FHB Mortgage Bank Plc.

Annual report and
Independent Auditor`s Report

December 31, 2017

Deloitte.

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Company Registration Number:
01-09-071057

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FHB Mortgage Bank Plc.

Opinion

We have audited the financial statements of FHB Mortgage Bank Plc. (the „Company") for the year 2017 which comprise the balance sheet as at December 31, 2017 (which shows an equal amount of total assets and total liabilities of HUF 303,831 million and net profit for the year of HUF 4,141 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 Company as at December 31, 2017 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 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 Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, 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	
The net value of loans and advances to customers in an amount of HUF 75,504 million comprise 25% of the total assets (the gross book value of HUF 80,479 million), the relevant impairment charge recorded in the current year was HUF 4,975 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 specific loan impairments with random sample, including the review of consideration and valuation of collateral 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 appropriateness of related disclosures.

Other Information:

Other information comprises the information included in the “Corporate Governance Report at FHB Mortgage Bank Plc.” and the business report of the Bank for 2017, 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 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 the Bank for 2017 corresponds to the financial statements of the Bank for 2017 and the relevant provisions of the Accounting Act in all material respects. 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, we have not formulated an opinion on this matter.

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 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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to the going concern principle, and preparing the financial statements using the going concern basis of accounting. Management must apply the going concern principle, unless the use of this principle is precluded by any provision, or if any fact or circumstance prevails, which precludes the Company to continue as a going concern.

Those charged with governance are responsible for overseeing the Company'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 and the effective Hungarian laws and other regulations on audits 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 and the effective Hungarian laws and other regulations on audits, 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 Company'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 preparation of the financial statements in accordance with the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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 Company'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.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Company by the General Meeting of Shareholders on April 28, 2016 and our uninterrupted engagement has lasted for 6 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on April 5, 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

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

Budapest, April 5, 2018

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 2017

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(Translation)

Budapest, 5 April 2018

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
a	b	c	d	e
		ASSETS:		
1	**1.**	**Cash in hand, balances with central banks**	**1,152**	**369**
2	**2.**	**Treasury bills**	**28,368**	**28,795**
3		a) held for dealing	28,368	28,795
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**	**163,312**	**147,255**
7		a) due on demand	459	280
8		b) other receivables from financial services	162,853	146,975
9		ba) maturity up to one year	31,986	14,637
10		Of which: – to affiliated undertakings	1,769	4,970
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	130,867	132,338
16		Of which: – to affiliated undertakings	80,013	64,064
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**	**82,284**	**75,504**
28		a) receivables from financial services	82,284	75,504
29		aa) maturity up to one year	14,300	13,487
30		Of which: – to affiliated undertakings	235	0
31		– to significant undertakings	0	0
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	67,984	62,017
34		Of which: – to affiliated undertakings	0	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

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Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
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**	**9,903**	**11,776**
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	9,903	11,776
52		ba) held for dealing	9,903	11,776
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**	**10**
72		a) shares and participating interests	263	10
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**	**38,207**	**31,978**
78		a) shares and participating interests in affiliated undertakings	38,207	31,978
79		Of which: – shares and participating interests in credit institutions	31,978	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**	**454**	**429**
83		a) intangible assets	454	429
84		b) revaluation surplus on intangible assets	0	0

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
a	b	c	d	e
85	**10.**	**Tangible fixed assets**	**461**	**317**
86		a) tangible fixed assets for financial and investment services	461	317
87		aa) land and buildings	148	105
88		ab) technical equipment, fittings and vehicles	313	212
89		ac) fixed assets in the course of construction	0	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**	**2,850**	**3,148**
99		a) stocks (inventories)	148	129
100		b) other receivables (from non-financial and non-investment securities)	2,702	3,019
101		Of which: – to affiliated undertakings	773	801
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**	**5,930**	**4,043**
107		a) accrued income	5,432	3,561
108		b) prepayments	498	482
109		c) deferred charges	0	0
110		**TOTAL ASSETS**	**333,391**	**303,831**
		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]	*89,225*	*72,699*
		- 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]	*238,236*	*227,089*

Date: Budapest, April 5, 2018

dr. Gyula László Nagy	Edit Erika Tóth
Chief Executive Officer	Deputy Chief Executive Officer

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
a	b	c	d	e
		LIABILITIES		
111	**1.**	**Liabilities to credit instiutions**	**67,433**	**46,664**
112		a) due on demand	0	0
113		b) liabilities from financial services with agreed maturity dates or periods of notice	67,433	46,664
114		ba) maturity up to one year	37,083	46,664
115		Of which: – to affiliated undertakings	34,273	46,664
116		– to significant undertakings	0	0
117		– to other undertakings with participating interest	0	0
118		– to the National Bank of Hungary	0	0
119		– central counterparties	0	0
120		bb) maturity over one year	30,350	0
121		Of which: – to affiliated undertakings	30,350	0
122		– to significant undertakings	0	0
123		– to other undertakings with participating interest	0	0
124		– to the National Bank of Hungary	0	0
125		– central counterparties	0	0
126		c) liabilities from investment services	0	0
127		Of which: – to affiliated undertakings	0	0
128		– to significant undertakings	0	0
129		– to other undertakings with participating interest	0	0
130		– central counterparties	0	0
131	1/A	Revaluation difference on liabilities due to credit institutions	0	0
132	**2.**	**Liabilities to customers**	**626**	612
133		a) saving deposits	0	0
134		aa) due on demand	0	0
135		ab) maturity up to one year	0	0
136		ac) maturity over one year	0	0
137		b) other liabilities from financial services	626	612
138		ba) due on demand	594	580
139		Of which: – to affiliated undertakings	0	0
140		– to significant undertakings	0	0
141		– to other undertakings with participating interest	0	0
142		bb) maturity up to one year	32	32
143		Of which: – to affiliated undertakings	0	0
144		– to significant undertakings	0	0
145		– to other undertakings with participating interest	0	0
146		bc) maturity over one year	0	0
147		Of which: – to affiliated undertakings	0	0
148		– to significant undertakings	0	0
149		– to other undertakings with participating interest	0	0
150		c) liabilities from investment services	0	0
151		Of which: – to affiliated undertakings	0	0
152		– to significant undertakings	0	0
153		– to other undertakings with participating interest	0	0

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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in million HUF

Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
a	b	c	d	e
154		ca) liabilities from investment service activities on the stock exchange	0	0
155		cb) liabilities from over-the-counter investment service activities	0	0
156		cc) liabilities to customers from investment services	0	0
157		cd) liabilities from central counterpartiess	0	0
158		ce) other liabilities from investment services	0	0
159	2/A	Revaluation difference on liabilities due to customers	0	0
160	**3.**	**Liabilities from issued debt securities**	**196,603**	**187,172**
161		a) issued bonds	196,603	187,172
162		aa) maturity up to one year	52,206	30,218
163		Of which: – to affiliated undertakings	4,561	1,415
164		– to significant undertakings	0	0
165		– to other undertakings with participating interest	0	0
166		ab) maturity over one year	144,397	156,954
167		Of which: – to affiliated undertakings	24,065	11,354
168		– to significant undertakings	0	0
169		– to other undertakings with participating interest	0	0
170		b) other debt securities	0	0
171		ba) maturity up to one year	0	0
172		Of which: – to affiliated undertakings	0	0
173		– to significant undertakings	0	0
174		– to other undertakings with participating interest	0	0
175		bb) maturity over one year	0	0
176		Of which: – to affiliated undertakings	0	0
177		– to significant undertakings	0	0
178		– to other undertakings with participating interest	0	0
179		c) Certificates (qualified as securities according to the Act on Accounting but not definied as such by the Act on Securities)	0	0
180		ca) maturity up to one year	0	0
181		Of which: – to affiliated undertakings	0	0
182		– to significant undertakings	0	0
183		– to other undertakings with participating interest	0	0
184		cb) maturity over one year	0	0
185		Of which: – to affiliated undertakings	0	0
186		– to significant undertakings	0	0
187		– to other undertakings with participating interest	0	0
188	**4.**	**Other liabilities**	**783**	**1,240**
189		a) maturity up to one year	783	1,240
190		Of which: – to affiliated undertakings	415	567
191		– to significant undertakings	9	0
192		– to other undertakings with participating interest	0	0
193		– pecuniary contribution of members at credit cooperatives	0	0
194		b) maturity over one year	0	0
195		Of which: – to affiliated undertakings	0	0
196		– to significant undertakings	0	0
197		– to other undertakings with participating interest	0	0
198	4/A	Negative revaluation difference on derivative transactions	0	0

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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in million HUF

Item No	Item No	Identification of item	31 December, 2016	31 December, 2017
a	b	c	d	e
199	**5.**	**Accruals and deferred income**	**14,468**	**9,215**
200		a) accrued liabilities	6,965	4,576
201		b) accrued costs and expenses	7,503	4,639
202		c) deferred income	0	0
203	**6.**	**Provisions**	**362**	**1,211**
204		a) provisions for pensions and similar obligations	227	60
205		b) risk provisions for off-balance sheet items (for contingent and future labilities)	78	26
206		c) general risk provision	0	0
207		d) other provisions	57	1,125
208	**7.**	**Subordinated liabilities**	**0**	0
209		a) subordinated borrowings	0	0
210		Of which: – to affiliated undertakings	0	0
211		– to significant undertakings	0	0
212		– to other undertakings with participating interest	0	0
213		b) pecuniary contribution of members at credit cooperatives	0	0
214		c) other subordinated liabilities	0	0
215		Of which: – to affiliated undertakings	0	0
216		– to significant undertakings	0	0
217		– to other undertakings with participating interest	0	0
218		– to other entities	0	0
219	**8.**	**Subsribed capital**	**10,849**	**10,849**
220		Of which: repurchased own shares at face value	25	25
221	**9.**	**Subsribed but unpaid capital (-)**	**0**	**0**
222	**10.**	**Capital reserves**	**52,747**	**52,747**
223		a) share premium	52,747	52,747
224		b) other	0	0
225	**11.**	**General reserves**	**0**	**460**
226	**12.**	**Retained earnings (accumulated profit reserve) (±)**	**-4,155**	**-10,687**
227	**13.**	**Legal reserves**	**207**	**207**
228	**14.**	**Revaluation reserve**	0	0
229		Value-adjusted reserves	0	0
230		Revaluation reserves	0	0
231	**15.**	**Profit or loss for the financial year (±)**	**-6,532**	**4,141**
232		**TOTAL LIABILITIES**	**333,391**	**303,831**
233		*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]*	*90,698*	*78,734*
234		*- LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]*	*174,747*	*156,954*
235		*-EQUITY (CAPITAL AND RESERVES) [8-9+10+11±12+13+14 ±15]*	*53,116*	*57,717*

Item No	Identification of item	31 December, 2015	31 December, 2016
236	CONTINGENT LIABILITIES	6,641	9,812
237	FUTURE LIABILITIES	26,796	953
238	**TOTAL OFF-BALANCE SHEET LIABILITIES**	**33,437**	**10,765**
239	COLLATERALS	2,154	1,646
240	FUTURE RECEIVABLES	26,354	1,121
241	**TOTAL OFF-BALANCE SHEET ASSETS**	**28,508**	**2,767**

Date: Budapest, April 5, 2018

dr. Gyula László Nagy	Edit Erika Tóth
Chief Executive Officer	Deputy Chief Executive Officer

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2016	2017
a	b	c	d	e
1	**1.**	**Interest receivable and similar income**	**18,153**	**12,585**
2		a) interest income (receivable) from fixed-income securities	737	437
3		Of which: – from affiliated undertakings	0	0
4		– to significant undertakings	0	0
5		– from other undertakings with participating interest	0	0
6		b) other interest and similar income	17,416	12,148
7		Of which: – from affiliated undertakings	3,679	2,392
8		– to significant undertakings	0	0
9		– from other undertakings with participating interest	0	0
10	**2.**	**Interest payable and similar charges**	**15,980**	**9,495**
11		Of which: – to affiliated undertakings	595	280
12		– to significant undertakings	0	0
13		– from other undertakings with participating interest	0	0
14		**NET INTEREST INCOME**	**2,173**	**3,090**
15	**3.**	**Income from securities**	**483**	**393**
16		a) income from shares held for dealing (dividend, profit-sharing)	0	0
17		b) income from shares in affiliated undertakings (dividend, profit-sharing)	483	393
18		– to significant undertakings	0	0
19		c) income from other shares and participating interests	0	0
20	**4.**	**Commission and fees income**	**1,754**	**650**
21		a) from other financial services	1,754	650
22		Of which: – from affiliated undertakings	158	131
23		– to significant undertakings	0	0
24		– from other undertakings with participating interest	0	0
25		b) from investment services (except for income from trading activities)	0	0
26		Of which: – from affiliated undertakings	0	0
27		– to significant undertakings	0	0
28		– from other undertakings with participating interest	0	0
29	**5.**	**Commission and fee expense**	**1,265**	**1,211**
30		a) from other financial services	1,191	1,143
31		Of which: – to affiliated undertakings	1,169	1,081
32		– to significant undertakings	0	0
33		– from other undertakings with participating interest	0	0
34		b) from investment services (except for charges of trading activities)	74	68
35		Of which: – to affiliated undertakings	59	50
36		– to significant undertakings	0	0
37		– from other undertakings with participating interest	0	0
38	**6.**	**Net profit or net loss on financial operations**	**1,181**	**5,758**
39		a) income from other financial services	2,530	6,992
40		Of which: – from affiliated undertakings	0	0
41		– to significant undertakings	0	0
42		– from other undertakings with participating interest	0	0
43		- valuation difference	0	0
44		b) expenses from other financial services	1,349	1,234
45		Of which: – to affiliated undertakings	0	0
46		– to significant undertakings	0	0
47		– from other undertakings with participating interest	0	0
48		- valuation difference	0	0

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2016	2017
a	b	c	d	e
49		c) income from investment services (income from trading activities)	0	0
50		Of which: – from affiliated undertakings	0	0
51		– to significant undertakings	0	0
52		– from other undertakings with participating interest	0	0
53		– value re-adjustment (increase) of securities for trade (not more than acquisition value)	0	0
54		- valuation difference	0	0
55		d) expenses from investment services (expenses from trading activities)	0	0
56		Of which: – to affiliated undertakings	0	0
57		– to significant undertakings	0	0
58		– from other undertakings with participating interest	0	0
59		– value adjustment (decrease) of securities for trade	0	0
60		- valuation difference	0	0
61	**7.**	**Other operating income**	**2,330**	**2,532**
62		a) incomes from non-financial and non-investment services	1,370	1,322
63		Of which: – from affiliated undertakings	1,246	1,286
64		– to significant undertakings	32	0
65		– from other undertakings with participating interest	0	0
66		b) other income	960	1,210
67		Of which: – from affiliated undertakings	21	34
68		– to significant undertakings	0	0
69		– from other undertakings with participating interest	0	0
70		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	0	0
71	**8.**	**General and administrative expenses**	**4,939**	**4,677**
72		a) Staff costs	1,738	1,451
73		aa) wages and salaries	1,163	1,032
74		ab) other staff costs	204	160
75		Of which: – social security contributions	6	0
76		= pension costs	2	0
77		ac) contributions on wages	371	259
78		Of which: – social security contributions	310	224
79		= pension costs	0	0
80		b) Other administrative expenses (material-type expenses)	3,201	3,226
81	**9.**	**Depreciation (value adjustments in respect of assets items 9 and 10)**	**152**	**143**
82	**10.**	**Other operating expenses**	**4,336**	**4,370**
83		a) expenses from non-financial and non-investment services	15	30
84		Of which: – to affiliated undertakings	0	0
85		– to significant undertakings	0	0
86		– to other undertakings with participating interest	0	0
87		b) other expenses	4,321	4,340
88		Of which: – to affiliated undertakings	13	2
89		– to significant undertakings	0	0
90		– to other undertakings with participating interest	0	0
91		– value adjustment (decrease) of stocks (inventories)	0	0
92	**11.**	**Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments**	**3,857**	**1,090**
93		a) value adjustments (decrease) in respect of loans and advances	3,789	1,035
94		b) provisions for contingent liabilities and commitments	68	55
95	**12.**	**Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments**	**2,374**	**3,999**
96		a) value re-adjustments (increase) in respect of loans and advances	2,343	3,892
97		b) use of provisions for contingent liabilities and commitments	31	107
98	**12/A.**	**General risk provision and use**	**0**	**0**

FHB BANK

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2016	2017
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**	**0**
100	**14.**	**Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**0**	**32**
101	**15.**	**Profit or loss on ordinary activities**	**-6,532**	**4,963**
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)	-7,887	3,671
103		– PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	1,355	1,292
104	**16.**	**Extraordinary income**	**0**	**0**
105	**17.**	**Extraordinary expense**	**0**	**0**
106	**18.**	**Extraordinary profit or loss (16-17)**	**0**	**0**
107	**19.**	**Profit or loss before taxation (±15±18)**	**-6,532**	**4,963**
108	**20.**	**Tax payable**	**0**	**362**
109	**21.**	**Profit or loss after taxation (±19-20)**	**-6,532**	**4,601**
110	**22.**	**Addition to and use of general reserve (±)**	**0**	**460**
111	**23.**	**Profit or loss for the financial year (±21±22)**	**-6,532**	**4,141**

Date: Budapest, April 5, 2018

dr. Gyula László Nagy	Edit Erika Tóth
Chief Executive Officer	Deputy Chief Executive Officer

FHB Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2017

(translation)

Budapest, 5 April 2018

FHB BANK

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2017

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

FHB Plc.'s ownership structure

Shareholder	31 December 2017		31 December 2016	
	Holding%	Number of shares	Holding%	Number of shares
Ordinary shares (A Class)				
Domestic institutional investors	50.5	54,735,748	39.0	42,345,991
Foreign institutional investors	0.1	126,899	10.7	11,597,658
Domestic private investors	5.3	5,750,222	5.9	6,435,206
Foreign private investors	0	39,388	0.0	22,330
Employees. directors and senior management	0	11,517	0.1	87,963
Government held owner	4.5	4,832,225	4.5	4,832,225
Treasury shares	0.2	253,601	0.2	253,601
Other	0.2	250,410	0.4	425,036
Subtotal	*60.8*	*66,000,010*	*60.8*	*66,000,010*
Dividend preference shares (Series "B")				
Domestic institutional investors	13.1	14,163,430	13.1	14,163,430
Subtotal	*13.1*	14,163,430	*13.1*	14,163,430
Ordinary shares (Series "C")				
Domestic institutional investors	26.1	2,832,686	26.1	2,832,686
Subtotal	*26.1*	2,832,686	*26.1*	2,832,686
Total	**100.0**	**82,996,126**	**100.0**	**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).

On September 23, 2015 the Bank entered into the integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the FHB Group, formerly under the supervision of the FHB, are under the combined supervision of the Takarékbank (Saving Bank) Group from 1th of January 2017 onwards.

In December 2017 the Bank sold the majority of their direct and indirect investments leaving FHB Commercial Bank Ltd. amongst their shares unsold. The reporting of FHB Commercial Bank is integrated into the consolidation cycle of the parent company Takarékbank.

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;

Above services are partially provided by FHB Commercial Bank Ltd. from November 1, 2017.

The FHB Commercial Bank, as the agent of the FHB Mortgage Bank Plc., is fully responsible for direct lending, furthermore performs loan aftercare and qualified loan management. Although, FHB Commercial Bank, in order to have favourable funding costs, has majority of their loans refinanced by the FHB Mortgage Bank Plc.

From 24 September 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 Takarék Bank Ltd. The FHB Mortgage Bank and FHB Commercial Bank became member of the Guaranty Community of Savings Cooperatives.

In 2017, the operation of FHB Mortgage Bank is characterized by the following key data and indicators:

Major financial indicators	FHB data	
	31 Dec 2017	31 Dec 2016
Balance sheet total (million HUF)	303,831	333,391
Refinanced mortgage loans (million HUF)	210,476	187,044
Mortgage bonds outstanding (million HUF)	176,693	153,385
Bonds outstanding (million HUF)	10,479	43,218
Shareholders' equity (million HUF)	57,717	53,116
Regulatory capital (million HUF)	56,660	49,921
Profit after tax (million HUF)	4,141	-6,532
CIR (operating costs / net income) (%)	108.17%	118.51%
ROAA (return on average assets) (%)	1.44%	-1.73%
ROAE (return on average equity) (%)	8.30%	-15.87%

Members of the integration of Cooperative Credit Institution – including the Bank – shall inspect compliancy with prudential requirements at consolidation level. Exemption from fulfilling entity level compliance is ensured by the relating legislation and the Hungarian National Bank's subject-matter decision.

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%.

Threshold of material and minor errors

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

Balance sheet

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

Tangible Assets under the purchase value of HUF 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 incudes the result of the actual fiscal year in question, 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 , 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**

Members of the integration of Cooperative Credit Institution – including the Bank – shall inspect compliancy with prudential requirements at consolidation level. Exemption from fulfilling entity level compliance is ensured by the relating legislation and the Hungarian National Bank's subject-matter decision.

3. **Compliance with mortgage lending provisions**

- Within the total balance of mortgage loans, 99.78% 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 31,02% as of December 31, 2017.

4. **Compliance with the provisions on investment**

As at 31 December 2017 the Bank have the following investments:

FHB Commercial Bank Ltd.,

The investments of the above detailed Bank 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 December 31, 2017, surpassing the provisions of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – HUF 176 693 million – of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to HUF 198 021 million considered as ordinary collateral.
- As of December 31, 2017, 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 20 974 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 46 103 million.
- On December 31, 2017 in accordance with the Article 14 (11) of Act XXX supplementary collateral was utilized through issuing securities in the capital value of 22 864 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 2017 the present value of ordinary collateral was HUF 240 056 million and that of mortgage bonds was HUF 195 765 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 2017 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 2017 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 679.463 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 5.650 million as of 31 December 2017.
- The Bank organized repurchase of floating rate mortgage bonds four times in 2017 in total amount of HUF 15.3 billion and EUR 1.97 million. From FJ20NV01 mortgage bonds repurchase was executed two times in the nominal value of nearly 3.2 billion HUF. From FJ8NF01 EURO mortgage bonds repurchase was only one transaction in the nominal value of 1.97 million EURO, from FJ21NV01 mortgage bonds in the nominal value

of 4 billion HUF, from FJ18NV01 700 million HUF, from FJ18NV02 7.36 billion HUF during the above period. 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 2017. the portfolio of receivables and liabilities. which includes receivables from customers. off-balance contingencies. receivables from the loan bank and financial investments. was HUF 267 271.7 million in total.

The determination of expected loss for the Bank's receivables at the end of December 2017. is based on MNB Decree 39/2016. (X.11.) on the prudential requirements for non-performing exposure and restructured claim (hereinafter MNB Decree).
Under this regulation claim is non-performing, if:

– 90 days or more past due, when part overdue is significant, or
– it can be assumed that without the realization of the collateral the debtor will not be able to repay its liabilities, or
– it is defaulted under 575/2013/EU Decree (hereinafter CRR), or
– it is impaired under the accounting rules or
– it is impaired based on prudence principle and not because of the increased risk

As a result of the rating based on the Government decree and internal regulations. 81.62% of the total portfolio is performing, 18.38 % is non-performing

The Integrational Organization of Cooperative Credit Institutions (SZHISZ) prescribed for the FHB Group on the rating date of 31 December 2017. that average loss coverage of outstanding loans with overdue over 90 days must reach 65%.

As of 31 December 2017. the Bank recorded HUF 4.975 million impairment for receivables from clients and a risk provision of HUF 14 million for contingencies.

On basis of the qualification of strategic investments at the end of the year 2017. the Bank booked impairment in the amount of HUF 3.304 million to its subsidiary. the FHB Commercial Bank Ltd.

8. Information on general reserve

According to the new Credit Institution Act, in Paragraph. 83 §, Credit Institutions are required the make reserve before paying dividend and shares from their Earning after tax. The amount of the reserve cannot be more than 10% of their Earning after tax. In 2017 the Bank reserved HUF 460 million as general reserve.

9. Impairment of other receivables and liabilities, creation of provision

As of 31 December 2017 no such losses were recorded by the Bank.

Based on the decision of the General Assembly and the Board of Directors, in 2016, FHB joined a project initiated by Takarkbank. The project is named „Process realization and inspection of savings deriving from the consolidation of the central areas of those involved in the integration".

The aim of the project is to exploit synergies resulted from merging of the head-office functions of the large banks and to conduct a peer review process along with process evaluation, which will provide an implementation plan to realize cost-saving opportunities and efficient centralized service processes. To cover the project's expected expenses The Commercial Bank and the Mortgage Bank made a provision for retirement and severance grants in 2016, in total of HUF 227 million. Out of this amount, 167 million forints were used in 2017 due to the reduction in the number of employees.

A provision of HUF 300 million was created for future costs to cover liabilities arising from previous contracts.

Provision of 820.7 million forints was made to cover future expenses related to the Bank's assets.

10. 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 2017 dividend payment has not been made.

11. Derivative deals

- As of 31 December 2017 the following OTC hedging futures are recorded by the Bank:
  - interest rate swaps for which the value of the future liabilities is 953 million HUF, the value of the related future receivables is 1 121 million HUF.
  - The Bank does not have any future receivables or liabilities related to foreign exchange swaps as of 31 December 2017
- In relation to the OTC hedging interest rate swaps existing on 31 December 2017. the P/L statement already recorded). HUF 32 million accrued interest. as well as HUF 167 million interest expenditure.
- There were no future receivables and future liabilities from liquidity swaps at the end of period.

12. Other banking information

- In accordance with the Government Decree. the value of pending interest – which is 34.76 % of interest on receivables from customers. reported in 2016 – was HUF 1,424 million as of 31 December 2017 (2016: HUF 1,853 million) and the value of pending interest type commission was HUF 222 million (2016: HUF 300 million). In the reported period the Bank received HUF 218 million from interest that was pending before the year of reporting.
- The principal receivable value of state guarantees for receivables was HUF 2.371 million (2016: HUF 2.948 million) and collateral value of deposits was HUF 32 million (2016: HUF 32 million) and the collateral value of liens amounted to HUF 679.463 million (2016: HUF 622.813 million).
- The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 1.573 million as of 31 December 2017 (2016: HUF 2 031 million). The cooperation agreement with the credit institutions includes a deficiency guaranty and loss sharing in favour 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 6.343 million as of 31 December 2017; its value according to the registration was HUF 4.042 million.
- On 31th December 2017. upon the request of the FHB Mortgage Bank 35 terminated deals/loans were in foreclosure procedure. The total value of these deals on 31th December 2017 was HUF 369.5 million.

The Bank initiated new foreclosure procedure in 26 case (1 terminated loan). the total value of these deals on 31th December 2017 was HUF 107.3 million.

During 2017 the FHB Mortgage Bank joined in 150 third party foreclosures.

In all of 13 pieces of auctions (18 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 53.8 million and the amount calculated for our Bank after the pay-out plan covered the debt to the Bank in three 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 2017.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	11 pieces

- In the course of 2017 the Bank offered 89 pieces of properties (2016: 134 pieces) to the NET (National Asset Management Ltd). to which 163 pieces of transactions were related (2016: 272). From the offered properties in 2017 288 pieces of properties (2016: 103 pieces) were purchased in the amount of HUF 909.7 million and together with that 528 pieces (2016: 179 pieces) of transactions (receivables from customers) in the amount of HUF 2.030 million (2016: HUF 508.4 million) were closed till 31 December 2017.

- As of 31 December 2017. the amount of principal repayment from mortgages for the reported year was HUF 37.346 million. of which HUF 14.300 million was mortgage repayment from customers and 23.046 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 13.487 million from long-term receivables from customers and HUF 13.234 million from long-term receivables from credit institutions into short-term receivables. From long-term liabilities due to issued mortgage bonds HUF 26.418 million. due to issued bonds HUF 13.800 million were moved to short-term liabilities.
- HUF 28.795 million of listed government securities were reported by the Bank in the 31 December 2017 balance sheet as treasury bills and similar securities.
- The closing balance of inventories contains purchased inventory amount to HUF 23 million. properties held for sale amounted to HUF 123 million and repossessed real estate amounted to HUF 17 million on 31 December 2017. For purchased inventories HUF 2 million, for the properties held for sale HUF 23 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 68 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 2017 the Bank had receivables from subsidiary amounting to HUF 633 million in the following breakdown:

  FHB Commercial Bank Ltd. HUF 633 million

  The Bank recorded HUF 533 million liabilities for services extended by its subsidiary in the following breakdown:

  FHB Commercial Bank Ltd. HUF 533 million

The FHB Mortgage Bank Plc. records assets in relation to the FHB Commercial Bank Ltd. records among its assets HUF 600 million longer than one-year interbank deposit and among its liabilities EUR 4.483 million (HUF 1.390 million). CHF 2 million (HUF 531 million) and HUF 44.743 million as shorter than one-year interbank deposit.

- 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.

13. 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 2017.
- 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 2017 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 2017.
- The Bank has HUF 10 million investment in the Integration Organization of the Cooperative Credit Institutions (SZHISZ)

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

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

The formerly established group of VAT status members amongst FHB Group expired on February 23, 2018

15. 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 the 2017 business year the Company employed Deloitte Auditing and Consulting Ltd. (seated: 1068 Budapest, Dózsa György út 84/C., corporate registration number: 01-09-071057; auditors' chamber id: 000083; Hungarian Financial Supervisory Authority id: T-000083/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Mr. Tamás Horváth (mother's name: Veronika Grósz; address: 1028 Budapest, Bölény u. 16; auditors' chamber id: 003449; Hungarian Financial Supervisory Authority id: E003449; hereinafter referred to as: „personally assigned auditor").

  The audit fee of the Auditor for performing the annual audit of the financial reports of the Company on year 2017 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 1.3 million for them.

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

Dr. László Gyula Nagy	Chief Executive Officer	1147 Budapest, Ilosvai Selymes utca 91.
Tóth Edit Erika	Deputy Chief Business	2120 Dunakeszi, Gutai János utca 8.

- 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 2017

Data in million HUF

	Subscribed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve*	Balance Sheet profit	Total own equty
31 December 2016	**10,849**	**52,747**	**-**	**-4,155**	**207**	**-6,532**	**53,116**
Capital increase	-	-	-	-	-	-	-
Capital reserve increase	-	-	-	-	-	-	-
Change of general reverse	-	-	460	-	-	-	460
Loss for 2016	-	-	-	-6,532	-	6,532	-
Profit for 2017	-	-	-	-	-	4,141	4,141
31 December 2017	**10,849**	**52,747**	**460**	**-10,687**	**207**	**4,141**	**57,717**

* Include the repurchased own shares.

FHB BANK

II. SPECIFIC PART

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

31 December 2017

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		1,304	-	18	-	1,322
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**1,304**	**-**	**18**		**1,322**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	356	-	1	-	357
b/ Plant, machinery installations, vehicles	10. ab)	618	-	10	93	535
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**974**	**-**	**11**	**93**	**892**
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**

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

31 December 2017

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		850	-	43	-	893
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**850**	-	**43**	**-**	**893**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	209	-	43	-	252
b/ Plant, machinery installations, vehicles	10. ab)	305	-	56	38	323
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**514**	-	**99**	**38**	**575**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	9	-	1	-	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)**	**9**	-	**1**	**-**	**10**

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

31 December 2017

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		454	429
c/ Goodwill		-	-
d/ Value of formation / reorganization		-	-
Total intangible assets :	**9.**	**454**	**429**
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)	147	105
b/ Plant, machinery installations, vehicles	10. ab)	313	212
c/ Construction in progress	10. ac)		-
d/ Advances on contstruction in progress	10. ad)	-	-
Total tangible assets of financial services:	**10. a)**	**460**	**317**
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)	-	-
b/ Plant, machinery installations, vehicles	10. bb)	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)**	**1**	-

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

31 December 2017

Data in million HUF

Description	Profit & Loss statement line	Planned depreciations	Over-plan depreciations, shrinkage
I. Intangible assets			
1/ Valuable rights		-	-
2/ Intellectual products		43	-
3/ Goodwill		-	-
4/ Value of formation / reorganization		-	-
Total intangible assets		**43**	**-**
II.1. Tangible assets of financial services:			
1/ Land and buildings		43	-
2/ Plant, machinery installations, vehicles		56	-
3/ Investments		-	-
Total tangible assets of financial services:		**99**	**-**
II.2. Tangible assets of non-direct financial services			
1/ Land and buildings		-	-
2/ Plant, machinery installations, vehicles		1	-
Total tangible assets of non-direct financial services:		**1**	-
III. Depreciation of tangible and intangible assets of a value below HUF 100,000 each accounted in a sum		7	-
T o t a l :	**9.**	**143**	-

II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2017

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2017	Portfolio of 31 December 2017 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)	14,637	4,746	9,891	-	-	-	-
- Long term	3.bb)	132,338	-	-	61,509	41,646	18,166	11,017
Accounts receivable from customers :								
- Short term	4. aa)	13,487	7,645	5,842	-	-	-	-
- Long term	4. ab)	66,992	-	-	28,003	21,756	9,197	8,036
- Accounted value loss	from 4. ab)	-4,975	-	-	-	-	-	-
T o t a l :		**222,479**	**12,391**	**15,733**	**89,512**	**63,402**	**27,363**	**19,053**

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 2017

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2017	Portfolio of 31 December 2017 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)	46,664	38,100	8,564	-	-	-	-	-
- Long term	1. bb)	-	-	-	-	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+ 2. bb)	32	32	-	-	-	-	-	-
- Long term	2. ac)+ 2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	30,218	3,870	26,348	-	-	-	-	-
- Long term	3.ab)	156,954	-	-	151,304	5,650	-	-	-
Subordinated accounts payable	7.	-	-	-	-	-	-	-	-
T o t a l :		**233,868**	**42,002**	**34,912**	**151,304**	**5,650**	**-**	**-**	**-**

II / 7 . Items to modify corporate tax base

31 December 2017

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.	149	1. Planned depreciation accounted as cost according to Accounting Act.	143
2. Expenditure from sale of tangible assets according to the Corporate Tax Act.	55	2. Expenditure from sale of tangible assets according to the Accouting A	55
3. Reversal of provision for expected liabilities and future costs	225	3. Provision for future liabilities and expected costs	1,128
3. Income from dividend received	393	4. Tax penalties / Penalties to the Taxation Authority	59
4. Items to increase pre-tax profit of the previous years (revenues, expenses)	79	5. Expenses that are not ordinary business expenses	19
5. Others decrease items	1		
6. Support to organisations	1		
8. Transfer price correction	1		
9. Banking tax	362		
T o t a l :	**1,266**	**T o t a l :**	**1,404**

II / 8. Classification of receivables, investments and inventories

31 December 2017

in million HUF

Classification	31 December 2016				31 December 2017				
	Gross amount	Rate	Impairment	Net carrying amount	Gross amount	Non-performing	Rate	Impairment	Net carrying amount
Receivables from customers:									
Performing	71,873	79.74%	-	71,873	67,258	560	83.57%	-	67,258
To be monitored	7,254	8.05%	291	6,963	4,995	4,995	6.21%	189	4,806
Below average	2,109	2.34%	325	1,784	2,225	2,225	2.76%	452	1,773
Doubtful	2,847	3.16%	1,343	1,504	2,558	2,558	3.18%	1,475	1,083
Bad	6,049	6.71%	5,889	160	3,443	3,443	4.28%	2,859	584
Total:	**90,132**	**100.00%**	**7,848**	**82,284**	**80,479**	**13,781**	**100.00%**	**4,975**	**75,504**
Receivables from credit institutes:									
Performing	163,312	100.00%	-	163,312	147,255	-	100.00%	-	147,255
Total:	**163,312**	**100.00%**	**-**	**163,312**	**147,255**	**-**	**100.00%**	**-**	**147,255**
Investments:									
Performing	5,876	14.06%	-	5,876	10	-	0.03%	-	10
To be monitored	35,930	85.94%	3,336	32,594	35,282	-	99.97%	3,304	31,978
Bad	-	0.00%	-	-	-	-	0.00%	-	-
Total:	**41,806**	**100.00%**	**3,336**	**38,470**	**35,292**	**-**	**100.00%**	**3,304**	**31,988**
Inventories:									
Performing	17	10.30%	-	17	1	-	0.61%	-	1
To be monitored	123	74.55%	8	115	22	-	13.50%	2	20
Below average	-	0.00%	-	-	123	-	75.46%	23	100
Doubtful	25	15.15%	9	16	17	-	10.43%	9	8
Bad	-	0.00%	-	-	-	-	0.00%	-	-
Total:	**165**	**100.00%**	**17**	**148**	**163**	**-**	**100.00%**	**34**	**129**

Portffolio of non-performing receivables from customers can be considered only in 2017 as the classification is regulated by MNB 39/2016 (X.11.) Decree effective from that year. Classifications as "non-performing" were made based on requirements of that regulation.

Portfolios based on classification categories of receivables from customers are interpretable only in 2016 as these categories were repealed by MNB 39/2016 (X.11.) Decree.

Classification categories and non-performing portfolios are presented in the same table for comparision reason.

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II / 9. Contingent liabilities

31 December 2017

in million HUF

Classification	31 December 2016			31 December 2017			
	Gross off-balance sheet liabilties	Rate	Provision in balance sheet	Gross off-balance sheet liabilties	Non-performing	Rate	Provision
Liabilities to customers:							
Performing	1,431	32.09%	-	3,032	1	98.41%	-
To be monitored	3,012	67.55%	60	29	29	0.94%	1
Below average	3	0.07%	1	3	3	0.10%	-
Doubtful	4	0.09%	2	5	5	0.16%	3
Bad	9	0.20%	7	12	12	0.39%	10
Total:	**4,459**	**100.00%**	**70**	**3,081**	**50**	**100.00%**	**14**

Classification	Gross off-balance sheet liabilties (2016)	Rate (2016)	Provision in balance sheet (2016)	Gross off-balance sheet liabilties (2017)	Non-performing (2017)	Rate (2017)	Provision (2017)
Contingent liabilities related to litigation cases:							
Performing	-	0.00%	-	-	-	0.00%	-
To be monitored	-	0.00%	-	-	-	0.00%	-
Below average	-	0.00%	-	-	-	0.00%	-
Doubtful	1	10.00%	-	8	-	47.06%	4
Bad	9	90.00%	8	9	-	52.94%	8
Total:	**10**	**100.00%**	**8**	**17**	**-**	**100.00%**	**12**

Only portfolios from credit insitute activity are imcluded in off-balance sheet liabilities, items according to Accounting Act are excluded.

Portfolios of non-performing off-balance sheet items be considered only in 2017 as the classification is regulated by MNB 39/2016 (X.11.) Decree effective from that year. Classifications as "non-performing" were made based on requirements of that regulation.

Portfolios of off-balance liabilities based on classification categories are interpretable only in 2016 as these categories were repealed by MNB 39/2016 (X.11.) Decree.

Classification categories and non-performing portfolios are presented in the same table for comparision reason.

II / 10 Changes in provisions

31 December 2017

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	78	-	55	106	-1	26
6. Provision for possible future obligation	-	-	-	-	-	-
7. Margin of provision for possible futute obligation	-	-	-	-	-	-
8. Provision for possible future costs	57	-	1,125	57	-	1,125
9. Provision for general risks	-	-	-	-	-	-
10. Other provisions	227	-	-	168	1	60
Total provisions : (1. - 10.)	**362**	-	**1,180**	**331**	**-**	**1,211**

* Provisions are related to the contingent liabilities (for example unused credit lines) or future payment obligations. The reduction of the provision should be accounted as a "use" from the books due to the derecogniton of contingent liabilities related to a special event (sale, write-off, remission), max. in the same amount as the contingent liability.

**If the amount of the provision is higher than the derecognised contingent liability, the provision should be reduced as "reversal". A reversal is also recognized if the qualifying of the contingent liability is positive in the quarterly rating and the amount of the provision can be reduced. According to the Government Decree No. 250/2000 (X.12) the reversal of provisions should be classified if the reversal of the current year provision or the reducing of the previous year provision.

II / 11 Changes in impairment losses
31 December 2017

Data in million HUF

Description	Opening balance	Provision for impairment in the period	Reversal of impairement for the period **	Reversal of impairment of previous period **	Impairment used *	FX differences	Closing balance
1. Impairment loss of accounts receivable from banks	-	-	-	-	-	-	-
2. Impairment loss of accounts receivable from customers	7,848	1,506	471	3,274	619	-15	4,975
3. Exchange diferencee of impairment loss of customers	-	-	-		-	-	-
4. Impairment loss of investment shares	3,336	-	-	32	-	-	3,304
5. Inventories	-	2	-	-	-	-	2
6. Impairment loss of repossessed property collaterals	9	-	-	-	-	-	9
7. Impairment loss of properties held for sale	8	15	-	-	-	-	23
Total value losses: (1. - 7.)	**11,201**	**1,523**	**471**	**3,306**	**619**	**-15**	**8,313**

*The reduction of the impairment should be accounted as a "use" from the books due to the derecogniton of receivables related to a special event (sale, write-off, remission), max. in the same amount as the receivable.
**If the amount of the impairment is higher than the derecognised receivable, the impairment should be reduced as "reversal".
A reversal is also recognized if the qualifying of the receivable is positive in the quarterly rating and the amount of the impairment can be reduced.
According to the Government Decree No. 250/2000 (X.12) the reversal of impairment should be classified if the reversal of the current year impairment or the reducing of the previous year provision.

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II / 12. CASH-FLOW

Data in million HUF

No.	Description	31 December 2016	31 December 2017
01.	Interest received	18,153	12,585
02.	+ Incomes from other financial services	4,284	7,642
03.	+ Other incomes (without use of provision and reversal of surplus provision, impairment loss of inventories and over-plan depreciation	960	986
04.	+ Incomes from investment services (except for reversal of impairment loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	1,370	1,322
06.	+ Dividend received	483	393
07.	+ Extraordinary income	-	-
08.	- Interest paid	-15,980	-9,495
09.	- Expenses on other financial services (without impairment loss of securities)	-2,540	-2,362
10.	- Other expenses (except for creation of provision and impairment loss, over-plan depreciation)	-2,270	-911
11.	- Expenses on investment services (without impairment loss of securities)	-74	-68
12.	- Expenses on services other than financial and investment ones	-15	-30
13.	- General administration costs	-4,939	-4,677
14.	- Extraordinary expenses (without taxation in subject year)	-	-
15.	- Corporate tax payable in the period	-	-362
16.	- Dividend paid (payable)	-	-
17.	**Operating cash flow (lines 01.-16.)**	**-568**	**5,023**
18.	± Changes in accounts payables	-106,011	-29,757
19.	± Changes in accounts receivables	68,611	23,130
20.	± Changes in inventories	32	2
21.	± Changes in portfolio of securities in current assets	10,527	-2,300
22.	± Changes in financial investments	-	6,514
23.	± Changes in portfolio of investments (including advances)	1	-
24.	± Changes in portfolio of intangible assets	-35	-18
25.	± Changes in portfolio of tangible assets (without investments)	-88	-11
26.	± Changes in accruals	-823	1,887
27.	± Changes in deferrals	-5,676	-5,253
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.)**	**-3,564**	**-783**
	Out of which: - changes in cash	-	-2
	- changes in bank money (accounting and other sight deposit with NBH)	-652	-781

II / 13 Maturities of major items of accrued interests and deferred costs and expenses

31 December 2017

Data in million HUF

Description	Balance sheet line	Items of 31 December 2017 broken down by maturities				31 December 2017
		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		-	177	-	-	**177**
- Accrued interests from accounts receivable from customers		3,209	-	-	-	**3,209**
- Accrued interests from credit institutions from refinancing loans		115	-	-	-	**115**
- Accrued interests of interbank deposits		2	7	-	-	**9**
- Accrued interest of hedge transactions		32	-	-	-	**32**
- Commission for arrangement of state subsidies		15	-	-	-	**15**
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		505	3,821	-	-	**4,326**
- Deferred interest on hedge transactions		-	167	-	-	**167**
-Deferred interest on subordinated loan		-	-	-	-	-
- Deferred interest on interbank loans		1	-	-	-	**1**

II / 14 Assets and liabilities in foreign currencies
31 December 2017

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	369	0	1.b.	Liabilities towards credit institutions from financial services	46,664	1,921
2.a.	Government securities	28,795	0	2.b.	Other liabilities to customers from financial services	612	3
3.a.	Receivables from credit institutions - in sight	280	280	3.	Liabilities from securities issued	187,172	12,544
3.b.	Receivables from credit institutions - other financial services	146,975	9,279	4.a.	Other liabilities	1,240	4
4.a.	Loans and advances to customers	75,504	7,103	5.a.	Deferred income	4,576	1
5.ba.	Debt securities, including fixed interest securities issued by other issuer	11,776	0	5.b.	Accrued costs and expenditures	4,639	398
12.b.	Other receivables	3,019	50				
13.a.	Accrued income	3,561	13				
13.b.	Deferred costs and expenditures	482	18				

II / 15 Services consumed and accounted costs by types

2017

Data in million HUF

Description		2016	2017
Material costs		120	113
Value of services consumed		2,705	2,763
from this	IT costs	912	1,165
	Consultancy, audit fees	322	232
	Marketing costs	71	35
	Rental fees	555	558
	Recruitment, hiring costs	34	37
	Postal, courier, telecommunication costs	242	267
	Costs of administration services	36	45
	Real estate and asset maintenance costs	228	171
	Agent service fees	115	126
	Bank security fees	51	35
	Travelling, accomodation, transportation costs	6	4
	Database usage, professional books	68	50
	Fees related to issued mortgage bonds	65	38
Other services		376	350
Wages and salaries		1,163	1,032
Other personnel expenses		204	160
Social security contributions		371	259
Depreciation		152	143
Total		**5,091**	**4,820**

III. INFORMATIVE PART

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

31 December 2017

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 Commercial Bank Ltd.	51.0%	31,978	20,616	8,681	-	243	-	21,647	-	-9,955
1082 Budapest Üllői út 48.										
Total		**31,978**	**20,616**	**8,681**	**-**	**243**		**21,647**	**-**	**-9,955**

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

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

31 December 2017

Data in million HUF

Name of enterprise	Headquaters	Share in investment	Subscribed capital
Magyar Takarékszövetkezeti Bank Ltd.	1122 Budapest, Pethényi köz 10.	0.00006%	3,390
Integration Organization of Cooperative	1051 Budapest, Nádor utca 31.	0.00714%	-

III /2 Investments
31 December 2017

Data in million HUF

	FHB Commercial Bank Ltd.	FHB Real Estate Ltd	FBH Invest Ltd.*	Diófa Alapkezelő Ltd	Magyar Takarék Bef. and Vagyongazd. Ltd.	Magyar Takarékszövetekezeti Bank Ltd.	Integration Organization of Cooperative	Total
31 December 2016	**31,978**	**616**	**5,292**	**321**	**253**	**0.002**	**10**	**38,470**
Purchase of shares	-	-	-	-	-	-	-	**0**
Sale of shares	-	-648	-5,292	-321	-253	-	-	**-6,514**
Capital increase	-	-	-	-	-	-	-	**0**
Investment impairment	-	-	-	-	-	-	-	**0**
Investment impairment reversal	-	32	-	-	-	-	-	**32**
Goodwill	-	-	-	-	-	-	-	**0**
31 December 2017	**31,978**	**0**	**0**	**0**	**0**	**0.002**	**10**	**31,988**

* Company name is changed: Takarék Invest Ltd.

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

31 December 2017

Data in million HUF

Description	Number of persons 31.12.2016	Number of receipents of remunerations 2016	Amount of remunerations payable (million HUF) 2016	Number of persons 31.12.2017	Number of receipents of remunerations 2017	Amount of remunerations payable (million HUF) 2017
Board of Directors	5	5	18	5	8	17
Supervisory Board	4	4	10	5	5	12
T o t a l :	**9**	**9**	**28**	**10**	**13**	**29**

Total emoluments payable to Management

Data in million HUF

Description	Number of persons 31.12.2016	Number of receipents of remunerations 2016	Amount of remunerations payable (million HUF) 2016	Number of persons 31.12.2017	Number of receipents of remunerations 2017	Amount of emoluments payable (million HUF) 2017
Management	2	2	96	2	3	19
T o t a l :	**2**	**2**	**96**	**2**	**3**	**19**

FHB BANK

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

31 December 2017

Data in million HUF

Description	31.12.2016.	31.12.2017.
Amount of loan at disbursment date	28	1
Outstanding debt	28	1

The conditions of the loans are under the terms of general announcement.

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

31 December 2017

Data in million HUF

Employees by staff groups	Average statistical personnel staff		Wage costs (mHUF)	
	2016	2017	2016	2017
Full time				
- white-collar worker	79	66	632	549
- blue collar worker	2	2	7	7
Total	*81*	*68*	*639*	*556*
Part-time				
- white-collar worker	82	80	479	373
- blue collar worker	-	-	-	-
Total	*82*	*80*	*479*	*373*
Pensioners				
- white-collar worker	5	4	10	24
- blue collar worker	-	-	-	-
Total	*5*	*4*	*10*	*24*
Off the payroll	-	-	35	79
Total	**168**	**152**	**1163**	**1032**

III / 6 Book value and nominal value of securities

31 December 2017

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	11,982	12,104
b) Treasury Bills	16,813	16,826
c) MNB bonds	-	-
d) Unsecured bonds issued by credit institutions	2,993	3,047
e) Secured mortgage bonds	8,783	7,727
f) Redeemed own bonds (repurchased by the bank)	-	-
g) Redeemed own shares (repurchased by the bank)	207	25
Total current assets	**40,778**	**39,729**
II. Long term financial assets		
a) investment in credit institutions	31,978	3,960
b) investment in other enterprises	10	10
Total long term financial assets:	**31,988**	**3,970**
TOTAL (I. + II.)	**72,766**	**43,699**

FHB BANK

III / 7 Off-balance sheet items

31 December 2017

Data in million HUF

Descriptions	31 December 2016.	31 December 2017.
Contingent liabilities		
- Available credit ines of disbursed loans	6,064	8,846
- Loans contracted but not disbursed	577	966
Total contingent liabilities	**6,641**	**9,812**
Future obligations	26,796	953
Total off-balance sheet liabilities	**33,437**	**10,765**
Future receivables	26,354	1,121
Principal receivable value of collateral	189,078	214,848
Total off-balance sheet receivables	**215,432**	**215,969**
Collateral value of related property offered	625,793	681,866

Budapest, 5 April 2018

dr. Gyula László Nagy
Chief Executive Officer

Edit Erika Tóth
Deputy Chief Executive Officer

FHB Mortgage Bank Co. Plc.

Business Report for 2017

Budapest, 5 April, 2018

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1 OVERVIEW OF FHB MORTGAGE BANK PLC.

1.1 HISTORY AND ACTIVITIES OF FHB MORTGAGE BANK

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

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

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

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

Ownership structure of the FHB Mortgage Bank Ltd. as of the 31 December 2017:

	31 December 2017		31 December 2016	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares (Series "A")				
Domestic institutional investors	50.5	54,735,748	39.0	42,345,991
Foreign institutional investors	0.1	126,899	10.7	11,597,658
Domestic private investors	5.3	5,750,222	5.9	6,435,206
Foreign private investors	0.0	39,388	0.0	22,330
Employees, directors and senior management	0.0	11,517	0.1	87,963
Government held owner	4.5	4,832,225	4.5	4,832,225
Treasury shares	0.2	253,601	0.2	253,601
Other	0.2	250,410	0.4	425,036
Subtotal	*60.8*	*66,000,010*	*60.8*	*66,000,010*
Dividend preference shares (Series "B")				
Domestic institutional investors	13.1	14,163,430	13.1	14,163,430
Subtotal	*13.1*	*14,163,430*	*13.1*	*14,163,430*
Ordinary shares (Series "C")				
Domestic institutional investors	26.1	2,832,686	26.1	2,832,686
Subtotal	*26.1*	*2,832,686*	*26.1*	*2,832,686*
	100.0	***82,996,126***	***100.0***	***82,996,126***

The Bank introduced its New Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries, among them the FHB Commercial Bank Ltd., thereby significantly expanding the range of services provided by FHB Group. FHB Mortgage Bank Plc. is the parent company of the group. (The Bank and its subsidiaries are jointly referred to as the Group, Bank Group or FHB Group.)

The strategic partnership program with Allianz was adopted by the Board of Directors of FHB Mortgage Bank, the plan included the acquisition of the Allianz Bank, which merged into the FHB Commercial Bank Ltd in 2011. The Board of Directors also approved “The bank of the families” concept, meaning a customer- and service-driven sales attitude.

In 2013, FHB Mortgage Bank managed several acquisitions, there through broadened the Banking Group and the range of activities. It included the acquisition of Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), the purchase of the Díjbeszedő Operational and Service Limited Liability Company, hereinafter the “DÜSZ”), that come into being after a demerge from Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Co. Plc. (“DBF”), DíjNET Ltd., Díjbeszedő Informatikai Ltd. (“DBIT”) and the portion of the ownership of the Magyar Posta (Hungarian Post).

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 shall cooperate in the ownership and control of some of their jointly controlled companies, furthermore in course of the harmonization of their business activities.

At the beginning of 2014 FHB Mortgage Bank Plc. acquired 25% shares in Magyar Takarék Asset Management Ltd. by capital increase, through which FHB Mortgage Bank obtained 13,76% indirect qualifying holding in Bank of Hungarian Savings Cooperatives Co. Ltd. (hereinafter the Takarékbank).

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 under its qualifying holding and prudential supervisory FHB Commercial Bank Ltd. became a member of Integration Organisation of Cooperative Credit Institution (SZHISZ) in September 2015, and also the member of the Guarantee Group of Cooperative Credit Institutions, and a member of the country’s fourth largest banking group.

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. Capital increase was executed by issuing dematerialized dividend preference shares (Series “B”) and registered, dematerialized ordinary shares (Series “C”). The new shares (Series “B” and Series “C”) were not listed on the Budapest Stock Exchange, they were purchased by the members of the Integration.

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.

Accommodation of the FHB Mortgage Bank and FHB Commercial Bank within the Integration of Cooperative Financial Institutions began in autumn of 2015 finished in 2017. As a part of the procedure changing the organizations in line with the Strategy of the Integration started in 2017.

As a first step, the FHB Mortgage Bank was reshaped to a simple profile mortgage bank, with remaining issuance and refinance functions, and all other human resources and capacities were transferred to the Takarékbank and the FHB Commercial Bank.

On 27 June 2017 General Assembly of the Takarékbank accepted the 5-year strategy of the Integration. The function of the central financial institution will be solely performed by Takarékbank; the FHB Mortgage Bank’s current group management functions will be passed over to the Takarékbank. According to the plans, the satellite institutions of the Integration, including the mutual fund management, factoring and leasing service suppliers will be directly subordinated to the Takarékbank.

FHB Mortgage Bank – pursuing the Strategy – acquired 25.1% of shares in the MATAK (Hungarian Savings Investment and Asset Management Ltd.) by capital increase with HUF 253 million nominal value in 12 December 2017.

On 27 December 2017 FHB Mortgage Bank sold the FHB Ingatlan Ltd. and the Takarék Invest Befektetési és Ingatlankezelő Ltd. to the Takarékbank. According to the Syndication Contract, Takarék Invest Befektetési és Ingatlankezelő Ltd. and its subsidiary and joint ventures companies (Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Co. Plc. ("DBF"), DíjNET Ltd., Díjbeszedő Informatikai Ltd. ("DBIT"), Magyar Posta (Hungarian Post) and FHB Leasing Ltd.) were transferred to the Takarékbank.

On 29 December 2017 the shares of 88.29% of Diófa Asset Management Ltd. were sold to the Takarékbank.

As a consequence of the transactions listed above, investments of the FHB Mortgage Bank were on the 31 December 2017:

Companies	FHB Mortgage Bank Plc.	FHB Commercial Bank Ltd.	Total
FHB Mortgage Bank Plc.	51.00%	-	51.00%
Hungarian Card Service Plc.	-	99.18%	99.18%
Bank of Hungarian Savings Cooperatives Co. Ltd.	1 „C" share	1 „C" share	0.00%

The sold participations were not included in the consolidated profit and loss and balance sheet report as of 31 December 2017.

The FHB Bank Group is undergoing a significant reorganization and restructuring. The aim of this process is to fully integrate the FHB Banking Group into the Takarék Group and to create a new, efficient, transparent, non-parallel organizational structure and cooperation between the leading departments of the Takarék Group. According to the business strategy accepted by the Takarék Group on 27 June 2017, the function of the central institution will be solely performed by Takarékbank, the tasks of commercial banks will be performed by the FHB Commercial Bank, while the FHB Mortgage Bank performs exclusive mortgage operating. In accordance with the above strategy, the FHB Commercial Bank becomes the flagship of the Takarék Group, while the FHB Mortgage Bank becomes the second largest mortgage bank in the Hungarian market after a significant portfolio cleaning.

The integration of the FHB Group into the Takarék Group requires significant reorganization efforts and expenditures, by staffing, branch building, brand change, IT systems, work processes. Due to cover to this tasks the Bank has set up significant provision in 2017, these one-off impacts have been accounted only in the 2017 Consolidated Financial Statements. This ensuring that the figures of 2018 presented primarily the results of the business activities and the FHB Commercial Bank can start the business growth and profitability with the help of the started reorganization processes in 2018. The Bank Group has set the necessary reserves for the credit risk in 2016, additional significant impairment was not needed in 2017.

In 2017 the record profit of non-consolidated financial statement of FHB Mortgage Bank includes the sale of investment due to the reorganization of Group management processes. With regard to mortgage refinancing portfolio, it is ranked first in diversification in the Hungarian market.

1.1.1 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 license, 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.

As a result of the merger with Allianz Bank Ltd. into FHB Commercial Bank on 1 April 2011, the number of employees, number of branches and financial assets of Commercial Bank boosted significantly, the product portfolio expended.

The Commercial Bank provided 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. 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 take over the new shares, which was fully implemented by the Mortgage Bank. The capital increase was registered on 1 October 2014.

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

The large commercial bank of the Integration represents the Takarék Group as a prestigious institution, competing with large banks in Budapest and the sizable cities; after it closed operations in smaller settlements in 2017.

The independent investment services business line of the FHB Commercial Bank has not been continued from 18 December 2017, offers investment service products to clients as an agent of the Takarékbank. Handling the securities accounts and client's portfolios were transferred to Takarékbank.

The total balance asset of FHB Mortgage Bank was HUF 466,089 million on December 31 2017 (according to Hungarian Accounting Standards), 0.5% higher than last year.

The profit after tax was HUF 9,955 million loss in 2017, according to the Hungarian Accounting Standards.

2

2 MACROECONOMIC ENVIRONMENT IN 2017

2.1 THE HUNGARIAN ECONOMY IN 2017[1]

Indicator	2015	2016	2017
Real GDP growth	3.4%	2.2%	4.0%
Industrial output growth	7.4%	0.9%	4.9%
Average annual rate of inflation	-0.1%	0.4%	2.3%
Average annual rate of unemployment	6.8%	5.1%	4.2%
ESA-based budget balance (relative to GDP)*	-2.0%	-1.9%	-2.3%
Net external financing capacity (relative to GDP)*	8.1%	6.2%	5.8%
Base rate (end-of-year)	1.35%	0.90%	0.90%
EUR-HUF exchange rate (end-of-year)	313.12	311.02	310.14

**Estimate for 2017*
Sources: KSH, MNB, NGM

From the aspect of external demand Hungary enjoyed fairly good impulses throughout 2017. In the European Union GDP increased by 2.4% last year, which was the strongest growth rate since 2007, while the US economy expanded by 2.5%. Most recent short-term cyclical indicators also point to the direction of ongoing boom in these economies. With only a few exceptions developing economies also experienced robust economic performance last year. Despite the economic upturn, monetary conditions remained loose in general, with only the Fed taking meaningful steps toward stricter conditions by hiking its policy rates. While most commodity and energy prices started to rise last year, inflation remained subdued, and hence financing conditions were fairly friendly, lending support to the continued strengthening of the Hungarian economy.

Hungary's economic growth accelerated to 4% in 2017 from 2.2% in the previous year, driven mostly by gross fixed capital formation, which rebounded sharply from the marked fall in 2016 and also private consumption that was supported by a more than 10% growth in real wages and continued improvements in the labour market (employment increased by 1,6% to 4,5 million by the end of 2017) From the production side market service sector reflecting to the upturn in domestic demand contributed markedly to growth, and the construction sector also had an exceptionally strong year, and industrial production has become more geared expanding by 5% last year. The strong rebound of domestic demand, of course, led to a major acceleration in import growth, but export also expanded considerably, thereby Hungary still ran convenient trade surplus. Owing partly to the wide trade surplus economic growth is still accompanied by favourable external (and internal) balance developments.

Due to the relaxed financing environment and the uptick in fiscal revenues due to increasing economic activity there was even room for a limited expansion in expenditures towards the end of 2017, with the deficit remaining comfortably below the 3% Maastricht criterion. Public debt relative to GDP decreased by 2 percentage points compared to end-2016, thus it remained on a downward path for the sixth successive year.

Developments also remained encouraging with respect to the evolution of external balances: similarly, to 2016 the net external financing capacity of the Hungarian economy remained close to 6% of GDP, although the surplus of the current account was somewhat smaller, while that of the capital account (reflecting mainly the net inflow of EU related transactions) was somewhat higher than in 2016. This improvement is also observable in foreign debt figures: gross foreign debt excluding intercompany loans between foreign companies and their Hungarian subsidiaries accounted for only 85% of GDP at the end of 2017, whereas net foreign debt contracted to just above 15% of GDP. In the wake of stronger domestic demand inflation started to rise, but despite strong real wage growth there have been no demand driven price pressures that threatened with the overshooting of the inflation target.

[1] Data used in this chapter are based on the relevant reports and releases of the KSH (Central Statistical Office), MNB (National Bank of Hungary) and the analyses prepared by Takarekbank (Bank of Hungarian Savings Cooperatives)

Although the 12-month rate of headline CPI inflation reached 3% in the early months of 2017, it later came down to around 2.5% and slowly declined towards 2% by the end of the year, while core inflation also started to decelerate from its September peak of 2.9%. Hence the MNB could remain in easing mode, even if there was no more room for slashing rates further (except for a single 10bp cut in the overnight deposit rate, which constitutes the lower edge of the interest rate corridor). Yet, the central bank continued crowding out the free liquidity of commercial banks from its own deposit facilities, capping the maximum amount to be placed in the three-month deposit facility in HUF 75 billion by the end of 2017. The crowded out liquidity resulted in actually zero short-term interest rates in the interbank market. Meanwhile it was enough for the MNB to make some hints that it is going to concentrate on the long end of the yield curve, so it has led to decline of the long-term rates. While last year the central bank finally terminated its Credit for Growth programme that was launched back in 2013, it still remained active in promoting the financing of especially small and medium-size enterprises by offering interest swap facilities for commercial banks at preferential rates.

The Forint proved to be a fairly stable currency in 2017 as well: it fluctuated in a relatively narrow band (302-315) vis-a-vis the Euro, and on average was somewhat stronger against the common European currency in 2017 than in 2016. Supported by favourable external developments and robust economic growth the Forint was not even adversely affected by the fact that no further upgrades of Hungary's sovereign debt rating by major rating agencies took place last year, although two of them adjusted the outlook to 'positive' on the already investment grade rating.

The number of new building permits and simplified filings related to new buildings exhibited strong growth last year, and the number of newly built dwellings had even higher growth dynamics. Building permits and simplified filings increased by 20.4% after rising to 37,997 last year from 31,559 in 2016. This performance was mainly driven by developments in Budapest, where the annual growth rate reached 56%. The growth in the number of newly built dwellings amounted to 44%, rising from 9,994 in 2016 to 14,389 last year. Compared to 2016 the strongest expansion was seen in rural cities, where the rate of annual growth reached 60%. Approximately half of the 14,389 new flats were built by entrepreneurs, the other half by private individuals. The average size of a newly built flat increased again after a decrease in 2016: to 100 square meters from last year's 94.

2.2 THE BANKING SECTOR IN 2017[2]

The total assets of the banking sector amounted to HUF 36,354 billion at the end of 2017, up 5.7% from HUF 34,395 billion a year before. According to preliminary figures the combined pre-tax profit of the banking sector reached HUF 694 billion last year, significantly above last year's HUF 503.6 billion, but the lion's share of the increase comes from de-provisioning, not a real improvement in the normal business activity. The stock of gross credit, which was extended by the banking sector increased by 6.7% in 2017 and reached HUF 18,871.5 billion at the end of the year. Within this household credit increased by only 2.8%, but corporate credit was up by 9.5%.

7.6% of stock household credits in amount of HUF 5,750 billion were in a 90+ days arrear at the end of last year, while the weight of non-performing loans was 10.9% (HUF 628 billion). Both figures show significant decrease compared to end-2016 figures, which were 10.8% and 14.9% respectively. In case of non-financial corporate sector 3.5% (HUF 127 billion) of their outstanding HUF 3,628 billion Forint denominated credit was in a 90+ days arrear, which is a marked decrease compared to 5.4% prevailing at the end of 2016. Out of the HUF 2,827 billion foreign currency denominated corporate credit 2.9% was in a 90+ days arrear, also considerably down from 5.4% at the end of 2016.

The share of client deposits within total liabilities increased to 56.3% in 2017, which means a volume of HUF 20,469 billion. 37.8% of this amount is deposited by households, 36.8% by the non-financial corporate sector.

[2] This section relies on data provided by the MNB with a preliminary nature

2.2.1 Households' mortgage loans

The disbursement of new mortgage loans stabilized in the HUF 60-70 billion range on a monthly basis from May 2017, rising from HUF 45-50 billion, which characterized the first four months and most of 2016. This resulted in a full-year HUF 708 billion new disbursement in 2017, up 35% from 2016's HUF 523 billion. In fact, a meaningful growth rate characterized only the home equity loan segment, where new disbursements were 40% higher in 2017 than a year before. Growth in the new disbursement of mortgage-backed general purpose loans amounted to only 6%.

2.2.2 The stock of households' mortgage debts

The stock of households' mortgage debt was HUF 4,226 billion at the end of 2017, which implies HUF 122 billion contraction (-2.8%) from HUF 4,348 billion in December 2016. Within this, however, there was growth in home equity loans: compared to end of 2016's HUF 2,924 billion the stock increased to HUF 3,037 billion (+4%) by the end of 2017. Meanwhile, the stock of mortgage-backed general purpose loans contracted by HUF 236 billion (-16.5%), and its volume was HUF 1,189 billion at the end of last year. The share of foreign currency denominated loans was under 0.5% of the total stock and continues shrinking further.

2.2.3 Policy tools for home protection and the promotion of housing

In the course of 2017 the National Asset Management Plc continued to purchase real estates from debtors who ran into default. The company purchased more than 6,000 flats, with which its portfolio contains more than 30,000 flats altogether. There were changes in the regulation of private bankruptcy proceedings, due to the low participation so far in the scheme, despite that the number of clients applying for private bankruptcy remained well below 2,000 last year. There was, however, clear increase in the number of those who applied for state subsidy and preferential credit under the Family Housing Allowance scheme; the combined volume of subsidies and credit exceeded HUF 100 billion last year. It was also last year, when the so called Qualified Consumer Friendly Housing Loans were introduced (the criteria are determined by the MNB). By the end of 2017 already 9 banks and all savings cooperatives had products that qualified, and in the last four months of 2017 HUF 40 billion new loans was extended under the conditions of QCFHL.

2.2.4 Households' other loans

There was a mixed picture in the development of consumer loans last year, but personal loans were without doubt the hottest products in 2017, as new disbursements were 47% higher than in 2016. By the end of 2017 their stock increased to HUF 488 billion, which has never been as high as that since February 2012 (i.e. 70 months). Despite an 80% rise in new car loan disbursements, the outstanding stock decreased to HUF 168 billion by the end of 2017, while the insignificant growth in the stock of commercial loans was only due to methodological changes.

The stock of overdraft and credit card loans remained on a declining path in 2017 as well: at the end of 2017 the outstanding stock was only HUF 305 billion, decreased by 4.9% from at the end of 2016.This is explained by the fact that this relatively expensive form of credit is no more popular as household incomes significantly increased and the availability and conditions of personal loans improved a lot.

3 BUSINESS AND FINANCIAL RESULTS OF FHB MORTGAGE BANK

3.1 MAJOR FINANCIAL INDICATORS

The balance sheet total calculated on the basis of the Hungarian Accounting Standards was 8.9% or HUF 29.6 billion lower than the previous year's figures. The balance sheet total was HUF 303.8 billion at the end of 2017. Earnings before tax were HUF 4.601 million gain from a controlling point of view (profit for the year calculated including solely the income tax reduction). The special banking tax reduced the result by HUF 362.5 million.

Statement from controlling point of view, including different categories compared to accounting classification.

in HUF million	31/12/2016	31/12/2017	Change
Balance sheet total	333.391	303.831	-8.9%
Loans, gross	91.190	81.638	-10.5%
Securities issued	196.603	187.172	-4.8%
Shareholders' equity	53.116	57.717	8.7%
Total risk exposure amount	49.921	56.660	13.5%
Profit / (Loss) before tax	-6.532	4.601	-170.4%
Profit / (Loss) for the year	-6.532	4.601	-170.4%
CIR (operating costs / operating income), %	118.49%	108.17%	-8.7%
ROAA (return on average assets) %	-1.73%	1.44%	3.2%-pt
ROAE (return on average equity) %	-15.87%	8.30%	24.2%-pt

3.2 RETAIL AND CORPORATE LENDING

The gross amount of loans was HUF 81.6 billion at the end of 2017. The volume at the end of 2016 was HUF 91.2 billion, which decreased by HUF 9.6 billion or 10.5%. 92.5% of the loan portfolio at the end of the year, HUF 75.5 billion is retail loans, which is HUF 8.8 billion lower than the amount as of 31 December 2016 (HUF 84.4 billion). The corporate loans amounted to HUF 6.1 billion at the end of 2017, which is HUF 0.6 billion lower than in 2016 (HUF 6.8 billion). 92.2% (HUF 75.2 billion) of the loan portfolio is denominated in HUF, the sum of loans denominated in foreign currencies were HUF 6.4 billion as of 31 December 2017. The total amount of disbursed loans is HUF 7.7 billion for 2017, which is HUF 2.0 billion more than the disbursed amount of 2016 (HUF 5.7 billion). The total disbursed loans were retail loans in 2017.

Main part of lending was generated by housing purpose mortgage loans. Mortgage loans amounted to HUF 61.3 billion as of December 2017, decreasing by 7.6% (5.1 billion) compared to 2016. The volume of mortgage loans amounted to HUF 10,1 billion, 23.5% lower compared to 2016, thus its portion within the housing loans decreased to 13.4% at the end of 2017 (15.7% at the end of 2016).

The land development portfolio amounted to HUF 1.0 billion at the end of 2017, 23.1% less than the previous year's figure. Reversed mortgages amounted to HUF 2.5 billion at the end of 2017 and decreased by 3.8% compared to 2016.

Corporate loans were down by 8.8% year-on-year mainly due to the decrease of commercial real estate loans.

3.3 REFINANCING

As of 31 December 2017 the portfolio of refinanced loans increased by 33.9% or HUF 34.2 billion year-on-year and amounted to HUF 135.0 billion. This volume includes HUF 76.5 billion receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to HUF 58.4 billion.

In 2017 the most significant element related to refinanced loans was the implementation of JMM (Mortgage Financing Adequacy Ratio, 20/2015 and 6/2016 MNB decrees) in 01 April, revitalising the refinancing activity of Mortgage Bank resulting in more refinancing agreements with new partners.

3.4 PORTFOLIO QUALITY, PROVISIONING

As of 31 December 2017 the Bank's rated assets amounted to HUF 264.19 billion, pending commitments amounted to HUF 3.038 billion (HUF 267.27 billion total) and future commitments (from swap transactions) to HUF 0.95 billion. Receivables from customers amounted to HUF 81.62 billion (30.54% of the portfolio excluding swap), moreover, according to the contracts, HUF 3.08 billion of lending liability (1.15%) was maintained at the measurement time. HUF 13.22 billion claims and HUF 0.048 billion commitments were classified as "to be monitored" or "bad" related to 4,380 loan agreements from the total receivables from customers with HUF 4.99 billion total impairment and provisions.

The refinancing loan portfolio amounted to HUF 135.0 billion (50.5%) classified as performing.

The Bank had outplacements at four commercial banks in the form of fixed-term and sight deposits, amounting to HUF 12.31 billion (4.61%).

The Bank holds staked in three companies: FHB Commercial Bank Ltd, SZHISZ, Magyar Takarékbank Ltd. The total face value of the investments is HUF 35.29 billion (13.20%), from which 35.28 billion is classified as non-performing, HUF 0.01 billion as performing. Volume of impairment on investments amounted to HUF 3.30 billion.

As of December 2017 future commitments in amount of HUF 0.95 billion are classified as performing.

The ratio of performing portfolio deteriorated in the total portfolio, while in the loan portfolio (receivables from customers and at commitments) improved compared to the values measured at the end of 3rd quarter of 2017.

As of 31 December 2017, 81.83% (84.19% as of 30.09.2017; 82.17% as of 30.06.2017) of the classified portfolio (excluding swaps) was performing. The ratio of below average, doubtful and bad receivables was 3.09% (2.98% as of 30.09.2017; 3.23% as of 30.06.2017), and the ratio of category 'to be monitored' was 15.08% (12.83% as of 30.09.2017; 14.6% as of 30.06.2017).

In the loan portfolio, the performing rate was 84.33% (83.36% as of 30.09.2017; 80.28% as of 30.06.2017), the combined rate of below average, doubtful and bad loans was 9.74% (10.81% as of 30.09.2017; 10.75% as of 30.06.2017), and the 'to be monitored' category was 5.93% (5.83% as of 30.09.2017; 8.97% as of 30.06.2017).

The average impairment level (excluding swap) increased related to total portfolio (3.10%), when decreased related to loans portfolio compared to the previous measurement.

3.5 MORTGAGE AND SENIOR BOND ISSUES

In 2017 FHB Bank made 15 transactions and issued mortgage bonds denominated in HUF with the value of HUF 58.7 billion.

In 2017 no senior bonds and mortgage bonds denominated in foreign currencies were issued.

At the same time 5 mortgage bonds denominated in HUF at face value of HUF 15.3 billion and one mortgage bond denominated in foreign currencies at face value of EUR 1.97 billion were repurchased.

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 244.1 billion as of 31 December 2017, 7.3% higher than the figure as of 31 December 2016 (227.6 billion HUF)

Value of mortgage bonds and assets involved as collateral as of 31 December 2017

in HUF million	31/12/2016	31/12/2017	Change
Outstanding mortgage bonds in circulation			
Face value	153,385	176,693	15.20%
Interest	28,328	20,974	-26.00%
Total	**181,713**	**197,667**	**8.80%**
Value of the regular collateral			
Principal	170,890	198,021	15,9%
Interest	56,718	46,103	-18,7%
Total	**227,608**	**244,124**	**7,3%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	8,001	22,864	185,80%
Total	**8,001**	**22,864**	**185,80%**

As of 31 December 2017, the present value of ordinary collateral was HUF 240.1 billion and the present value of mortgage bonds was HUF 195.8 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 122.6% in the same period.

As of 31 December 2017 net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 125.0%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 219.8%.

3.6 BALANCE SHEET STRUCTURE

As of 31 December 2017 the balance sheet total of the Bank was HUF 303.8 billion, which is 8.9% lower than in 2016. 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 51.0 billion, while gross loans to customers decreased by HUF 9.6 billion year-on-year. On the liabilities side, the decrease was dominated by interbank liabilities and issued securities. Changes in issued securities decreased liabilities by HUF 9.4 billion, while decrease of interbank liabilities was HUF 20.8 billion. Shareholders' equity grew by HUF 4.6 billion compared to previous year.

The table below contains the Balance Sheet of the Company in a controlling view structure, which includes another categorization than the accounting view structure.

in HUF million	31/12/2016	31/12/2017	Change	Change
Interest earning assets	**293,839**	**269,811**	**-8.2%**	**-24,028**
Due from banks & NBH	53,586	2,630	-95.1%	-50,956
Securities	38,271	40,571	6.0%	2,300
Refinanced loans	100,791	134,972	33.9%	34,181
Loans to customers, gross	91,190	81,638	-10.5%	-9,553
Subordinated loan	10,000	10,000	0.0%	0
Impairment and provision	**-7,848**	**-4,975**	**-36.6%**	**2,873**
Non-interest earning assets	**47,400**	**38,995**	**-17.7%**	**-8,405**
Cash	87	22	-75.0%	-65
Investments	38,470	31,988	-16.8%	-6,482
Own shares	207	207	0.0%	0
Tangible assets, inventory	478	337	-29.4%	-140
Intangible assets	454	429	-5.5%	-25
Other assets	1,774	1,968	10.9%	194
Prepayments and accrued income	5,930	4,043	-31.8%	-1,887
Total assets	**333,391**	**303,831**	**-8.9%**	**-29,560**
Interest bearing liabilities	**264,067**	**233,868**	**-11.4%**	**-30,200**
Issued securities	196,603	187,172	-4.8%	-9,431
Deposits from customers	32	32	0.0%	0
Due to banks	67,432	46,664	-30.8%	-20,769
Non-interest bearing liabilities	**16,207**	**12,246**	**-24.4%**	**-3,961**
Provisions and reserves	362	1,211	234.2%	849
Other liabilities	1,281	1,720	34.3%	439
Accruals and deferred income	14,565	9,315	-36.0%	-5,250
Shareholders' equity	**53,116**	**57,717**	**8.7%**	**4,601**
Share capital	10,849	10,849	0.0%	0
Share premium	52,747	52,747	0.0%	0
General reserves	0	460	-	460
Retained earnings	-4,155	-10,687	157.2%	-6,532
Treasury shares	207	207	0.0%	0
Balance sheet profit	-6,532	4,141	-163.4%	10,673
Total liabilities and equity	**333,391**	**303,831**	**-8.9%**	**-29,561**

3.6.1 Interest earning assets

The Bank's interest earning assets decreased from HUF 293.8 billion as of 31 December 2016 by 8.2% to HUF 269.8 billion by the end of 2017. The portfolio of refinanced loans increased by 33.9% year-on-year; net loans to customers sold by the Mortgage Bank through the Commercial Bank and its network of agents was 10.5%, or HUF 9.6 billion less than in the reference year and amounted to HUF 81.6 billion. Loans to customers contributed 30.3% to interest earning assets at the end of the year (decreased by 7%-pt.).

The aggregate portfolio of mortgage loans amounted to HUF 71.4 billion as of 31 December 2017, which is 10.3% (HUF 8.2 billion) lower than the base period figure.

3.6.2 Intangible assets and investments

The value of invested assets was HUF 32.0 billion as of 31 December 2017, which is lower than the base period figure by HUF 6.5 billion. As of 31 December 2017, FHB Mortgage Bank's net holdings in the jointly controlled company: HUF 31.9 billion in FHB Commercial Bank.

The net value of intangible assets as of 31 December 2017 was HUF 429 million, which shows the price of the business software's.

3.6.3 Other assets

The Bank's other assets amounted to HUF 2.0 billion and increased by 11.0% in 2017. The other assets include the properties (held for sale) amounting to HUF 107.9 billion.

Interest bearing liabilities

3.6.4 Mortgage bonds and senior bonds issued

As of 31 December 2017, 75.6% of interest bearing liabilities was contributed by the Bank's mortgage bond portfolio that ensures long-term funding for mortgage loans. As of 31 December 2017, mortgage bonds issued by the Bank amounted to HUF 176.7 billion HUF, 15.2% higher than the previous year's figure.

Senior bonds completing the securities activity of mortgage bond issuance resulted in a book value of HUF 10.5 billion as of the 31 December 2017, decreasing by 75.8% compared to the previous year-end figure.

3.6.5 Interbank funds

Interbank borrowings amounted to HUF 46.7 billion as of 31 December 2017. The entire liability is in respect of the related company – FHB Commercial Bank Ltd.

3.6.6 Shareholders' equity, capital position

As of 31 December 2017 the shareholder's equity of the Bank amounted to HUF 57.7 billion, which is higher than the base period figure with HUF 4.6 billion due to the disposal of the subsidiaries.

Value of the Bank's own funds was HUF 56.7 billion at 31 December 2017, increasing by 13.5% compared to the previous year-end figure.

3.6.7 Off-balance sheet items

Within the Bank's off-balance sheet items, amount of unused credit lines and loan commitments were HUF 9.8 billion. Future liabilities decreased from previous year's HUF 26.8 billion to HUF 1 billion. Hedge transactions related to mortgage and unsecured bonds issued were not as of 31 December 2017.

3.7 PROFIT & LOSS STRUCTURE

Statement from controlling point of view, including different categories compared to accounting classification.

in HUF million	31/12/2016	31/12/2017	Change	Change
Net interest income	2,173	3,091	42.2%	918
Interest income	18,153	12,586	-30.7%	-5,568
Interest expense	-15,980	-9,495	-40.6%	6,485
Net fees and commission income	297	-702	-336.8%	-999
Fee and commission received	1,754	650	-62.9%	-1,104
Fee and commission paid	-1,457	-1,353	-7.2%	104
Net result of financial transactions	1,181	1,514	28.2%	333
Dividend income	483	393	-18.6%	-90
Net income	**4,134**	**4,295**	**3.9%**	**161**
Operating expenses	-4,899	-4,646	-5.2%	253
Net financial (trading) result	**-765**	**-351**	**-54.2%**	**414**
Result of sale of loans and advances	-2,646	1,295	-148.9%	3,941
Provision for impairment on loan losses	-2,551	-921	-63.9%	1,630
Net operating result w/o provisions	**-5,962,**	**23**	**-100.4%**	**5,984**
Other income and expenditure	1,141	5,536	-385.4%	4,396
Other operating income	1,568	1,522	-3%	-47
Other operating expenditure	-428	-195	-54.5%	233
Results from investment services	0	4,209	-	4,209
Other tax payable	-1,711	-958	-44.0%	752
Profit/loss before tax	**-6,532**	**4,601**	-170.4%	11,133
Taxation expense	0	0	-	0
Profit/loss after tax	**-6,532**	**4,601**	-170.4%	11,133
Profit/loss after tax w/o banking tax and one-offs			-	0
General reserve	0	460	-	460
Profit/loss for the year	**-6,532**	**4,141**	**-163.4%**	**10,673**

The Bank's net operating income was HUF 351 million loss in 2017 which is significantly higher than the result in 2016.

As a key component of net operating income, net interest income increased by 42.2% year-on-year. Operations throughout the year generated a total of HUF 4.6 billion costs, which means 5.2% decrease compared to 2016.

3.7.1 Net interest income

The HUF 3.1 billion net interest income generated in 2017 emerged as the balance of HUF 12.6 billion interest income (30.7% lower than in 2016) and HUF 9.5 billion interest expense (40.6% decrease).

As of the interests of customers' loans show decrease of HUF 2.3 billion and swap deals' interests are higher by 82.6%.

Interest expenses showed lower decrease than interest incomes in 2017. Among expenses securities' interest expenses play the most significant role, its amount declined by HUF 5.4 billion compared to 2016. Interest expenses of SWAPs increase was HUF 791.1 million, while the volume of interbank interest expenses decreased by HUF 2.3 billion.

The net interest margin on average total assets was 1.0% as of 31 December 2017 and 0.7% as of 31 December 2016.

3.7.2 Net fees and commissions

In 2017 the net fees and commission income amounted to HUF 702 million loss, after net fee income in 2016 was HUF 297 million profit.

Among fee and commission income the largest decrease was caused by HUF 1.1 billion decrease of fee and commission income from credit institutions, while fee and commission paid by credit institutions decreased by HUF 87.2 million.

3.7.3 Net profit from financial transactions

The performance of net result of financial transactions was quite better in 2017, increased by HUF 333 million compared to last year's so closed the year with HUF 1.5 billion profit. The exchange rate gains on issued mortgage bonds reached a profit of HUF 1.5 billion after an increase of HUF 904 million in 2017.

3.7.4 Other income and expenditure

The result of other income and expenditure closed the year with HUF 5,536 million profit, which means 385.4% increase. Amount of other operating income decreased by 3.0% to HUF 1.5 billion, while the amount of other operating expenditure dropped by 54.5% (HUF 233 million). Income generated by internal services was HUF 1.4 billion in 2017, decreased by 7.7% year-on-year.

Compared to the year 2016 other income contains the HUF 4,209 million consideration received for the sale of subsidiaries and other investments, without this one-off item the net other income would have been HUF 1,327 million, which is HUF 186 million (16.3%) higher than in the previous year.

3.7.5 Operating expenses

in HUF million	31/12/2016	31/12/2017	Change %	Change
Personnel expenses	**1,738**	**1,451**	**-16.5%**	**-287**
- wages and salaries	1,163	1,032	-11.2%	-131
- social security contributions	379	259	-31,6%	-120
- cafeteria	21	44	109.3%	23
- other personnel expenses	175	116	-33.6%	-59
General and administrative costs	**2,047**	**1,820**	**-11.1%**	**-227**
- database system usage	74	56	-24,7%	-18
- material costs	120	113	-5,6%	-7
- rental fees	532	541	1,7%	9
- valuation fees	245	250	2,2%	5
- real estate maintenance costs	155	145	-6,3%	-10
- legal service fees	81	62	-23,4%	-19
- consultancy fees	146	55	-62,6%	-91
- marketing costs	71	35	-50,3%	-36
- costs of phone calls	202	243	20,2%	41
- costs of administration services	421	320	-24,1%	-101
IT costs	**962**	**1,232**	**28.2%**	**271**
Depreciation	**152**	**143**	**-6.0%**	**-9**
TOTAL OPERATING EXPENSES	**4,899**	**4,646**	**-5.2%**	**-253**

Administrative expenses in 2017 decreased by 5.2% year-on-year and amounted to HUF 4.6 billion, mainly due to decrease of personnel expenses by 16.5% and decrease of general and administrative expenses by 11.1%. This decrease is due to the collective redeployment by FHB Commercial Bank and layoffs of workers in the framework of organizational changes taken place in the last two months of the year and the shrinking of consultancy fees and marketing costs.

3.7.6 Impairment and loan losses

The net balance of impairment and provisions was HUF 921 million in 2017.

3.7.7 Change in general reserve

The Bank created general reserve in 2017 in amount of HUF 460.2 million.

4 LIQUIDITY MANAGEMENT

In accordance with the special legal status of FHB Mortgage Bank the Bank is not allowed to collect client deposit, thus the structure of liabilities consists of mortgage-bonds, other, not covered bonds and due to banks. The Mortgage Bank covers its liquidity positions mostly against the entities within the Takarék Group. The Mortgage Bank is entitled to cover its (refinanced and own) loan amount by mortgage bonds only by the extent of its capital which can be considered in the coverage-pool. As a consequence of this, liquid assets financed from uncovered liabilities to meet the pledges derived from the 13% coverage excess and the (12 months) liquidity puffer.

In the observed period the amount of refinanced loans, the composition of maturity- and interest rates of new refinanced loans and the favourable development of the domestic interest rate environment significantly affected the funding structure of the Mortgage Bank. The gross in refinance loan (HUF 34.2 billion in amount, which equals to nearly 34% gross in a year) was influenced by the compliance to ensure the necessary bond coverage to meet the demands of the JMM indicator of the domestic bank system, which on one hand increased the refinancing demand on mortgage bonds from partner banks. On the other hand, it also enhanced the additional need for mortgage bond coverage for the Takarék Group to ensure JMM compliance.

The structure of the liabilities and the equity of the bank, the main findings are:

The volume of unsecured bonds significantly decreased through the year (by 76%). This was due to the facts that some bonds matured in the fourth quarter and the Bank didn't issue any unsecured bonds in 2017.

The amount of mortgage bonds grew by 15% in the last year, while in the fourth quarter, due to maturities and repurchases, the decline was 11%.

The volume of interbank funds increased by 36% in 2017, as the renewal of unsecured bond maturities was partially made from interbank funds.

The shares of mortgage bonds increased by 10% and the interbank liabilities by 4% within the total fund structure of the bank in 2017. This tendency is expected to continue in the short term due to the increased issuance of mortgage bonds and refinanced loans.

5 RISK MANAGEMENT

5.1 RISK MANAGEMENT POLICY

FHB Mortgage Bank and its subsidiary – FHB Commercial Bank – are members of Integration Organisation of Cooperative Credit Institution (SZHISZ). Due to the membership of Integration the scope of the risk management policies of the Integration, as well as risk strategy have been extended to both FHB banks.

Risk Strategy – approved by the Board of Directors of Takarékbank Ltd. is mandatory for credit institutions and companies under consolidated supervision led by Takarékbank Ltd.– cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and risk capacity, risk structure, risk management, the structure and organization of risk management.

The Integration and its member institutions seek to create an integrated risk culture which covering the whole Integration and which is in line with their risk appetite, and their risk tolerance ensure the identification, measurement and management of the emerged risks. The primary tools for creating a risk culture are internal policies, strategies, regulations and guidelines, communication and training of employees.

The Hungarian National Bank terminated the obligation of the FHB Mortgage Bank to comply with the prudential requirements in the second-fourth and sixth-eight parts of the CRR on a sub consolidation level since the 1st of January 2017. At the same time, it exempted the Bank from the individual fulfilment of the second-eight part of the CRR. The FHB Mortgage Bank must comply with the requirements of the Integration Organisation of Cooperative Credit Institution and its central bank.

The primary goals of risk management of FHB Mortgage Bank are to protect its financial strength, its reputation and the contribution to the use of capital for competitive business activities, which results in the increase of shareholder value. The protection of financial strength and reputation means that the risk management limits the impact of unfavourable events on the capital and on the profit of the Bank.

The Bank's willingness to take risks must be in line with the financial resources available to cover possible losses. In accordance the Bank calculate the current and future economical capital requirements for the quantifiable risk types, just like the capital requirements of the first Pillar.

The Bank considers the prudent risk management as fundamental value.

The FHB Mortgage Bank is primarily exposed to credit, liquidity, market and operational risks.

5.2 CREDIT RISK

The main activity of the Mortgage Bank is refinancing of the mortgage portfolio of the partner banks. The JMM introduced by MNB created a business opportunity for mortgage credit institutions by making them issue refinance loans with the same term as the long-term residential mortgages of partner banks, helping them in fulfilment of HUF maturities adequacy. This provided an exceptional opportunity for the FHB Mortgage Bank to acquire new business partners and to re-boost the refinancing activities.

The activity had to be reconsidered by risk management, the risk parameters had to be defined to partner banks and establish limits on the size of the risk taking.

In the first quarter the limit system of the corporate loans has been updated, which defined the directions of risk taking in 2017.

Risk management took part in the review of the lending procedures in the retail department. They reviewed the FHB Group’s income acceptance regulations, updated the manual and developed the version used by the intermediary partners. As an Integration task risk management also prepared the income acceptance policies to be used in regards with the MNB’s Consumer Friendly Product.

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 asset and liability management (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.

The Bank prepares its liquidity plans and financing positions regarding the expectations based on different scenarios and the effects of stress situations. Level of liquid assets is always high.

5.4 FOREIGN CURRENCY 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 Bank 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.

5.6 OPERATING RISK

Operational risks are handled through the improvement of internal regulations and procedures, the adequate training of employees and the enhancement of controlling mechanisms. The Bank collects and analyses losses due to operational risk and the Key Risk Indicators (KRI). The KRIs are reviewed each year. In 2017 more KRIs has been modified and new KRIs has been defined.

The Bank compiles and updates the map of operational risk through its annual operational risk self-assessment. The Bank also identifies rare accuracies, which could cause heavy losses, and measures them by scenario analysis.

The Bank compiled an inventory for the used model risks in accordance with the surveillance requirements.

5.7 OTHERS

In the second quarter the FHB Mortgage Bank fulfilled the disclosure requirements of CRR for the fiscal year 2017 and published the required information on risk management, capital management and remuneration policy.

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

The general assembly on the 26th of April 2017 recalled Márton Oláh and dr. Erik Landgraf from their position as directors and elected Edit Erika Tóth and dr. Gyula László Nagy as a member of the Board of Directors. The same assembly elected dr. Gyula László Nagy as chief executive director and Edit Tóth as Deputy General Manager.

On the 27th of June 2017 the assembly of Takarék Bank accepted the five-year-long strategy, which is supported by the Head Count Project. The new structure of the organization has also been approved, which creates a unified control and operation on integration level.

The FHB Mortgage Bank will function as a pure mortgage bank from 2018, so it passed the business and mortgage based loaning function to the FHB Commercial Bank and the group controlling and support function with its infrastructure to the Takarék Bank.

Because of the new structure the physical location has also been reconstructed, while the two main office building stayed at Üllői Street and Pethényi Alley. The new office layout was created in a way that the central bank function would move to Pethényi Alley, while the commercial bank's and mortgage bank's support function would base at Üllői Street.

To achieve long term profitability and sustainability cost reduction was necessary that was accomplished by headcount optimization and reorganization in the financial institutions. As a first step, on the 16th of August 2017 the intention of collective redundancies has been announced in accordance with current legislations. The redundancies have been carried out according to schedule in the second half of 2017 in regards to legal regulations.

6.1 EMPLOYEE AND MANAGEMENT DIVERSIFICATION

As a driving element of the Takarék Group the integration strategy requires to acknowledge and use the unique personal differences in the bank's employees and customers.

The FHB is against discrimination regarding gender, demography, family status, sexual, ethnical, political and religious interests. We believe that diversification makes a person unique. The Group doesn't tolerate direct or indirect discrimination or harassment in any form.

We work together with a mutual respect for all individual without biased. We purposefully try to involve different individuals in work and decision processes. Employees are encouraged to live in an innovative way with their individual skills.

In selection processes we primary consider knowledge, experience and competence in order to carry out the professional tasks in the highest quality.

Among our employees and managers there are many with experience obtained at other bank. At the Mortgage Bank, one of the two top managers is a lady.

Because we take primary interest in skills and experience acquired in the bank sector throughout our hiring process, there is no need for a "Diversification Policy", while the aspects and values are actively applied because of the above mentioned reasons.

6.2 REGULATIONS FOR THE APPOINTMENT AND DISMISSAL OF MANAGING OFFICERS AND FOR THE MODIFICATION OF THE BASIC CONSTITUTION

The General Meeting of FHB Mortgage Bank has the exclusive competence to elect and recall members of the Board of Directors and Supervisory Board. Members of both boards may be recalled at any time and may be re-elected after their term. The General Assembly of the company rules by a simple majority of the votes. The rights of employer are held by the Board of Directors in regards of the management.

The General Assembly also has the exclusive competence to define and modify the articles of association. For the modification of the constitution the General Meeting must have at least three-quarter of the votes. During voting a non-casted vote counts as „against" in the final count.

6.3 THE AUTHORITY OF CHIEF MANAGEMENT, ESPECIALLY FOR THE RIGHTS OF SHAREHOLDING

The Board of Directors of five members carries out the executive duties for the company. The duties and authority of the Board of Directors are defined by the articles of association and the Board of Directors. The authorities of the Board of Directors include the strategy, business and financial activities of the company, the tasks and authorities of operation, organization, the capital increase of company. They also include the authorities related to own shares, company foundation, investments, representation of the company and the rights regarding their own functions.

The rights of the Board of Directors to issue and repurchase shares:

- is entitled to increase the share capital of the Company in the manner set out in the Articles of Association with the limits of the general authorization;
- is entitled to decide on its own equity transactions in case of authorization given by the general assembly within the set limits;
- is entitled to decide on the acquisition of the company's shares without the authorisation of the general assembly in case it is necessary to avoid serious harm to the company. In these cases, the Board of Directors are obligated to provide information on the reasons for obtaining the shares of the company, the number of shares, their total nominal value, their counter value and the rate of shares compared to the capital of the company.

There isn't a Compensatory Supervisors Board in the company.

7 PROTECTION OF ENVIROMENT

Although FHB Mortgage Bank Plc. does not pursue business and non-profit activities related to environmental protection, it strives to ensure environmentally-friendly work places, maintains and cares the natural and ornamental plants of its environment. It strives to take energy-saving solutions during its operation. In its internal training it emphasizes the importance of energy and environmentally conscious corporate and employee behaviour.

8 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

In 2017, the auditing company invoiced to FHB Mortgage Bank Plc in other services HUF 1.3 million related to the issued bonds.

9 POST-BALANCE SHEET DATE EVENTS

The Board of Directors decided to change the name and image of the company. This will most likely happen in the first half of 2018.

Budapest, 5 April, 2018

dr. Gyula László Nagy	**Edit Erika Tóth**
Chief Executive Officer	Deputy Chief Executive Officer

Appendix

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Net interest income	**3 091**	**0**	**3 091**	
Net commission and fees income	**-561**	**-141**	**-702**	
Transaction fee		-2		From profit or loss of non-financial and non-investment services to net commission and fees income
Own share expenses		-9		From operating expenses to net commission and fees income
Acquisition commissions		-74		From operating expenses to net commission and fees income
Collection commission		-16		From operating expenses to net commission and fees income
CSIP commission (sale of property on defaulted loans)		-35		From operating expenses to net commission and fees income
Execution fees		-1		From operating expenses to net commission and fees income
Mortgage bond – consulting fees		-37		From operating expenses to net commission and fees income
Mortgage bond – mandatory disclosure fees		-1		From operating expenses to net commission and fees income
IRS fee		35		From net commission and fees income to net profit on financial operations
Net profit on financial operations	**5 758**	**-4 244**	**1 514**	
IRS fee		-35		From net commission and fees income to net profit on financial operations
Exchange losses on shares		-4 450		From net profit on financial operations to net profit from securities and investments
Exchange gains on shares		241		From net profit on financial operations to net profit from securities and investments
Dividend income	**393**	**0**	**393**	
Operating expenses	**-4 820**	**174**	**-4 646**	
Own share expenses		-9		From operating expenses to net commission and fees income
Acquiring brokerage fees		-74		From operating expenses to net commission and fees income
Collection brokerage fees		-16		From operating expenses to net commission and fees income
CSIP brokerage fees (investment property sale)		-35		From operating expenses to net commission and fees income
Execution fees		-1		From operating expenses to net commission and fees income
Mortgage bond – consulting fees		-37		From operating expenses to net commission and fees income
Mortgage bond – mandatory disclosure fees		-1		From operating expenses to net commission and fees income

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Net profit on sale of receivables	**0**	**1 294**	**1 294**	
Sale of assets received through collateralization – expense		8		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of own receivables – expense		1 921		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Impairment loss on irrevocable claim		4		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Credit loss on sale of SAP NET		308		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Waived claim		165		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of assets received through collateralization – income		-10		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Profit on sale of own receivables		-813		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Claim termination, recoverable costs		-19		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Impairment on loans and receivables		1 399		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - default		-279		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		-18		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – disposal		-67		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-1		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables – disposal		-424		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – default		-3 109		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		-30		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - disposal		-132		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-3		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - loss		-146		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - waived		-48		From impairment gains and losses to net profit on sale of receivables

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Profit and loss changes due to changes in impairment and provisions	**1 817**	**-2 737**	**-921**	
Impairment on loans and receivables		1 399		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - default		-279		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		-18		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – disposal		-67		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-1		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - disposal		-424		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – default		-3 109		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		-30		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - disposal		-132		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-3		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - loss		-146		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - waived		-48		From impairment gains and losses to net profit on sale of receivables
Inventory write-off		-2		From profit or loss of non-financial and non-investment services to impairment
Impairment according to HAS		-15		From profit or loss of non-financial and non-investment services to impairment
Losses due to termination of loan agreements		-30		From profit or loss of non-financial and non-investment services to impairment
Reversal of provision from prior periods – pension, severance payment		167		From profit or loss of non-financial and non-investment services to impairment

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Profit or loss of non-financial and non-investment services	**-714**	**2 041**	**1 327**	
Inventory write-off		2		From profit or loss of non-financial and non-investment services to impairment
Impairment according to HAS		15		From profit or loss of non-financial and non-investment services to impairment
Losses due to termination of loan agreements		30		From profit or loss of non-financial and non-investment services to impairment
Reversal of provision from prior periods – pension, severance payment		-167		From profit or loss of non-financial and non-investment services to impairment
Sale of assets received through collateralization – expense		8		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of own receivables – expense		1 921		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Impairment loss on irrevocable claim		4		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Credit loss on sale of SAP NET		308		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Waived claim		165		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of assets received through collateralization - income		-10		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Profit on sale of own receivables		-813		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Claim termination, recoverable costs		-19		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Local business tax		239		From profit of loss of non-financial and non-investment services to taxes from operations
Vehicle tax		3		From profit of loss of non-financial and non-investment services to taxes from operations
Property tax		0		From profit of loss of non-financial and non-investment services to taxes from operations
Tax for credit institutions		0		From profit of loss of non-financial and non-investment services to taxes from operations
Resolution fund – contribution		120		From profit of loss of non-financial and non-investment services to taxes from operations

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Cooperative Credit Institutions Capital Fund – contribution		101		From profit of loss of non-financial and non-investment services to taxes from operations
The Integrational Organization of Cooperative Credit Institutions – membership fee		105		From profit of loss of non-financial and non-investment services to taxes from operations
National Bank – Supervision fee		28		From profit of loss of non-financial and non-investment services to taxes from operations
Credit Institutions allowance		0		From profit of loss of non-financial and non-investment services to taxes from operations
Transaction fee		2		From profit or loss of non-financial and non-investment services to net commission and fees income
Net income from securities and investments	**0**	**4 209**	**4 209**	
Exchange losses on shares		241		From net profit on financial operations to net profit from securities and investments
Exchange gains on shares		-4 450		From net profit on financial operations to net profit from securities and investments

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Taxes – from operations	**0**	**-958**	**-958**	
Local business tax		-239		From profit of loss of non-financial and non-investment services to taxes from operations
Vehicle tax		-3		From profit of loss of non-financial and non-investment services to taxes from operations
Property tax		0		From profit of loss of non-financial and non-investment services to taxes from operations
Tax for credit institutions		0		From profit of loss of non-financial and non-investment services to taxes from operations
Resolution fund – contribution		-120		From profit of loss of non-financial and non-investment services to taxes from operations
Cooperative Credit Institutions Capital Fund – contribution		-101		From profit of loss of non-financial and non-investment services to taxes from operations
The Integrational Organization of Cooperative Credit Institutions – membership fee		-105		From profit of loss of non-financial and non-investment services to taxes from operations
National Bank – Supervision fee		-28		From profit of loss of non-financial and non-investment services to taxes from operations
Credit Institutions allowance		0		From profit of loss of non-financial and non-investment services to taxes from operations
Banking tax		-362		From Tax to taxes from operations

Profit before taxes	**4 963**	**-362**	**4 601**	
Tax	**-362**	**362**	**0**	
Profit after tax	**4 601**	**0**	**4 601**	