counterparties	0	0
45		be) other receivables from investment services	0	0
46	4/A	Revaluation difference on receivables due from customers	0	0
47	**5.**	**Debt securities including fixed-income securities**	**16 451**	**9 903**
48		a) securities issued by local authorities and by other public entities (excluding Treasury bills issued by Hungarian state and securities issued by the National Bank of Hungary)	0	0
49		aa) held for dealing	0	0
50		ab) held for investment	0	0
51		b) securities issued by other entities	16 451	9 903
52		ba) held for dealing	16 451	9 903
53		Of which: – to affiliated undertakings	0	0
54		– to significant undertakings	0	0
55		– to other undertakings with participating interest	0	0
56		– repurchased own debt securities	0	0
57		bb) held for investment	0	0
58		Of which: – to affiliated undertakings	0	0
59		– to significant undertakings	0	0
60		– to other undertakings with participating interest	0	0
61	5/A	Revaluation difference on debt securities and fixed-income securities	0	0
62	**6.**	**Shares and other variable-yield securities**	0	0
63		a) shares and equity stakes held for dealing	0	0
64		Of which: – to affiliated undertakings	0	0
65		– to significant undertakings	0	0
66		– to other undertakings with participating interest	0	0
67		b) other variable-yield securities	0	0
68		aa) held for dealing	0	0
69		bb) held for investment	0	0
70	6/A	Revaluation difference on shares and other variable-yield securities	0	0
71	**7.**	**Shares and participating interests held for investment purposes**	**263**	**263**
72		a) shares and participating interests	263	263
73		Of which: – shares and participating interests in credit institutions	0	0
74		b) revaluation surplus on shares and participating interests	0	0
75		Of which: – shares and participating interests in credit institutions	0	0
76	7/A	Revaluation difference on shares and participating interests held for investment purposes	0	0
77	**8.**	**Shares and participating interests in affiliated undertakings**	**40 485**	**38 207**
78		a) shares and participating interests in affiliated undertakings	40 485	38 207
79		Of which: – shares and participating interests in credit institutions	34 224	31 978
80		b) revaluation surplus on shares and participating interests in affiliated undertakings	0	0
81		Of which: – shares and participating interests in credit institutions	0	0
82	**9.**	**Intangible assets**	**463**	**454**
83		a) intangible assets	463	454
84		b) revaluation surplus on intangible assets	0	0

FHB BANK

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
85	**10.**	**Tangible fixed assets**	**482**	**461**
86		a) tangible fixed assets for financial and investment services	480	461
87		aa) land and buildings	189	148
88		ab) technical equipment, fittings and vehicles	290	313
89		ac) fixed assets in the course of construction	1	0
90		ad) advance payments on constructions	0	0
91		b) tangible fixed assets servicing non-financial and non-investment activities	2	0
92		ba) land and buildings	0	0
93		bb) technical equipment, fittings and vehicles	2	0
94		bc) fixed assets in the course of construction	0	0
95		bd) advance payments on constructions	0	0
96		c) revaluation surplus on tangible fixed assets	0	0
97	**11.**	**Own shares**	**207**	**207**
98	**12.**	**Other assets**	**3 219**	**2 850**
99		a) stocks (inventories)	180	148
100		b) other receivables (from non-financial and non-investment securities)	3 039	2 702
101		Of which: – to affiliated undertakings	950	773
102		– to significant undertakings	0	0
103		– to other undertakings with participating interest	0	0
104	12/A	Revaluation difference on other receivables	0	0
105	12/B	Positive revaluation difference on derivative transactions	0	0
106	**13.**	**Prepayments and accrued income**	**5 107**	**5 930**
107		a) accrued income	3 803	5 432
108		b) prepayments	1 304	498
109		c) deferred charges	0	0
110		**TOTAL ASSETS**	**420 966**	**333 391**
111		*From this: - CURRENT ASSETS [1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12+ a 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, 12/B]*	*134 370*	*89 225*
112		*- FIXED ASSETS [2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 + a 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A, 12/B]*	*281 489*	*238 236*

Date: Budapest, April 4, 2017

Márton Oláh	dr.Landgraf Erik
Chief Executive Officer	Deputy Chief Business

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
113		**LIABILITIES**		
114	**1.**	**Liabilities to credit instiutions**	**46 440**	**67 433**
115		a) due on demand	0	0
116		b) liabilities from financial services with agreed maturity dates or periods of notice	46 440	67 433
117		ba) maturity up to one year	17 688	37 083
118		Of which: – to affiliated undertakings	17 688	34 273
119		– to significant undertakings	0	0
120		– to other undertakings with participating interest	0	0
121		– to the National Bank of Hungary	0	0
122		– central counterparties	0	0
123		bb) maturity over one year	28 752	30 350
124		Of which: – to affiliated undertakings	28 752	30 350
125		– to significant undertakings	0	0
126		– to other undertakings with participating interest	0	0
127		– to the National Bank of Hungary	0	0
128		– central counterparties	0	0
129		c) liabilities from investment services	0	0
130		Of which: – to affiliated undertakings	0	0
131		– to significant undertakings	0	0
132		– to other undertakings with participating interest	0	0
133		– central counterparties	0	0
134	1/A	Revaluation difference on liabilities due to credit institutions	0	0
135	**2.**	**Liabilities to customers**	**744**	626
136		a) saving deposits	0	0
137		aa) due on demand	0	0
138		ab) maturity up to one year	0	0
139		ac) maturity over one year	0	0
140		b) other liabilities from financial services	744	626
141		ba) due on demand	701	594
142		Of which: – to affiliated undertakings	0	0
143		– to significant undertakings	0	0
144		– to other undertakings with participating interest	0	0
145		bb) maturity up to one year	43	32
146		Of which: – to affiliated undertakings	0	0
147		– to significant undertakings	0	0
148		– to other undertakings with participating interest	0	0
149		bc) maturity over one year	0	0
150		Of which: – to affiliated undertakings	0	0
151		– to significant undertakings	0	0
152		– to other undertakings with participating interest	0	0
153		c) liabilities from investment services	0	0
154		Of which: – to affiliated undertakings	0	0
155		– to significant undertakings	0	0
156		– to other undertakings with participating interest	0	0

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
157		ca) liabilities from investment service activities on the stock exchange	0	0
158		cb) liabilities from over-the-counter investment service activities	0	0
159		cc) liabilities to customers from investment services	0	0
160		cd) liabilities from central counterpartiess	0	0
161		ce) other liabilities from investment services	0	0
162	2/A	Revaluation difference on liabilities due to customers	0	0
163	**3.**	**Liabilities from issued debt securities**	**257 284**	**196 603**
164		a) issued bonds	257 284	196 603
165		aa) maturity up to one year	78 079	52 206
166		Of which: – to affiliated undertakings	11 045	4 561
167		– to significant undertakings	0	0
168		– to other undertakings with participating interest	0	0
169		ab) maturity over one year	179 205	144 397
170		Of which: – to affiliated undertakings	10 739	24 065
171		– to significant undertakings	0	0
172		– to other undertakings with participating interest	0	0
173		b) other debt securities	0	0
174		ba) maturity up to one year	0	0
175		Of which: – to affiliated undertakings	0	0
176		– to significant undertakings	0	0
177		– to other undertakings with participating interest	0	0
178		bb) maturity over one year	0	0
179		Of which: – to affiliated undertakings	0	0
180		– to significant undertakings	0	0
181		– to other undertakings with participating interest	0	0
182		c) Certificates (qualified as securities according to the Act on Accounting but not definied as such by the Act on Securities)	0	0
183		ca) maturity up to one year	0	0
184		Of which: – to affiliated undertakings	0	0
185		– to significant undertakings	0	0
186		– to other undertakings with participating interest	0	0
187		cb) maturity over one year	0	0
188		Of which: – to affiliated undertakings	0	0
189		– to significant undertakings	0	0
190		– to other undertakings with participating interest	0	0
191	**4.**	**Other liabilities**	**31 918**	**783**
192		a) maturity up to one year	31 918	783
193		Of which: – to affiliated undertakings	982	415
194		– to significant undertakings	3	9
195		– to other undertakings with participating interest	0	0
196		– pecuniary contribution of members at credit cooperatives	0	0
197		b) maturity over one year	0	0
198		Of which: – to affiliated undertakings	0	0
199		– to significant undertakings	0	0
200		– to other undertakings with participating interest	0	0
201	4/A	Negative revaluation difference on derivative transactions	0	0

FHB BANK

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	31 December, 2015	31 December, 2016
a	b	c	d	e
202	**5.**	**Accruals and deferred income**	**20 144**	**14 468**
203		a) accrued liabilities	9 084	6 965
204		b) accrued costs and expenses	11 060	7 503
205		c) deferred income	0	0
206	**6.**	**Provisions**	**185**	**362**
207		a) provisions for pensions and similar obligations	0	227
208		b) risk provisions for off-balance sheet items (for contingent and future labilities)	41	78
209		c) general risk provision	0	0
210		d) other provisions	144	57
211	**7.**	**Subordinated liabilities**	**35 069**	0
212		a) subordinated borrowings	0	0
213		Of which: – to affiliated undertakings	0	0
214		– to significant undertakings	0	0
215		– to other undertakings with participating interest	0	0
216		b) pecuniary contribution of members at credit cooperatives	0	0
217		c) other subordinated liabilities	35 069	0
218		Of which: – to affiliated undertakings	0	0
219		– to significant undertakings	0	0
220		– to other undertakings with participating interest	0	0
221		– to other entities	0	0
222	**8.**	**Subsribed capital**	**6 600**	**10 849**
223		Of which: repurchased own shares at face value	25	25
224	**9.**	**Subsribed but unpaid capital (-)**	**0**	**0**
225	**10.**	**Capital reserves**	**26 530**	**52 747**
226		a) share premium	26 530	52 747
227		b) other	0	0
228	**11.**	**General reserves**	**0**	**0**
229	**12.**	**Retained earnings (accumulated profit reserve) (±)**	**-100**	**-4 155**
230	**13.**	**Legal reserves**	**207**	**207**
231	**14.**	**Revaluation reserve**	0	0
232		Value-adjusted reserves	0	0
233		Revaluation reserves	0	0
234	**15.**	**Profit or loss for the financial year (±)**	**-4 055**	**-6 532**
235		**TOTAL LIABILITIES**	**420 966**	**333 391**
236		*Of which: - SHORT TERM LIABILITIES [1.a) + 1.ba) + 1.c) + 1/A + 2.aa) +2 .ab) + 2.ba) + 2.bb) + 2.c) + 2/A + 3.aa) +3.ba) + 3.ca) + 4.a) + 4/A]*	*128 429*	*90 698*
237		*- LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]*	*243 026*	*174 747*
238		*-EQUITY (CAPITAL AND RESERVES) [8-9+10+11±12+13+14 ±15]*	*29 182*	*53 116*

lance sheet items

Item No	Identification of item	31 December, 2015	31 December, 2016
239	CONTINGENT LIABILITIES	1 801	6 641
240	FUTURE LIABILITIES	59 091	26 796
241	**TOTAL OFF-BALANCE SHEET LIABILITIES**	**60 892**	**33 437**
242	COLLATERALS	2 274	2 154
243	FUTURE RECEIVABLES	58 633	26 354
244	**TOTAL OFF-BALANCE SHEET ASSETS**	**60 907**	**28 508**

Date: Budapest, April 4, 2017

Márton Oláh — Chief Executive Officer

dr.Landgraf Erik — Deputy Chief Business

FHB Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	2015	2016
a	b	c	d	e
1	**1.**	**Interest receivable and similar income**	**30 159**	**18 153**
2		a) interest income (receivable) from fixed-income securities	963	737
3		Of which: – from affiliated undertakings	-	-
4		– to significant undertakings	-	-
5		– from other undertakings with participating interest	-	-
6		b) other interest and similar income	29 196	17 416
7		Of which: – from affiliated undertakings	3 428	3 679
8		– to significant undertakings	-	-
9		– from other undertakings with participating interest	-	-
10	**2.**	**Interest payable and similar charges**	**25 594**	**15 980**
11		Of which: – to affiliated undertakings	5 346	595
12		– to significant undertakings	-	-
13		– from other undertakings with participating interest	-	-
14		**NET INTEREST INCOME**	**4 565**	**2 173**
15	**3.**	**Income from securities**	**39**	**483**
16		a) income from shares held for dealing (dividend, profit-sharing)	-	-
17		b) income from shares in affiliated undertakings (dividend, profit-sharing)	39	483
18		– to significant undertakings	-	-
19		c) income from other shares and participating interests	-	-
20	**4.**	**Commission and fees income**	**977**	**1 754**
21		a) from other financial services	977	1 754
22		Of which: – from affiliated undertakings	397	158
23		– to significant undertakings	-	-
24		– from other undertakings with participating interest	-	-
25		b) from investment services (except for income from trading activities)	-	-
26		Of which: – from affiliated undertakings	-	-
27		– to significant undertakings	-	-
28		– from other undertakings with participating interest	-	-
29	**5.**	**Commission and fee expense**	**1 399**	**1 265**
30		a) from other financial services	1 280	1 191
31		Of which: – to affiliated undertakings	1 263	1 169
32		– to significant undertakings	-	-
33		– from other undertakings with participating interest	-	-
34		b) from investment services (except for charges of trading activities)	119	74
35		Of which: – to affiliated undertakings	94	59
36		– to significant undertakings	-	-
37		– from other undertakings with participating interest	-	-
38	**6.**	**Net profit or net loss on financial operations**	**-1 057**	**1 181**
39		a) income from other financial services	10 732	2 530
40		Of which: – from affiliated undertakings	12	-
41		– to significant undertakings	-	-
42		– from other undertakings with participating interest	-	-
43		- valuation difference	-	-
44		b) expenses from other financial services	11 789	1 349
45		Of which: – to affiliated undertakings	93	-
46		– to significant undertakings	-	-
47		– from other undertakings with participating interest	-	-
48		- valuation difference	-	-

FHB Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	2015	2016
a	b	c	d	e
49		c) income from investment services (income from trading activities)	-	-
50		Of which: – from affiliated undertakings	-	-
51		– to significant undertakings	-	-
52		– from other undertakings with participating interest	-	-
53		– value re-adjustment (increase) of securities for trade (not more than acquisition value)	-	-
54		- valuation difference	-	-
55		d) expenses from investment services (expenses from trading activities)	-	-
56		Of which: – to affiliated undertakings	-	-
57		– to significant undertakings	-	-
58		– from other undertakings with participating interest	-	-
59		– value adjustment (decrease) of securities for trade	-	-
60		- valuation difference	-	-
61	**7.**	**Other operating income**	**6 846**	**2 330**
62		a) incomes from non-financial and non-investment services	2 105	1 370
63		Of which: – from affiliated undertakings	2 024	1 246
64		– to significant undertakings	-	32
65		– from other undertakings with participating interest	-	-
66		b) other income	4 741	960
67		Of which: – from affiliated undertakings	28	21
68		– to significant undertakings	-	-
69		– from other undertakings with participating interest	-	-
70		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	-	-
71	**8.**	**General and administrative expenses**	**5 753**	**4 939**
72		a) Staff costs	1 885	1 738
73		aa) wages and salaries	1 293	1 163
74		ab) other staff costs	185	204
75		Of which: – social security contributions	7	6
76		= pension costs	3	2
77		ac) contributions on wages	407	371
78		Of which: – social security contributions	345	310
79		= pension costs	-	-
80		b) Other administrative expenses (material-type expenses)	3 868	3 201
81	**9.**	**Depreciation (value adjustments in respect of assets items 9 and 10)**	**276**	**152**
82	**10.**	**Other operating expenses**	**18**	**15**
83		a) expenses from non-financial and non-investment services	-	-
84		Of which: – to affiliated undertakings	-	-
85		– to significant undertakings	-	-
86		– to other undertakings with participating interest	-	-
87		b) other expenses	20 992	4 321
88		Of which: – to affiliated undertakings	-	13
89		– to significant undertakings	-	-
90		– to other undertakings with participating interest	-	-
91		– value adjustment (decrease) of stocks (inventories)	-	-
92	**11.**	**Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments**	**2 445**	**3 857**
93		a) value adjustments (decrease) in respect of loans and advances	2 383	3 789
94		b) provisions for contingent liabilities and commitments	62	68
95	**12.**	**Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments**	**15 458**	**2 374**
96		a) value re-adjustments (increase) in respect of loans and advances	5 020	2 343
97		b) use of provisions for contingent liabilities and commitments	10 438	31
98	**12/A.**	**General risk provision and use**	-	-

FHB Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

Item No	Item No	Identification of item	2015	2016
a	b	c	d	e
99	**13.**	**Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**-**	**2 278**
100	**14.**	**Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**-**	**-**
101	**15.**	**Profit or loss on ordinary activities**	**-4 055**	**-6 532**
102		Of which: -PROFIT OR LOSS OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12+12/A-13+14)	-6 142	-7 887
103		– PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	2 087	1 355
104	**16.**	**Extraordinary income**	**-**	**-**
105	**17.**	**Extraordinary expense**	**-**	**-**
106	**18.**	**Extraordinary profit or loss (16-17)**	**-**	**-**
107	**19.**	**Profit or loss before taxation (±15±18)**	**-4 055**	**-6 532**
108	**20.**	**Tax payable**	**-**	**-**
109	**21.**	**Profit or loss after taxation (±19-20)**	**-4 055**	**-6 532**
110	**22.**	**Addition to and use of general reserve (±)**	**-**	**-**
111	**23.**	**Profit or loss for the financial year (±21±22)**	**-4 055**	**-6 532**

Date: Budapest, April 4, 2017

Márton Oláh	dr.Landgraf Erik
Chief Executive Officer	Deputy Chief Business

FHB Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2016

(translation)

Budapest, 4 April 2017

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2016

FHB BANK

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 10,849,030,000 Ft, the total amount of which was contributed in cash.

The share capital includes the following types of shares:

66,000,010 ordinary 100 HUF face value A Class registered shares

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

<u>FHB Plc.'s ownership structure</u>

Shareholder	Total shere capital					
	2015.12.31.			2016.12.31.		
	Holding%	Voting%	Number of shares	Holding %	Voting%	Number of shares
Ordinary shares (A Class)						
Domestic institutional investors	38,63%	44,55%	41 911 917	39,04%	45,01%	42 345 991
Foreign institutional investors	10,73%	12,38%	11 642 388	10,69%	12,33%	11 597 658
Domestic private investors	6,15%	7,09%	6 669 193	5,93%	6,84%	6 435 206
Foreign private investors	0,02%	0,02%	16 326	0,02%	0,02%	22 330
Employess, directors and senior management	0,07%	0,08%	77 808	0,08%	0,09%	87 963
Treasury shares	0,23%	0,00%	253 601	0,23%	0,00%	253 601
Government held owner	4,45%	5,14%	4 832 225	4,45%	5,14%	4 832 225
Other	0,56%	0,63%	596 552	0,39%	0,45%	425 036
Subtotal	*60,84%*	*69,89%*	*66 000 010*	*60,83%*	*69,88%*	*66 000 010*
Preference shares (B Class)						
Domestic institutional investors	13,05%	0,0%	14 163 430	13,05%	0,0%	14 163 430
Subtotal	*13,05%*	*0,0%*	*14 163 430*	*13,05%*	*0,0%*	*14 163 430*
Ordinary Shares (C Class)						
Domestic institutional investors	26,11%	30,11%	2 832 686	26,11%	30,11%	2 832 686
Subtotal	*26,11%*	*30,11%*	*2 832 686*	*26,11%*	*30,11%*	*2 832 686*
Total	**100,00%**	**100,00%**	**82 996 126**	**100,00%**	**100,00%**	**82 996 126**

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 2016 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 Takarék Bank (Saving Bank) Group. According to the resolution no. H-EN-I-36./2017 (on 1 January 2017) the National Bank of Hungary – with the acceptance of application provided by SZHISZ, Magyar Takarékbank Ltd., and FHB Mortgage Bank - authorized FHB to apply individual exemption and terminated the obligation for compliance with sub-consolidated level requirements.

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;

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. (Szhitv) 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 Szhitv cover also Martgage Bank and Commercial Bank, according to the decision of the Board of Directors of Takarék 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 2015	31 Dec 2016
Balance sheet total (million HUF)	420,966	333,391
Refinanced mortgage loans (million HUF)	226,487	187,044
Mortgage bonds outstanding (million HUF)	195,084	153,385
Bonds outstanding (million HUF)	62,200	43,218
Shareholders' equity (million HUF)	29,182	53,116
Regulatory capital (million HUF)	62,413	49,921
Capital adequacy ratio (%)	44.44%	46,21%
Profit after tax (million HUF)	-4,055	-6,532
CIR (operating costs / gross operating profit) (%)	66.43%	-117.44%
ROAA (return on average assets) (%)	-0.77%	-1.73%
ROAE (return on average equity) (%)	-12.99%	-15.87%

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 ERP 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.

Regarding adjustments for provision and impairment, the Bank has extended the balance sheet date to the date when the financial statements were authorised for issue in accordance with a resolution of the Board of Directors.

Tangible Assets under the purchase value of HUF 100,000 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 regulatory capital (own funds). As of 31 December 2016 the Bank not had receivables which according to above mentioned regulations qualifies as high risk.

3. Compliance with mortgage lending provisions

- Within the total balance of mortgage loans, 99.58% 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 29.83% as of 31 December 2016.

4. Compliance with the provisions on investment

As at 31 December 2016 the Bank have the following investments:

FHB Commercial Bank Ltd.,

FHB Real Estate Ltd.

Diófa Alapkezelő Ltd.

FHB Invest Befektetési és Szolgáltatási Ltd.

Magyar Takarék Befektetési 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 2016, surpassing the provisions of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – HUF 153,385 million – of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to HUF 170,890 million considered as ordinary collateral.
- As of 31 December 2016, 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 28,328 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 56,718 million.

- On December 31 2016 in accordance with the Article 14 (11) of Act XXX supplementary collateral was utilized through issuing securities in the capital value of 8,000 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 and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(3) 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 2016 the present value of ordinary collateral was HUF 203,459 million and that of mortgage bonds was HUF 177,470 million, 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 2016 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 2016 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 622,813 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 11,870million as of 31 December 2016.
- The Bank organized repurchase of previously issued listed and non-listed mortgage bonds and bonds several times during 2016. From FJ20NV01 mortgage bonds repurchase was executed four times in the nominal value of 17.703 billion HUF and FJ8NF01 EURO mortgage bonds repurchase was only one transaction, in the nominal value 3.379 million EURO during the above period. From FK18ZV01 bond repurchase was executed one time and as a result of transaction all together 9.612 billion HUF nominal value stock was repurchased. The repurchases trough reducing the liquidity and interest rate risks 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 2016, the portfolio of receivables and liabilities, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments, was HUF 301,066 million in total. As a result of the rating, based on the Government decree and internal regulations, 81% of the total portfolio is problem-free prime, 15.37% is on the watch list, 0.70% is classified as sub-prime, 0.95% is rated as doubtful, and 2.01% as bad debt.

The Integrational Organization of Cooperative Credit Institutions (SZHISZ) prescribed for the FHB Group on the rating date of 31 December 2016, that average loss coverage of outstanding loans with overdue over 90 days must reach 70%.

As of 31 December 2016, the Bank recorded HUF 7,848 million impairment for receivables and a risk provision of HUF 68 million for contingencies.

On basis of the qualification of strategic investments at the end of the year 2016, the Bank booked impairment in the amount of HUF 3,304 million to its subsidiary, the FHB Commercial Bank Ltd and HUF 32 million impairment to the FHB Real Estate Ltd.

8. Impairment of other receivables

As of 31 December 2016 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 2016 dividend payment has not been made.

10. Derivative deals

- As of 31 December 2016 the following OTC hedging futures are recorded by the Bank:
  - foreign exchange swaps with future receivables of, EUR 22 million (HUF 6,842 million) and HUF 5,586 million, and related future liabilities of CHF 10 million (HUF 2,894 million), EUR 11 million (HUF 3,271 million) and HUF 8,765 million.
- In relation to the OTC hedging futures existing on 31 December 2016, the P/L statement already recorded), HUF 185 million accrued interest, as well as HUF 30 million (CHF 0.1 million), HUF 9 million (EUR 0.03 million) and HUF 116 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 EUR 27 million (HUF 8,398 million) and HUF 3,502 million future receivables and EUR 11 million (HUF 3,421 million), USD 7 million (HUF 1,926 million) and HUF 6,519 million future liabilities.
- HUF 13 million deferred interest expense and HUF 29 million deferred interest income 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 39.52 % of interest on receivables from customers, reported in 2015 – was HUF 1,853 million as of 31 December 2016 (2015: HUF 2,023 million) and the value of pending interest type commission was HUF 300 million (2015: HUF 250 million). In the reported period the Bank received HUF 203 million from interest that was pending before the year of reporting, of which HUF 14 million was accrued in the 2015 financial statement.
- The principal receivable value of state guarantees for receivables was HUF 2,948 million (2015: HUF 3,972 million) and collateral value of deposits was HUF 32 million and the collateral value of liens amounted to HUF 622,813 million (2015: HUF 722,871 million).
- The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 2,031 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 8,297 million as of 31 December 2016; its value according to the registration was HUF 4,207 million.
- On 31th December 2016. upon the request of the FHB Mortgage Bank 27 terminated deals/loans were in foreclosure procedure. The total value of these deals on 31th December 2016 was HUF 322.9 million.

  The Bank initiated new foreclosure procedure in one case (1 terminated loan), the total value of these deals on 31th December 2016 was HUF 5.4 million.

  During 2016 the FHB Mortgage Bank joined in 66 third party foreclosures.

  From the terminated loan portfolio which are in foreclosure procedure initiated by the Bank 25 deals were closed.

  In all of 14 pieces of auctions (25 deals) completed in the current period, the real estate serving as collateral were auctioned by outside enforcement proceedings. The total purchase price achieved at the auction is HUF 66.4 million and the amount calculated for our Bank after the pay-out plan covered the debt to the Bank in four case, the acting bailiff is still carrying on the proceedings in case of the other open transactions.

  In order to reduce losses from mortgage lending, the following real estate were taken over due to foreclosure by 31 December 2016.The data of the acquired real estate

Number	13 pieces
Legal characteristics	
Taken into possession	12 pieces
Taken into ownership, but taking possession	
not yet realized	1 piece
Sold from the properties received	6 pieces

- In the course of 2016 the Bank offered 134 pieces of properties (2015: 113 pieces) to the NET (National Asset Management Ltd), to which 272 pieces of transactions were related (2015: 265). From the offered properties in 2016 103 pieces of properties (2015: 150 pieces) were purchased in the amount of HUF 276.5 million and together with that 179 pieces of transactions (receivables from customers) in the amount of HUF 508.4 million (2015: HUF 877 million) were closed till 31 December 2016.

- As of 31 December 2016, the amount of principal repayment from mortgages for the reported year was HUF 39,681 million, of which HUF 15,542 million was mortgage repayment from customers and 24,139 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 14,300 million from long-term receivables from customers and HUF 10,873 million from long-term receivables from credit institutions into short-term receivables. From long-term liabilities due to issued mortgage bonds HUF 19,475 million, due to issued bonds HUF 32,731 million were moved to short-term liabilities.
- HUF 28,368 million of listed government securities were reported by the Bank in the 31 December 2016 balance sheet as treasury bills and similar securities.
- The closing balance of inventories contains purchased inventory amount to HUF 17 million, properties held for sale amounted to HUF 123 million and repossessed real estate amounted to HUF 25 million on 31 December 2016. For the properties held for sale HUF 8 million impairment loss was recognized. For the repossessed real estate HUF 9 million impairment loss was recognized.
- The Expenditures on investment services" line item of the profit and loss statement recorded HUF 74 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 2016 the Bank had receivables from subsidiaries amounting to HUF 3 million in the following breakdown:

FHB Commercial Bank Ltd.	HUF 3 million

The Bank recorded HUF 411 million liabilities for services extended by its subsidiaries in the following breakdown:

FHB Commercial Bank Ltd.	HUF	332 million
FHB Real Estate Ltd.	HUF	79 million

The FHB Mortgage Bank Plc. records assets in relation to the FHB Commercial Bank Ltd. records assets amounting to 0.02 million GBP (HUF 7 million), USD 6 million (HUF 1,762 million) and HUF 600 million longer than one year interbank deposit and among it is liabilities EUR 63 million (HUF 19,594 million), CHF 0.1 million (HUF 29 million) and HUF 14,650 million as shorter than one year interbank deposit. As of 31 December 2016 due over 12 months interbank deposit was HUF 30,350 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 2016.
- 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 2016 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 2016.
- 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

During the year, the Mortgage Bank started to prepare for the introduction of mortgage financing adequacy ratio (JMM). Due to this new refinancing agreements entered into with several new refinancing partners.

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

  István Kovács

  Public data on record:

  István Kovács Registration number: 152941 Residence: 2131 Göd, Fenyves u. 22.

- In the2016 business year the Company employed Deloitte Auditing and Consultiung 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 2016 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 5.1 million for them.

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

Oláh Márton	Chief Executive Officer	1145 Budapest, Columbus u. 56.
Dr.Landgraf Erik	Deputy Chief Business	1214 Budapest, Kazánház utca 11.

- 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 2016

Data in million HUF

	Subscibed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve	Balance Sheet profit	Total own equty
31 December 2015	**6 600**	**26 530**	-	**-100**	**207**	**-4 055**	**29 182**
Capital increase	4 249	-	-	-	-	-	4 249
Capital reserve incresase	-	26 217	-	-	-	-	26 217
Use of general reserve	-	-	-	-	-	-	-
2015 profit	-	-	-	-4 055	-	4 055	-
2016 loss	-	-	-	-	-	-6 532	-6 532
31 December 2016	**10 849**	**52 747**	**-**	**-4 155**	**207**	**-6 532**	**53 116**

FHB BANK

II. SPECIFIC PART

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

31 December 2016

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 rigths		-	-	-	-	-
b/ Intellectual products		1 269	-	35	-	1 304
c/ Goodwill		834	-	-	834	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**2 103**	**-**	**35**	**834**	**1 304**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	355	-	1	-	356
b/ Plant, machinery installations, vehicles	10. ab)	566	-	113	61	618
c/ Construction in progress	10. ac)	1	-	-	1	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**922**	**-**	**114**	**62**	**974**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**10**	**-**	**-**	**-**	**10**

FHB BANK

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

31 December 2016

Data in million HUF

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 rigths		-	-	-	-	-
b/ Intellectual products		806	-	44	-	850
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**806**	-	**44**	**-**	**850**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	166	-	43	-	209
b/ Plant, machinery installations, vehicles	10. ab)	276	-	63	34	305
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**442**	-	**106**	**34**	**514**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	7	-	2	-	9
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**7**	-	**2**	**-**	**9**

FHB BANK

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

31 December 2016

Data in million HUF

Description	Balance sheet line	Changes in net values	
		Opening balance	Closing balance
I. Intangible assets :			
a/ Valuable rigths		-	-
b/ Intellectual products		463	454
c/ Goodwill		-	-
d/ Value of formation / reorganization		834	-
Total intangible assets :	**9.**	**1 297**	**454**
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)	189	148
b/ Plant, machinery installations, vehicles	10. ab)	290	313
c/ Construction in progress	10. ac)	1	-
d/ Advances on contstruction in progress	10. ad)	-	-
Total tangible assets of financial services:	**10. a)**	**480**	**461**
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)	-	-
b/ Plant, machinery installations, vehicles	10. bb)	3	1
c/ Construction in progress	10. bc)	-	-
d/ Advances on contstruction in progress	10. bd)	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**3**	**1**

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

31 December 2016

Data in million HUF

Description	Planned depreciations	Over-plan depreciations, shrinkage
I. Intangible assets		
1/ Valuable rights	-	-
2/ Intellectual products	44	-
3/ Goodwill	-	-
4/ Value of formation / reorganization	-	-
Total intangible assets	**44**	**-**
II.1. Tangible assets of financial services:		
1/ Land and buildings	43	-
2/ Plant, machinery installations, vehicles	63	34
3/ Investments	-	-
Total tangible assets of financial services:	**106**	**34**
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 100,000 each accounted in a sum	5	-
Total :	**152**	**34**

II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2016

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2016	Portfolio of 31 December 2016 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 then 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	31 986	23 874	8 112	-	-	-	-
- Long term	3.bb)	130 867	-	-	79 673	31 500	11 812	7 882
Accounts receivable from customers :								
- Short term	4. aa)	14 300	7 713	6 587	-	-	-	-
- Long term	4. ab)	75 832	-	-	31 076	26 830	9 991	7 935
- Accounted value loss	from 4. ab)	-7 848	-	-	-	-	-	-
Total:		**245 137**	**31 587**	**14 699**	**110 749**	**58 330**	**21 803**	**15 817**

FHB BANK

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 2016

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2016	Portfolio of 31 December 2016 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 then 15 years	No maturity
		1 = 2+...+8	2	3	4	5	6	7	8
Accounts payable to credit institutions :									
- Short term	1. ba)	37 083	37 083	-	-	-	-	-	-
- Long term	1. bb)	30 350	-	-	30 350	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+	32	32	-	-	-	-	-	-
	2. bb)	-	-	-	-	-	-	-	-
- Long term	2. ac)+	-	-	-	-	-	-	-	-
	2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	52 206	23 489	28 717	-	-	-	-	-
- Long term	3.ab)	144 397	-	-	132 527	11 870	-	-	-
Subordinated accounts payable	7.		-	-	-	-	-	-	-
Total :		**264 068**	**60 604**	**28 717**	**162 877**	**11 870**	**-**	**-**	**-**

II / 7 . Items to modify corporate tax base

31 December 2016

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.	177	1. Planned depreciation accounted as cost according to Accounting Act.	180
2. Reversal of provision for expected liabilities and future costs	94	2. Provision for future liabilities and expected costs	227
3. Income from dividend received	483	3. Tax penalties / Penalties to the Taxation Authority	200
4. Items to increase pre-tax profit of the previous years (revenues, expenses)	24	4. Items to decrease pre-tax profit of the previous years (expenses)	6
5. Others decrease items	1	5. Expenses that are not ordinary business expenses	30
Total:	**779**	**Total:**	**643**

II / 8 / a. Changes in provisions

31 December 2016

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	41	-	68	31	-	78
6. Provision for possible future obligation	-	-	-	-	-	-
7. Margin of provision for possible futute obligation	-	-	-	-	-	-
8. Provision for possible future costs	-	-	-	-	-	-
9. Provision for general risks	-	-	-	-	-	-
10. Other provisions	144	-	227	87	-	284
Total provisions : (1. - 10.)	**185**	-	**295**	**118**	**-**	**362**

II / 8 / b. Changes in impairment losses

Description	Opening balance	Reversal of impairment of previous period	Reverse for impairement fior 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	6 407	2 343	388	4 176	-4	7 848
3. Exchange diferencee of impairment loss of customers	-	-	-	-	-	-
4. Impairment loss of investment shares	1 058	-	-	2 278	-	3 336
5. Impairment loss of repossessed property collaterals	11	2	-	-	-	9
6. Impairment loss of properties held for sale	13	5	-	-	-	8
Total value losses: (1. - 6.)	**7 489**	**2 350**	**388**	**6 454**	**-4**	**11 201**

FHB BANK

II / 9. CASH-FLOW

Data in million HUF

No.	Description	31 December 2015	31 December 2016
01.	Interest received	30 159	18 153
02.	+ Incomes from other financial services	11 709	4 284
03.	+ Other incomes (without use of provision and reversal of surplus provision, impairment loss of inventories and over-plan depreciation	2 300	960
04.	+ Incomes from investment services (except for reversal of impairment loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	2 105	1 370
06.	+ Dividend received	39	483
07.	+ Extraordinary income	2 441	-
08.	- Interest paid	-25 594	-15 980
09.	- Expenses on other financial services (without impairment loss of securities)	-13 069	-2 540
10.	- Other expenses (except for creation of provision and impairment loss, over-plan depreciation)	-7 616	-2 270
11.	- Expenses on investment services (without impairment loss of securities)	-119	-74
12.	- Expenses on services other than financial and investment ones	-18	-15
13.	- General administration costs	-5 753	-4 939
14.	- Extraordinary expenses (without taxation in subject year)	-13 173	-
15.	- Corporate tax payable in the period	-	-
16.	- Dividend paid (payable)	-	-
17.	**Operating cash flow (lines 01.-16.)**	**-16 589**	**-568**
18.	± Changes in accounts payables	-174 457	-106 011
19.	± Changes in accounts receivables	181 317	68 611
20.	± Changes in inventories	164	32
21.	± Changes in portfolio of securities in current assets	14 625	10 527
22.	± Changes in financial investments	10	-
23.	± Changes in portfolio of investments (including advances)	5	1
24.	± Changes in portfolio of intangible assets	205	-35
25.	± Changes in portfolio of tangible assets (without investments)	50	-88
26.	± Changes in accruals	13 460	-823
27.	± Changes in deferrals	-18 180	-5 676
28.	+ Issue of shares at selling price	-	30 466
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.)**	**610**	**-3 564**
	Out of which: - changes in cash	1	
	- changes in bank money (accounting and other sight deposit with NBH)	565	-652

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

31 December 2016

Description	Balance sheet line	Items of 31 December 2016 broken down by maturities				31 December 2016
		Within 3 months	Between 3 months and one year	More then 1 year but, less then 2	More then 2 years	
		1	2	3	4	= 1+2+3+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 2016

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	1 152	2	1.b.	Liabilities towards credit institutions from financial services	67 432	19 623
2.a.	Government securities	28 368	0	2.b.	Other liabilities to customers from financial services	626	8
3.a.	Receivables from credit institutions - in sight	459	459	3.	Liabilities from securities issued	196 603	14 127
3.b.	Receivables from credit institutions - other financial services	162 853	21 839	4.a.	Other liabilities	783	0
4.a.	Loans and advances to customers	85 195	6 083	5.a.	Deferred income	6 965	10
5.ba.	Debt securities, including fixed interest securities issued by other issuer	9 903	0	5.b.	Accrued costs and expenditures	7 503	553
12.b.	Other receivables	2 702	52				
13.a.	Accrued income	5 432	73				
13.b.	Deferred costs and expenditures	498	28				

FHB BANK

III. INFORMATIVE PART

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

31 December 2016

Data in million HUF

		Registered value	Enterprise's							
Name of the enterprise\ Registered office	Share in investment	of the investment	Total equity	Registred capital	Unpaid capital	Retained Earnings	Tied up reserve	Capital reserve	Revaluation reserve	2016 profit / loss
FHB Real Estate Ltd	100,0%	616	215	70	-	-378	-	515	-	8
1082 Budapest Üllői út 48.										
FHB Commercial Bank Ltd	51,0%	31 978	30 571	8 681	-	6 934	-	21 647	-	-6 691
1082 Budapest Üllői út 48.										
Diófa Alapkezelő Ltd.	89,2%	321	1 050	196	-	88	17	16	-	732
1031 Budapest Krisztina tér 2.										
FHB INVEST Ltd.(Díjbeszedő Operating and Servicing Ltd.)*	100,0%	5 292	3 069	636	-	6 410	-	0,06	-	-3 977
1082 Budapest, Üllői út 48.										
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd	25,1%	253	1 913	1 008	-	51	-	-	-	854
1092 Budapeat, Ferenc krt. 44.1/2										
Total		38 460	36 818	10 591	-	13 105	17	22 178	-	-9 074

*The company's annual report for 2016 has not yet been audited and approved.

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

31 December 2016

Data in million HUF

Name of enterprise	Refristered office	Share in property	Subscribed capital
Magyar Kártya Szolgáltató Ltd.	1082 Budapest, Üllői út 48.	50,50%	5
FHB Lízing Ltd.	1082 Budapest, Üllői út 48.	100.00%	135
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.)	1013 Budapest, Krisztina tér 2.	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, Váci út 110. B. ép. 201.	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%	148
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 Zrt.	1082 Budapest, Üllői út 48.	40,00%	5
FINITY Financial and advisory Ltd.	1062 Budapest, Andrássy út 105.	40,00%	3
MPT Security Ltd.	1152 Budapest, Telek u. 5.	10,00%	1 203
DOM-P Ltd.	1027 Budapest, Kapás u. 11-15.	13,91%	1 150

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III/2. Investments
31 December 2016

Data in million HUF

	FHB Commercial Bank Ltd.	FHB Real Estate Ltd	Diófa Alapkezelő Ltd	FBH Invest Ltd.	Magyar Takarék Bef. and Vagyongazd. Ltd.	Total
31 December 2015	**34 224**	**648**	**168**	**4 611**	**253**	**39 904**
Purchase os shares	-	-	-	-	-	**0**
Sales of shares	-	-	-	-	-	**0**
Capital increase	-	-	-	-	-	**0**
Investment impairment	-2 246	-32	-	-	-	**-2 278**
Investment impairment reversal	-	-	-	-	-	**0**
Goodwill	-	-	153	681	-	**834**
31 December 2016	**31 978**	**616**	**321**	**5 292**	**253**	**38 460**

FHB BANK

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

31 December 2016

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Board of Directors	5	18
Supervisory Board	4	10
Total :	9	28

Total emoluments payable to Management

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Management	2	96

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

31 December 2016

Data in million HUF

Description	Paid	Re - paid	Principal to be re-pad	Essential conditions, interests-bearing
1. Internal loans				
- Board of Directors	25	10	15	Structure as set out in announcement under preferential conditions
- Supervisory Boars	-	-	-	Structure as set out in announcement under preferential conditions
1. Total:	**25**	**10**	**15**	

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

31 December 2016

PERIOD	Average statistical personnel staff		
	Blue collar	White collar	**Total**
2015	3	185	**188**
2016	2	166	**168**

III / 6. Book value and nominal value of own securities
31 December 2016

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	6 301	6 294
b) Treasury Bills	22 068	22 173
c) MNB bonds	-	-
d) Bonds issued by credit institutions	9 903	10 000
e) Re-deemed own bonds (repurchased by the bank)	-	-
f) Re-deemed own shares (repurchased by the bank)	207	25
Total current assets	**38 479**	**38 492**
II. Long term financial assets		
a) participations in credit institutions	31 978	4 427
b) participations in other enterprises	6 482	1 135
Total long term financial assets:	**38 460**	**5 562**
TOTAL (I. + II.)	**76 939**	**44 054**

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III / 7. Off-balance sheet items

31 December 2016

Data in million HUF

Descriptions	31 December 2015.	31 December 2016.
Pending liabilities		
- Available credit facility on credits extended	951	6 064
- Loans committed in contract but not yet extended	850	577
Total pending liabilities	**1 801**	**6 641**
Future obligations	59 091	26 796
Total off-balance sheet liabilities	**60 892**	**33 437**
Future receivables	58 633	26 354
Principal receivable value of collateral	230 678	182 326
Total off-balance sheet receivables	**289 311**	**208 680**
Collateral value of related property offered	727 681	625 793

Budapest, 4 April 2017

Márton Oláh
CEO

dr. Landgraf Erik
Deputy Chief Busiess

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