FHB MORTGAGE BANK CO PLC

GENERAL SHAREHOLDER'S MEETING

BUDAPEST

26 APRIL 2017, 2 p.m.

ANNOUNCEMENT
ON INVITATION TO ANNUAL GENERAL MEETING

FHB Mortgage Bank Co Plc. (registered seat: H-1082 Budapest, Üllői út 82.; registration No.: 01-10-043638; registered by the Metropolitan Court as Court of Registration; hereinafter referred to as Company) hereby, in accordance with its legal obligation, informs the shareholders and the investors of the Company, that the Board of Directors of the Company passed the respective resolution on its meeting of 24 March 2017 on calling the Annual Regular General Shareholder's Meeting (hereinafter referred to as General Meeting) of the Company.

The Board of Directors hereby calls the General Meeting as follows:

Date and time of the General Meeting:
26 April 2017 (Thursday), 14.00 a.m. CET.
Registration for the General Meeting starts at 12.30 a.m. CET. 26 April 2017 (Thursday)

Venue of the General Meeting:
Danubius Hotel Gellért
(H-1111 Budapest, Szent Gellért tér 1.)

Agenda of the General Meeting:

1. Report of the Board of Directors on the business activities, financial position, business policy and management of the Company in the year 2016
2. Report of the Supervisory Board on the financial reports of the Company on the year 2016 in accordance with Hungarian accounting standards and International Financial Reporting Standards („IFRS") (consolidated)
3. Report of the Auditor on the financial reports of the Company on the year 2016 in accordance with Hungarian accounting standards and International Financial Reporting Standards („IFRS") (consolidated)
4. Acceptance of the
   i. business report,
   ii. financial statements (balance sheet report, profit and loss account, additional notes) of the Company as a bank as prescribed by the Hungarian accounting standards,
   iii. decision on the utilization of the after tax profit,

   furthermore, the consolidated
   i. business report,
   ii. financial statement according to the International Financial Reporting Standards

   for the year 2016
5. Acceptance of the Report on Corporate Governance
6. Decision on the granting of discharge of liability for the executive officers considering the suitability of their activity performed in the business year of 2016
7. Report of the Supervisory Board on the fulfilment of conditions of the Share Option Programme of the Management in 2016
8. Amendment of the Statutes of the Company
9. Authorization of the Board of Directors to acquire own shares (in Hungarian: „saját részvény")
10. Decision on the remuneration of members of the Board of Directors and the Supervisory Board
11. Amendment of the remuneration guidelines
12. Approval of the amendment of the Rules of Procedure of the Supervisory Board
13. Recall of member(s) of the Board of Directors and election of new member(s) of the Board of Directors
14. Recall of member(s) of the Supervisory Board and election of new member(s) of the Supervisory Board
15. Recall of member(s) of the Audit Committee and election of the new member(s) of the Audit Committee
16. Miscellaneous

Method of holding the General Meeting

The General Meeting will be held with the direct attendance of the shareholders.

Requirements for participation in the General Meeting and exercising voting rights

A Pursuant to Article 12.1 of the Statues of the Company, each Series "A" ordinary share of a face value of HUF 100 (say One hundred Hungarian forints) shall give right to one vote, Series "B" dividend preference shares of a face value of HUF 100 (say One hundred Hugnarian forints) shall not give right to vote, and each Series "C" ordinary share of a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes at the General Meeting.

B Each shareholder can exercise his/her shareholder's rights attached to the respective shares on the General Meeting only in case he/she is the owner of the shares on the effective date of the identification procedure (in Hungarian: „tulajdonosi megfeleltetés"), as specified in Act V of 2013 on Civil Code (hereinafter referred to as Civil Code) and Act CXX of 2001 on Capital Markets (hereinafter referred to as Capital Markets Act) and in the Rules of the KELER Ltd., and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.

C The Company requests KELER Ltd. to conduct an identification procedure on the date of the General Meeting as a corporate event. The effective date of the identification procedure will be 19 April 2017, while the closing time of the register of shareholders is 18.00 p.m. on 24 April 2017 CET. Rules of the identification procedure are set out in the up-to-date version of the internal general regulations of KELER Ltd.

D The Company deletes all effective data being registered in the register of shareholders on the date of the identification procedure, and simultaneously it registers the data into the register of the shareholders according to the result of the identification procedure, then the Company closes the register of the shareholders on the 2nd day proceeding the General Meeting. After the closure of the register of the shareholders, data affecting the ownership rights of a shareholder can be registered into the register of shareholders only on the successive working day of the closure of the General Meeting, at the earliest.

E The closure of the register of shareholders does not limit the right of any shareholder being entered therein to transfer his/her shares after such closure. Alienation of shares before the day of opening of the General Meeting does not exclude the right of the respective shareholder registered in the register of the shareholders to participate at the General Meeting and to exercise his/her rights attached to his/her shares.

F Each shareholder registered in the Company's register of shareholder on the effective day of the identification procedure may exercise the rights personally or by proxy (through a representative) or through a nominee under the Civil Code and the Capital Markets Act. Any member of the Board of Directors, any member of the Supervisory Board and any senior employee of the Company may be representative only in case he/she is instructed as representative by an unambiguous written instruction on voting on each proposal for resolution given by the respective shareholder. The Auditor and the Coverage Supervisor of the Company may not be authorized representatives. The authorization for representation shall be valid for one general meeting, or for a definite term not exceeding 12 (twelve) months. The authorization for representation will remain valid for the continued General Meeting in case of suspension and for a General Meeting called repeatedly due to a lack of quorum. The authorization shall be submitted to the Company in the form of notarial deed or private deed with full probative effect. In case of shareholders other than natural persons, powers of representation of the person(s) signing the power of attorney or representing the shareholder at the general meeting shall be certified by the presentation of appropriate original documents issued by a public register or authority (e.g. certificate of incorporation) and by an original version or by a copy certified by a public notary of an authentic statement of signature (certified by a notarial act of a public notary) or a signature specimen countersigned by an attorney-at-law. If the certification of the power of representation is prepared in any language other than Hungarian a certified Hungarian translation thereof shall be attached. The shareholder may also appoint a proxy to represent him/her at the General Meeting by returning the form as contained in Annex 1 or Annex 2 of the Statutes of the Company and sent – in case of expressed request of the shareholder - by the Company electronically or by mail. The form shall be returned to the

Company as a private deed with full probative effect not later than the end of the working day preceding the day of the General Meeting. In case such authorization is made abroad, the form of the authorization is to be complied with legal regulations on certification or re-certification of documents made abroad.

G Each shareholder has the right to participate in, request information and to make remarks on the General Meeting. Shareholders are entitled to attend the General Meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If shareholders who hold at least one percent of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within eight days after publishing the announcement of calling the General Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda.

H Provided that the requirements of attending the General Meeting and excercising of voting rights are met, the shareholder or his/her authorized representative may request the electronic or other device for casting votes on the venue of the General Meeting, after proving his/her identity and signing the attendance sheet.

Quorum;
Venue and Date of the Repeated General Meeting in case of being inquorate

Pursuant to article 11.8 of the Statutes, the General Meeting shall have a quorum if the attended shareholders represent more than half of the votes of the voting shares. If the General Meeting does not have a quorum, the Company will hold the repeated General Meeting convened by the present Announcement on the venue of the original General Meeting on 8 May 2017 (Monday) at 10.00 a.m. CET. The repeated general meeting shall have a quorum in respect of the items of the agenda of the original General Meeting, regardless of the number of attendees. Separate registration is required for the repeated General Meeting, which starts at 9 May 2016 at 8.30 a.m. CET.

Disclosure of written materials and proposals for resolutions for the General Meeting

In accordance with Section 11.4 of the Statutes of the Company, the Board of Directors of the Company will publish the material data of the reports and documents prepared according to the Accounting Law and written presentation relating to the respective items of the agenda of the General Meeting at least 21 (twenty-one) days prior to the date of the General Meeting. The disclosure will be made both in Hungarian and in English - in line with the provisions of the Statutes of the Company regarding the publication of announcements - on the official homepage of the Company (www.fhb.hu), on the web-based publication forum operated by the Hungarian Central Bank (www.kozzetetelek.hu), furthermore on the official home page of Budapest Stock Exchange (www.bse.hu). After the publication, the written materials relating to the items of the agenda of the General Meeting will be available at the head office of the Company, and at the central customer service office of KELER Ltd. (H-1074 Budapest, Rákóczi út 70-72., R-70 Irodaház).

FHB Mortgage Bank Co Plc.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 1

Report of the Board of Directors on the business activities, financial position, business policy and management of the Company in the year 2016

Budapest, 26 April 2017, 2.00 p.m.

FHB Mortgage Bank Plc.

Annual report and
Independent Auditor's Report

December 31,2016

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

VAT ID: 10443785-2-42
EU VAT ID: HU10443785

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for the opinion

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

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

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

Key Audit Matters

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Budapest, April 4, 2017

The original Hungarian version has been signed.

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

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

Registration number of statutory registered auditor: 003449

FHB Mortgage Bank Co Plc

Annual Report

31 December 2016

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(translation)

Budapest, 4 April 2017

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB BANK

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

Date: Budapest, April 4, 2017

Márton Oláh
Chief Executive Officer

dr.Landgraf Erik
Deputy Chief Business

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

lance sheet items

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

Date: Budapest, April 4, 2017

Márton Oláh — Chief Executive Officer

dr.Landgraf Erik — Deputy Chief Business

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

FHB Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in HUF Million

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

Date: Budapest, April 4, 2017

Márton Oláh — Chief Executive Officer

dr.Landgraf Erik — Deputy Chief Business

FHB Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2016

(translation)

Budapest, 4 April 2017

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2016

I. GENERAL PART

II. SPECIFIC PART

III. INFORMATIVE PART

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

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

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

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

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

Accordingly, as of 31 December 2016 the members of the FHB Group under consolidated supervision are as follows:

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

The bank has entered into the Integration Organization of Cooperative Credit Institution consequently in the H-N-I-654/2015. resolution of the Hungarian National Bank has been the declared that members of the FHB Group which are under the supervision of the FHB simultaneously are under the combined supervision of the Takarék Bank (Saving Bank) Group. According to the resolution no. H-EN-I-36./2017 (on 1 January 2017) the National Bank of Hungary – with the acceptance of application provided by SZHISZ, Magyar Takarékbank Ltd., and FHB Mortgage Bank - authorized FHB to apply individual exemption and terminated the obligation for compliance with sub-consolidated level requirements.

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

- Full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision;
- Provision of full-fledged material conditions in the context of lease and operation agreements – except the branch offices of the Commercial Bank;

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

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

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

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

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

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

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

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

Major financial indicators	FHB data	
	31 Dec 2015	31 Dec 2016
Balance sheet total (million HUF)	420,966	333,391
Refinanced mortgage loans (million HUF)	226,487	187,044
Mortgage bonds outstanding (million HUF)	195,084	153,385
Bonds outstanding (million HUF)	62,200	43,218
Shareholders' equity (million HUF)	29,182	53,116
Regulatory capital (million HUF)	62,413	49,921
Capital adequacy ratio (%)	44.44%	46,21%
Profit after tax (million HUF)	-4,055	-6,532
CIR (operating costs / gross operating profit) (%)	66.43%	-117.44%
ROAA (return on average assets) (%)	-0.77%	-1.73%
ROAE (return on average equity) (%)	-12.99%	-15.87%

I/2. Key elements of the accounting policy

The aim of the accounting policy is to set up the accounting of economic and financial events and establish the technicalities of accounting; to synchronize financial activities and their accounting; to determine the key operating principles and conditions of accounting in order to help the Bank's various investors understand and follow the company's actual financial position and profitability through the Bank's annual reports.

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

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

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

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

The Bank's accounting systems

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

Error distorting true and fair view

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

Level of material and minor errors

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

Balance sheet

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

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

Tangible Assets under the purchase value of HUF 100,000 shall be accounted in a lump sum by the Company as costs at the time of the purchase.

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

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

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

Profit and Loss Statement

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

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

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

Notes to the Financial Statements

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

- General notes,
- Specific notes,
- Information.

Business Report

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

The Business Report contains information on:

- the analysis of the Bank’s activities and course of business with regards to the accounting period, as well as their future impact;
- significant events occurring after the balance sheet date;
- changes with an impact on the ownership structure;
- the human resources policy;
- the research and development;
- the presentation of the branches; and
- any additional information considered important by the Bank.

I/3. Information

1. Information on shareholders with significant or majority interest

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

2. Information on the Bank's risks in excess

Section 392 of regulation no 575/2013/EU prescribes that risks are considered in excess when the total risks provided for a customer or group of connected customers is equal to or exceeds 10% of the credit institution's regulatory capital (own funds). As of 31 December 2016 the Bank not had receivables which according to above mentioned regulations qualifies as high risk.

3. Compliance with mortgage lending provisions

- Within the total balance of mortgage loans, 99.58% have a maturity over five years compared to the minimum requirement of 80.0% as stipulated by Subsection (1) Section 5 of Act XXX of 1997.
- Total outstanding mortgage loan balance does not exceed 70% of the collateral value of real estate as provided for by subsection (3), Section 5 of Act XXX of 1997. The rate was 29.83% as of 31 December 2016.

4. Compliance with the provisions on investment

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

FHB Commercial Bank Ltd.,

FHB Real Estate Ltd.

Diófa Alapkezelő Ltd.

FHB Invest Befektetési és Szolgáltatási Ltd.

Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.

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

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

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

outstanding, HUF 28,328 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 56,718 million.

- On December 31 2016 in accordance with the Article 14 (11) of Act XXX supplementary collateral was utilized through issuing securities in the capital value of 8,000 million HUF with the payment guaranty of the Hungarian State.
- Pursuant to Section 14(1) of the Act on Mortgage Banks and Mortgage Bonds mortgage banks must at all times have sufficient cover assets of a value higher than the sum of the face value and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(3) of Act XLVIII of 2004, as of 1 January 2006 mortgage banks must also at all times ensure cover for mortgage bonds at present value.

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

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

  As of 31 December 2016 the present value of ordinary collateral was HUF 203,459 million and that of mortgage bonds was HUF 177,470 million, which means the present value of cover assets exceeded the present value of outstanding mortgage bonds in circulation.

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

  The sensitivity analysis conducted on 31 December 2016 showed the surplus cover of the mortgage bonds in circulation and the present value of their coverage as required by the relevant statutory provisions.

6. Information on mortgage bonds issued

- As of 31 December 2016 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 622,813 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 11,870million as of 31 December 2016.
- The Bank organized repurchase of previously issued listed and non-listed mortgage bonds and bonds several times during 2016. From FJ20NV01 mortgage bonds repurchase was executed four times in the nominal value of 17.703 billion HUF and FJ8NF01 EURO mortgage bonds repurchase was only one transaction, in the nominal value 3.379 million EURO during the above period. From FK18ZV01 bond repurchase was executed one time and as a result of transaction all together 9.612 billion HUF nominal value stock was repurchased. The repurchases trough reducing the liquidity and interest rate risks upgraded the asset-liability structure of Bank.

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

The Bank has carried out the rating of receivables and liabilities. On 31 December 2016, the portfolio of receivables and liabilities, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments, was HUF 301,066 million in total. As a result of the rating, based on the Government decree and internal regulations, 81% of the total portfolio is problem-free prime, 15.37% is on the watch list, 0.70% is classified as sub-prime, 0.95% is rated as doubtful, and 2.01% as bad debt.

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

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

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

8. Impairment of other receivables

As of 31 December 2016 no such losses were recorded by the Bank.

9. Information on the Bank's shares

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

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

  In 2016 dividend payment has not been made.

10. Derivative deals

- As of 31 December 2016 the following OTC hedging futures are recorded by the Bank:
  - foreign exchange swaps with future receivables of, EUR 22 million (HUF 6,842 million) and HUF 5,586 million, and related future liabilities of CHF 10 million (HUF 2,894 million), EUR 11 million (HUF 3,271 million) and HUF 8,765 million.
- In relation to the OTC hedging futures existing on 31 December 2016, the P/L statement already recorded), HUF 185 million accrued interest, as well as HUF 30 million (CHF 0.1 million), HUF 9 million (EUR 0.03 million) and HUF 116 million interest expenditure.
- Swaps for hedging purposes are based on mortgage bonds denominated in EUR, HUF-denominated bonds and EUR-denominated long-term interbank loans. The swap parameters (amount and type of foreign exchange, interest, maturity etc.) are identical with the parameters of the mortgage bond and FX loan.
- Liquidity swaps involve EUR 27 million (HUF 8,398 million) and HUF 3,502 million future receivables and EUR 11 million (HUF 3,421 million), USD 7 million (HUF 1,926 million) and HUF 6,519 million future liabilities.
- HUF 13 million deferred interest expense and HUF 29 million deferred interest income were accounted related to liquidity swaps open at the end of period.

11. Other banking information

- In accordance with the Government Decree, the value of pending interest – which is 39.52 % of interest on receivables from customers, reported in 2015 – was HUF 1,853 million as of 31 December 2016 (2015: HUF 2,023 million) and the value of pending interest type commission was HUF 300 million (2015: HUF 250 million). In the reported period the Bank received HUF 203 million from interest that was pending before the year of reporting, of which HUF 14 million was accrued in the 2015 financial statement.
- The principal receivable value of state guarantees for receivables was HUF 2,948 million (2015: HUF 3,972 million) and collateral value of deposits was HUF 32 million and the collateral value of liens amounted to HUF 622,813 million (2015: HUF 722,871 million).
- The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 2,031 million as of 31 December 2015. The cooperation agreement with the credit institutions includes a deficiency guaranty and loss sharing in favor of the Bank. Within the deficiency guaranty, the partner bank takes over a certain amount of liabilities, which the Bank recorded as non-recurring losses/provision on loans and advances. The partner bank undertakes deficiency guarantee to the extent of lending losses suffered by the Bank that cannot be recovered by any other means. According to the loss-sharing agreement, the syndicated partner undertakes 40-60% of losses/provision on loans and advances.
- Within the amounts of the receivables from customers the contractual value of restructured assets was HUF 8,297 million as of 31 December 2016; its value according to the registration was HUF 4,207 million.
- On 31th December 2016. upon the request of the FHB Mortgage Bank 27 terminated deals/loans were in foreclosure procedure. The total value of these deals on 31th December 2016 was HUF 322.9 million.

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

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

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

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

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

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

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

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

FHB Commercial Bank Ltd.	HUF 3 million

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

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

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

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

12. Additional information

- The Bank has no pension payment obligations to its previous senior management members.
- The Bank did not provide long-term loans for its associated enterprise. The Bank did not create or use provisions for its subsidiary.
- The Bank did not record any export sales to countries within or outside of the European Union. The Bank did not receive any export subsidies.
- The Bank did not receive any disbursement without return from subsidy programs. Subsidy programs include subsidies and allocations disbursed from central government, local government and/or international funds, as well as other business enterprises for the upkeep and development of activities.

- The Bank did not engage in research and development activities in 2016.
- The Bank does not own any tangible assets intended for direct environmental protection purposes, nor any hazardous waste and pollutants. The Bank does not have any present or future environmental obligations or environmental protection costs.
- In 2016 the Bank was not a member of the National Deposit Insurance Fund not of any voluntary deposit insurance fund, institution protection fund or investor protection fund.
- The Bank's assets are not encumbered with mortgage or any other similar rights.
- The Bank did not carry out any reverse transactions in 2016.
- The Bank has HUF 10 million investment in the Integration Organization of the Cooperative Credit Institutions (SZHISZ)

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

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

14. Other information

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

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

  István Kovács

  Public data on record:

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

- In the2016 business year the Company employed Deloitte Auditing and Consultiung Ltd. (seated: 1068 Budapest, Dózsa György út 84/C., corporate registration number: 01-09-071057; auditors' chamber id: 000083; Hungarian Financial Supervisory Authority id: T-000083/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Mr. Tamás Horváth (mother's name: Veronika Grósz; address: 1028 Budapest, Bölény u. 16; auditors' chamber id: 003449; Hungarian Financial Supervisory Authority id: E003449; hereinafter referred to as: „personally assigned auditor").

  The audit fee of the Auditor for performing the annual audit of the financial reports of the Company on year 2016 was HUF 14.6 million. In addition to the annual audit, the Bank assigned the Deloitte Ltd to perform other non-audit services, and paid all together HUF 5.1 million for them.

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

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

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

I /4. Changes in own equity
31 December 2016

Data in million HUF

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

FHB BANK

II. SPECIFIC PART

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

31 December 2016

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		-	-	-	-	-
b/ Intellectual products		1 269	-	35	-	1 304
c/ Goodwill		834	-	-	834	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**2 103**	**-**	**35**	**834**	**1 304**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	355	-	1	-	356
b/ Plant, machinery installations, vehicles	10. ab)	566	-	113	61	618
c/ Construction in progress	10. ac)	1	-	-	1	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**922**	**-**	**114**	**62**	**974**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**10**	**-**	**-**	**-**	**10**

FHB BANK

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

31 December 2016

Data in million HUF

Description	Balance sheet line	Changes in accumulated depreciation				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		-	-	-	-	-
b/ Intellectual products		806	-	44	-	850
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**806**	-	**44**	**-**	**850**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	166	-	43	-	209
b/ Plant, machinery installations, vehicles	10. ab)	276	-	63	34	305
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**442**	-	**106**	**34**	**514**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	7	-	2	-	9
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**7**	-	**2**	**-**	**9**

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

31 December 2016

Data in million HUF

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

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

31 December 2016

Data in million HUF

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

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

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2016	Portfolio of 31 December 2016 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	31 986	23 874	8 112	-	-	-	-
- Long term	3.bb)	130 867	-	-	79 673	31 500	11 812	7 882
Accounts receivable from customers :								
- Short term	4. aa)	14 300	7 713	6 587	-	-	-	-
- Long term	4. ab)	75 832	-	-	31 076	26 830	9 991	7 935
- Accounted value loss	from 4. ab)	-7 848	-	-	-	-	-	-
Total:		**245 137**	**31 587**	**14 699**	**110 749**	**58 330**	**21 803**	**15 817**

FHB BANK

II / 6 . Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)
31 December 2016

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2016	Portfolio of 31 December 2016 without value loss broken down by residual times to maturity						
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years	No maturity
		1 = 2+...+8	2	3	4	5	6	7	8
Accounts payable to credit institutions :									
- Short term	1. ba)	37 083	37 083	-	-	-	-	-	-
- Long term	1. bb)	30 350	-	-	30 350	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+	32	32	-	-	-	-	-	-
	2. bb)	-	-	-	-	-	-	-	-
- Long term	2. ac)+	-	-	-	-	-	-	-	-
	2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	52 206	23 489	28 717	-	-	-	-	-
- Long term	3.ab)	144 397	-	-	132 527	11 870	-	-	-
Subordinated accounts payable	7.		-	-	-	-	-	-	-
Total :		**264 068**	**60 604**	**28 717**	**162 877**	**11 870**	**-**	**-**	**-**

FHB BANK

II / 7 . Items to modify corporate tax base

31 December 2016

Data in million HUF

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

FHB BANK

II / 8 / a. Changes in provisions

31 December 2016

Data in million HUF

Description	Opening balance	Of credit losses	Creation of provision	Reversal of provision	FX differences	Closing balance
1. Provision for securities	-	-	-	-	-	-
2. Provision for accounts receivables	-	-	-	-	-	-
3. Provision for inventories	-	-	-	-	-	-
4. Provision for financial investments	-	-	-	-	-	-
5. Provision for off-balance-sheet items	41	-	68	31	-	78
6. Provision for possible future obligation	-	-	-	-	-	-
7. Margin of provision for possible futute obligation	-	-	-	-	-	-
8. Provision for possible future costs	-	-	-	-	-	-
9. Provision for general risks	-	-	-	-	-	-
10. Other provisions	144	-	227	87	-	284
Total provisions : (1. - 10.)	**185**	-	**295**	**118**	**-**	**362**

II / 8 / b. Changes in impairment losses

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

FHB BANK

II / 9. CASH-FLOW

Data in million HUF

No.	Description	31 December 2015	31 December 2016
01.	Interest received	30 159	18 153
02.	+ Incomes from other financial services	11 709	4 284
03.	+ Other incomes (without use of provision and reversal of surplus provision, impairment loss of inventories and over-plan depreciation	2 300	960
04.	+ Incomes from investment services (except for reversal of impairment loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	2 105	1 370
06.	+ Dividend received	39	483
07.	+ Extraordinary income	2 441	-
08.	- Interest paid	-25 594	-15 980
09.	- Expenses on other financial services (without impairment loss of securities)	-13 069	-2 540
10.	- Other expenses (except for creation of provision and impairment loss, over-plan depreciation)	-7 616	-2 270
11.	- Expenses on investment services (without impairment loss of securities)	-119	-74
12.	- Expenses on services other than financial and investment ones	-18	-15
13.	- General administration costs	-5 753	-4 939
14.	- Extraordinary expenses (without taxation in subject year)	-13 173	-
15.	- Corporate tax payable in the period	-	-
16.	- Dividend paid (payable)	-	-
17.	**Operating cash flow (lines 01.-16.)**	**-16 589**	**-568**
18.	± Changes in accounts payables	-174 457	-106 011
19.	± Changes in accounts receivables	181 317	68 611
20.	± Changes in inventories	164	32
21.	± Changes in portfolio of securities in current assets	14 625	10 527
22.	± Changes in financial investments	10	-
23.	± Changes in portfolio of investments (including advances)	5	1
24.	± Changes in portfolio of intangible assets	205	-35
25.	± Changes in portfolio of tangible assets (without investments)	50	-88
26.	± Changes in accruals	13 460	-823
27.	± Changes in deferrals	-18 180	-5 676
28.	+ Issue of shares at selling price	-	30 466
29.	+ Funds received without compensation according to relevant rules of law	-	-
30.	+ Funds handed over without compensation according to relevant rules of law	-	-
31.	- Nominal value of withdrawn own shares, property bonds	-	-
32.	**NET CASH FLOW (lines 17.-29.)**	**610**	**-3 564**
	Out of which: - changes in cash	1	
	- changes in bank money (accounting and other sight deposit with NBH)	565	-652

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

31 December 2016

Description	Balance sheet line	Items of 31 December 2016 broken down by maturities				31 December 2016
		Within 3 months	Between 3 months and one year	More then 1 year but, less then 2	More then 2 years	
		1	2	3	4	= 1+2+3+4
Accrued interest	From 13. a)					
- Accrued interests on redeemed own securities		12	96	-	-	**108**
- Accrued interests from accounts receivable from customers		2 757	-	-	-	**2 757**
- Accrued interests from credit institutions from refinancing loans		176	-	-	-	**176**
- Accrued interests of interbank deposits		6	7	-	-	**13**
- Accrued interest of hedge transactions		1	162	-	-	**163**
- Commission for arrangement of state subsidies		10	-	-	-	**10**
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		2 731	7 217	546	-	**10 494**
- Deferred interest on hedge transactions		236	38	-	-	**274**
- Deferred interest on interbank loans		17	-	-	-	**17**

II / 11. Assets and liabilities in foreign currencies
31 December 2016

Data in million HUF

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

III. INFORMATIVE PART

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

31 December 2016

Data in million HUF

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

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

FHB BANK

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

31 December 2016

Data in million HUF

Name of enterprise	Rerfistered office	Share in property	Subscribed capital
Magyar Kártya Szolgáltató Ltd.	1082 Budapest, Üllői út 48.	50,50%	5
FHB Lízing Ltd.	1082 Budapest, Üllői út 48.	100.00%	135
Central European Credit d.d. (Croatia)	10000 Zagreb, Marulićev trg 10, Croatia	100.00%	8
FHB DWH Ltd.	1082 Budapest, Üllői út 48.	100.00%	5
Diófa Ingatlankezelő Ltd. (former: Hitelunió Pénzügyi és Szolgáltató Ltd.)	1013 Budapest, Krisztina tér 2.	89,19%	10
Káry-villa Real Estate Ltd.	1082 Budapest, Üllői út 48.	100.00%	3
Díjbeszedő Faktorház Ltd.	1117 Budapest, Budafoki út 107-109.	51.00%	500
Díjbeszedő Informatikai Ltd.	1117 Budapest, Budafoki út 107-109.	50.00%	672
Magyar Posta Kártyaközpont Ltd.	1117 Budapest, Váci út 110. B. ép. 201.	24.98%	10
DÍJNET Ltd.	1117 Budapest, Budafoki út 107-109.	51.00%	5
Magyar Posta Befektetési Szolgáltató Ltd.	1062 Budapest, Andrássy út 105.	50.00%	148
Magyar Takarékszövetkezeti Bank Ltd.	1122 Budapest, Pethényi köz 10.	13.76%	3 390
Takarék Faktorház Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	13.76%	275
Takinfo Informatikai Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	7.21%	210
Banküzlet Vagyonkezelő Ltd.	1125 Budapest, Fogaskerekű utca 4-6.	6.74%	79
MTB Ingatlan Ltd.	1122 Budapest, Pethényi köz 10.	13.76%	4
Integration Organization of Cooperative Credit Institution	1051 Budapest, Nádor utca 31.	0,00714%	-
MA-TAK EL Zrt.	1082 Budapest, Üllői út 48.	40,00%	5
FINITY Financial and advisory Ltd.	1062 Budapest, Andrássy út 105.	40,00%	3
MPT Security Ltd.	1152 Budapest, Telek u. 5.	10,00%	1 203
DOM-P Ltd.	1027 Budapest, Kapás u. 11-15.	13,91%	1 150

FHB BANK

III/2. Investments
31 December 2016

Data in million HUF

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

FHB BANK

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

31 December 2016

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

Total emoluments payable to Management

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

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

31 December 2016

Data in million HUF

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

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

31 December 2016

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

FHB BANK

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

Data in million HUF

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

FHB BANK

III / 7. Off-balance sheet items

31 December 2016

Data in million HUF

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

Budapest, 4 April 2017

Márton Oláh
CEO

dr. Landgraf Erik
Deputy Chief Busiess

FHB Mortgage Bank Co. Plc.

Business Report for 2016

Budapest, 4 April, 2017

TABLE OF CONTENTS

1 OVERVIEW OF FHB MORTGAGE BANK PLC.

1.1 HISTORY AND ACTIVITIES OF FHB MORTGAGE BANK

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

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

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

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

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

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

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

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

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

1.2 OVERVIEW OF FHB BANKING GROUP

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

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

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

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

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

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

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

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

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

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

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

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

1.2.1 FHB Commercial Bank Ltd.

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

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

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

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

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

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

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

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

1.2.2 FHB Real Estate Ltd.

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

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

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

The Company closed the year 2016 with HUF 7.8 million profits. The Company's registered capital was HUF 70 million and shareholders' equity HUF 214.9 million at the end of the year.

1.2.3 FHB Lízing Ltd.

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

The company joined FHB Group in 2009; its sole shareholder is FHB INVEST Ltd. FHB Real Estate Lease Ltd. is 100% owner of the shares of Central European Credit d.d. and FHB DWH Services Ltd.

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

The main goal of the Company in 2016 was the expansion of new branches besides clearing and tiding up portfolios. The volume of leasing and loans amounted to HUF 5.5 billion which contains HUF 4.2 billion of means of production's and truck' leasing.The company's capital increased once in 2016, and the capital increase amounted to HUF 210 million.

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

1.2.4 Diófa Asset Management Ltd.

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

Before the acquisition, Diófa Asset Management was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients. From September 2013 Diófa Asset Management Ltd. still sustains its former focus areas, in addition new retail funds have been launched in the branch network of FHB Banking Group.

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

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

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

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

1.2.5 FHB INVEST Investment and Real Estate Management Ltd.

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

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

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

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

Subsidiaries	Shareholders									
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	Diófa Asset Management Ltd.	FHB INVEST Llc.	FHB Leasing Ltd.	Díjbeszedő IT Llc.	Magyar Takarék Asset Management Ltd.	Bank of Hungarian Savings Cooperatives Co. Ltd.	DOM-P IT Services Ltd.	Total
FHB Commercial Bank Ltd.	51.00%	-	-	-	-	-	-	-	7.39%	-	52.02%
FHB Real Estate Ltd.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
Káry-Villa Ltd.	-	-	100.00%	-	-	-	-	-	-	-	100.00%
Diófa Asset Management Ltd.	89.19%	-	-	-	-	-	-	-	-	-	89.19%
Diófa Real Estate Management Llc.	-	-	-	100.00%	-	-	-	-	-	-	89.19%
FHB INVEST Llc.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
FHB Lease Ltd.	-	-	-	-	100.00%	-	-	-	-	-	100.00%
Central European Credit d.d.	-	-	-	-	-	100.00%	-	-	-	-	100.00%
FHB DWH Ltd.	-	-	-	-	-	100.00%	-	-	-	-	100.00%
Díjbeszedő Faktorház Ltd.	-	-	-	-	51.00%	-	-	-	-	-	51.00%
DíjNET Ltd.	-	-	-	-	51.00%	-	-	-	-	-	51.00%
Díjbeszedő IT Llc.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Magyar Posta Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	-	-	24.98%
Magyar Posta Investment Services Ltd.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Hungarian Card Service Plc.	-	99.18%	-	-	-	-	0.82%	-	-	-	50.99%
Magyar Takarék Asset Management Ltd.	25.10%	-	-	-	-	-	-	-	-	-	25.10%
Bank of Hungarian Savings Cooperatives Co. Ltd.	1 db C részvény	1 db C részvény	-	-	-	-	-	54.82%	-	-	13.76%
MPT Security Ltd.	-	-	-	-	10.00%	-	-	-	40.00%	-	15.50%
MA-TAK-EL Ltd.	-	-	-	-	40.00%	-	-	40.00%	-	20.00%	53.21%
DOM-P IT Services Ltd.	-	-	-	-	13.91%	-	-	-	13.91%	-	15.83%

2 MACROECONOMIC ENVIRONMENT IN 2016

2.1 THE HUNGARIAN ECONOMY IN 2016[1]

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

** contains data of the first 3 quarters in case of 2016*

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

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

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

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

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

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

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

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

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

2.2 THE BANKING SECTOR IN 2016[2]

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

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

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

[2] Based on reports and statistics of NBH

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

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

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

The share of deposits of the funding of the sector grew in 2016 (53.8% from 51.5% in 2015) amounted to –HUF 18,386 billion. Household's deposits represented 39.4% of total deposits.

2.2.1 Retail mortgage lending

Although the disbursement of retail mortgage loans shows increase quarter-on-quarter until the end of third quarter, in the fourth quarter a slight decrease can be seen. The yearly disbursement amounted nearly HUF 490 billion, which volume (HUF 487.8 billion) is significantly higher than in 2015 (HUF 399.7 billion), the increase is 22.1%.

2.2.2 Mortgage loan volumes

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

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

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

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

2.2.3 Home protection measures

National Asset Management Ltd.

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

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

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

Personal bankruptcy

The CV law related to the debt settlement of natural persons (the so called „Personal bankruptcy law") entered into force on 1st of September 2015. The main aim of the law is to settle the debt of natural persons facing payment difficulties using the necessary property and incomes, and to restore the solvency of natural persons in the regulated framework of extrajudicial and judicial procedure of the debt settlement law. The Bank has 48 Debt Settlement Proceedings at this time.

2.2.4 Family Housing Allowance ('CSOK')

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

From 30 June 2015 the FHB Group was among the first to start with the new CSOK available for a wider group of people than heretofore; there was a large demand for the new type of subsidy during the year. By the end of 2016 more than 2,400 loan applications had been approved, from which the number of disbursed loans reached 1,700 with the total volume amounting to HUF 4.4 billion. In case of 50% of 'CSOK' applications clients submitted loan applications as well.

2.2.5 Other retail loans

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

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

3.1 MAJOR FINANCIAL INDICATORS

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

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

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

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

3.2 RETAIL AND CORPORATE LENDING

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

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

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

Corporate loans were down by 11.6% year-on-year mainly due to the decrease of commercial real estate loans. Over amortisation of loans, portfolio clearing measures had an impact on decrease of loan volume.

The Mortgage Bank's portfolio-based share of retail mortgage loans was 1.9% at the end of 2016.

[3] This financial analysis – considering also investor's needs – contains data and tables calculated from controlling point of view, therefore due to reclassification some figures can differ from data reported in other parts of financial statements.

3.3 REFINANCING

As of 31 December 2016 the portfolio of refinanced loans decreased by 22.3% or HUF 29.0 billion year-on-year and amounted to HUF 100.8 billion. This volume includes HUF 31.4 billion receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to HUF 69.4 billion. Loans denominated in HUF contributed 89.0% to the 2016 year-end refinanced loan portfolio as opposed to 99.6% at the end of 2015. Refinanced loan disbursements amounted to HUF 33.2 billion in 2016 including HUF 33.1 million contributed by the Commercial Bank.

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

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

3.4 PORTFOLIO QUALITY, PROVISIONING

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

Breakdown of portfolio by classification, loss in value and provisions

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

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

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

The Bank holds stakes in five companies: FHB Commercial Bank Ltd., FHB Real Estate Ltd, FHB Invest Ltd., Diófa Asset Management Ltd. and Magyar Takarék Asset Management Ltd. The total face value of investments is HUF 41.8 billion (13.9%) from which HUF 35.9 billion classified as non-performing, HUF 5.9 billion as performing. Volume of impairment on investments of Mortgage Bank amounted to HUF 3.3 billion at the end of 2016. Future commitments amounting to HUF 26.8 billion at the balance sheet date are classified as performing on 31st December 2016.

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

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

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

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

3.5 MORTGAGE AND SENIOR BOND ISSUES

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

In 2016, the Bank has HUF 45.8 billion new capital market funds (euro funds calculated at the EUR exchange rate as of the date of the issuance). The face value of issued bonds amounted to HUF 44.2 billion mortgage bonds, and HUF 1.6 billion unsecured bonds were issued.

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

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

The net collateral value of real estate covering mortgage bonds issued by the Bank was HUF 227.6 billion as of 31 December 2016, 22.2% less than the figure as of 31 December 2015 (292.6 billion HUF)

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

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

As of 31 December 2016, the present value of ordinary collateral was HUF 203.5 billion and the present value of mortgage bonds was HUF 177.5 billion, thus the present value of collateral exceeded that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 114.6% in the same period.

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

3.6 BALANCE SHEET STRUCTURE

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

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

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

3.6.1 Interest earning assets

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

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

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

3.6.2 Intangible assets and investments

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

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

3.6.3 Other assets

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

3.6.4 Interest bearing liabilities

3.6.5 Mortgage bonds and senior bonds issued

As of 31 December 2016, 58.1% of interest bearing liabilities was contributed by the Bank's mortgage bond portfolio that ensures long-term funding for mortgage loans. As of 31 December 2016, mortgage bonds issued by the Bank amounted to HUF 153.4 billion HUF, 21.4% lower than the previous year's figure.

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

3.6.6 Interbank funds

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

3.6.7 Subordinated liabilities

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

3.6.8 Other interest bearing liabilities

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

3.6.9 Other liabilities

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

3.6.10 Shareholders' equity, capital position

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

FHB Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. The capital increase was executed by issuing dematerialized dividend preference shares (Series "B") and dematerialized ordinary shares (Series "C"). Value of the Bank's own funds was HUF 49.9 billion at 31 December 2016. The capital adequacy ratio was 46.21% (one year ago 44.48%).

3.6.11 Off-balance sheet items

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

3.7 PROFIT & LOSS STRUCTURE

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

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

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

3.7.1 Net interest income

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

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

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

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

3.7.2 Net fees and commissions

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

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

3.7.3 Net profit from financial transactions

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

3.7.4 Other income and expenditure

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

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

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

3.7.5 Operating expenses

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

There was no significant change in structure of operating expenses in 2016, but the total expenses decreased by 15.6% to HUF 5.0 billion especially because general administrative expenses decreased by 17.1%. The main part of this cost group IT costs and property related costs, but significant item in consulting fees and telephone charges as well. Nearly a third of operating expenses called personnel expenses particularly due to outsource of certain activities decreased by 7.7%.

3.7.6 Impairment and loan losses

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

3.7.7 Change in general reserve

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

4 LIQUIDITY MANAGEMENT

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

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

During management of the group's liquidity – due to the fact that the new supervisory standards (LCR, LCRDA) don't support the aggregation and consolidation of positions – transactions in the money and capital markets will carry out in a more complex way to meet the liquidity standards. The adaptation to regulatory environment and the optimisation to worth indicator expectations resulted in the establishment of both banks in the open market regarding certain products and types of businesses. The Treasury Department of Mortgage Bank, as the professional leader, managed the positions safely and also supervised Commercial Bank's independent activity in compliance with referring limits and regulations.

The closing balance of the nostro accounts of the Group was HUF 16.3 billion, in Mortgage Bank this amounted to HUF 1.6 billion.

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

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

Available liquid securities of the Group amounted to HUF 180.0 billion (including exclusively the unencumbered security portfolio, nostro accounts, net overnight interbank- and overnight NBH deposits).

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

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

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

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

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

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

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

5.2 CREDIT RISK

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

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

The aims of the directive:

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

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

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

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

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

5.3 LIQUIDITY AND MATURITY RISK

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

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

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

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK, EXCHANGE RATE RISK

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

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

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

5.6 OPERATING RISK

The Bank manages operational risks by developing and improving internal rules and regulations, by providing appropriate training to the staff involved in the workflows and by creating and developing further built-in control mechanisms. The Group collects and analyses loss data of operational risk and Key Risk Indicators (KRI). KRIs are reviewed annually. In 2016 more KRIs have been modified and new ones has been defined and introduced.

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

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

5.7 OTHERS

In the Q2 2016 the institutional members of the FHB Banking Group have fully met the transparency requirements of CRR and published the mandatory information about the risk management, the capital adequacy and the remuneration policy.

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

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

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

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

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

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

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

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

7 POST-BALANCE SHEET DATE EVENTS

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

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

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

Budapest, 4 April, 2017

József Vida
Chairman of the Board of Directors

Márton Oláh
Chief Executive Officer

FHB Mortgage Bank Plc.

Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report

December 31,2016

FHB Mortgage Bank Public Limited Company

Consolidated Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2016

Consolidated Financial Statements in Accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2016

Table of Contents **Page(s)**

GENERAL INFORMATION

Chairman of the Board of Directors

József Vida

External Members of the Board of Directors

Gábor Gergő Soltész
Attila Mészáros

Internal Members of the Board of Directors

Márton Oláh
Dr. Erik Landgraf

Chief Executive Officers

Márton Oláh (Chief Executive Officer from 05/12/2016)
Dr. Erik Landgraf (Deputy Chief Executive Officer from 30/11/2016)

Large Shareholders Liaison Officer and Secretary

Rita Bozzai

Small Shareholders Liaison Officer

Béla Kappéter

Auditor

Deloitte Ltd.

Seat of the Bank, central office

Budapest.
Üllői út 48.
1082

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

VAT ID: 10443785-2-42
EU VAT ID: HU10443785

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of FHB Mortgage Bank Plc. and its subsidiaries (the „Group") for the year 2016 which comprise the consolidated statement of financial position as at December 31, 2016 – which shows a total assets of HUF 593.404 million –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net loss for the year of HUF 15.502 million –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and consolidated notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the FHB Mortgage Bank Plc. and its subsidiaries as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for the opinion

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

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

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

Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of the loan receivables	
(See Sections 19 of the Notes to the Consolidated Financial Statements for the details) The net value of loans and advances to customers in an amount of HUF 294,473 million comprise 50% of the total assets (gross book value of HUF 318,326 million), the relevant impairment charge recorded in the current year was HUF 23,853 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the followings: - valuation of collaterals - probability of default - estimate that future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - evaluate internal controls relating to origination and monitoring of loans, - gained understanding of the Bank 's provisioning process and methodology and parameters used in the calculation of collective impairment losses on loans and receivable in order to evaluate collective impairment - evaluate of specific loan impairments with random sample, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - evaluating the underlying assumption of collective provisioning models, - assess the balloon and bullet conditions of corporate loans and the review of consideration these conditions at individual provisioning, - evaluating of appropriateness of related disclosures.

Key audit matter	Related audit procedures
Capital adequacy	
(See Sections 50. of the Notes to the Consolidated Financial Statements for the details) The Equity in consolidated financial statements is HUF 57,602 million. For the purpose of maintaining solvency and the ability to fulfil liabilities - must have a solvency margin complying at all times with the amount of the risk of the financial and investment activities performed thereby, and must continuously maintain at least 8 percent capital adequacy ratio. On balance sheet date the amount of regulatory capital is HUF 45,612 million, the capital adequacy ratio is 13.71%. Accordingly, the capital adequacy is considered to be a key audit matter.	We assessed the solvency capital calculation process, the capital requirement calculation methodology, and we performed regulatory capital recalculation as well. Furthermore with random sample we evaluated the appropriateness of the classification of certain risk exposures and the associated weighting. Regarding credit risk and operating risk we checked the process of capital requirement calculation, and controls applied during the process. With involving of expert we also assessed the appropriate application of the of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, and disclosures.

Other information

Other information comprises the information included in the "Corporate Governance Report at FHB Mortgage Bank Plc." and the consolidated business report of FHB Mortgage Bank Plc. and its subsidiaries for 2016, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Act C of 2000 on Accounting (hereinafter: "the Accounting Act") and other regulations. Our opinion on the consolidated 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 consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated 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 consolidated business report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Budapest, April 4, 2017

....

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

Consolidated Statement of Profit or Loss for the year ended 31 December 2016

	Notes	2016	2015
Interest income	4	28,742	41,159
Interest expense	4	(16,486)	(26,531)
Net interest income		**12,256**	**14,628**
Fee and commission income	5	10,176	8,352
Fee and commission expense	5	(2,212)	(1,334)
Net fee and commission income		**7,964**	**7,018**
Profit/(loss) from foreign exchange transactions		329	(1,945)
Change in fair value of financial instruments	37	965	(2,180)
Gains from securities		3,034	3,528
Share of profit/(loss) of joint ventures and associates		591	621
Net result from investment services		267	239
Net trading result		**5,186**	**263**
Other operating income	6	2,216	1,397
Other operating expense	7	(9,205)	(11,391)
Operating income, net		**18,417**	**11,915**
Provision for impairment losses on loans	19	(8,192)	(862)
General and administrative expenses	8	(19,545)	(18,764)
Loss before tax		**(9,320)**	**(7,711)**
Income tax benefit/(expense)	11	(6,182)	(2,838)
Loss for the year		**(15,502)**	**(10,549)**
Attributable to: loss of shareholders of the Bank		(11,048)	(8,304)
Attributable to: non-controlling interests		(4,454)	(2,245)
Earnings per share (HUF 100 face value)	33		
Basic earnings per share (HUF)		**(102.07)**	**(126.31)**
Diluted earnings per share (HUF)		**(102.07)**	**(126.31)**

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2016

	Notes	2016	2015
Loss for the year		(15,502)	(10,549)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in fair value of financial assets available-for-sale		30	699
Foreign currency translation reserve		(18)	-
Deferred tax effect for other comprehensive income		(1)	(133)
Other comprehensive income/(loss) for the period net of taxes	12	11	566
Total comprehensive income for the year, net of income taxes		**(15,491)**	**(9,983)**
Attributable to: loss of shareholders of the Bank		(11,037)	(7,738)
Attributable to: non-controlling interests		(4,454)	(2,245)

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2016

	Notes	31 December 2016	31 December 2015
Assets			
Cash on hand		4,327	3,017
Balances with the National Bank of Hungary	13	60,635	162,749
Due from banks	14	70,289	48,208
Securities held for trading	15	40,734	51,913
Financial assets available-for-sale	16	66,295	74,042
Shares in associates and joint ventures	29	4,816	7,755
Derivative financial assets	37	933	884
Refinanced mortgage loans	18	31,423	82,790
Loans and advances to customers	19	294,473	288,298
Investment property	21	780	780
Tangible assets	22	4,942	6,168
Goodwill and other intangible assets	20,23	2,042	1,915
Deferred tax asset	11	3,030	8,232
Other assets	24	8,685	8,069
Total assets		**593,404**	**744,820**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2016

	Notes	31 December 2016	31 December 2015
Liabilities			
Due to banks	25	47,229	39,774
Deposits from customers	28	297,072	329,048
Derivative financial liabilities	37	1,579	2,308
Issued securities	26	170,283	235,115
Financial liabilities at fair value through profit or loss, except for derivatives	27	11,991	19,878
Finance lease liabilities	30	3	12
Current tax liability		-	1
Deferred tax liability	11	-	1
Provisions	31	1,546	999
Other liabilities	32	6,099	9,152
Total liabilities		**535,802**	**636,288**
Shareholders' equity			
Share capital	33	10,849	10,849
Treasury shares	33	(207)	(207)
Retained earnings		1,613	16,137
Other reserve	33	28,535	60,273
Non-controlling interest	33	16,812	21,480
Total shareholders' equity		**57,602**	**108,532**
Total liabilities and shareholders' equity		**593,404**	**744,820**

Budapest, 4 April 2017

FHB Jelzálogbank Nyrt. FHB BANK 1082 Budapest, Üllői út 48.

Márton Oláh
CEO

dr. Landgraf

Dr. Erik Landgraf
Deputy CEO

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016	2015
Cash flow from operating activities		
Loss for the year	(15,502)	(10,549)
Non-cash adjustments to net loss from:		
Depreciation and amortization (Note 22,23)	475	1,710
Impairment of tangible assets	1,100	-
(Release)/provision of provision for losses	(569)	(34,104)
Gain/ (loss) on tangible assets derecognized	(7)	74
Gain/ (loss) on intangible assets derecognized	45	(170)
Capitalized interest on loans and advanced to customers	317	750
Fair value adjustment of derivatives (Note 37)	(778)	(8,765)
Fair value adjustment on financial liabilities through profit or loss, except derivatives	(987)	(1,494)
Change in foreign currency translation reserve	(16)	-
Change in investment in associates	2,939	(823)
Finance lease liabilities	(9)	-
Operating loss before change in operating assets	**(12,992)**	**(53,371)**
Decrease/(Increase) in operating assets:		
Securities held for trading	11,179	(17,317)
Financial assets available-for-sale	7,773	1,901
Refinanced mortgage loans	51,367	33,392
Loans and advances to customers	(5,376)	39,954
Other assets	4,586	3,312
Increase/(Decrease) in operating liabilities:		
Deposits from customers	(31,976)	30,286
Due to banks	(85,290)	(30,719)
Other liabilities	(3,053)	5,114
Net cash flow from operating activities	**(63,782)**	**12,552**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Cash Flows for the year ended 31 December 2016 - continued

	2016	2015
Cash flow from investing activities		
Proceeds from sales of tangible assets	35	1,189
Purchase of tangible and intangible assets	(549)	(640)
Purchase of investment property	-	(780)
Net cash outflow from investing activities	**(514)**	**(231)**
Cash flow from financing activities		
Proceed from issued securities	39,248	77,992
Principal repayment on issued securities	(110 981)	(113 349)
Repayment of long term loans	92,745	27,457
Long term loan borrowings	-	-
Finance lease liabilities	-	(949)
Change in non-controlling interests		8
Dividend payment to non-controlling interests	(214)	-
Issue of Capital Securities	-	30 466
Repayment of Capital Securities (additional tier1 capital)	(35,225)	-
Net cash outflow from financing activity	**(14,427)**	**21,625**
Net (decrease)/increase in cash and cash equivalents	(78,723)	33,946
Opening balance of cash and cash equivalents	213,974	180,028
Closing balance of cash and cash equivalents	**135,251**	**213,974**
Breakdown of cash and cash equivalents:		
Cash on hand	4,327	3,017
Balances with the National Bank of Hungary	60,635	162,749
Due from banks with a maturity of less than 90 days	70,289	48,208
Closing balance of cash and cash equivalents	**135,251**	**213,974**
Supplementary data		
Income tax paid	*(1,478)*	*(2,045)*
Interest received	*29,276*	*47,669*
Interest paid	*(19,384)*	*(32,529)*

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Notes	Share capital	Treasury shares	Share premium	Share option reserve	Additional tier 1 capital	Change in fair value of fin. assets available-for-sale	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Share-holder's equity
1 January 2015		**6,600**	**(207)**	**1,709**	**-**	**31,749**	**18**	**14**	**24,448**	**23,717**	**88,048**
Capital increase		4,249		26,217							30,466
Loss for the year									(8,304)	(2,245)	(10,549)
Other comprehensive income	12						566				566
Change in non-controlling interests									(7)	49	42
Dividend payment to NCI										(41)	(41)
1 January 2016		**10,849**	**(207)**	**27,926**	**-**	**31,749**	**584**	**14**	**16,137**	**21,480**	**108,532**
Loss for the year									(11,048)	(4,454)	(15,502)
Other comprehensive income	12						27	(16)			11
Settlement of additional tier 1 capital						(31,749)			(3,476)		(35,225)
Change in non-controlling interests											-
Dividend payment to NCI										(214)	(214)
31 December 2016		**10,849**	**(207)**	**27,926**	**-**	**-**	**611**	**(2)**	**1,613**	**16,812**	**57,602**

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE BANK

FHB Mortgage Bank Public Limited Company ("FHB" 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 within the Republic of Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

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

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

FHB Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. 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 no listed on the Budapest Stock Exchange.

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

In 2013, FHB Mortgage Bank managed several acquisitions, there through broadened the Banking Group and the range of activities.

The Bank signed a contract in July 2013 to buy 99,9% of ordinary shares of the Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.). The specified contractual conditions required for the effective transfer of the shares were satisfied by the parties on 2 September 2013, so 100% of ordinary shares of Diófa Asset Management went to the ownership of FHB Mortgage Bank.

As a result of several months of negotiations, FHB has signed first a letter of intent, and then on 10 July 2013, a purchase agreement with the shareholders of Díjbeszedő Holding Ltd. ("DBH"), to the business shares of FHB Invest Ltd. (former Díjbeszedő Operational and Service Limited Liability Company; hereinafter the "DÜSZ") that come into being after a demerge from DBH. In course of the demerge DÜSZ owns 51% of the shares of Díjbeszedő Faktorház Co. Plc. (“DBF”), 75% of the shares of DíjNET Ltd. and 50% of the shares of Díjbeszedő Informatikai Lld (“DBIT”).

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

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

According to the strategic cooperation between FHB Group and Magyar Posta, the DBFA, DíjNET, DBIT and MPBSZ Ltd. are jointly controlled companies by direct control of FHB Invest Ltd., which means 50% of influence of jointly controlled companies, independently of proportion of ownership interests. On 24 January 2014, the National Bank of Hungary gave the necessary permission, FHB Invest Ltd, DBF and the MPBSZ Ltd. are under prudential supervisory.

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. after the permission of National Bank of Hungary.

Based on the Act CXXXV of 2013 on integration of cooperative financial institiutions 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) on 23 September 2015.

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 Takarékbank Ltd.

As parent company of FHB Group, the Mortgage Bank exercises its rights over the Group companies.

The consolidated financial statements for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 4 April 2017. The final approval on the consolidated financial statements is provided by the General Meeting.

2. ACCOUNTING POLICIES

2. 1. *Basis of preparation*

The consolidated financial statements have been prepared on a historical cost basis, except for financial investments available-for-sale and held for trading, investment property, derivative financial instruments and financial liabilities measured at fair value through profit or loss, that have been measured at fair value.

Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

2. 2. *Change in accounting policies*

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2016

The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretation has not led to any material changes in the Group's Consolidated Financial Statements.

New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The application of IFRS 15 might have no significant impact on the group financial statement.

The Bank Group has been preparing for the transition to IFRS 9 since 2016, whereby those subject matters has been identified which may cause significant differences compared to the approach of IAS 39. These subject matters are the following: classification of financial assets, business model tests, modelling techniques for impairment based on expected credit losses, and for incorporating forward-looking information, the evaluation of financial assets on which the credit risk has increased significantly since initial recognition, and the approach to hedge accounting. The scheduling of IFRS 9 transition and adequate test runs facilitate the Bank Group to be able switch to IFRS based bookkeeping on 01. January 2018 and be able to provide high quality IFRS 9 information after the transition.

Classification of financial assets and business models

The Bank Group will apply the exemption provided by IFRS 9 Chapter 7 which allows to accomplishing SPPI and business model test with the consideration of facts and circumstances that exist at the date of transition, therefore on 01. January 2018. With the involvement of consultants the Bank Group preliminary reviewed the classification requirements of IFRS 9 related to SPPI and business model tests. As a combined result of these tests, examined to which category should the financial assets be classified. The Bank Group performed this analysis for those financial assets which are not anticipated to be derecognised until the IFRS 9 transition. The whole portfolio was divided to homogenous parts along to relevant classification requirements of IFRS 9 to enhance the efficiency of the analysis. Based on the facts and circumstances existed on the date of analysis the Bank Group divided its portfolio and examined which business model is prevailing for different sub portfolios. As a result of the preliminary classification analysis the Bank Group gained a comprehensive view from those financial instruments which are differently treated under IFRS 9 than under IAS 39.

Modelling techniques for impairment based on expected credit losses, and for incorporating forward-looking information

The Bank Group preliminary reviewed the IFRS 9 specific requirements for impairment and the main differences compared to IAS 39. The aim of the Bank Group is to use all reasonable and acceptable information which is relevant for individually and collectively measured exposures and essential for performing IFRS 9 implementation reasonably and consistently. The Bank Group performed those segmentations on existing portfolio which facilitate the application of impairment requirements, and specified those risk management related definitions which are not exhaustively defined under IFRS. The Bank Group has planned the changes of methodology for individual and collective loss allowances and the implementation of expected credit loss model. The forward-looking information has an important role in the process of evolving impairment models. The Bank Group is examining the feasibility of implementation of multi-scenario impairment methodology required by IFRS 9. The Bank Group examined the IFRS 9 staging requirements and determined those indicators which facilitate to assess whether credit risk has increased significantly since initial recognition or whether the financial asset becomes credit impaired.

The approach to hedge accounting

The Bank Group compared the hedge accounting related requirements of IFRS 9 to actually applied IAS 39 requirements. As a result of the comparison, the Bank Group assessed the opportunities and difficulties provided by each standards. The Bank Group currently examines the following opportunities provided by IFRS 9, and as a result of the examination a decision will be made whether to switch to IFRS 9:

- hedging of group of items
- portfolio hedge / macro hedging
- hedge of components
- rebalancing
- new potential methodology of hedge effectiveness measurement

New methodology prohibits the voluntary discontinuation of hedge accounting when the risk management objective for a particular hedging relationship remains the same and all the other qualifying criteria are still met.

Based on the aforementioned description, the IFRS 9 implementation is being accomplished as scheduled by work team set up by Bank Group during 2016, where both accounting and risk management delegated experts engage in.

Standards and Interpretations issued by IASB, but not yet adopted by the EU

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 “Share-based payment**” – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 4 “Insurance contracts**” – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 “Financial Instruments” is applied first time).
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 40 “Investment property”** – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after 1 January 2018).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the Consolidated Financial Statements of the Group in the period of initial application.
Hedge accounting for a portfolio of financial assets and liabilities, whose principles have not been adopted by the EU remains unregulated.
According to the Group`s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the Consolidated Financial Statements, if applied as at the end of the reporting period.

2.3 Currency of the consolidated financial statements

Unless otherwise stated, the consolidated financial statements are presented in million of Hungarian forint (HUF), the Hungarian forint is the functional and presentation currency used by Bank and each of its subsidiaries with registered office in Hungary. The functional currency of the Croatian company belonging to the Bank is the Croatian kuna (HRK). The functional currency of the German branch of FHB Commercial Bank Ltd. is the Euro (EUR).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries as at 31 December 2016.

Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss the majority of the members of the Board of Directors.

Consolidation involves all of the subsidiaries as of the day of acquisition of control. Consolidation of the subsidiaries ceases when the Company loses control of the subsidiaries. Control achieved when the Bank has power over the investee, is exposed, or has rights, to variable returns from its involvement with investee, and has the ability to use its power to affect its return.

The effects of all material intercompany balances and transactions are eliminated. In 2016 the Bank had eleven (including the branch) directly or indirectly owned subsidiaries, nine of them registered in Hungary and one branch in Germany (FHB Commercial Bank Ltd. Niederlassung Frankfurt). The FHB Group acquired the DÜSZ Group and the Diófa Alapkezelő Ltd. and founded the FHB Kártyaközpont Ltd. in 2013. The expanding of FHB Group continued in 2014 with the Magyar Takarék Befektetési és Vagyongazdálkodási Ltd., the associated company, and its subsidiary Magyar Takarékszövetkezeti Bank Ltd. (Bank of Hungarian Saving Cooperatives, ”MTB”). MTB has 3 subsidiaries and 62 controlled companies (controlled by MTB and Integration of Savings Cooperatives). The joint ventured companies and associates are consolidated using the equity method. According to the strategic cooperation in case of the jointly controlled companies there is 50% of influence, independently of proportion of ownership interests.

Notes to the Consolidated Financial Statements

The list of the subsidiaries, joint ventures (joint control with Hungarian Post Ltd.) and associates of the Bank as at 31 December 2016 is the following:

Companies included in the consolidation	Main shareholder***	Core business	Relation-ship *
FHB Commercial Bank Ltd.	FHB Mortgage Bank Plc. 51%	Universal banking services	S
FHB Real Estate Ltd.	FHB Mortgage Bank Plc. 100%	Real estate valuation services, real estate agency and sales	S
FHB INVEST Befektetési és Ingatlankezelő Ltd.	FHB Mortgage Bank Plc. 100%	Own property management, leasing, and operating , facility management	S
Diófa Alapkezelő Ltd.	FHB Mortgage Bank Plc. 89.19%	Fund and property management	S
Magyar Kártya Szolgáltató Ltd.	FHB Commercial Bank Ltd. 99.18%	Providing services related to bank cards, and electronic payment systems	S
FHB Lízing Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 100%	Lending and leasing	S
Central European Credit d.d. (Croatia)	FHB Lízing Ltd. 100%	Lending	S
FHB DWH Ltd.	FHB Lízing Ltd. 100%	Data processing and web-hosting	S
Diófa Ingatlankezelő Ltd.	Diófa Alapkezelő Ltd. Ltd. 100%	Real estate management	S
Kary-villa Real Estate Investment Ltd.	FHB Real Estate Ltd. 100%	Sale of own properties	S
Díjbeszedő Faktorház Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 51%	Purchasing, handling and collection receivables of retail customers	JV
Díjbeszedő Informatikai Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 50%, Díjbeszedő Holding Ltd. 50 %	Providing IT services primarily to the members of Díjbeszedő Group	JV
Magyar Posta Kártyaközpont Ltd.	Díjbeszedő Holding Ltd. 50,05%	Providing services related to bank cards, and electronic payment systems	JV
DÍJNET Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 51%	Providing electronic bill payment services	JV

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Companies included in the consolidation	Main shareholder***	Core business	Relation-ship *
Magyar Posta Befektetési Szolgáltató Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 50%, Magyar Posta Ltd. 50%	Selling investment products	JV
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.	FHB Mortgage Bank Plc. 25,099%	Property and real estate management	A
Magyar Takarékszövetkezeti Bank Ltd.	Magyar Takarék Befektetési és Vagyongazdálkodási Ltd. 54,82%	Credit institution, the central bank of the integration of Savings Cooperatives	A
Takarék Faktorház Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 100%	Providing full factoring services	A
Takarékszövetkezeti Informatikai Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 52,38% SZHISZ** 47,62%	The leading IT service provider of the integration of Savings Cooperatives – as outsourced activity – primarily provides IT system operation and system integration services in the field of banking IT	A
Banküzlet Vagyonkezelő és Hasznosító Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 48,99% Saving Cooperatives shares 29,92% SZHISZ** 29.01%	Debt collection, debt recovery, intermediation of financial services	A
MTB Ingatlan Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 100%	Sale of properties	A
MA-TAK-EL Magyar Takarék Ellátó Ltd.	FHB INVEST Befektetési és Ingatlankezelő Ltd. 40%, Magyar Takarék Befektetési és Vagyongazdálkodási Ltd. 40%	Providing bank security, facility management and other operating services excluding IT services	A
Finity Ltd.	MA-TAK-EL Magyar Takarék Ellátó Ltd. 100%	business / other management consulting services	A

*** "SZHISZ" = Integration of Savings Cooperatives***

****** % in the column = the ownership of the main shareholder***

All figures in tables are in HUF million except otherwise noted

Joint ventures according to the strategic cooperation with Hungarian Post Ltd., without the ownership of FHB:

Companies included in the consolidation	Main shareholder	Core business	Relation-ship *
EPDB Nyomtatási Központ Ltd.	Díjbeszedő Holding Ltd. 100%	Supplying post production and printing	JV
Díjbeszedő Holding Ltd.	Magyar Posta Ltd. 100%	Providing fee collection, bill delivery, purchasing receivables, printing and IT development services related to the billing for utilities, banking and telecommunication sector players with large retail customer base	JV

**Relationship: "S"=subsidiary, "JV"= joint venture;"A"=associate*

Controlled companies of MTB and Integration of Savings Cooperatives (SZHISZ), without the ownership of FHB, where MTB and SZHISZ have significant influence:

Companies included in the consolidation	Shareholder	Core business
3A Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
AGRIA Bélapátfalva Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
AZÚR TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
B3 TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bácska Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Boldva és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bóly és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Borotai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
BORSOD TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bükkalja Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
CENTRÁL TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Dunaföldvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Dunakanyar Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Eger és Környéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Endrőd és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Észak Tolna Megyei Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Fegyvernek és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Felsőzsolca és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Fókusz Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Főnix Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Füzes Takarék Szövetkezeti Hitelintézet	owners outside the scope of consolidation	Savings Cooperative
Gádoros és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Gyulai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hajdú Takarék Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hajós és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hungária Takarék Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Jászárokszállás és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kelet Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kevermes és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kinizsi Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
Kis-Rába menti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kondorosi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Lövő és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
M7 Takarék Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Mátra Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
MECSEK TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Mohácsi Takarék Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Nyírbélteki Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Örkényi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pannon Takarék Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
Pannonhalma és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pátria Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pilisvörösvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pillér Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rábaközi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rajka és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rónasági Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Sajóvölgye Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
SAVARIA Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szabadszállás és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szabolcs Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szarvas és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szeghalom és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szegvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szendrő és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szentlőrinc-Ormánság Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szerencs és Környéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szigetvári Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Téti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Újszász és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zala Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zomba és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

2.5 Rounding

When rounding to thousands, anything above the midpoint of HUF 500 is rounded up and anything below and including the midpoint is rounded down. When rounding to millions, anything above the midpoint of HUF 500,000 is rounded up and anything below and including the midpoint is rounded down.

2.6 Summary of significant accounting policies

a) Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents

- Financial assets at fair value through profit or loss:
  - Securities held for trading
  - Derivatives classified as held for trading
  - Financial assets designated at fair value through profit or loss

- Loans and receivables:
  - Balances with the National Bank of Hungary
  - Due from banks
  - Refinanced mortgage loans
  - Loans and advances to customers
  - Finance lease receivables

- Financial assets available-for-sale

The Bank groups the recognised financial liabilities as follows:

- Financial liability instruments at fair value through profit or loss:
  - Derivatives
  - Financial liabilities designated at fair value through profit or loss

- Financial liabilities measured at amortised cost (other financial liabilities):
  - Due to banks
  - Customer deposits
  - Government loans
  - Issued bonds
  - Finance lease liabilities

b) Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.

c) Securities held for trading

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.
Included in this classification are debt securities and loans to customers that have been acquired principally for the purpose of selling or repurchasing in the near term depending on the market price.

d) Financial assets available-for-sale

The Bank reports the debt securities as available-for-sale that are not purchased for a pre-determined period as it does not intend to trade them nor hold them until maturity but may sell them any time depending on the market, with a view to improving liquidity.

The Bank measures financial assets available-for-sale at fair value. In cases where the market value is not available the fair value of securities is reported as the discounted present value of estimated future cash payments. In cases where the unrealised gains and losses resulting from remeasurement are reported in equity in the other comprehensive income item.
At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset available-for-sale is impaired. If the impairment test shows a potential significant loss or that is expected to prevail over a long term, the Bank derecognizes loss from the other comprehensive income and reports it directly in the statement of profit or loss. If the market value of financial assets available-for-sale recovers in the coming years, the impairment will be reversed, depending on the type of instrument (in profit or loss or in other comprehensive income depending on whether it is debt or equity instruments).
Interest on financial assets available-for-sale is determined by using the effective interest rate method (see in detail later 2.6 dd)). Changes in the carrying amount of available-for-sale monetary financial assets relating to foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity instruments are recognised in consolidated statement of profit or loss. Derecognition of financial assets available-for-sale is based on the FIFO method.

e) Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, partner banks sell independent and separated liens (which are used as collateral for housing loans) to the Bank. The independent and separated lien is then sold back to the partner banks such way that the repurchase of the independent lien is scheduled to mirror the principal repayment schedule of the particular mortgage loan of the partner bank's customer. The instalment from the partner banks is due irrespective of whether or not the partner bank receives repayments from its customer.
The individual mortgage loans of the partner banks' customers that are refinanced are in conformity with the relevant statutory requirements (being that these loans are performing). The classification is made, impairment is reported and receivables from the clients is reported for these individual loans by the partner banks. Refinanced mortgage loans are classified as performing because by purchasing the independent and separated lien the Bank gives a long-term loan to the partner commercial bank and the client risk is entirely borne by the partner banks, the risk the Bank bear is the credit risk of the partner banks.
Refinanced mortgage loans are presented at amortized cost less impairment losses (if any).

f) Loans and advances to customers

Loans provided directly to customers are reported as loans and advances to customers and are measured at amortized cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.
All loans and advances are recognized upon their disbursement.

g) Restructuring of loans

In cases of serious default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Group doesn't measure any significant gain or losses on the restructuring loans.

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
Most of the lease contracts are restructured loans and therefore the provision is set up the same way as at a restructured loan. In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the new State program, see note 2.9) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

h) Impairment losses on loans

On the balance sheet date the Bank group assesses loans and advances to clients and determines whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment on a particular loan or a group of similar loans is recognized if their book value is greater than the estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The impairment for significant loans is assessed individually. For those loans that are of insignificant in their individual amounts the Bank assesses impairment on a portfolio basis, taking into consideration the type and the classification of the loan, non-performance history and losses.
The Bank writes off loss on loans and advances when borrowers are unable to fulfil their obligations to the Bank and when relevant evidence has been obtained through the appropriate legal proceedings.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The impairment of loans and advances are recognized as credit loss expenses. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the 'Credit loss expense'.
The Group applies individual evaluation for receivables from non-retail customers, reverse mortgage transactions and certain receivables of FHB Lízing Ltd.
In the course of individual evaluation the credit rating department and decisive management evaluate wholly all observable information during definition of rating classes and amount of impairment, mainly amount of receivables, default, foreclosures, debtor's payment discipline, attitude, etc.
The Group applies collective and statistical evaluation in cases of covered receivables from retail customers and overdraft receivables from retail customers.
The Group applies collective and simplified evaluation in cases of uncovered receivables except of overdraft receivables.

i) Leases

Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets.

The Bank as lessee
In the context of operative lease schemes the lessor does not essentially transfer the Bank all risks and benefits associated with ownership. Lease payments pursuant to an operative lease transaction are recognized in the expenditure item on a straight-line basis throughout the terms of the lease. Contingent lease fees are recognised as expense when incurred.

Asset held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

The Bank as lessor
Leases where the Group transfers substantially all the risks and rewards incident to ownership of the asset to the lessee are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payment using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in interest income in the statement of profit or loss.

j) Acquisitions and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized assets) and liabilities (including contingent liabilities) of the acquired business at fair value. A negative difference is recognised directly in the earnings for the year of the acquisition. Goodwill is measured as the excess of the sum of the consideration transferred the amount of any non-controlling interests in the acquiree, and the fair value

of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
Initially goodwill is measured at cost. Following initial recognition, the Bank runs an impairment test annually and measures goodwill at cost less any accumulated impairment.
An asset is identifiable if it is separable or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
If the subsidiaries acquired are later disposed of, the difference between the selling price and the net assets plus cumulated translation difference and goodwill is recognized in the statement of profit or loss.

k) Investment property

Investment properties are initially reported at cost, taking transaction costs into consideration. Cost includes purchase price and any other direct expense related to the transaction. Direct expenses include, for instance, fees paid for legal services, property transfer tax and other transaction costs. Subsequent to initial recognition investment properties are remeasured at fair value.

l) Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any. Depreciation is charged to the statement of profit or loss in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Real estate	2%
Leasehold improvement	6%
Equipment and furniture	9% - 33%
Software	10% - 33%
Rights representing assets	3.5% - 16.7%
Agency cooperation	5% - 7%
Hardware	33% - 50%
Vehicles	20% - 33%
Other fixed assets	9% - 14.5%

Intangible assets have a definite useful life, excluding goodwill.

m) Impairment of non-financial assets

On the balance sheet date the Bank assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Bank estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators.

All figures in tables are in HUF million except otherwise noted

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

n) Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.

Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.

Derivatives include forwards, futures, swaps and options.

o) Hedge transactions

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

Upon concluding the hedge contract the Bank drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets forth the method of measuring hedge effectiveness.

Once the hedge is established as relationship, the Bank assesses whether the hedge transaction is expected to be effective in the long term in meeting the fair value attributable to the risk hedged or in offsetting cash flow changes. Hedges are reviewed by the responsible banking department on a quarterly basis. A hedge transaction is considered effective if, as a result, the fair value attributable to the risk hedged or the cash flow change offset by the hedge is within a range of 80-125% in the period to which the hedge refers.

For the purposes of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

There are no net investment hedges in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Comprehensive Income Statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in the other comprehensive income item. The gains or losses on effective cash flow hedges recognized initially in other comprehensive income are either transferred to the statement of profit or loss in the period in which the hedged transaction affects the statement in the profit or loss, or are included in the initial measurement of the cost of the non-financial related asset or liability. The ineffective portion is recognized in the statement of profit or loss.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net profit/loss for the period.

For hedges, which do not qualify for hedge accounting (economic hedges), any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of profit or loss for the period.

The following lines in the profit or loss statement contain the gains or losses in connection with the hedging instruments of hedges (swaps):
(a) Interest income or interest expense
(b) Gains or losses from foreign exchange transactions
(c) The remaining change from fair value adjustment in Change in fair value of derivatives

p) Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The rates applied are in accordance with the provisions of the Hungarian taxation law.

q) Deferred taxes

Deferred tax is provided on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. All deferred tax liabilities are recognized. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which it can be utilized. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current taxes liabilities and the deferred tax relate to the same company and the same tax authority.

r) Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:
- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

s) Financial liabilities carried at amortized cost

The Bank has the following financial liabilities to finance its business: issued mortgage bonds, issued bonds, loans from the Hungarian state, interbank loans and customer deposits.
Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortized cost. At initial measurement, they are recognized at fair value. After initial measurement, they are carried at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

t) Financial liabilities carried at fair value other than derivatives

On initial recognition the management designates the financial liabilities into financial liabilities designated at fair value through profit or loss category. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- the liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks). Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Change in fair value of derivatives'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR).

Included in this classification are mortgage bonds and bonds issued which are managed on a fair value basis, where the nominal value represents the contractually required payments. The change in fair value other than movement in portfolio or currency represents credit risk.

u) Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when it is due in accordance with terms of a debt instrument.
Financial guarantee contracts are initially recognised in the financial statements within 'Provisions' at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Credit loss expense'.

v) Derecognizing of financial instruments

A financial asset (or a part of a financial asset or a group of financial assets) is derecognized when

- the rights under contract related to the cash flows from the financial asset cease; or
- the rights under contract related to the cash flows from the financial asset are transferred; or an obligation is undertaken by virtue of a transfer agreement to pay the cash flows from the financial asset to third parties; and
- the Bank has transferred substantially all risks and rewards of the asset; or
- the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has transferred control of the asset.

If the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has retained control of the financial asset, it continues to recognize the transferred asset in proportion to its continuing involvement. The rate of continuing involvement in a transferred asset is the Bank's rate of exposure to the risks associated with changes in the value of the transferred asset.

When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.

A financial liability (or a part of a financial liability) is derecognized when it ceases, is executed or matured. Exchange or partial exchange of existing financial liabilities or a part thereof with significantly different terms and conditions or significant modification of its terms and conditions is also considered as cessation of the financial liability and is reported as a new financial liability, taking the relevant part of IAS 39. The difference between the book value of, and the consideration paid for financial liabilities (or a part thereof) that ceased or have been transferred to third parties is reported in the profit or loss.

w) Repurchase and reverse repurchase transactions

The Bank purchases securities under agreements to resell at a specified future date, these securities are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Due from banks', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the effective interest rate.

The Bank does not report securities provided to repo as a separate item in the balance sheet, only in the Notes.

x) Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities related to business combinations is recognized in other operating expense.

y) Short term employee benefits

Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

z) Long term employee benefit plans- pensions

In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions (mandatory contribution) and other personnel expenses (voluntary contribution) and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

aa) Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. Treasury shares are accounted for at weighted average cost. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss.

bb) Share-based payment

The Bank has developed a share option scheme to remunerate its Directors, executives and specific managers for their services. The scheme involves transfer of treasury shares at a discount.

The Bank reports share option benefits extended in shares at the fair value on the day the benefit was approved by the Annual General Meeting (AGM), calculated by means of the methodology described in Note 34, in accordance with IFRS 2, Share-base Payment. The fair value of shares involved in the share option scheme but not yet delivered is recognized as expenditure (other personnel costs) as a separate line item against share option reserve under shareholders' equity for the period the benefit is earned.

The cumulative expenditure on share option is based on the period earned until the balance sheet date and the Bank's estimate regarding the number of shares earned. In the case of treasury shares provided with market terms the Bank recognizes proceeds received from a party who meets all other requirements of earning irrespective of whether the market requirement is met or not.
Regarding the share-based payments from 2015 the following rules come into force. The entitled person may exercise his option in the period of 3 years from the general meeting closing the business year given. In the first year of the entitlement the person shall be entitled to draw maximum 60% of the option, and one year after the first drawing, the person shall be entitled to draw maximum 20%, and after another year, the person shall be entitled to draw the 20% of the option left.

cc) Income and expenditure

Interest income and interest expenditure (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.
The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or

incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees directly related to loans are reported in the calculation of effective interest rate. Fees referring only to a particular period are accrued. Fees attached to particular deliveries are considered as a lump sum once the criteria are met.

dd) Interest subsidy

State interest subsidy

Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond’s interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond’s interest subsidy being based indirectly on the bank’s costs (mortgage bond’s interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy).

Both types of subsidies are presented in the Bank’s revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

A new Hungarian legislation became effective from 1 January 2007 under which a 5% withholding tax is to be paid for the interest income on subsidized mortgage loans. This additional tax is reported in ‘General and administrative expenses’.

Mortgage bond interest subsidy

The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

i. Mortgage loans granted by the Bank or with partner banks; and
ii. Independent and separated liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily balance of subsidized loans or mortgage bonds.

Supplementary interest subsidy

The amount of supplementary interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the client. The monthly interest subsidy is one-twelfth of the prevailing subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

ee) Contingent liabilities / contingent assets

Consequent to the Group's business, contingent liabilities are not recognized in the financial statements but are presented in the Notes. They are disclosed unless the possibility of an outflow of resources embodying financial gains is remote. Contingent liabilities are reported in the balance sheet when it becomes probable.

Likewise, a contingent asset is not recognized in the financial statements but disclosed when an inflow of financial gains is probable.

ff) Post balance sheet events

Post-balance sheet events that provide additional information about a Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the Notes when material.

gg) Segment information

An operating segment is a component of an entity:
(a) that engages in business activities from which it may earn revenues and incur expenses;
(b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
(c) for which discrete financial information is available.
Operating segments can engage in business activities that have not yet generated income; for instance foundation related transactions can be pre-income operating segments.

The Bank takes the following factors into consideration when determining whether services are interconnected: nature of services, type or group of clients buying the services, methods applied in the course of service provision, and the regulatory environment. The Bank presents each segment whose contribution to (internal and external) revenue, earnings or balance sheet total is material, in consideration of other material provisions of IFRS 8 (Note 53). The data related to the business segments of own lending and refinancing, are separated in the balance sheet (under Notes 18 and 19) and in the statement of profit or loss (under Note 4).
Geographical segmentation has also been analyzed. Since the revenue, earnings or balance sheet total of the German branch office and the Croatian subsidiaries are under 10%, no presentation of geographical segmentation has been made.

hh) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

ii) Foreign currency translation

The reporting currency of the Bank is HUF referred to 2.3.

The Bank and its subsidiaries recognize initially currency transactions in their functional currency valid on the transaction day. Monetary assets and liabilities denominated in currencies other than the company's functional currency are converted to the functional currency at the exchange rate on the balance sheet date. Any difference is reported in the profit or loss. Items other than monetary reported at cost are converted at the rate on the initial day of the transaction. Non-monetary items reported at fair value are converted at the rate on the date fair value was determined.

In the course of consolidation, assets and liabilities of foreign companies are converted to HUF on the reporting date at the NBH rate on the balance sheet date. Items of the profit or loss statement are converted at the annual weighted NBH rate. The currency difference is reported in other comprehensive income. The currency difference is released from other comprehensive income and transferred to profit or loss when the foreign company is dissolved or sold.

jj) Trade date and settlement date accounting

A regular purchase or sale of a financial asset is recognized on the date of delivery. Exemptions are derivatives where recognition of purchase is done on the day when the deal is contracted. The date of settlement is the day on which the Bank Group takes possession of the asset. A regular sale or purchase transaction is a transaction where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

kk) Bank tax

In August 2010 the Hungarian Parliament approved an Act called the "bank tax". Each financial institution that already had a closed financial year and related financial statements on 1 July 2010 is subject to assessment and payment of this bank tax.

For 2016 and 2015 the basis and rates are uniformly based on statutory reported financial data of the reporting entity as at and for the period ended 31 December 2009, which can be decreased by decreasing items under the Act.

The amount of Bank tax does not include any decreasing items in 2016 and in 2015.

The Bank tax is presented as other operating expense in the Consolidated Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

2.7 Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires using of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions the actual results may differ from those estimates. Estimates are applied in the following areas:

Going concern

The Bank's management assessed the Bank's capabilities to continue operation and found that the Bank has the resources necessary for continued operation in the foreseeable future. Furthermore, the management is not aware of any significant uncertainty that might raise serious doubts in respect of the Bank's ability to exist as a going concern.

Fair value of financial instruments

In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 37)

Share-based payment

When establishing the fair value of shares involved in the share option scheme the Bank assesses the allocation condition, the allocation price, and compliance with the trading and profit objectives. (Note 34)

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 11)

Loan impairment test and its result

The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.

For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of other assets

The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.

When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.

Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

For more details see Notes 22 and 23.

Investment property marked to market

Investment properties are initially reported at cost, taking transaction costs into consideration. The Bank prepares a yearly assessment based on a mainly statistical basis using comparable market prices to assess the market value of that part of the investment property portfolio that was not recognised during the current period. Based on the assessment the difference between the carrying amount and the assessed market value of the real estates in the portfolio is determined. In case the average variance on the tested portfolio specimen is less than 10%, the assessed market value is not recognised in the statement of profit or loss. In case the average variance of the tested portfolio specimen exceeds 10%, the variance in the carrying amount of the real estate is recognised against the statement of profit or loss for solely those investments where the variance is individually greater than 10%. Revaluation is always done by qualified and experienced experts.

2.8 Reclassification and error

After the balance sheet date of the consolidated financial statements of 2015 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

2.9 Changes in the legal and regulatory environment and its effect on the financial statements of the Group

On 1 September 2015 entered into force Act CV of 2015 on the debt settlement of natural persons (personal insolvency act) aim to pay off the loans and instalments of indebted natural persons using the necessary wealth and income, re-establish the solvency - out of court and / or in court debt settlement proceedings - according to the statutory frameworks of the act. Actually the Bank Group has 48 in-process debt settlement proceeding.

From 1 July 2015 Home-admittance Subsidy of Families (Családi Otthonteremtési Kedvezmény, “CSOK”) is available with the aim of - as former version - supporting the families with children for the home-admittance, but the subsidy contains significant innovations compared to the previous subsidy of social policy. The non-reimbursable one-time grant is applied for new home purchase, construction, purchase of a second hand home and extension. The subsidy is depends on several factors, for example the number of children, useful floor area and energy rating of house.

Since 30 June 2015 FHB Group started among firsts to provide the newly introduced, for broader number of people relevant Home-admittance Subsidy of Families (Családi Otthonteremtési Kedvezmény, CSOK) and there was a huge demand for the new subsidy in 2015. As a result of Home-admittance Subsidy of Families (CSOK) more than 2,400 requests were accepted and, out of that, almost 1,700 remittances were performed in the sum of 4.4 billion HUF from the commencement of the program in June 2015 to December 2016. More than 50% of requests were associated with loan applications which were requested by our customers.

3. CHANGE IN ESTIMATES

There are not any significant areas, where there is any material change in estimates.

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2016	2015
Interest income		
Loans and advances to customers	19,493	22,453
Refinanced mortgage loans	4,878	7,234
Due from banks	1,137	3,847
Interest income on assets carried at amortised cost	*25,508*	*33,534*
Securities held for trading	1,615	1,025
Financial assets available-for-sale	1,260	1,334
Interest on derivative transactions	359	5,266
Interest income on assets carried at fair value	*3,234*	*7,625*
Total	**28,742**	**41,159**

Accrued interest receivable on impaired loans amounted to HUF 50 million (2015: HUF 479 million).

	2016	2015
Interest expense		
Mortgage bonds	9,673	11,506
Due to banks	115	141
Interest paid on deposits	2,369	4,615
Interest on bonds	2,906	5,108
Interest expense on leases	-	85
Interest expense on liabilities carried at amortised cost	*15,063*	*21,455*
Interest on derivative transactions	949	3,334
Mortgage bonds	474	1,171
Interest on bonds	-	571
Interest expense on liabilities carried at fair value	*1,423*	*5,076*
Total	**16,486**	**26,531**

The interest income from loans and refinanced mortgage loans includes HUF 4,290 million interest subsidy in 2016 (2015: HUF 6,323 million).

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	2016	2015
Fee and commission income		
Mortgage loans of the Bank	598	581
Refinanced mortgage loans*	1,097	166
Handling commission	150	110
Real estate appraisal fee	300	219
Deposit fee income	3,375	3,027
Agency fee income	371	404
Card business	1,525	1,362
Investment services	1,796	1,589
Postal giro (PEK) commission	469	466
Other	495	428
Total	**10,176**	**8,352**

**Include one-off fees related to repayment of refinanced loans of AXA Bank.*

	2016	2015
Fee and commission expense		
Investment services	848	214
Agency fees and commissions	493	418
Card business	651	497
Fees and commissions to banks and to clearing house	205	195
Surety / guarantee fee	-	1
Other	15	9
Total	**2,212**	**1,334**

6. OTHER OPERATING INCOME

	2016	2015
Income from sold property	25	-
Income from damages compensations received	428	142
Rental income on property	173	179
Invoiced expenses and services	791	620
Reversal of provision	235	-
Income from gained cause	-	95
Other	564	361
Total	**2,216**	**1,397**

All figures in tables are in HUF million except otherwise noted

7. OTHER OPERATING EXPENSE

	2016	2015
Bank tax (detailed in a) below)	4,189	5,457
Impairment of non-financial assets	1,107	30
Provision for expected liabilities (Note 31)	908	164
Donation	32	35
Tax penalty, late penalty	215	153
Supervisory and other fees	1,147	798
Loss on sold inventory	10	223
P&L effect of settlement and forint conversion in other operating expense	654	4 313
Other	943	218
Total	**9,205**	**11,391**

a) Bank tax

The amount of Bank tax booked for 2016 by group members is detailed in the following table:

	2016
FHB Mortgage Bank Plc.*	1,144
FHB Commercial Bank Ltd.**	3,010
FHB Lízing Ltd.	35
Total	**4,189**

*Include the contribution payable by credit institutions, based on the Paragraph 4/B. of Act LIX. of 2006.
**Include the contribution payable by credit institutions, based on the Paragraph 4/B. of Act LIX. of 2006 and the obligation of financial transaction levy, based on the Act CXVI. of 2012.

All figures in tables are in HUF million except otherwise noted

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016	2015
Staff costs	9	7,883	6,680
Marketing and advertising		894	956
General and administrative costs		2,195	2,379
Rental fee	10	1,088	1,113
Depreciation	22	341	446
Amortisation	23	134	1,264
Consultancy fees		785	877
Maintenance costs		5,371	4,133
Other taxes		96	56
Insurance fees		31	52
Database system usage		267	220
Other		460	588
Total		**19,545**	**18,764**

9. STAFF COSTS

	2016	2015
Wages and salaries	5,545	4,707
Social security contribution	1,681	1,425
Other personnel related payments	657	548
Total	**7,883**	**6,680**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The consolidated full time head count of the Bank at the end of the reporting period was 996 (2015: 864).

All figures in tables are in HUF million except otherwise noted

10. RENTAL FEE (OPERATING LEASE)

Non-cancellable operating leases

The operating lease agreement of the registered office expires on 31 December 2019.

	31 December 2016	31 December 2015
	Minimum lease payments	Minimum lease payments
Within 12 month	2,304	2,511
Between 1 and 5 years	1,846	2,434
Over 5 years	775	775
Total	**4,925**	**5,720**

	Minimum lease payments	Contingent rents	Sublease payments	Total
Expense in the period 2016	1,108	-	(20)	1,088
Expense in the period 2015	1,130	-	(17)	1,113

All figures in tables are in HUF million except otherwise noted

11. INCOME TAX

	31 December 2016	31 December 2015
Current income tax	**924**	**1,831**
Corporate income tax	112	243
Local business tax	714	1,388
Innovation contribution	98	200
Deferred tax expense/(benefit)	**5,258**	**1,007**
Total	**6,182**	**2,838**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
The Act LXXXII of 2016 on the amendment of Act LXXXI of 1996 on Corporate Tax Act modified the tax rate from 19% to 9%. The modification was announced on 20 December 2016 (effective date 1 Januar 2017).
Based on this information the Group calculated the deferred tax with the 9% tax rate in 2016 and with the 19% tax rate in 2015.

Based on the business plans of the Management the profit of the Group in the foreseeable future will cover the accumulated deferred tax assets from tax loss carry forward. Based on the assumption the recognition of the deferred tax benefits is reasonable.

	31 December 2016	31 December 2015
Loss before tax	*(9,320)*	*(7,711)*
Calculated corporate income tax (19%)	(1,771)	(1,465)
Local business tax and innovation contribution	812	1,591
Effect of local business tax and innovation contribution to the corporate income tax	(155)	(302)
Items modifying the Hungarian tax base	3,451	3,608
Items modifying because of investments accounted for using the equity method	(46)	(123)
Subsidiaries' tax losses not to be carried forward	3	(26)
Effect of deferred tax rate	4,131	-
Effect of other modifications	(243)	(445)
Total income tax expense/(benefit)	**6,182**	**2,838**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

	31 December 2016				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	371	-	371	(822)	-
Revaluation of annuity related investment property	-	-	-	-	-
Annuity costs	-	-	-	-	-
Derivatives	162	-	162	(346)	-
Impairment	(247)	-	(247)	401	-
Suspended interest	(401)	-	(401)	887	-
Acquisition	(41)	-	(41)	51	-
Tax loss carried forward	3,741	-	3,741	(5,440)	-
Effect of consolidation	(632)	-	(632)	20	-
AFS securities	24	-	24	69	(3)
Finance leases	-	-	-	-	-
Deferred tax of foreign subsidiaries	55	-	55	(79)	-
Net deferred tax position	**3,032**	**-**	**3,032**	**(5,258)**	**(3)**

All figures in tables are in HUF million except otherwise noted

	31 December 2015				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	1,193	-	1,193	(241)	-
Revaluation of annuity related investment property	-	-	-	(21)	-
Annuity costs	-	-	-	-	-
Derivatives	508	-	508	322	-
Impairment	(648)	-	(648)	292	-
Suspended interest	(1,287)	-	(1,287)	581	-
Acquisition	(92)	-	(92)	6	-
Tax loss carried forward	9,181	-	9,181	(2,276)	-
Effect of consolidation	(652)	-	(652)	368	-
AFS securities	(44)	1	(45)	17	(133)
Finance leases	-	-	-	(58)	-
Deferred tax of foreign subsidieries	73	-	73	3	-
Net deferred tax position	**8,232**	**1**	**8,231**	**(1,007)**	**(133)**

All figures in tables are in HUF million except otherwise noted

12. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2016	31 December 2015
Other comprehensive income		
Financial asset available-for-sale	30	699
including: change in fair value	45	488
including: reclassification to profit or loss	(15)	211
Foreign currency translation	(18)	-
Deferred tax effect	(1)	(133)
Total	**11**	**566**

Deferred tax effects relating to other comprehensive income

	31 December 2016			31 December 2015		
	Before tax amount	Deferred tax	Net of tax amount	Before tax amount	Deferred tax	Net of tax amount
Other comprehensive income						
Financial assets available-for-sale	30	(3)	27	699	(133)	566
Foreign currency translation	(18)	2	16	-	-	-
Total	**12**	**(1)**	**11**	**699**	**(133)**	**566**

All figures in tables are in HUF million except otherwise noted

13. BALANCES WITH THE NATIONAL BANK OF HUNGARY

Under the Decree No. 10/2005. (11. June) of the National Bank of Hungary (NBH) banks are required to reserve deposit in the NBH, based on the balance/level of their customer deposits and other liabilities/sources which falls under the reserve requirements at a rate of 1% (obligatory).

	31 December 2016	31 December 2015
Short term deposits	45,252	162,084
Nostro account at National Bank of Hungary	15,358	521
Accrued interest for the period	25	144
Total	**60,635**	**162,749**

14. DUE FROM BANKS

	31 December 2016	31 December 2015
Nostro accounts	3,018	2,595
Term deposits	67,238	45,607
Accrued interest for the period	33	6
Total	**70,289**	**48,208**

15. SECURITIES HELD FOR TRADING

	31 December 2016	31 December 2015
Hungarian Government bonds	9,598	7,007
Hungarian Treasury bills	3,996	119
Hungarian Development Bank bonds	22,014	42,902
Mortgage bonds	602	212
Investment notes	188	185
Student Loan Centre Ltd. bond	1,014	506
Bonds issued by MOL Plc.	1,510	982
Foreign bonds	1,812	-
Total	**40,734**	**51,913**

All figures in tables are in HUF million except otherwise noted

16. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2016	31 December 2015
Hungarian Government bonds	11,488	26,352
Hungarian Discount Treasury bills	22,148	15,104
Domestic issued bonds	18,235	19,835
Investment funds	455	460
Foreign bank bonds	11,489	9,316
Equity investments	2,480	2,975
Total	**66,295**	**74,042**

Equity investments include shares of BIF Ltd. for HUF 1,211 million (2015: HUF 1,134 million), shares of DOM-P Zrt. for 705 million HUF, shares of MPT Security Zrt. for 385 million HUF, shares of SZHISZ for 20 million HUF (2015: HUF 20 million), shares of Garantiqa Creditgurantee Ltd. for HUF 30 million (2015: HUF 30 million) as well as SWIFT shares for HUF 1 million (2015: HUF 1 million) and VISA Europe shares for HUF 130 million (2015: HUF 726 million). The investment in DOM-P Zrt. represents 13.91% stake, in BIF Ltd. 10% stake, in MPT Security Zrt. 10% stake, the other investments represent less than 1% stake in the companies. Shares of Garantiqa and SZHISZ measured at cost according to IAS 39.46 (c).

17. SALE AND PURCHASE OF SUBSIDIARIES, CHANGE IN THE GROUP OWNERSHIP INTEREST IN SUBSUDIARIES

Purchase of subsidiaries

There was no purchase of subsidiaries in 2016 and in 2015.

Sale of subsidiaries

There was no sale of subsidiaries in 2016 and in 2015.

Change in the Group's ownership interest in a subsidiary

There was no change in the Group's ownership interest in any subsidiaries in 2016 and in 2015.

18. REFINANCED MORTGAGE LOANS

Act L of 2001, which amended other acts providing for financial organizations, introduced substantial changes to Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, modifying the role of commercial banks in the provision of mortgage loans. The substance of the amendment was, that the self-lien backed receivables appeared as collateral for mortgage bonds, parallel the modified act allowed the sale and purchase of these self-liens themselves. Thus mortgage banks are able to refinance the mortgage loans of commercial banks.

All figures in tables are in HUF million except otherwise noted

The Bank signed contracts with several major Hungarian commercial banks to refinance mortgage loans; hence state subsidized the mortgage loans are available through the entire network of these commercial banks. Later, FHB Mortgage Bank refinanced also market rate (not supported) mortgage loans. In the fourth quarter of 2016 the refinanced portfolio changed significantly due to the sale of the total balance related to one of our refinanced partner bank. The partner bank refinanced loan portfolio also has been transferred to another commercial bank with the effective date of November 1, 2016. The refinanced loan portfolio of the Mortgage Bank decreased by HUF 35.5 billion because of this transaction and amounted to HUF 100.79 billion (with the refinanced loan portfolio of FHB Commercial Bank) at the end of the year. The balance as at 31 December 2016 includes loans disbursed to 27,207 customers (2015: 37,369). The refinanced mortgage loans are provided to seven partner institutions (among them FHB Commercial Bank).

19. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Housing loans	110,464	115,821
General purpose mortgage loans	80,832	94,877
Customer loans and overdrafts	11,190	6,871
Loans to employees	1,299	1,306
Finance lease to retail customers	2,738	2,724
Finance lease to companies	2,120	1,397
Finance lease for capital equipment	4,550	1,313
Loans to companies	104,076	82,792
Corporate capital equipment loan	571	699
Loans gross subtotal	**317,840**	**307,800**
Fair value adjustment of hedged items	43	11
*Accrued part of disbursed loans under Funding of Growth Scheme**	*3,898*	*5,070*
Derecognition	(3,784)	(2,196)
Accrued interest	8,143	10,142
Amortized origination cost	(3,916)	(5,972)
Loans gross total	**318,326**	**314,855**
Loan impairment	(23,853)	(26,557)
Loan portfolio reported	**294,473**	**288,298**

*The disbursed loans under Funding for Growth Scheme started in June 2013. Related to Funding of Growth Scheme the total disbursed loan is HUF 28.5 billion at the end of year 2016. The Bank booked these disbursed loans and the liabilities to NBH at fair value at initial recognition, and accrued the difference between fair value and contractual value until the end of maturity in line with IAS 39 AG76.

Loan impairment based on individual rating: HUF 14,258 million (2015: HUF 6,162 million), based on portfolio rating: HUF 9,595 million (2015: HUF 20,395 million).

All figures in tables are in HUF million except otherwise noted

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

Changes in impairment for credit losses:

	31 December 2016	31 December 2015
Impairment as at 1 January	26,557	38,669
Provision for impairment in the period	10,318	8,284
Exchange rate change of impairment	(104)	2,859
Reverse of impairment for the period	(7,919)	(15,999)
Derecognition due to foreign currency loans conversion to HUF at a fixed rate	(1,588)	(2,196)
Derecognition due to sale of assets	(3,411)	(5,060)
Impairment as at end of period	**23,853**	**26,557**

Breakdown of the credit loss expense for the period

	31 December 2016	31 December 2015
Change of impairment in the period*	2,400	(7,715)
Entries due to consolidation	-	(3)
Losses from the repayment of the loans at a fixed rate	11	6
Written-off loans	1,768	3,002
Loss on loans sold	4,007	5,463
Loss on terminated loans	96	(19)
Charge for commitments	(90)	128
Credit losses on loans and advances	**8,192**	**862**

* The abovementioned change of impairment in the period does not include the derecognition related to forint conversions, the effect of derecognition due to the sale of assets and the foreign exchange difference on impairment (which is recognised on the Profit/(loss) from foreign exchange transactions line in the Consolidated Statement of Profit or Loss).

The aggregate amount of non-performing loans was HUF 34,260 million as of 31 December 2016 (31 December 2015: HUF 47,019 million).
Within the total balance of mortgage loans 99.04% have maturity over five years (2015: 99.05%), exceeding the minimum level of 80% that is required by the Section 5(1) of Act XXX of 1997 on Mortgage Loan companies.

The total outstanding mortgage loan principle does not exceed 70% of the aggregate collateral value of real estate determined at loan disbursement that is required by the Section 5(3) of Act XXX of 1997 on Mortgage Loan Companies. As of 31 December 2016, loan to value is 29.83% (31 December 2015: 32.07%).

All figures in tables are in HUF million except otherwise noted

Finance Lease

	31 December 2016	31 December 2015
Gross investment in the lease	11,642	7,651
Minimum lease payments	11,642	7,651
Net investment in the lease	9,325	5,206
Unearned finance income	**2,317**	**2,445**
Impairment on finance leases	(122)	(187)

The minimum lease payments receivable at 31 December 2016 for the following periods

	Within 12 month	Between 1 and 5 years	Over 5 years
Gross investment in the lease	1,984	5,327	4,331
Net investment in the lease	1,622	4,355	3,348
Unearned finance income	**362**	**972**	**983**

The minimum lease payments receivable at 31 December 2015 for the following periods

	Within 12 month	Between 1 and 5 years	Over 5 years
Gross investment in the lease	837	2,588	4,225
Net investment in the lease	552	1,687	2,966
Unearned finance income	**285**	**901**	**1,259**

20. GOODWILL

	31 December 2016	31 December 2015
Gross value		
Opening balance	152	152
Increase	-	-
Purchased through acquisition	-	-
Decrease	-	-
Closing balance	**152**	**152**
Impairment		
Opening balance	-	-
Increase	-	-
Closing balance	-	-
Net value	**152**	**152**

The goodwill is attributable to Diófa Fund Management Ltd. According to the impairment test on "Diófa goodwill" no additional impairment are reported.

HUF 5,183 million goodwill and HUF 847 million goodwill impairment, which one is attributable to FHB Invest Ltd. is classified among shares in associates and joint ventures (Notes 29).

All figures in tables are in HUF million except otherwise noted

21. INVESTMENT PROPERTY

Investment properties are reported in conjunction with the Bank's annuity services.

	31 December 2016	31 December 2015
Gross value		
Opening balance	780	-
Increase	-	780
Decrease	-	-
Closing balance	**780**	**780**
Revaluation adjustment		
Opening balance	-	-
Increase	-	-
Decrease	-	-
Closing balance	-	-
Net value	**780**	**780**

The methods and significant assumptions applied in determining the fair value of investment properties were supported by market evidence, therefore they have been categorized as Level 2 instruments, as the Bank used similar assets' prices for valuation base from market obtainable inputs. FHB provides property price index to compare similar real estates in the market and the investment properties were revalued independently by relevant professional experts as at 31 December 2016.

All figures in tables are in HUF million except otherwise noted

22. TANGIBLE ASSETS 31 December 2016

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	7,781	3,702	11,483
Increase	29	216	245
Decrease	-	(78)	(78)
Closing balance	**7,810**	**3,840**	**11,650**
Depreciation			
Opening balance	1,534	3,323	4,857
Annual depreciation	188	153	341
Decrease	-	(48)	(48)
Closing balance	**1,722**	**3,428**	**5,150**
Impairment			
Opening balance	447	11	458
Increase	1,100	-	1,100
Closing balance	**1,547**	**11**	**1,558**
Net value	**4,541**	**401**	**4,942**

TANGIBLE ASSETS 31 December 2015

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	7,892	4,715	12,607
Increase	14	276	290
Decrease	(125)	(1,289)	(1,414)
Closing balance	**7,781**	**3,702**	**11,483**
Depreciation			
Opening balance	1,359	3,744	5,103
Annual depreciation	187	259	446
Decrease	(12)	(680)	(692)
Closing balance	**1,534**	**3,323**	**4,857**
Impairment			
Opening balance	447	324	771
Decrease	-	(313)	(313)
Closing balance	**447**	**11**	**458**
Net value	**5,800**	**368**	**6,168**

All figures in tables are in HUF million except otherwise noted

23. INTANGIBLE ASSETS 31 December 2016

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	3,787	874	645	5,306
Increase	218	43	-	261
Decrease	-	-	-	-
Closing balance	**4,005**	**917**	**645**	**5,567**
Amortisation				
Opening balance	2,909	467	167	3,543
Annual amortisation	68	34	32	134
Decrease	-	-	-	-
Closing balance	**2,977**	**501**	**199**	**3,677**
Impairment				
Opening balance	-	-	-	-
Increase	-	-	-	-
Reversal	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**
Net value	**1,028**	**416**	**446**	**1,890**

INTANGIBLE ASSETS 31 December 2015

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	17,862	907	645	19,414
Increase	293	28	-	321
Decrease	(14,368)	(61)	-	(14,429)
Closing balance	**3,787**	**874**	**645**	**5,306**
Amortisation				
Opening balance	8,731	451	135	9,317
Annual amortisation	1,188	44	32	1,264
Decrease	(7,010)	(28)	-	(7,038)
Closing balance	**2,909**	**467**	**167**	**3,543**
Impairment				
Opening balance	1,923	-	-	1,923
Increase	-	-	-	-
Reversal	(1,923)	-	-	(1,923)
Closing balance	**-**	**-**	**-**	**-**
Net value	**878**	**407**	**478**	**1,763**

All figures in tables are in HUF million except otherwise noted

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2016. It was established that each project relating to intangible assets is progressing according to plan. Use of the products that are the expected outcome of the projects is certain, and none of the projects will be terminated without generating the expected outcome. In 2016 no impairment was reported on intangible assets. At the end of June 2015 the Group reentered a lease contract with DOM-P Ltd. (the former Exo-BIT Ltd.), the leased IT software was derecognised, due to the change of the lease classification.

24. OTHER ASSETS

	31 December 2016	31 December 2015
Prepaid expenses	697	1,195
Reclaimable taxes	1,352	815
Settlements with the Hungarian State	284	538
Repossessed collateral	758	647
Debtors	710	1,246
Deposits	3,487	2,040
Receivables from investment services	331	623
Other	1,066	965
Total	**8,685**	**8,069**

The balance of settlements with the Hungarian State includes one month's interest subsidy due from the State and not yet settled as of 31 December 2016 (one months in 2015), decreased by the advance on it.
Significant part of the deposits was provided to ensure the turnover on cards to Card companies.

In case of properties held for sale and repossessed collaterals the Group endeavours to sell the properties as soon as possible.

25. DUE TO BANKS

	31 December 2016	31 December 2015
Long term loans received	36,149	26,999
Short term loans received	6,886	7,359
Accrued part of disbursed liabilities under Funding for Growth Scheme*	4,177	5,414
Accrued interest	17	2
Total	**47,229**	**39,774**

* See Notes 19.

All figures in tables are in HUF million except otherwise noted

26. ISSUED SECURITIES

The Group reports mortgage bonds and bonds that are recognised at amortised cost on 'Issued securities' line in the statement of financial position.

	31 December 2016		31 December 2015	
	Gross book value	Face value	Gross book value	Face value
Non-listed mortgage bonds				
Fixed interest	16,667	16,449	33,184	33,050
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	69,956	63,620	103,413	94,858
Floating interest	40,850	40,958	31,868	31,886
Total mortgage bonds	**127,473**	**121,027**	**168,465**	**159,794**
Non-listed bonds				
Fixed interest	19,586	19,564	20,326	20,275
Floating interest	-	-	9,567	9,612
Subordinated bonds	-	-	-	-
Listed bonds				
Fixed interest	14,912	14,955	23,584	25,949
Floating interest	1,883	1,885	3,980	5,235
Total bonds	**36,381**	**36,404**	**57,457**	**61,071**
Accrued interest (*mortgage bonds*)	3,667	-	6,127	-
Accrued interest (*bonds*)	2,762	-	3,066	-
Total issued securities	**170,283**	**157,431**	**235,115**	**220,865**

Mortgage bonds

All figures in tables are in HUF million except otherwise noted

Mortgage bonds are transferable registered or bearer securities and, pursuant to Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds, can be issued only by mortgage banks. Prior to their issue, a property supervisor reviews if the Bank has adequate collateral for the issue. These collaterals may be (i) ordinary collaterals such as the principal and interest receivable (including interest subsidies) from mortgage loans provided in accordance with the standard collateral requirements, the repurchase price of an independent lien and the related refinancing interest, and (ii) additional collateral such as, typically, government bonds and related interest and any principal and interest receivable guaranteed by the government. According to the Act, if the amount of principal receivable exceeds 60% of the collateral value of related property offered, only the principal receivable amounting to 60% of the collateral value and the proportionate amount of interest can be considered as an ordinary collateral. The Act governs the proportionate between ordinary and additional collaterals: at least 80% of all collateral must be ordinary collateral. In addition to the statutory requirements, the Bank's internal policies regulate that the following limits also need to be met:

(i) Cover for the nominal value: the nominal value of the ordinary collateral (the underlying principal excluding the provision for any impairment loss and interest) should exceed 100% of the not yet repaid nominal value of the mortgage bonds outstanding,

(ii) If point (i) is not met, the Bank has to acquire additional collateral to the extent that the sum of the nominal values of the ordinary and additional collaterals always exceed 100% of the not yet repaid minimal value of the mortgage bonds outstanding,

(iii) Cover for the interest: the interest on the nominal value of the ordinary and supplementary collaterals should exceed 100% of the interest on the not yet repaid nominal value of the mortgage bonds outstanding.

In addition to assessment of the nominal value of the cover for mortgage bonds the Mortgage Loans Act also provides for assessment of mortgage bonds cover at present value. The fair value of collateral exceeded the present value of mortgage bonds outstanding not yet repaid throughout the period.

Bonds

From 2007 the Group launched bonds for the first time in addition to mortgage bonds.

Bonds are registered dematerialized securities. Pursuant to the provisions of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December) the Group generates a document containing the data of the bond series. The document, which itself is not a security, is then deposited with Central Clearing House and Depository Ltd. (KELER).

Bonds incorporate the Group's direct, unconditional, non-subordinate unsecured liabilities. Bonds are equal in rank to the Group's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, EXCEPT DERIVATIVES

The Group reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position. (Description is included in Point 26 of Notes.)

Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than attributable to change in market conditions, that give right to market risk represent credit risk.

	31 December 2016		31 December 2015	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	11,991	10,519	19,878	17,415
Floating interest	-	-	-	-
Total mortgage bonds	**11,991**	**10,519**	**19,878**	**17,415**
Total Financial liabilities at fair value through profit or loss, except derivatives	**11,991**	**10,519**	**19,878**	**17,415**

The total credit risk was HUF 371.6 million as of 31 December 2016 (31 December 2015: HUF 380.7 million in 2015).

28. DEPOSITS FROM CUSTOMERS

As a lending institution the Bank holds deposits from clients. The deposit portfolio is as follows:

	31 December 2016	31 December 2015
Current accounts	139,874	124,754
Term deposits	156,604	203,336
Accrued interest	594	958
Total	**297,072**	**329,048**

All figures in tables are in HUF million except otherwise noted

29. SHARES IN ASSOCIATES AND JOINT VENTURES

	31 December 2016	31 December 2015
Opening balance	7,755	6,932
Capital increase in joint ventures	40	200
Increase from associates*	-	2
Share of profit of joint ventures and associates**	(2,979)	621
Closing balance	**4,816**	**7,755**

*This increase from associates include the direct interest of MA-TAK-EL Magyar Takarék Ellátó Ltd. in 2015.
**Share of profit of joint ventures and associates include dividend payment of HUF 3,570 million.

The general requirement of IFRS 12 disclosed in Note 2.4.

Summarized financial information in respect of each of the Group's material associate and joint venture set out below.
The summarized financial information below represents amounts shown in the associate and joint venture financial statement prepared in accordance with IFRS.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.	31 December 2016	31 December 2015
Current assets	617,584	775,790
Non-current assets	30,979	6,155
Current liabilities	615,743	770,586
Non-current liabilities	8,240	-
Revenue	45 439	59 933
Profit/loss from the continuing operation	3,791	3,991
Profit/loss of the year	3,445	3,991
Other comprehensive income of the year	(760)	(548)
Total comprehensive income of the year	2,685	3,442

Díjbeszedő Faktorház Ltd.	31 December 2016	31 December 2015
Current assets	7,513	13,939
Non-current assets	11	66
Current liabilities	1,418	1,339
Non-current liabilities	7	435
Revenue	3,224	3,405
Profit/loss from the continuing operation	868	272
Profit/loss of the year	868	272
Other comprehensive income of the year	-	-
Total comprehensive income of the year	868	272

Magyar Posta Befektetési Szolgáltató Ltd.	31 December 2016	31 December 2015
Current assets	3,833	2,940
Non-current assets	17	18
Current liabilities	3,379	2,468
Non-current liabilities	-	-
Revenue	1,771	1,154
Profit/loss from the continuing operation	(147)	(281)
Profit/loss of the year	(147)	(281)
Other comprehensive income of the year	-	-
Total comprehensive income of the year	(147)	(281)

All figures in tables are in HUF million except otherwise noted

30. FINANCE LEASE LIABILITIES

In the Group structure FHB Services Ltd. owned all of the IT assets and software which were used by the related parties. On 1 December 2011 after the sale of the FHB Services Ltd. the Group entered a lease contract with Exo-BIT Ltd. (the former FHB Services Ltd.) regarding the lease of the IT assets and software. At the end of June 2015 the Group reentered a lease contract with DOM-P Ltd. (the former Exo-BIT Ltd.), the leased IT software was derecognised.

The book value of the leased assets is the following:

	31 December 2016		31 December 2015	
	Tangible assets	Intangible assets	Tangible assets	Intangible assets
Book value	3	-	12	-

The structure of the leasing payment and payable amounts can be found in the table below.

	31 December 2016		31 December 2015	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 12 months	3	3	6	6
Between 1 and 5 years	-	-	6	6
Over 5 years	-	-	-	-
Total	3	3	12	12
Present value of minimum lease payments	3	3	12	12

The present value of minimum lease payments is calculated by the Bank on a cash flow basis discounted by the valuation yield curve. This amount represents the present value of the minimum lease payments.
In 2016 there were no subleasing contracts and suspended rental fees regarding the leased assets.

31. PROVISIONS

Provisions are set up mainly for current and contingent liabilities. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense (Note 19) or in other operating expense (Note 7).

All figures in tables are in HUF million except otherwise noted

2016	Credit risk provision	Contingent liabilities	Other provision	Expected costs of legal cases	Total
Opening balance	522	302	10	165	999
Increase in the period	564	-	914	7	1,485
FX movement	(1)	-	-	-	(1)
Utilization in the period	(689)	(91)	-	(157)	(937)
Closing balance	**396**	**211**	**924**	**15**	**1,546**

The credit risk provision in 2016 is attributable to the off-balance sheet items. The Bank has joined to the rationalization project initiated by the Magyar Takarékszövetkezeti Bank Ltd. Due to this the Bank set up HUF 908 million provision for the organizational changes related to the project.

2015	Credit risk provision	Contingent liabilities	Other provision	Expected costs of legal cases	Total
Opening balance	360	883	23,805	156	25,204
Increase in the period	1,294	161	6	17	1,478
FX movement	3	-	(242)	-	(239)
Utilization in the period	(1,135)	(742)	(23,559)	(8)	(25,444)
Closing balance	**522**	**302**	**10**	**165**	**999**

The credit risk provision in 2015 is attributable to the off-balance sheet items.

32. OTHER LIABILITIES

	31 December 2016	31 December 2015
Taxes payable	822	721
Creditors	584	511
Accrued expenses	914	642
Liability from investments services	1,464	1,314
Customer loan prepayments	625	727
Other liabilities to Joint Venture company	-	3,570
Other	1,690	1,667
Total	**6,099**	**9,152**

All figures in tables are in HUF million except otherwise noted

33. SHARE CAPITAL

In the fourth quarter of 2016 the ownership structure of the Bank Group was significantly altered. On 14 October 2016 the A64 Vagyonkezelő Ltd. sold its shares to B3 Takarék and Fókusz Takarék within an OTC transaction and on 09 December 2016 Magyar Takarékszövetkezeti Bank Ltd. purchased the shares of VCP Finanz Holding Ltd. After the transactions the ownership of Magyar Takarékszövetkezeti Bank Ltd. and the saving cooperatives increased to over 68%. As of 31 December 2016 the Bank's share capital consists of series "A", "B" and "C" shares. Domestic institutional investors have the majority of shares (78.2%).

The ownership structure of the Bank as at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016		31 December 2015	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares (Series "A")				
Domestic institutional investors	39.0	42,345,991	38.6	41,911,917
Foreign institutional investors	10.7	11,597,658	10.7	11,642,388
Domestic private investors	5.9	6,435,206	6.2	6,669,193
Foreign private investors	0.0	22,330	0.0	16,326
Employees, directors and senior management	0.1	87,963	0.0	77,808
Government held owner	4.5	4,832,225	4.5	4,832,225
Treasury shares	0.2	253,601	0.2	253,601
Other	0.4	425,036	0.6	596,552
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***

All figures in tables are in HUF million except otherwise noted

a) The following amounts were used in the calculation of earnings per share:

	31 December 2016	31 December 2015
Loss of shareholders of the Bank	(11,048)	(8,304)
Change of general reserve	-	-
Attributable profit	**(11,048)**	**(8,304)**
Weighted average number of shares	108 236 699	65,862,821

Earnings per share ratio is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares. For the diluted earnings per share figure the profit attributable to shareholders and the weighted average number of shares outstanding needs to be adjusted by all of the potentially diluting securities. For the normal earnings per share figure the profit attributable to shareholders means the result for the year decreased by the amount of the general reserves which is divided by the number of the shares excluding the number of the treasury shares by the Bank. Shares to managers on the context of the share-based payment are allocated from Treasury shares and require no new issues and thus have no diluting effect on EPS. Based on the contractual conditions the Capital Securities issued at 20 December 2012 does not dilute the EPS in 2015. The Bank has no dilutive potential ordinary shares. Earnings per share figure therefore equals to the diluted earnings per share figure.

b) Treasury shares purchased

	31 December 2016	31 December 2015
Opening balance	207	207
Purchase	-	-
Closing balance	**207**	**207**

c) Other reserves

	Note	31 December 2016	31 December 2015
Share premium		27,926	27,926
Additional tier 1 capital	33	-	31,749
Change in fair value of financial assets available-for-sale	33	611	584
Foreign currency translation reserve		(2)	14
Total other reserves		**28,535**	**60,273**

All figures in tables are in HUF million except otherwise noted

Other reserve includes the Capital Securities issued by the Bank in 2013 and 2012. On May 16 2013 the Bank tapped the series of Euro-denominated perpetual floating rate bonds – which was issued with a total face value of EUR 102 million on 20 December 2012 – in an aggregate nominal amount of EUR 10 million in a private placement for non-Hungarian investors. The rate of interest on the bonds is linked to the 5-year-euro swap rate as reference rate. The non-cumulative interest on the bonds is payable annually in arrear and cancellable in the discretion of the Bank. The Capital Securities constitutes additional tier 1 capital and unsecured obligations of the Bank. The Capital Securities are redeemable after five years by the Bank and in certain cases they converted into ordinary shares, but do not have dilutive effects. On 17 June 2016 the Bank repurchased subordinated Tier 1 capital bond with a nominal value of EUR 112 million formerly reported as part of shareholder's equity.

Due to the conditions described above, the Capital Securities was accounted as equity instrument and therefore any payment is accounted as equity distribution paid to the holders of the Capital Securities.

d) Financial assets available-for-sale reserve

	31 December 2016	31 December 2015
Opening balance	584	18
Net unrealised gains on available-for-sale assets	30	699
Net realised losses on available-for-sale assets	-	-
Deferred tax	(3)	(133)
Closing balance	**611**	**584**

e) Non-controlling interest

	31 December 2016
Opening balance	21,480
Dividend payment to NCI	(214)
Share of profit/(loss) of the year	(4,454)
Closing balance	**16,812**

Non-controlling interest detailed by subsidiaries

Name of the subsidiary	The proportion of ownership interests held by non-controlling interests	The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period	Accumulated non-controlling interests of the subsidiary at the end of the reporting period
FHB Commercial Bank Ltd.	49%	(4,353)	17,007
Diófa Alapkezelő Ltd.	11%	(1)	(143)
Diófa Ingatlankezelő Ltd.	11%	-	1
Magyar Kártya Szolgáltató Ltd.	49%	(100)	(53)
Total		**(4,454)**	**16,812**

All figures in tables are in HUF million except otherwise noted

34. SHARE-BASED PAYMENTS

Share options are granted to employees and also others providing similar services, it is difficult to estimate the fair value of those benefits that are coming from these services, therefore the Group measures the fair value by reference to the fair value of the equity instruments granted.
The Group has a one-year share based incentive scheme for 2016 built on four IFRS measured criteria: increase of the owner's equity, decrease of the proportion of the non-performing loans and increase in ROA and ROE. For all of these indicators there are minimum levels quantified by the General Meeting, every criterion is deemed to be met if the actual KPI exceeds the minimum level (in case of the proportion of the non-performing loans the actual KPI should be less). At least three out of the four criteria have to be met to be entitled to the share based payment. If the share option is realised, the payment will depend on the individual performance evaluations, so only a specific proportion of the total distributable volume will be paid. The preferential price of drawing the option is 25% of the average price on the Budapest Stock Exchange between 1 January of the subject year and the date of the General Meeting closing the business year in prior of the subject year weighted by the turnover. The share option regarding both years can be realised in the following 3 years based on the following rates 60%-20%-20%.
The expense recognised for share based payments during 2016 is zero, because the above mention KPI doesn't exceed the minimum level.

35. GENERAL RESERVE

In accordance with statutory requirements, the Bank and other credit institutions within the Group are required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF zero as at 31 December 2016.

36. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Group:

	31 December 2016	31 December 2015
Guarantees	11,649	15,248
Loan commitments	51,864	49,449
Total	**63,513**	**64,697**

All figures in tables are in HUF million except otherwise noted

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments stated at amortized cost: due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values. These include cash and due from banks and with the National Bank of Hungary as well as deposits.

The following shares disclosed under investment are reported at cost: shares of Garantiqa Creditguarantee Ltd., and shares of Integration of Savings Cooperatives the total value of these is HUF 51 million (2015: HUF 51 million). The BIF Ltd. shares, the DOM-P Ltd., and MPT Security Ltd. shares disclosed (2016: HUF 2,301 million 2015: HUF 2,198 million) under investment are reported at fair value. Visa shares are reported at fair value for HUF 130 million in 2016 (2015: HUF 726 million).

Financial assets available-for-sale: Financial assets available-for-sale held for liquidity purposes are marked to market. For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

a) Loans and advances to customers and refinanced mortgage loans:

The Bank calculates the fair value of loans and advances to customers and refinanced loans at amortized cost on an individual basis.

The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions
- The interest and interest type revenues until maturity, including the interest subsidies of the loans and their unique legal regulation;
- In addition, the loans qualifying for subsidy based on the rules valid before 16 June 2003 and between June 16 and 22 December 2003 according to the Law are treated by the model as practically non re-priced for 20 years due to the fix interest ceiling of 5-6%;
- The subsidy cash flows related to the loans have been calculated until maturity of the loans but for a maximum of 20 years;
- In case of loans re-priced the model treats the loans as matured at the date of re-pricing, therefore the Bank does not calculate with interest or subsidy further on.

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation. The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

	31 December 2016		31 December 2015	
	Gross book value	Fair value	Gross book value	Fair value
Refinanced mortgage loans	31,423	36,962	82,790	96,686
Loans and advances to customers	318,326	357,720	314,855	349,442

Gross book value does not include the decreasing effect of impairment.

b) Fair value of mortgage bonds and bonds carried at amortised cost

The fair value of mortgage bonds and bonds is calculated by the Bank on a cash flow basis. In the calculations the Bank identifies the cash flows of the mortgage bonds discounted by the valuation yield curve. This is considered as the fair value of mortgage bonds.

In case of floating rate mortgage bonds the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal repayments are discounted to present value using the valuation yield curve.

For the valuation yield curve the Bank calculates the yield of own securities – denominated in Hungarian forint and Euro taking into account secondary market quotations, the yields of the secondary deals and the spreads regarding to the issues on primary markets. Based on these yields the Bank position management system calculates the yield curves for the different currencies and bond types (mortgage bond and several unsecured bonds).

The change in fair value is mainly due to the changes in market conditions. Based on this the change in fair value attributable to credit risk is not material.

All figures in tables are in HUF million except otherwise noted

	31 December 2016		31 December 2015	
	Net book value	Fair value	Net book value	Fair value
Non-listed mortgage bonds				
Fixed interest	17,715	20,199	34,362	38,102
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	72,505	91,786	108,294	139,317
Floating interest	40,920	70,808	31,936	42,487
Total mortgage bonds	**131,140**	**182,793**	**174,592**	**219,906**
Non-listed bonds				
Fixed interest	21,371	25,709	22,091	26,363
Floating interest	-	-	9,567	9,692
Subordinated bonds	-	-	-	-
Listed bonds				
Fixed interest	15,886	25,600	24,873	30,213
Floating interest	1,886	3,143	3,993	5,002
Total bonds	**39,143**	**54,452**	**60,524**	**71,270**
Total issued security	**170,283**	**237,245**	**235,115**	**291,176**

Gross value also includes the accrued interests.

c) Fair value of other items in the statement of financial position

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

d) Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Derivatives designated as cash-flow hedges				
Positive fair value of cash flow hedges	3	-	376	-
Including: CCIRS	3	-	376	-
Swap deals classified as HFT				
Positive fair value of trading swaps	867	620	83,141	45,733
Including: CCIRS	90	507	6,797	31,938
Including: IRS	446	19	53,354	3,812
Including: FXS	331	94	22,990	9,983
Fair value hedge				
Positive fair value of IRS fair value hedge	-	11	-	4,071
Options				
Positive fair value of options	6	2	730	263
Forward deals				
Positive fair value of forward deals	57	251	5,440	23,123
Total derivative financial assets	**933**	**884**	**89,687**	**73,190**

All figures in tables are in HUF million except otherwise noted

	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Derivatives designated as cash-flow hedges				
Negative fair value of cash flow hedges	(4)	-	310	-
Including: CCIRS	(4)	-	310	-
Swap deals classified as HFT				
Negative fair value of trading swaps	(1,277)	(2,246)	45,566	61,372
Including: CCIRS	(318)	(443)	6,165	5,586
Including: IRS	(849)	(1,452)	31,764	34,230
Including: FXS	(110)	(351)	7,637	21,556
Fair value hedge				
Negative fair value of fair value hedges	(115)	(20)	7,931	3,914
Including: CCIRS	-	-	-	-
Including: IRS	(115)	(20)	7,931	3,914
Options				
Negative fair value of options	(6)	(2)	730	263
Forward deals				
Negative fair value of forward deals	(177)	(40)	16,274	12,034
Total derivative financial liabilities	**(1,579)**	**(2,308)**	**70,811**	**77,583**

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the derivatives are broken down to elementary cash flows and the present value is calculated.
The present value of the future cash flows of fixed interest rate deals is calculated by the Bank using the zero-coupon swap yield curve corresponding to the appropriate currency. The fair value of swap deals is the difference of the present value of the two series of cash flows not yet due (incoming and outgoing).

In the case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal payments are discounted to present value using the multi-level yield curve (forward yield curve, and discounting curve). The fair value of the deal is the aggregate of the present values.

The risk premium is significant and permanent, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

All figures in tables are in HUF million except otherwise noted

Cash flow hedge transactions as defined by IAS 39 have been performed in order to eliminate the risk of foreign currency in case of EUR denominated mortgage bond issuances, thus the cash-flow in currency of booking can be fixed. The main conditions of these swap contracts (maturity, notional amount, currency, interest rate and payment dates, etc.) and consequently the cash flows are identical to those of the underlying hedged instruments.

Swap contracts used for trading purposes are also tied to EUR mortgage bonds. The conditions of the EUR leg of the swap is identical to the mortgage bond as in the case of cash-flow hedge transactions, however, the interest type concerning the liabilities of the swap may be different and the currency is not necessarily the currency of booking.

In case of the valuation of forward security deals the used yield curves are consistent with the nature of the paper in the forward deal (for example in case of government bonds the Bank uses the yield curve of the government bonds).

e) Fair value hedge transactions

31 December 2016

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	loans and advances to customers	(43)	3,888	(43)	43
IRS	available-for-sale asset	(150)	30	53	30

In the second half of 2015 only four derivative transactions were defined as fair value hedge transaction (IRS), in 2016 only one new IRS was designated as hedging instrument in fair value hedge connection.

31 December 2015

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	loans and advances to customers	(12)	3,914	(11)	(11)
IRS	available-for-sale asset	3	13	6	13

In 2015 the Group has done the “Forint conversion” according to the Act LXXVII of 2014, the FX retail loans portfolio decreased significantly, because of this the hedge connection was terminated in the first part of 2015. As of 31 December 2015 there were no CCIRS hedge relation designated.

All figures in tables are in HUF million except otherwise noted

f) Fair value of financial instruments carried at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments carried at fair value.

	31 December 2016		
	Level 1	Level 2	Level 3
Assets			
Securities held for trading	40,734	-	-
Financial assets available-for-sale	65,840	455	-
Derivative financial assets	-	841	92
Total assets carried at fair value	**106,574**	**1,296**	**92**
Liabilities			
Derivative financial liabilities	-	1,256	323
Financial liabilities at fair value through profit or loss, except derivatives	-	11,991	-
Total liabilities carried at fair value	**-**	**13,247**	**323**

	31 December 2015		
	Level 1	Level 2	Level 3
Assets			
Securities held for trading	51,913	-	-
Financial assets available-for-sale	73,582	460	-
Derivative financial assets	-	377	507
Total assets carried at fair value	**125,495**	**837**	**507**
Liabilities			
Derivative financial liabilities	-	1,865	443
Financial liabilities at fair value through profit or loss, except derivatives	-	19,878	-
Total liabilities carried at fair value	**-**	**21,743**	**443**

All figures in tables are in HUF million except otherwise noted

38. RISK MANAGEMENT

a) Overview

Companies of FHB Group under FHB Mortgage Bank Plc. control and within the scope of prudential consolidation are part of the Group led by Takarékbank Ltd. as parent bank under its prudential supervisory. FHB Mortgage Bank Plc. and FHB Commercial Bank Ltd. are members of Integration Organisation of Cooperative Credit Institution (SZHISZ).

Due to the membership of Integration and the consolidated supervision the scope of the risk management policies of the Integration, as well as risk strategy have been extended to the FHB Group.

Risk Strategy – approved by the Board of Directors of Takarékbank Ltd. is mandatory for credit institutions and companies under consolidated supervision – 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.

Within the Integration FHB Mortgage Bank Plc. is the leader credit institution of the FHB Banking Group on subconsolidated level. FHB Mortgage Bank Plc. as parent bank controls its direct or indirect investments in Group members. Under the professional control, the Mortgage Bank ensure that the risk management principles, methods, risk evaluation, measurement and control procedures are consistent and harmonized within the Banking Group as well as comply with the regulations of the Integration.

The primary purpose of risk management is to protect the Banking Group's financial strength and reputation, and to support the deployment of capital in competitive business activities, which contribute to the increase of the value of shares. The protection of the financial strength and reputation means, that the risk management limits the impact of negative events to the capital and profit/loss of the Banking Group.

The Banking Group's risk appetite / capacity should be in line with the financial resources that are available to cover potential losses. In order to this, the Banking Group calculate the current and future economic, capital requirements and the capital requirements under Pillar 1 for quantifiable risk types.

Prudent risk taking is a fundamental value for the Banking Group.

In order to achieve its objectives risk management identifies, evaluates and analyses the exposure of the Banking Group and its members. It processes the information gained, develops risk guidelines, and operates risk management systems.

Notes to the Consolidated Financial Statements

The Banking Group's risk management policy is based on the following main pillars:

- in risk management application of the best approaches and methods applied in market practice
- identification of risk and yield profile of segments, products and risk postions and continuous monitoring
- consideration of the risks in business decisions
- separation the risk management organisation from the business divison
- the importance of all stages of the risk management process
- the risk management process is the part of the Bank Group's management system, its aspects are integrated into the strategic and annual planning.

The Group is exposed to credit-, liquidity-, market- and operation risks.

In 2016 regarding to credit risk in accordance with the aims set the Group managed to increase the portfolio of exposures with prudent and careful risk-taking covering the customer segment available through the strategic partner Magyar Posta in the retail segment. In the corporate segment the FHB could increase the exposures by very good quality portfolio beside low NPL ratio.

To maintain a diversified liability structure in 2016 FHB obtained sources from the capital markets several times through security issue, which replaced the maturing liabilities with long term liabilities. In the deposit portfolio the volume of deposits collected in the Postal network is increasing. The bank disposed significant amount of liquid assets during the year, mainly in form of government securities.

39. RISK MANAGEMENT STRUCTURE

Board of Directors

The Board of Directors is responsible for the Group's risk management policy and strategy. The Board of Directors develops the basic framework rules for risk management and guidelines of applicable methodologies. After the admission to the Integration the FHB Group follows the risk strategy, applies the uniform risk management policies of the Integration and reports about its risks to the central bodies of the Integration – to the Takarékbank Ltd., and the Integration Organisation of Cooperative Credit Institution (SZHISZ).

Based on the reports of the Director responsible for the Bank's prudent operation and on regular risk exposure reports, the Board of Directors evaluates the Bank's operation, and specifically its risk management activities and the level of exposure. If the level of exposure undertaken by the Group does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

The Supervisory Board is responsible for monitoring the overall risk and risk management processes within the Bank. In this context it supervises and monitors the suitability of methods and systems applied by the Bank in order to ensure compliance with the statutory capital adequacy requirements.

Group Assets and Liabilities Management Committee (GALCO)

GALCO makes Group level decisions with respect to assets and liability management, risk management, liquidity management and pricing issues.

Department of Risk Management

Risk Management is responsible for determining the requirements necessary for the Group's prudent operation. It develops the risk guidelines and manages lending and operating risk for the Group as a whole and for each company belonging to the Group.

Department of Risk Analysis and Control

The Department is responsible for independent lending risk control. In this context it undertakes tasks related to the development, supervision, validation and review of customer and partner rating systems. Furthermore, it evaluates and estimates risk parameters. It sets the liquidity, interest and exchange rate exposure limits for the Group, monitors compliance with the limits, prepares models and calculations about the capital requirement of the operational risk.

Treasury

Treasury is responsible for ensuring the Group's short-term and long-term liquidity, and for the operative management of liquidity, interest and exchange rate related risks.

Internal Audit

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank's and the group members' all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

Risk management processes are audited annually by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Supervisory Board and the Management.

Property supervisor

Prior to the mortgage bond issue, the property supervisor reviews whether the Bank is in possession of adequate collateral for the issue and makes a statement accordingly.

Risk evaluation and reporting system

In areas of risk exposure where appropriate empirical data are available the Group applies statistical methods for the evaluation of risks. Statistical models are used for estimating expected and unexpected losses in most areas of exposure. Losses are evaluated according to a variety of stress scenarios.

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the Group's strategy, willingness to undertake risks, and the market environment. The Group collects and analyses data about events and losses related to risk from operation.
As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure. GALCO evaluates the report on credit risk on a monthly basis. It reviews the reports on compliance with liquidity management limits and assets and liabilities management limits. Comprehensive report on risk from operation risk is submitted on a quarterly basis. The Board of Directors evaluates the risk reports every quarter and exercises professional control over all components of the system through demanding reports from Management. The Supervisory Board evaluates the reports on risks on a quarterly basis. It exercises its function of ongoing control through the Internal Audit Department under its professional supervision.

40. RISK MITIGATION

Interest rate and exchange rate risks

To minimize the risk of interest- and foreign exchange rate risks the Bank manages its asset and liability structure – economical hedging deals – and also enters into derivative contracts.

Credit risk

Credit risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation to the Bank.

The Group rates the creditworthiness of its clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Group monitors client and partner rating on an ongoing basis.

Retail product development gave rise to standardized loan schemes, which allows simplification of lending risk management. The client portfolios of the resulting products are characterized by large numbers of clients and small amounts of individualized loans. This diversification reduces (diversify also) the credit risk compared to the portfolio size.

Corporate lending is based on individual assessment and the continuous monitoring is in focus.

The Group applies strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio. The collateral value of real estate covering mortgage loans is established by the Bank also for the refinanced loans portfolio.

Risks towards partner banks are minimized by means of bilateral agreements and the assignment of the refinanced loan portfolio as prescribed by law.

Credit risk relating to hedge swaps is limited to the amount of positive fair value over and above margin accounts.

Maximum credit risk exposure based on gross outstanding balances:

	31 December 2016	31 December 2015
Balances with the National Bank of Hungary	60,635	162,749
Dues from banks	70,289	48,208
Securities held for trading	40,734	51,913
Financial assets available-for-sale	66,295	74,042
Shares in associated and joint venture companies	4,816	7,755
Derivative financial assets	933	884
Refinanced mortgage loans	31,423	82,790
Loans and advances to customers	317,840	314,855
Other assets	8,685	8,069
Total	**601,650**	**751,265**
Off-balance sheet commitments	58,645	67,500
Total	**58,645**	**67,500**
Total credit risk exposure	**660,295**	**818,765**

41. CREDIT RISK

The following tables present the Group's receivables and commitments.

	Neither past due nor impaired	Past due or individually impaired	Assessed under collective impairment rules	Total
	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Dues from banks and refinanced mortgage loans	85,311	-	-	85,311
Loans, commitments and guarantees	277,263	63,169	30,541	370,973
To corporate customers	131,943	27,090	-	159,033
To retail customers	145,320	36,079	30,541	211,940
Total	**362,574**	**63,169**	**30,541**	**456,284**

All figures in tables are in HUF million except otherwise noted

The amount of the non-performing loans (Note 19) differs from the amount of the portfolio of past due or individually impaired loans (see above) because the latter contains loans which are due less than 90 days and are not terminated.

	Neither past due nor impaired	Past due or individually impaired	Assessed under collective impairment rules	Total
	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Dues from banks and refinanced mortgage loans	170,244	-	-	170,244
Loans, commitments and guarantees	268,734	68,546	37,411	374,691
To corporate customers	124,966	20,605	-	145,571
To retail customers	143,768	47,941	37,411	229,120
Total	**438,978**	**68,546**	**37,411**	**544,935**

Lending risk exposure of the Bank in terms of internal risk classification

Class	Historic default rate 31.12.2016 (%)	Uncovered 31.12.2016 HUF million	Total 31.12.2016 HUF million
Class 1	0.00	118,725	118,725
Class 2	0.00	8,821	8,821
Class 3	0.00	42,113	70,192
Class 4	0.08	45,983	128,392
Class 5-7	3.34	29,349	227,369

Class	Historic default rate 31.12.2015 (%)	Uncovered 31.12.2015 HUF million	Total 31.12.2015 HUF million
Class 1	0.00	214,623	231,205
Class 2	0.00	15,666	15,666
Class 3	0.00	36,211	99,483
Class 4	0.12	13,612	130,110
Class 5-7	7.19	32,610	215,246

The table shows the Bank gross outstanding loans portfolio (dues from banks, refinanced mortgage loans and other mortgage and unsecured loans and bonds).
In the calculation of risk capital, in accordance with its risk management policy, the Bank classifies its loan portfolio and its weighted off-balance items in different rating categories. Consolidated data based on the International Financial Reporting Standards (IFRS) are used in the classification. Retail customers are rated into seventeen categories (classes). Other partners (mainly credit institutions) are rated into seven categories. The classes are determined based on customer rating policy. The Bank consolidated the two sets of classes in the above table, in this way the historical default rates of the entire portfolio are combined and broken down in terms of rating classes.

The effectiveness of rating systems is reviewed annually. Appropriateness of classification is reviewed on a quarterly basis.

The classification of credit assets into risk grades is based on FHB Group's internal rating system. Internal rating models and risk parameters are developed by internal specialist team. Rating development follows internal methodology, which is controlled continously by the Internal Audit as well as by the supervisory authorities. The Bank applies different rating scales in different segments, but applies a standardized framwork for external riporting, which is mapping the risk classes to the following categories.

Class 1: In practice, only risk-free exposures, governments fall into this category

Class 2: includes first class, nearly risk-free institutional (bank) exposures, which estimated default rate is close to zero. These institutions have typically high (AA) rating from well-known credit rating institutions.

Class 3: includes institutional (bank) low risk exposures, which are not included in previous classes, and their estimated average PD is very low. They are also financially strong, reputed financial institutions that have a good rating.

Class 4:
In this category are included the best qualified retail and corporate customers which default rate is low. These customers have excellent credit history, and a balanced business management (in case of companies).
In case of institutional exposures those exposures which are not included in previous classes and their estimated default rate are low have to be classified to this category.

Class 5-7:
All exposures which are not included in classes 1-4, have to be classified to this category. Observable that within the class close to 90% of the receivables are secured, which influence the actual default rate of loans.

Age analysis of loans past due but not impaired

	5-90 days	5-90 days
	2016	2015
Dues from banks and Refinanced mortgage loans	-	-
Loans	3,492	2,375
Corporate customers	1,117	554
Retail customers	2,375	1,821
Total	**3,492**	**2,375**

As of 31 December 2016 the Company has HUF 11,001 million collateral value for loans past due unimpaired (2015: HUF 6,411 million).

According to the internal policy of the Bank, it is mandatory to set up provision for impairment for transactions that have been past due for at least 90 days. Collaterals are also included in the calculation of impairment.
In accordance with the Group's internal rules and regulations transactions under HUF 10 thousand and past due for less than five days are considered transactions in technical non-default.

All figures in tables are in HUF million except otherwise noted

Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor or the Group's initiative, basically based on the fact that the borrower is considered to the unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor's financial difficulties and significant deterioration of ability to pay. Furthermore buffer account loans granted within the framework of the FX rate protection scheme are qualified as forborne as loans, as well as ones concerning to the buffer account loan has been opened.

In comparison with the original term and conditions, essentially more favourable conditions are arising for clients by modification of contract.
Modifications of the terms and conditions can be the following:

- rescheduling the payment
- modification of foreign exchange
- forbearing from collaterals
- capitalization of interest

Rating of forborne loans:

1. If the loans are classified as forborne loans the classification category can not be better than it was before.
2. The forborne loans are classified as "to-be- monitored" if the original loan was classified as "problem-free" or "to-be- monitored" and following the forbearance, the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 180 days without break.
3. The forborne loans are possible to be classified as "problem free" after one year of the forbearance if the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 365 days without break.

An analysis of forborne gross loan portfolio by loan types as 31 December 2016 and 2015

Loan type	31 December 2016	31 December 2015
Individual loans	25,109	33,762
Fx rate protection scheme (original loan)	4,962	5,932
Fx rate protection scheme (buffer account)	306	343
Corporate loans	1,263	2,586
Total	**26,372**	**36,348**

An analysis of impaired forborne loan portfolio by loan types as 31 December 2016 and 2015

Loan type	31 December 2016	31 December 2015
Individual loans	23,735	32,118
Fx rate protection scheme (original loan)	4,024	4,810
Fx rate protection scheme (buffer account)	302	340
Corporate loans	1,082	2,388
Total	**24,817**	**34,506**

See the summary of Fx rate protection scheme in 2.9 note.

An analysis of forborne loan portfolio by loan types and risk classes as 31 December 2016

Loan type	Not past due	1-30 DPD	31-60 DPD	61-90 DPD	91-360 DPD	360+DPD	Total
Individual loans	8,225	1,681	822	370	1,455	12,556	25,109
allowance	*48*	*24*	*130*	*109*	*901*	*9591*	*10,803*
Corporate loans	198	222	91	-	574	178	1,263
allowance	*10*	*1*	*2*	*-*	*133*	*38*	*184*
Total capital of loans	**8,423**	**1,903**	**913**	**370**	**2,029**	**12,734**	**26,372**
Total allowance	***58***	***25***	***132***	***109***	***1,034***	***9,629***	***10,987***

** the table shows just the multiple-forborne loans*

All figures in tables are in HUF million except otherwise noted

An analysis of forborne loan portfolio impaired and not impaired by loan types and risk classes as 31 December 2016

Loan type	Not past due			Past due			Total
	Impaired	Not impaired	Total	Impaired	Not impaired	Total	
Individual loans	7,012	1,213	8,225	16,419	465	16,884	25,109
allowance	*48*	*-*	*48*	*10,755*	*-*	*10,755*	*10,803*
collateral	*11,124*	*2,564*	*13,688*	*18,058*	*1,409*	*19,467*	*33,155*
Corporate loans	198	-	198	884	181	1,065	1,263
allowance	*10*	*-*	*10*	*174*	*-*	*174*	*184*
collateral	*504*	*-*	*504*	*1,335*	*223*	*1,558*	*2,062*
Total capital of loans	**7,210**	**1,213**	**8,423**	**17,303**	**646**	**17,949**	**26,372**
Total allowance	***58***	***-***	***58***	***10,929***	***-***	***10,929***	***10,987***
Total collateral	***11,628***	***2,564***	***14,192***	***19,393***	***1,632***	***21,025***	***35,217***

** the table shows just the multiple-forborne loans*

An analysis of forborne loan portfolio by type of forbearance as 31 December 2016 and 31 December 2015

	31 December 2016		31 December 2015	
	capital	allowance	capital	allowance
Retail loans	25,109	10,803	33,762	12,090
bridge loan	15,593	7,541	22,242	9,328
Fx rate protection scheme (original loan)	4,962	1,136	5,931	1,118
Fx rate protection scheme (buffer account)	306	159	344	193
Fx housing loan converted to HUF	955	583	1,334	525
other	3,293	1,384	3,910	926
Corporate loans	1,263	184	2,586	492
Total	**26,372**	**10,987**	**36,348**	**12,582**

All figures in tables are in HUF million except otherwise noted

Changes in impairment of forborne loan portfolio

	31 December 2016
Impairment as at 1 January	12,582
Provision for impairment in the period	2,563
Reverse of impairment for the period	(83)
Derecognition due to sale of assets	(4,075)
Impairment as at end of period	**10,987**

42. COLLATERALS AND OTHER MEANS FOR IMPROVING THE LOANS PORTFOLIO

Collaterals for lending risk applied by the Bank:

Real estate collateral
The Group accepts as collateral mortgages, independent or separated liens established mainly on such real estate that is registered in Hungary and have long live stable value and purchase mortgage loans and independent liens with the same conditions. There are some mortgaged real estates registered in Croatia due to the operation of a subsidiary. During the financial leasing the Group finances Hungarian marketable real estates.

Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan. The Group takes real estate into consideration at a conservatively established collateral value.

State guarantee
All instances of State guarantee accepted by the Bank involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions.

Deposit
Deposit can take the form of cash, bank deposit or securities.

Other
In addition to the above the Bank also accepts joint and several guarantee by third party (where the third party is other than the Hungarian State). Before the entry in force of the new Civil Code – 15/03/2014 – the Bank accepted assigned claims, lien on claims, home savings assigned to the Bank; insurance (for example property and life insurance) assigned to the Bank, and lien, surety or option on holding or share possessed by the borrower giving the right to participate in company capital. After this date the Bank applies lien on claims (savings, insurances), immaterial goods, chattels, shares.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals in 2016 and 2015:

	31 December 2016	31 December 2015
Mortgage	837,679	1,020,895
Bail	28,978	26,040
Guarantee	6,365	4,228
Other collaterals	2,058	308
Total	**875,080**	**1,051,471**

The above detailed collaterals cover fully the amount of the loans and refinanced mortgage loans.

Among the collaterals the value of mortgage represents the collateral value allocated to the mortgage at disbursement (market value less discount factor) in case of Customer loans. In case of refinanced mortgage loans, mortgage is the lower of the collateral value or the receivable. All other items are valued at their own value (for example the assignment is valued at the amount which was assigned). The category of other collaterals contains the insurances.

43. MARKET RISK

Due to the nature of its business as a mortgage bank and to the special legal regulation relating to it, FHB has distinctive assets and liabilities structure within the Hungarian banking system as the significant part of its assets and liabilities are long-term and raise most of its funds in the capital market.

Regarding the liquidity- and market risk the Bank is responsible for raising the necessary funding sources and for the risk management both on Group level and on individual entity level. The Bank maintains low the maturity-, interest rate- and foreign exchange rate risk derive from the asset, liability and off balance sheet commitments.

44. INTEREST RATE RISK

Interest rate risk derives 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 harmony. The Bank assesses interest rate risk on a continuous basis with the help of Gap-analysis, VaR calculations and sensitivity analysis. 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 issued bonds maturities and interest rates suited to assets are also involved in order to ensure the harmony between assets and liabilities.

All figures in tables are in HUF million except otherwise noted

Average portfolio of interest earning assets and interest bearing liabilities of the Group in the period:

	31 December 2016		31 December 2015	
	Average net A/L	Average interest rate %	Average net A/L	Average interest rate %
Interest earning assets				
Dues from banks and Balances with the National Bank of Hungary	115,948	1.30	222,697	1.96
Securities held for trading and available-for-sale	46,901	7.39	48,202	5.82
Refinanced mortgage loans	68,001	7.18	97,350	7.42
Loans and advances to customers	267,517	7.25	284,094	8.44
Total interest earning assets	**498,367**	**5.87**	**652,343**	**5.89**
Interest bearing liabilities				
Due to banks	79,225	0.09	36,795	0.1
Deposits	299,200	0.79	354,806	1.3
Issued securities and Financial liabilities at fair value through profit or loss, except derivatives	206,085	6.21	284,037	6.16
Other loan	5	-	-	-
Total interest bearing liabilities	**584,515**	**2.60**	**675,638**	**3.28**

Interest rate risk exposure – sensitivity analysis (figures in HUF million)

	Sensitivity of interest income 2016	Sensitivity of equity (2016)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	6	(1.7)	(1.4)	8	22.2	27.1
EUR	0.4	0.3	0.7	(4.8)	(0.8)	(4.6)
CHF	-	-	-	-	(0.1)	(0.1)

	Sensitivity of interest income 2015*	Sensitivity of equity (2015)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	5.4	(0.8)	(0.3)	(2.1)	17.3	14.1
EUR	3.5	(1.0)	0.7	0.6	(1.3)	(1.1)
CHF	0.2	-	-	-	(0.1)	(0.1)

	Sensitivity of interest income 2016 +10 bp	Sensitivity of interest income 2016 +25 bp	Sensitivity of equity (2016) +10 bp	Sensitivity of equity (2016) +25bp
HUF	60	150	271	677
EUR	4	11	(46)	(116)
CHF	-	1	-	(1)

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.

Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2016 net interest income would increase by HUF 6 million in case of HUF, it would increase by HUF 0.4 million in case of EUR and would increase by HUF 0.04 million in case of CHF.

Sensitivity of equity means the re-valuation of all financial assets and liabilities and off-balance sheet positions based on tenors of maturity and/or repricing. Full-fledged sensitivity of shareholders' equity is based on the presumption that the yield curve moves in parallel, while analysis by maturity groups highlights sensitivity in each tenor segment. The net impact of such moves would cause the increase of the capital by HUF 27.1 million in HUF, the decrease of the capital by HUF 4.6 million in EUR, the decrease of the capital by HUF 0.1 million in CHF.

All figures in tables are in HUF million except otherwise noted

45. EXCHANGE RATE RISK MANAGEMENT

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 strives to immediately hedge the exchange risks related to its core business, i.e. mortgage lending, refinancing and financing though mortgage bonds, as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals in currencies in which the Bank keeps a nostro account.

FX risk (in the case of 1% increase in exchange rate)

FX	Effect on earning before income tax (31 December 2016)	Effect on capital (31 December 2016)	Effect on earning before income tax (31 December 2015)*	Effect on capital (31 December 2015)
EUR	4	18.7	352.9	365.9
CHF	(2.2)	1.6	(7.6)	18.9

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax could increase with 4 million HUF, in case of CHF items it could decrease with 2.2 million HUF. The similar effect for the capital could mean an increase of 18.7 million in case of EUR items and 1.6 million HUF increase in case of CHF items. (The sensitivity of the equity means the re-evaluation of the all-currency financial assets and the off-balance sheet positions.)

All figures in tables are in HUF million except otherwise noted

Consolidated FX financial position of the group in terms of main currencies:

31 December 2016	CHF	EUR	HUF	Total
Assets				
Cash on hand	86	516	3,725	4,327
Balances with the National Bank of Hungary	-	-	60,635	60,635
Due from Banks	830	13,436	56,023	70,289
Securities held for trading	-	2,912	37,822	40,734
Financial assets available-for-sale	-	17,115	49,180	66,295
Shares in associated and joint venture	-	-	4,816	4,816
Derivative financial assets	-	-	933	933
Refinanced mortgage loans	-	-	31,423	31,423
Loans and advances to customers	2,996	28,504	262,973	294,473
Investment property	-	-	780	780
Tangible assets	-	-	4,942	4,942
Goodwill and other intangibles	-	-	2,042	2,042
Deferred tax asset	-	-	3,030	3,030
Other assets	271	188	8,226	8,685
Total assets	**4,183**	**62,671**	**526,550**	**593,404**
Nominal values of derivative assets	2,142	30,485	36,071	68,698
Total assets incl. derivatives	**6,325**	**93,156**	**562,621**	**662,102**

31 December 2016	CHF	EUR	HUF	Total
Liabilities				
Due to banks	1,071	690	45,468	47,229
Deposits	146	56,583	240,343	297,072
Derivative financial liabilities	-	-	1,579	1,579
Issued securities	-	6,617	163,666	170,283
Financial liabilities at fair value through profit or loss, except	-	7,331	4,660	11,991
Leasing liability	-	-	3	3
Current tax liability	-	-	-	-
Deferred tax liability	-	-	-	-
Provisions	-	-	1,546	1,546
Other liabilities	3	473	5,623	6,099
Total liabilities	**1,220**	**71,694**	**462,888**	**535,802**

All figures in tables are in HUF million except otherwise noted

31 December 2016	CHF	EUR	HUF	Total
Shareholders' equity	**-**	**-**	**57,602**	**57,602**
Total liabilities and shareholders' equity	**1,220**	**71,694**	**520,490**	**593,404**
Nominal values of derivative liabilities	5,033	22,316	41,782	69,130
Total liabilities incl. derivatives	**6,253**	**94,010**	**562,272**	**662,534**
Position	(72)	854	(349)	432

Consolidated FX financial position of the group in terms of main currencies (31 December 2015):

31 December 2015	CHF	EUR	HUF	Total
Total assets incl. derivatives	**6,660**	**136,817**	**748,565**	**892,042**
Total liabilities incl. derivatives	**1,540**	**89,775**	**653,505**	**744,820**
Shareholders' equity	**-**	**31,749**	**76,783**	**108,532**
Position	(490)	(943)	1,893	460

46. PREPAYMENT RISK

Prepayment risk means the potential risk that the Bank may suffer losses when clients and refinancing partners partially or entirely repay their outstanding mortgage loans or refinanced loans respectively before the due date in the loan agreement.

The impact of prepayment risk on both assets and liabilities is presented in the statement.

The following method was applied to quantify the effect on net interest income:

An annual prepayment rate (annualized in the course of the year) was determined on the basis of actual amounts prepaid and gross average receivables from outstanding loans. Then interest income was netted of internal settlement interest (i.e. of cost of financing). The resulting net interest income was geared to the amount of outstanding loans for the year and this resulted in the average interest margin on loans for the year. The series of average loans, average prepayment rate and average net interest margin for the period shows the projected effect of prepayments on net interest income. Thus the prepayment risk shows the effect to which extent the interest income decreases because of prepaid (therefore missing) loan capital.

The following method was applied to quantify the effect on shareholders' equity:

The effect on net interest income was adjusted by the actual income from prepaid fees for the period, since those partially compensate the decreasing profit due to the missing net interest income and the decreasing shareholders' equity. The effect on corporate income tax was disregarded.

All figures in tables are in HUF million except otherwise noted

Prepayment risk of the Bank:

	Effect on net interest income	Effect on equity	Effect on net interest income	Effect on equity
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	HUF million	HUF million	HUF million	HUF million
Loans	**(1,226)**	**(1,001)**	**(1,411)**	**(1,231)**
HUF	(1,182)	(959)	(1,021)	(854)
EUR	(39)	(37)	(61)	(57)
CHF	(5)	(5)	(329)	(320)
Refinanced mortgage loans	**(1,068)**	**(2)**	**(19)**	**103**
HUF	(1,068)	(2)	(314)	(202)
EUR	-	-	1	1
CHF	-	-	294	304
Total	**(2,294)**	**(1,003)**	**(1,430)**	**(1,128)**

47. LIQUIDITY AND MATURITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking. The Bank maintains its liquidity by coordinating the maturity of its receivables and payables. 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 by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares its liquidity plans and financing position based on different scenarios, also including effects coming from stress tests.

The Bank aims to decrease liquidity risk by diversifying the sources of financing using capital market products (mortgage bonds, bonds) and collecting customer deposits based on both. The Bank also maintains a high level of liquid asset portfolio consisting of mainly government securities. Being a member of the joint and several responsibility system of the Integration strengthens the liquidity position of the members.

Off-balance sheet liabilities are presented at their latest date to be drawn (contractual maturity) in the table below. They would be presented in the first category if their earliest date to be drawn were to be taken.

Notes to the Consolidated Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2016

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	104,514	22,438	24,009	16,317	-	167,278
Deposits	139,342	98,264	47,378	10,304	5	-	295,293
Derivative financial liabilities	-	292	142	1,145	-	-	1,579
Issued securities	-	21,456	31,765	131,185	617	-	185,023
Financial liabilities at fair value through profit or loss, except derivatives	-	4,962	-	1,194	6,518	-	12,674
Off balance sheet commitments	-	26,399	25,329	15,082	5	2	66,817
Total banking liabilities	**139,342**	**255,887**	**127,052**	**182,919**	**23,462**	**2**	**728,664**

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	590	12,981	10,810	1,054	267	25,702
Liabilities from derivatives	-	523	13,056	10,742	567	112	25,000
Net value of derivatives	**-**	**67**	**(75)**	**68**	**487**	**155**	**702**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2015

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	43,107	32,033	14,522	17,891	-	107,553
Deposits	126,425	115,139	65,006	26,719	44	-	333,333
Derivative financial liabilities	-	404	-	1,916	-	-	2,320
Issued securities	-	9,410	65,077	165,844	19,455	-	259,786
Financial liabilities at fair value through profit or loss, except derivatives	-	676	7,526	5,915	6,881	-	20,998
Off balance sheet commitments	-	13,802	39,213	11,728	119	518	65,380
Total banking liabilities	**126,425**	**182,538**	**208,855**	**226,644**	**44,390**	**518**	**789,370**

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	25,255	1,534	52,813	948	332	80,882
Liabilities from derivatives	-	25,172	1,637	53,846	744	223	81,622
Net value of derivatives	**-**	**83**	**(103)**	**(1,033)**	**204**	**109**	**(740)**

All figures in tables are in HUF million except otherwise noted

The liability structure is managed by the Bank in the following ways:

- in accordance with the possibilities (demand) of the Hungarian mortgage bond market the Bank is aiming to maximize the maturity of its issued mortgage bonds;
- concentration of the maturity of the mortgage bonds is restricted by limits set in the Bank's internal regulations;
- the Bank is an active player of the mortgage bond markets (repurchasing bonds issued by the Bank).

The table above shows an age analysis of the Bank's liabilities based on the remaining maturity calculated from the balance sheet date. The mortgage bonds and bonds issued by the Bank are presented at actual due principal amounts and increased by the interest payments expected to be paid disclosed in the related information memoranda and programs and are not affected by exchange rate gains and losses or by any valuation difference arising on derivatives. In practice, the maturity of liabilities may depart from the contracted terms.

Maturity analysis of assets and liabilities as of 31 December 2016

	Less than 12 months	Over 12 months
Assets		
Cash on hand	4,327	-
Balances with the National Bank of Hungary	60,635	-
Due from banks	39,940	30,349
Securities held for trading	23,474	17,260
Financial assets available-for-sale	33,594	32,701
Shares in associates and joint ventures	-	4,816
Derivative financial assets	484	449
Refinanced mortgage loans	5,428	25,995
Loans and advances to customers	43,467	251,006
Investment property	-	780
Tangible assets	-	4,942
Goodwill and other intangible assets	-	2,042
Deferred tax assets	-	3,030
Other assets	8,685	-
Total assets	**220,034**	**373,370**

All figures in tables are in HUF million except otherwise noted

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	6,903	40,326
Deposits from customers	286,763	10,309
Derivative financial liabilities	434	1,145
Issued securities	38,481	131,802
Financial liabilities at fair value through profit or loss, except derivatives	4,279	7,712
Finance leases liabilities	-	3
Current tax liabilities	-	-
Deferred taxes liabilities	-	-
Provisions	1,548	-
Other liabilities	6,099	-
Total liabilities	**344,507**	**191,297**

Maturity analysis of assets and liabilities as of 31 December 2015

	Less than 12 months	Over 12 months
Assets		
Cash on hand	3,017	-
Balances with the National Bank of Hungary	162,749	-
Due from banks	45,703	2,505
Securities held for trading	7,405	44,508
Financial assets available-for-sale	25,332	48,710
Shares in associates and joint ventures	-	7,755
Derivative financial assets	699	185
Refinanced mortgage loans	8,629	74,161
Loans and advances to customers	31,453	256,845
Investment property	-	780
Tangible assets	-	6,168
Goodwill and other intangible assets	-	1,915
Deferred tax assets	-	8,232
Other assets	8,069	-
Total assets	**293,056**	**451,764**

All figures in tables are in HUF million except otherwise noted

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	7,361	32,413
Deposits from customers	302,285	26,763
Derivative financial liabilities	392	1,916
Issued securities	49,816	185,299
Financial liabilities at fair value through profit or loss, except derivatives	7,082	12,796
Finance leases liabilities	-	12
Current tax liabilities	1	-
Deferred taxes liabilities	-	1
Provisions	999	-
Other liabilities	9,152	-
Total liabilities	**377,088**	**259,200**

48. MANAGEMENT OF RISK FROM OPERATION

Risk from operation is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Group through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment. The Bank's management considers feedback to be particularly important in terms of operations-related risk management, as this is the tool to check the effectiveness of measures taken to eliminate risks.

49. TREATMENT OF RISK CONCENTRATION

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate and also by diversifying its product portfolio from collateral perspective (meaning to increase the proportion of other than real estate securities). Taking risk in corporate segment can do in compliance with the sectoral limits.

All figures in tables are in HUF million except otherwise noted

50. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

The calculation of regulatory capital based on the proposed banking and capital adequacy directive of the European Union and the guidelines of the Committee of European Banking Supervisors (Guidelines on prudential filters for regulatory capital) cash flow security reserve should be ignored, thus ensuring the soundness of the comparison with previous periods.

The Hungarian Financial Supervisory Authority has given permission to the Group to apply – at gradual implementation – (a) the IRB (internal qualifying) method for credit risk from 1 July 2008 and (b) the AMA for operational risk from 31 December 2011 regarding the calculation of solvency margin.

The National Bank of Hungary has conducted the supervisory review process (SREP) at the end of 2015, from which the Bank received the decision on 19 April 2016. The Bank Group has to apply the SREP capital requirement from 30 June 2016.

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

The Group's Tier 1 capital adequacy ratio was 13.71 % as of 31 December 2016 and 20.13% as of 31 December 2015. The Group applies the Hungarian accounting standards regarding consolidated risk-weighted assets and IFRS standards regarding Tier 1 items.

According to this the Group's regulatory capital includes the following elements: share capital – repurchased treasury shares + share premium + general reserve + share option reserve + retained earnings – intangible assets – IRB loss.

The Group's capital adequacy ratio = regulatory capital / (total capital requirement / 8%).

	31 December 2016	31 December 2015
OWN FUNDS	**45,612**	**66,461**
TIER 1 CAPITAL	**42,606**	**66,461**
COMMON EQUITY TIER 1 CAPITAL	**40,359**	**41,395**
Capital instruments eligible as CET1 Capital	38,567	8,102
Retained earnings	1,539	16,135
Accumulated other comprehensive income	587	561
Other reserves	-	-
Minority interest given recognition in CET1 capital	9,761	9,760
Transitional adjustments due to additional minority interests	-	6,960
Adjustments to CET1 due to prudential filters	(460)	(308)
(-) Goodwill	166	166
(-) Other intangible assets	958	981
Other transitional adjustments to CET1 Capital	-	12,187
ADDITIONAL TIER 1 CAPITAL	**2,247**	**25,066**
Capital instruments eligible as AT1 Capital	-	31,749
Other AT1 Capital elements and transitional adjustment	-	(6,683)
TIER 2 CAPITAL	**3,006**	**-**
CET1 Capital ratio	**12.14%**	**12.54%**
T1 Capital ratio	**13.71%**	**20.13%**

	31 December 2016	31 December 2015
Capital requirement (min)	26,606	26,414
Total exposures amount	332,577	330,172
ROAE **(return on average equity %)**	**(18.7)**	**(10.7)**

All figures in tables are in HUF million except otherwise noted

51. RELATED PARTY TRANSACTIONS

For the purpose of the financial statements, Group identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10% (A64 Trustee Ltd. - until 14.10.2016.-, VCP Finanz Holding Ltd. – until 09.12.2016 -, from 14.10.2016. Fókusz Takarékszövetkezet and B3 Takarékszövetkezet, from 09.12.2016. Magyar Takarékszövetkezeti Bank Ltd., and from 2010 also Allianz Hungary Insurance Ltd). Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions. For the list of the subsidiaries, associates and joint ventures please refer to Note 2.4.

	31 December 2016	31 December 2015
Loans to executives, members of the Board of Directors and Supervisory Board	-	-
Gross remuneration		
Salary	81	89
Bonus	15	15
Honorarium	28	31
Total remuneration	**124**	**135**

The key management personnel had HUF 2.5 million FHB shares in 2016. In 2015 they had HUF 179 million FHB shares and HUF 101 million issued securities.
Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transaction in 2016 and 2015 between the Group and other related parties are disclosed below:

All figures in tables are in HUF million except otherwise noted

Details of transactions as of 31 December 2016

	Parent	Associates and joint ventures	Key management
Due from banks	30,350	70	-
Loans and advances to customers	-	8,255	28
Other assets	20	1,321	-
Total assets	**30,370**	**9,646**	**28**
Due to banks	4,000	-	-
Deposits from customers	-	2,840	14
Other liabilities	-	3,038	-
Total liabilities	**4,000**	**5,878**	**14**
Interest income	327	336	2
Interest expense	-	(14)	(1)
Net interest income	**327**	**322**	**1**
Fee and commission income	154	274	1
Fee and commission expense	(1)	-	-
Net fee and commission income	**153**	**274**	**1**
Other operating income	28	526	-
Other operating expense	-	(62)	-
Operating income	**508**	**1,060**	**2**
Operating expense	(50)	(572)	(124)
Profit/loss on transactions with related parties	**458**	**488**	**(122)**

Details of transactions as of 31 December 2015

	Parent	Associates and joint ventures	Key management
Loans and advances to customers	-	8,363	-
Other assets	-	1,131	-
Total assets	**-**	**9,494**	**-**
Deposits from customers	-	1,703	4,275
Other liabilities	-	187	-
Total liabilities	**-**	**1,890**	**4,275**
Interest income	-	1,061	-
Interest expense	-	(34)	(359)
Net interest income	**-**	**1,027**	**(359)**
Fee and commission income	-	-	1
Fee and commission expense	-	-	-
Net fee and commission income	**-**	**-**	**1**
Other operating income	-	324	-
Other operating expense	-	-	-
Operating income	**-**	**1,351**	**(358)**
Operating expense	(65)	(490)	(135)
Profit/loss on transactions with related parties	**(65)**	**861**	**(493)**

All figures in tables are in HUF million except otherwise noted

52. NET GAINS

The allocation of operating income to financial instrument categories excluding gains from foreign exchange transactions:

2016	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Loans and advances	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	1,973	1,260	25,509	-	-	-	28,742
Interest expense	-	-	-	(1,425)	(15,061)	-	(16,486)
Net interest income	**1,973**	**1,260**	**25,509**	**(1,425)**	**(15,061)**	**-**	**12,256**
Fee and commission income	-	-	4,041	-	5,171	964	10,176
Fee and commission expense	-	-	(1,144)	-	(848)	(220)	(2,212)
Net fee and commission income	**-**	**-**	**2,897**	**-**	**4,323**	**744**	**7,964**
Change in fair value of derivatives	(301)	-	-	1,266	-	-	965
Gains from securities	422	347	-	149	2,116	-	3,034
Other operating income	-	-	-	-	-	2,216	2,216
Other operating expense	-	-	-	-	-	(9,205)	(9,205)
Operating income	**2,094**	**1,607**	**28,406**	**(10)**	**(8,622)**	**(6,245)**	**17,230**

All figures in tables are in HUF million except otherwise noted

2015	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Loans and advances	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	6,291	1,334	33,534	-	-	-	41,159
Interest expense	-	-	-	(5,076)	(21,455)	-	(26,531)
Net interest income	**6,291**	**1,334**	**33,534**	**(5,076)**	**(21,455)**	**-**	**14,628**
Fee and commission income	-	-	2,841	-	4,616	895	8,352
Fee and commission expense	-	-	(915)	-	(214)	(205)	(1,334)
Net fee and commission income	**-**	**-**	**1,926**	**-**	**4,402**	**690**	**7,018**
Change in fair value of derivatives	(419)	-	-	(1,761)	-	-	(2,180)
Gains from securities	333	837	-	118	1,392	848	3,528
Other operating income	-	-	-	-	-	1,397	1,397
Other operating expense	-	-	(87)	-	-	(11,304)	(11,391)
Operating income	**6,205**	**2,171**	**35,373**	**(6,719)**	**(15,661)**	**(8,369)**	**13,000**

All figures in tables are in HUF million except otherwise noted

53. SEGMENT REPORTING BY BUSINESS SEGMENTS

The Group distinguishes business segments according to the organizational structure of the company. The profitability of the company is presented based on this structure. The segments have separable and assignable income, expense, assets and liabilities.
The reportable segments of the Group on the base of IFRS 8 are the following:

- Retail: the Bank provides a wide range of services to its retail customers (retail bank accounts, deposits, savings, loans) through the branch network and with the collaboration of the Hungarian Post.
- Corporate: the Bank is trying to satisfy not only the retail but the corporate customers' financial needs providing corporate accounts, deposits, loans in different type, size with different collaterals, guarantees.
- Investment services: the Bank also provides investment services to retail and corporate clients.
- Treasury: the segment's responsiblities include liquidity management, asset and liability management, and security issue on behalf of the FHB Mortgage Bank.
- Refinancing: refinancing mortgage loans to FHB Commercial Bank and other partner institutions Leasing: in the Bank Group FHB Lízing Ltd. provides leasing, the business activity of this company is presented in this category.
- Other: the Bank's core business is supported by other subsidiaries, which profitability's are reported in this category. These companies are the following:
  - Diófa Alapkezelő Ltd.
  - Magyar Kártyaszolgáltató Ltd.
  - FHB Real Estate Ltd.
  - FHB Invest Kft.
  - Káry-Villa Kft.

Segment report, 31 December 2016	Retail	Corporate	Investment services	Treasury	Refinancing	Leasing	Other	Total
Net interest income	12,073	2,057	308	(4,623)	2,689	205	(453)	12,256
Other net income	(216)	744	408	3,570	(447)	3,016	(914)	6,161
Provision for impairment on loan losses	(7,546)	(344)	-	-	27	(294)	(35)	(8,192)
Direct expense	(12,728)	(1,650)	(566)	(537)	(525)	(680)	(2,859)	(19,545)
Operating result	(8,417)	807	150	(1,590)	1,744	2,247	(4,261)	(9,320)
Profit before tax	-	-		-	-		-	(9,320)
Segment assets	188,082	98,717	9,753	226,221	31,423	13,578	25,630	593,404
Segment liabilities and equity	125,397	118,366	53,597	276,423	-	13,578	6,043	593,404

All figures in tables are in HUF million except otherwise noted

Segment report, 31 December 2015	Retail	Corporate	Treasury	Refinan-cing	Other*	Total
Net interest income	11,446	1,932	(493)	2,241	(498)	14,628
Other net income	1,101	1,306	(4,330)	(159)	(631)	(2,713)
Provision for impairment on loan losses	(3,879)	(1,177)	-	-	4,194	(862)
Direct expense	(12,279)	(1,835)	(1,601)	(457)	(2,592)	(18,764)
Operating result	(3,611)	226	(6,424)	1,625	473	(7,711)
Profit before tax	-	-	-	-	-	(7,711)
Segment assets	198,774	87,708	334,919	82,790	40,629	744,820
Segment liabilities and equity	128,941	131,260	442,707	-	41,912	744,820

*Including the real estate services and real estate leasing.

54. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

As a result of negotiations commenced in 2016 the Bank has already contracted with 4 new external refinancing partners and the first remittances occurred with a worth of more than 10 billion HUF.

All figures in tables are in HUF million except otherwise noted

FHB MORTGAGE BANK PLC.

CONSOLIDATED BUSINESS REPORT FOR 2016
ACCORDING TO IFRS

Budapest, 4 April, 2017.

TABLE OF CONTENTS

1 OVERVIEW OF FHB GROUP

1.1 FHB MORTGAGE BANK PLC.

FHB Mortgage Bank Public Limited Company ("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 (Jht.) on 6 March 1998. The Bank commenced operation as of 16 March 1998.

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

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

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

On 31 December 2016 FHB Mortgage Bank Plc. had series "A", "B" and "C" shares. Majority (78.2%) of FHB shares is owned by domestic institutional investors.

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

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

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

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

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

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

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

Related to the transaction of the business shares, FHB and the Magyar Posta (Hungarian Post) entered into a strategic cooperation, and in the scope of that they cooperate in the ownership and control of FHB Invest Befektetési és Ingatlankezelő Kft. (in English: FHB Invest Investment and Real Estate Management Ltd.; hereinafter: FHB Invest; previously DÜSZ), DBH and the jointly controlled companies, furthermore in course of the harmonization of the business activities of FHB Invest Ltd. and the members of the DBH Group.

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

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

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 (during the year, in two steps) 13,76% indirect qualifying holding in Bank of Hungarian Savings Cooperatives Co. Ltd. after the permission of National Bank of Hungary.

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

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

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

Significant investments	**Shareholders**										
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	Diófa Asset Manage-ment Ltd.	FHB INVEST Llc.	FHB Leasing Ltd.	Díjbesze-dő IT Llc.	Magyar Takarék Asset Manage-ment Ltd.	Bank of Hungarian Savings Cooperatives Co. Ltd.	DOM-P IT Services Ltd.	Direct and indirect share total
FHB Commercial Bank Ltd.	51.00%	-	-	-	-	-	-	-	7.39%	-	52.02%
FHB Real Estate Ltd.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
Káry-Villa Ltd.	-	-	100.00%	-	-	-	-	-	-	-	100.00%
Diófa Asset Management Ltd.	89.19%	-	-	-	-	-	-	-	-	-	89.19%
Diófa Real Estate Management Llc.	-	-	-	100.00%	-	-	-	-	-	-	89.19%
FHB INVEST Llc.	100.00%	-	-	-	-	-	-	-	-	-	100.00%
FHB Lease Ltd.	-	-	-	-	100.00%	-	-	-	-	-	100.00%
Central European Credit d.d.	-	-	-	-	-	100.00%	-	-	-	-	100.00%
FHB DWH Ltd.	-	-	-	-	-	100.00%	-	-	-	-	100.00%
Díjbeszedő Faktorház Ltd.	-	-	-	-	51.00%	-	-	-	-	-	51.00%
DíjNET Ltd.	-	-	-	-	51.00%	-	-	-	-	-	51.00%
Díjbeszedő IT Llc.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Magyar Posta Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	-	-	24.98%
Magyar Posta Investment Services Ltd.	-	-	-	-	50.00%	-	-	-	-	-	50.00%
Hungarian Card Service Plc.	-	99.18%	-	-	-	-	0.82%	-	-	-	50.99%
Magyar Takarék Asset Management Ltd.	25.10%	-	-	-	-	-	-	-	-	-	25.10%
Bank of Hungarian Savings Cooperatives Co. Ltd.	1 db C részvény	1 db C részvény	-	-	-	-	-	54.82%	-	-	13.76%
MPT Security Ltd.	-	-	-	-	10.00%	-	-	-	40.00%	-	15.50%
MA-TAK-EL Ltd.	-	-	-	-	40.00%	-	-	40.00%	-	20.00%	53.21%
DOM-P IT Services Ltd.	-	-	-	-	13.91%	-	-	-	13.91%	-	15.83%

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

1.2 FHB COMMERCIAL BANK LTD.

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

As a result of the merge of Allianz Bank Ltd. into FHB Commercial Bank as of 1 April 2011, the number of employees, number of branches and financial assets of Commercial Bank boosted significantly; the product portfolio broadened.

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

In September 2014, FHB Mortgage Bank Co. Plc. and Magyar Posta Zrt. contracted on the purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd. The closing of the transaction – after the National

Bank of Hungary gave the necessary permission to Hungarian Post to get influence – took place on 30 September 2014. Before the purchase of the share package, the General Meeting of FHB Commercial Bank decided on approximately HUF 20 billion capital increase and entitled the FHB Mortgage Bank to takeover the new shares, which was fully implemented by the Mortgage Bank. The capital increase was registered in the company register on 1 October 2014.

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

The Commercial Bank's total assets in accordance with Hungarian Accounting Standards (HAS) amounted to HUF 463.8 billion as of 31 December 2016, which decreased by 2.1% the previous year figure (HUF 473.8 billion). Gross loan portfolio of Commercial Bank amounted to HUF 229.1 billion according to HAS, representing 8.2% increase since the end of the year 2015. The Bank's deposit portfolio decreased by 9.7% (299.1 billion) over the past year.

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

FHB Commercial Bank’s balance sheet profit was HUF 6,691 million losses in 2016, its shareholders’ equity at year end was HUF 30.6 billion; and capital adequacy ratio (according to HAS) was 13.16% on 31 December 2016, lower than it was (20.00%) a year ago.

1.3 FHB REAL ESTATE LTD.

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

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

In 2016 the profile of the company has been expended with a new line of business. The changes in the regulations of financial intermediation resulted in the formation of the Partnership Department. Due to the coordination of the new department – realising and taking advantage of the changed market demand - the Company performs loan intermediation activity with subcontractors since the end of the year. The goal and main pillar of the activity is improving business relationships with real estate developer companies and raising result.

The Company closed the year 2016 with HUF 7.8 million profits. The Company’s registered capital was HUF 70 million and shareholders’ equity HUF 214.9 million at the end of the year.

1.4 FHB LÍZING LTD.

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

The company joined FHB Group in 2009; its sole shareholder is FHB INVEST Ltd. FHB Real Estate Lease Ltd. is 100% owner of the shares of Central European Credit d.d. and FHB DWH Services Ltd.

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

FHB Lízing Ltd. is 100% owner of the shares of Central European Credit d.d. and FHB DWH Services Ltd. The former one is a financial company registered in Croatia, while FHB DWH Ltd. main activities are data processing and web hosting services.

The main goal of the Company in 2016 was the expansion of new business lines besides clearing portfolios. The volume of leasing and loan disbursements during the year amounted to HUF 5.5 billion which contains HUF 4.2 billion of production assets and truck leasing.

As at 31 December 2016, the loan volume of FHB Lízing Ltd according to HAS. reached HUF 2.6 billion, while volume of leasing portfolio reached HUF 9.4 billion representing 74.1% increase compared to the data of HUF 5.4 billion at the end of 2015.

The company's capital was increased once in 2016, and the capital increase amounted to HUF 210 million.

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

1.5 DIÓFA ASSET MANAGEMENT LTD.

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

Before joining to FHB Group, Diófa Asset Management was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients. After the acquisition Diófa Asset Management Ltd. still sustains its former focus areas, in addition new retail funds have been launched in the branch network of FHB Banking Group.

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

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

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

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

1.6 FHB INVEST INVESTMENT AND REAL ESTATE MANAGEMENT LTD

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

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

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

1.7 JOINTLY CONTROLLED AND ASSOCIATED COMPANIES

Díjbeszedő Faktorház Ltd. (DBF) realised HUF 943.4 million profit after tax in 2016 according to HAS. Shareholder's equity of the Company based on HAS amounted to HUF 6.0 billion as of 31 December 2016.

The main activity of DíjNET Ltd. is operation and development of an electronic bill presentment and payment system. In 2016, profit after tax (according to HAS) reached HUF 65.9 million. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 262.6 million at 31 of December 2016.

Díjbeszedő IT Ltd. (DBIT), which provides services related to the IT activities of companies belonging to the Díjbeszedő Group, realised HUF 26.1 million profit after tax in full year 2016. Subscribed capital amounted to HUF 672 million, while shareholder's equity amounted to HUF 706.4 million at the end of December 2016.

By the end of December 2016, Magyar Posta Investment Services Ltd. opened nearly 56 thousand securities and long-term investment accounts; the market value of securities portfolio managed on accounts was HUF 178.0 billion at the end of 2016, compared to HUF 116.8 billion at the end of December 2015. MPBSZ closed 2016 with HUF 147.4 million loss (according to HAS). The company's shareholder's equity was HUF 358.1 million and total assets amounted to HUF 3.9 billion.

These associated companies owned by FHB Invest Ltd. are jointly managed by FHB and Magyar Posta according to a syndicate agreement.

FHB Mortgage Bank owns 25.1% of shares in Magyar Takarék Asset Management (MATAK) Ltd. The results of MATAK – taking into account the results of Bank of Hungarian Savings Cooperatives Co. Ltd. and its companies falling within the scope of consolidation – contributed by HUF 245 million to the consolidated results of Banking Group in 2016.

2 MACROECONOMIC AND MARKET ENVIRONMENT IN 2016

2.1 HUNGARIAN ECONOMY IN 2016[1]

Figures	2014	2015	2016
GDP increase (%)	4.0%	3.1%	2.0%
Industrial production growth (%)	7.6%	7.4%	0.9%
Consumer prices (%)	-0.2%	-0.1%	0.4%
Unemployment rate (%)	7.7%	6.8%	5.1%
Budget deficit (billion HUF)	-826	-1,237	-848
Current balance of payments (million EUR)*	2,356	3,713	4,245
National Bank of Hungary base rate (%, end of the year)	2.10%	1.35%	0.90%
EUR exchange rate (end of the year)	315	313	311

** contains data of the first 3 quarters in case of 2016*
Source: NSA, National Bank of Hungary, Ministry for National Economy

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

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

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

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

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

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

The total number of dwelling construction permits issued and simple declaration concerning the construction of new dwellings show significant growth compared to previous year and number of new housing constructions increased too in relation to preceding year. Number of issued residential building permits and simple declarations increased to 31,559 in 2016, by 152.2% more than in 2015. The most intense increase was recorded in South Transdanubia and in Central Transdanubia (+290.2% and +232.6% compared to 2015, respectively.) The number of planned new homes in Budapest increased by 195.4% to 8,953 - in a measure significantly exceeding changes at country level. Building permits issued in the county seats grew by 184.7% to 8,953, while in other towns an increase of 136.6%, in villages 78.0% was observable compared to 2015.

The number of new homes built increased by 31.3% from 7,612 to 9,994 in 2016. Compared to the number of flat construction in the preceding year a decrease could be seen merely in Southern Transdanubia (18.15%). In terms of territorial units the number of flats built increased in Budapest by 44.0%, in county seats by 48.5%, while in other towns by 19.8%, in villages by 11.34%, compared to 2015. The proportion of flats built by enterprises grew from 39.4% to 49.6% (4,958 pcs); while the proportion of flats built by natural person decreased from 58.5% to 48.5% (4,852 pcs). Among others in consequence of realignment among main contractors the average territory of flats brought into use was 101 sq.m. last year, which decreased to 94 sq.m. by 2016.

2.2 THE BANKING SECTOR IN 2016[2]

Total assets of credit institutions amounted to HUF 34.185 billion at the end of 2016, 4.0% higher than at the end of 2015. According to preliminary data, the cumulative pre-tax profit was HUF 510.3 billion in 2016, significantly better than the HUF 34.3 billion profit of 2015. Out of 111 credit institutions the pre-tax profit of 76 credit institutions was HUF 572.2 billion, while the pre-tax loss of 35 credit institutions was HUF 17.0 billion. Credit institution branches made HUF 46.7 billion pre-tax profit.

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

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

[2] Based on - in case of 2016, preliminary - reports and statistics of NBH.

22.3%) and share of loans past due more than 90 days decreased to 12.7% from 17.6% in 2015 that shows the improvement of household loan portfolio. After HUF conversion 25.3% of remaining HUF 45 billion household FX loans was past due more than 90 days compared to 38.5% on 31 December 2015.

In case of non-financial corporations' HUF loan volume (HUF 3,398 billion) 5.4% was past due more than 90 days that also shows an improvement compared to 8.4% at the end of 2015.The proportion of all past due loans among forint loan portfolio was 9.8% as of 31 December 2016, at the end of 2015 it was 112.0%.The 5.5% of the 2,519 billion total FX loan portfolio was past due more than 90 days, which represents decline compared to 10.9% at the end of 2015.

The restructured loans amounted to HUF 1.698 billion at the end of the year lower by 24.9% of the 2015th year-end level. 38.1% of restructured HUF loan portfolio fell into arrears, 13.9% within 90 days, while 24.2% over 90 days.

The share of deposits of the funding of the sector grew in 2016 (53.8% from 51.5% in 2015) amounted to HUF 18,386 billion. Household's deposits represented 39.4% of total deposits.

2.2.1 Retail savings

According to the statistics of National Bank of Hungary, households' financial savings were HUF 24,806 billion as of December 31, 2016, which is 6.1% more (HUF 1,433 billion higher) than a year ago. The structural rearrangement of savings - thanks to declining deposit interest rates - has intensified over the year: households preferred securities instead of savings deposits. Accordingly, the ratio of deposits in the structure of savings deposits changed from 33.1% to the end of the year 2016, 32.2%. The investment funds and other securities present the 36.7% of total savings, compared with the 35.8% of at year-end 2015. Volume of deposits slightly increased by 3.2% during a year; while investment funds fall by 1.5% and other securities increased by 18.8%.

Within the deposits, the volume of current account deposits increased dynamically, by 19.8% year on year; as a result its proportion rose to nearly 55.1%. Other deposits reduced by 11.8% to HUF 3,581 billion. The share of HUF deposits of retail deposits was 84.2%, and FX deposit was 15.8% at the end of December 2016 representing a slight increase in FX deposits compared to a year before.

2.2.2 Retail mortgage lending

Although the disbursement of retail mortgage loans shows increase quarter-on-quarter in 2016 until the end of third quarter, in the fourth quarter a slight decrease can be seen. The yearly disbursement amounted to nearly HUF 490 billion, which volume (HUF 487.8 billion) is significantly higher than in previous year (HUF 399.7 billion), the increase is 22.1%.

2.2.2.1 Mortgage loan volumes

Based on data published by National Bank of Hungary, volume of retail mortgage loans amounted to 4.342 billion HUF as at 31 December 2016. Volume decreased by HUF 380 billion compared to year-end data of 2015 (4.722 billion HUF). Volume of FX loans fell by 16.2%, and HUF denominated loans by 8.0 %, total volume of mortgage loans decreased by 8.0%.

Volume of housing loans amounted to HUF 2,923 billion as of 31 December 2016, representing yearly decrease of HUF 84 billion. HUF loans fell down by HUF 83 billion and FX housing loans fell down by HUF 1 billion during a year.

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

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

2.2.2.2 Home protection measures

National Asset Management Ltd.

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

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

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

Until 31 December 2016 2,066 real estates have been offered for the NET, and behind them there were 3,799 transactions. The NET has paid the purchase price of 1,770 real estates (3,258 loans).

Personal bankruptcy

The CV law related to the debt settlement of natural persons (the so called „Personal bankruptcy law”) entered into force on 1st of September 2015. The main aim of the law is to settle the debt of natural persons facing payment difficulties using the necessary property and incomes, and to restore the solvency of natural persons in the regulated framework of extrajudicial and judicial procedure of the debt settlement law. The Bank has 48 Debt Settlement Proceedings at this time.

2.2.3 Family Housing Allowance ('CSOK')

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

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

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

2.2.4 Other retail loans

Consumer loans of households have been increasing in 2016, as well. Increase in volume was 3.5%, and the main fall appeared in case of car purchase loans and of credit card loans, while volume of consumer loans for purchase of goods or other and of personal loans increased. Personal loans representing 40.8% of consumer loans; contribution of overdrafts reached 18.9%.

2.2.5 Corporate loans and deposits

Loans granted by credit institutions to non-financial corporations decreased by 12.2% in 2015, the year-end closing stock of HUF 5,937 billion. Within the total stock of loans foreign currency loans decreased by 17.2% while HUF loans by 7.4%.

The Central Bank of Hungary announced the Funding for Growth Scheme in April 2013, with the total of HUF 750 billion. The first two pillars of the program were designed for small and medium-sized enterprises to facilitate access to HUF loans and thereby strengthen financial stability.

From October 2013, the program continued. Under the Funding for Growth Scheme II total amount of HUF 2,000 billion is at disposal of credit institutions, but 90% of the allocation of the first HUF 500 billion could only be used to provide new loans. In the second stage stock increase was hardly more than HUF 29 billion by the end of 2013, so in 2014 its availability has been extended (lending for primary producers/farmers and family businesses, increasing the maximum amount of credit per customer, subsidizing for-profit property development, engaging financial institutions).

In the second phase of the Scheme until 31 December 2015 credit institutions reported contracts, amounting HUF 1,402.1 billion to the NBH, which is linked to 45,977 units and 26,745 transactions. The second phase of the Scheme closed at the end of 2015, the third Scheme starts in 2016.

In the third phase of the Scheme until 30 December 2016 NBH has received data of contracts amounting to HUF 1,402.1 billion, which is linked to 16,628 units and 11,024 transactions. 76.5% of these units was new investment loan, while 23.5% was new leasing (in the third phase only these types of financing were available).

Corporate deposits amounted HUF 6,582 billion at the end of 2016, within 79.8% is the ratio of current account deposits. The share of foreign currency deposits of corporate deposits was 30.4% on 31 December, 2016.

3 REPORT ON THE BUSINESS ACTIVITIES IN 2016

3.1 MAJOR FINANCIAL INDICATORS

in HUF billion	31/12/2015	31/12/2016	Change
Balance sheet total	744.8	593.4	-20.3%
Book value of loans	397.6	349.7	-12.0%
Mortgage bonds issued	194.5	143.1	-26.4%
Bonds issued	60.5	39.1	-35.3%
Deposits	329.0	297.1	-9.7%
Shareholders' equity	108.5	57.6	-46.9%
Own funds	66.5	45.6	-31.4%
Total risk exposure amount	330.1	332.6	0.8%
Capital adequacy ratio (IFRS, %)	20.13%	13.71%	-6.4%-pt
Profit before tax	-7.7	-9.3	20.8%
After tax profit	-10.5	-15.5	47.6%
After tax profit excluding special banking tax and one-offs	-4.0	-2.5	-37.5%
Average net interest margin (NIM, %)	1.93%	1.83%	-0.1%-pt
Cost/income ratio w/o other results (CIR, %)	88.1%	78.8%	-9.3%-pt
EPS (HUF)	-126.3	-102.1	-19.2%
ROAA (return on average assets, %)	-1.4%	-2.3%	-0.9%-pt
ROAA excluding special banking tax (%)	-1.0%	-2.1%	-1.1%-pt
ROAE (return on average equity, %)	-10.7%	-18.7%	-8.0%-pt
ROAE excluding special banking tax (%)	-7.9%	-16.7%	-8.8%-pt

FHB Group's consolidated balance sheet total calculated according to International Financial Reporting Standards (IFRS) was HUF 593.4 billion as of 31 December 2016, which was 20.3% and HUF 151.4 billion less than a year before. In the last year, primarily the volume changes of due from banks and NBH generated the decrease of balance sheet total on the asset side, while among the liabilities issued securities and deposits decreased most of all. Net amount of loans decreased by HUF 45.2 billion or 12.2% in one year, of which decline in refinanced loans was 62.0%.

On the liability side issued securities, deposits and shareholder's equity decreased significantly, and this decrease could not have been compensated by more than 18% raise in due to banks.

Consolidated profit after tax for 2016 was HUF 15.5 billion losses; net interest income amounted to HUF 12.3 billion. Net interest margin on average assets was 1.83%, by 10 basis points down year-on-year.

The Group's cost to income ratio without other results was 78.8% compared to 88.1% in 2015.

On 24 June 2016 the Bank repurchased subordinated Tier 1 capital bond with XS0867086042 ISIN code with a nominal value of EUR 112 million. Among other factors due to the repurchase the shareholders equity decreased by 46.9% to 57.6 billion during the year. The accumulated losses of shareholders of the Bank amounted to HUF -11.0 billion. The capital adequacy ratio was 13.71% at the end of the year.

3.2 LENDING

The volume of gross loans of FHB Group amounted to HUF 318.3 billion as of 31 December 2016. Year-on-year increase was 1.1%, due to the intensively growing disbursements, which can compensate contractual instalments.

The rate of FX loans of total outstanding loan portfolio was 10.4% as of 31 December 2016, which is higher than the 7.8% figure in previous year. The share of FX loans in retail loans was 1.0% which shows significant decrease compared to the end of the previous year (1.3%).

Retail loans continued to dominate within the loan portfolio with a contribution of 65.0% (71.0 % on 31 December 2015). Changes in the composition of the loan portfolio are a result of the retail loan portfolio showed decrease of HUF 16.6 billion (-7.4%) year on year, while the volume of corporate loans grew by 22.0% or HUF 20.0 billion.

The composition of the loan portfolio of 31 December 2016:

in HUF million	31/12/2015	31/12/2016	Change
Retail loans	**223,584**	**207,009**	**-7.4%**
Housing loans	118,120	112,930	-4.4%
Other mortgage loans	94,564	78,852	-16.6%
Consumer loans	6,871	11,190	62.9%
Loans for employees	1,306	1,299	-0.5%
Retail real estate leasing	2,724	2,738	0.5%
Corporate loans	**91,271**	**111,317**	**22.0%**
Corporate loans	87,862	104,076	18.5%
Corporate real estate leasing	1,397	2,120	51.8%
Equipment leasing and loan	2,012	5,121	154.5%
Total own lending, gross	**314,855**	**318,326**	**1.1%**
Impairment	-26,557	-23,853	-10.2%
Loans, net	**288,299**	**294,473**	**2.1%**
Refinanced loans	82,790	31,423	-62.0%

During 2016, HUF 24.3 billion retail and HUF 56.1 billion corporate loan disbursements occurred, latter is 30.8% higher than in 2015. In 2016 the Bank placed HUF 4.9 billion loans out to corporate customers within the framework of Funding for Growth Scheme. Among corporate loans the disbursement of fixed purpose loans was outstanding (HUF 35.3 billion during twelve months), which shows 112.3% increase in 2016 compared to the same period of previous year. The most significant retail products were housing loans and personal loans, the disbursement during the year was HUF 15.6 billion in case of first product, while in case of latter HUF 4.8 billion. During 2016 the volume of disbursed housing loans was 32.2% higher than in the same period of 2015, while the disbursement of personal loans remarkably increased too.

In terms of residential mortgage loans disbursement FHB Group's market share was 3.9% in 2016 (4.4% in 2015).

On 20 April 2016 the FHB Commercial Bank Ltd. as a member of the Consortium for Development MFB Points with the Bank of Hungarian Savings Cooperatives Co. Ltd., the B3 Savings Cooperatives and the Budapest Bank Ltd. entered into an Intermediation Contract with the Hungarian Development Bank Ltd. (hereinafter referred to as the "MFB"). Under the Intermediation Contract the Commercial Bank shall participate in the development of the network of MFB Points, and have undertaken to open and operate 3 MFB Points in Budapest and 18 in the chief towns of the respective counties based on its branch network. Entering into the Intermediation Contract is a unique opportunity to expand on the corporate market; interest-free credit facilities for developments will be widely available for corporates with a plan to expand, and the entire product range of the Commercial Bank shall be available to supplement the necessary funds. For the end of June, FHB Commercial Bank Ltd. opened the 21 MFB Points undertaken on the contract with the Hungarian Development Bank Ltd. (MFB). During the year there was a huge interest toward the interest-free credit facilities for developments.

3.3 REFINANCING

By 31 December 2016 consolidated volume of refinanced loans dropped by 62.0% in one year to HUF 31.4 billion.

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

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

3.4 CUSTOMER DEPOSITS, BANK ACCOUNT SERVICES

At the end of 2016 the Commercial Bank had 41 branches countrywide, which performed all of the retail bank services. There are 14 branches in Budapest, the others located in other county seats and major cities.

The number of retail and corporate accounts managed by the Commercial Bank was 211.0 thousand and 12.1 thousand, respectively, to which belonged 170.4 thousand retail and 6.7 thousand corporate cards – both number of current retail accounts and number of retail cards increased compared to the previous year.

Volume of retail deposits increased by 1.5%, while corporate deposits fell down by 16.8% compared to 2015. Total volume of deposits decreased by 9.7% year-on-year and amounted to HUF 297.1 billion as at 31 December 2016. Volume of retail sight deposits reached HUF 66.4 billion, while corporate sight deposits amounted to HUF 73.4 billion, respectively at the end of the year, reach close to 47.1% share of sight deposits from total deposits.

Under the agreement between FHB Mortgage Bank and the Magyar Posta Zrt., the Company signed an order contract with Magyar Posta Zrt. for certain financial mediation services. Under the agreement, the Hungarian Post Office network sells from the beginning of December 2013, an expanding range of products on retail term deposits and retail accounts. The deposit volume sold by post offices was nearly HUF 42 billion for the end of 2016. The number of accounts collected in the Hungarian Post offices reached nearly 67 thousand at the end of the year.

3.5 INVESTMENT SERVICES

FHB Bank Ltd. investment services business continued to grow in 2016. Due to successful customer acquisitions the term and long-term investment account openings showed a significant increase, the number of securities accounts managed by the Bank exceeded 12,700 at the end of the year (+5.8%). The favourable market environment was beneficial for the sale of mutual funds and private bonds, which contributed to private and business customers registered accounts stocks market value exceeded HUF 80 billion by the end of the year 2016 (more than 11% growth compared to 31 December 2015).

In the securities segments, in addition to its own specially issued debt securities to retail investors, mutual funds played an important role in the product portfolio. These volumes at the end of the year was HUF 30.9 billion, representing a 38.6% stake in the managed assets. Among the private debt securities bonds have the largest portion with HUF 7.0 billion, the value of sold shares was HUF 6.4 billion. The interest for mortgage bonds significantly weaken, the stock was HUF 5.4 billion at the end of the year compared to HUF 6.6 billion in 2015. Government securities showed a significant increase, the volume increased to HUF 29.8 billion at the end of 2016 from HUF 20.5 billion as of 31 December 2015.

For bonds and covered bonds issued by FHB Mortgage Bank, FHB Commercial Bank carries out continuously secondary market quotations on both sides, for both corporate and retail clients, which significantly increases the liquidity of the securities issued by the Bank Group.

Concerning the funds managed by Diófa Asset Management, by the end of December 2016, volume of Hungarian Post Takarék Money Market Fund sold in the network of FHB Bank Ltd neared to HUF 2.8 billion, while Takarék FHB Short Bond Fund volume reached HUF 2.7 billion. Net asset value of Hungarian Post Takarék Harmony Mixed Investment Fund managed on client accounts amounted to HUF 531 million, while the volume of Takarék FHB Euro Real Estate Fund was HUF 725 million. The Commercial Bank also distributes the investment units of the Hungarian Post Takarék Real Estate Funds, these stocks held by FHB customers nearly exceeded HUF 18.3 billion.

3.6 SECURITY ISSUES

3.6.1 Mortgage and Senior bond issues

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

In 2016, the Bank has HUF 45.8 billion new capital market funds (euro funds calculated at the EUR exchange rate as of the date of the issuance). The face value of issued bonds amounted to HUF 44.2 billion mortgage bonds and HUF 1.6 billion unsecured bonds were issued.

3.6.2 Mortgage bond coverage[3]

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

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

The net collateral value of real estate covering mortgage bonds issued by the Bank was HUF 227.6 billion as of 31 December 2016, 22.2% less than the figure as of 31 December 2015 (HUF 292.6 billion).

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

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

As of 31 December 2016, the present value of ordinary collateral was HUF 203.5 billion and the present value of mortgage bonds was HUF 177.5 billion, thus the present value of collateral exceeded that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 114.6% in the same period.

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

[3] Non-consolidated data of FHB Mortgage Bank Plc. only, according to HAS

4 LIQUIDITY MANAGEMENT

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

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

During management of the group's liquidity – due to the fact that the new supervisory standards (LCR, LCRDA) don't support the aggregation and consolidation of positions – transactions in the money and capital markets will carry out in a more complex way to meet the liquidity standards. The adaptation to regulatory environment and the optimisation to worth indicator expectations resulted in the establishment of both banks in the open market regarding certain products and types of businesses. The Treasury Department of Mortgage Bank, as the professional leader, managed the positions safely and also supervised Commercial Bank's independent activity in compliance with referring limits and regulations.

The closing balance of the nostro accounts of the Group was HUF 16.3 billion, in Mortgage Bank this amounted to HUF 1.6 billion.

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

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

Available liquid securities of the Group amounted to HUF 180.0 billion (including exclusively the unencumbered security portfolio, nostro accounts, net overnight interbank- and overnight NBH deposits).

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

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

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

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

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

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

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

5.2 CREDIT RISK

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

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

The aims of the directive:

- Accurate presentation of business processes related to corporate clients' FX exposures (speculation, natural exposure, hedging etc.). FX risk analysis and determining the denomination of lending have to be integral parts of risk-taking process.
- Defining the minimum requirements and conditions for lending clients in foreign currency and determining risk management tools for managing clients' actual FX exposure.
- Monitoring of corporate clients' business activity in relation to FX exposures (speculation, natural exposures, exposures originating from funding structure, hedging) has to be integrated into the monitoring/review process.
- Summarizing special contractual clauses in relation to foreign currency lending.

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

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

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

5.3 LIQUIDITY AND MATURITY RISK

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

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

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

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK, EXCHANGE RATE RISK

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

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

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

5.6 OPERATING RISK

The Bank manages operational risks by developing and improving internal rules and regulations, by providing appropriate training to the staff involved in the workflows and by creating and developing further built-in control mechanisms. The Group collects and analyses loss data of operational risk and Key Risk Indicators (KRI). KRIs are reviewed annually. In 2016 more KRIs have been modified and new ones has been defined and introduced.

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

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

5.7 OTHERS

In the Q2 2016 the institutional members of the FHB Banking Group have fully met the transparency requirements of CRR and published the mandatory information about the risk management, the capital adequacy and the remuneration policy.

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

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

In 2016 several organizational changes took place in the Banking Group, in case of Commercial Bank and Mortgage Bank as well.

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

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

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

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

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

The restructuring of the FHB Commercial Bank's organization started at 1 January 2016, because the existing organizational structure didn't allow the integrated sales approach governance, and the effective performance of expanded functions. In order to more optimal operation, organisational units have transformed, have divided, broadening the organisational structure. This change mainly affected the apparatus of two departments controlled by the Deputy Corporate CEO and by the Deputy Capital Market and Treasury CEO.

As of December 31, 2016, the consolidated full-time headcount was 995.8; by 131.8 (15.3%) more than headcount of 863.8 as of December 31, 2015.

Headcounts (FTE, year-end) of the Group companies were as follows:

	31/12/2015	31/12/2016	Change
FHB Mortgage Bank Plc.	129.4	132.8	2.6%
FHB Commercial Bank Ltd.	657.4	761.8	15.9%
FHB Real Estate Ltd.	9.9	12.5	26.3%
FHB Lízing Ltd.	14.3	17.2	20.3%
Diófa Asset Management Ltd.	32.1	41.2	28.3%
Diófa Real Estate Management Llc.	8.4	15.8	88.1%
FHB Invest Ltd.	1.1	1.1	0.0%
Hungarian Card Service Plc.	11.3	13.4	18.6%
FHB Group Total	**863.8**	**995.8**	**15.3%**

7 FINANCIAL ANALYSIS[4]

7.1 BALANCE SHEET STRUCTURE

in HUF million	31/12/2015	31/12/2016	Change
Cash on hand	3,017	4,327	43.4%
Due from banks & NBH	210,957	130,924	-37.9%
Securities held for trading	51,913	40,734	-21.5%
Financial assets available for sale	74,042	66,295	-10.5%
Investment in associates (jointly controlled companies)	7,755	4,816	-37.9%
Derivate financial assets	884	933	5.5%
Refinanced mortgage loans	82,790	31,423	-62.0%
Loans and advances to consumers	314,855	318,326	1.1%
Impairment and provision	-26,557	-23,853	-10.2%
Investment property	780	780	0.0%
Tangible assets	6,168	4,942	-19.9%
Goodwill and other intangible assets	1,915	2,042	6.6%
Deferred tax asset	8,232	3,030	-63.2%
Other assets	8,069	8,685	7.6%
Total assets	**744,820**	**593,404**	**-20.3%**
Due to banks	39,774	47,229	18.7%
Issued securities	235,115	170,283	-27.6%
Mortgage bonds	174,591	131,140	-24.9%
Bonds	60,524	39,143	-35.3%
Deposits from customers	329,048	297,072	-9.7%
Derivative financial liabilities	2,308	1,579	-31.6%
Financial liabilities at fair value through profit or loss	19,878	11,991	-39.7%
Finance lease liabilities	12	3	-75.0%
Current tax liability	1	0	-100.0%
Deferred tax liability	1	0	-100.0%
Provisions	999	1,546	54.8%
Other liabilities	9,152	6,099	-33.4%
Total liabilities	**636,288**	**535,802**	**-15.8%**
Share capital	10,849	10,849	0.0%
Share premium	27,926	27,926	-
Treasury shares	-207	-207	0.0%
Subordinated Tier 1 capital	31,749	0	-100.0%
Other reserves	599	609	1.7%
Retained earnings	24,441	12,661	-48.2%
Minority interest	21,479	16,812	-21.7%
Balance sheet profit	-8,304	-11,048	33.0%
Total shareholders' equity	**108,532**	**57,602**	**-46.9%**
Total liabilities and shareholders' equity	**744,820**	**593,404**	**-20.3%**

[4] This financial analysis – considering also investor's needs – contains data and tables calculated from controlling point of view, therefore due to reclassification some figures can differ from data reported in other parts of the consolidated IFRS financial statements.

As of 31 December 2016, the Bank's consolidated balance sheet total by IFRS amounted to HUF 593.4 billion; and decreased by HUF 151.4 billion or 20.3% compared to the value as of 31 December 2015. On the assets side volume of loans increased by more than 1.1%, refinanced loans dropped by 62.0%, interbank lending by 37.9%, while volume of securities held for trading decreased by 21.5%.

Liabilities decreased by 15.8% altogether compared to the reference figures of 2015. Issued securities and deposits from customers showed decrease (-27.6% and -9.7%, respectively), while due to banks increased by 18.7%.

Shareholders' equity decreased by HUF 50.9 billion or 46.9% year-on-year, the main reason of which was the repurchase of subordinated Tier 1 capital bond (EUR 112 million) on 24 June 2016.

7.1.1 Interest earning assets

The Group's interest earning assets decreased from HUF 736.6 billion as of 31 December 2015 to HUF 591.2 billion as of 31 December 2016. Interest earning assets contributed 99.6% to the balance sheet total.

Interbank lending

NBH and other interbank lending decreased from HUF 211.0 billion HUF as of 31 December 2015 to HUF 130.9 billion as of 31 December 2016. The item contributed 22.1% to interest earning assets as of 31 December 2016, significantly increasing to a year before.

Securities

The value of Bank's securities available-for-sale decreased from HUF 74.0 billion as of 31 December 2015 to HUF 66.3 billion as of 31 December 2016. Contribution of securities available-for-sale to interest earning assets was 11.2%. From the stock of securities available for sale discount treasury bills amounting to HUF 22.1 billion and government bonds amounting to HUF 11.5 billion and other bank and corporate bonds for sale amounting to HUF 32.7 billion. As of 31 December 2016, the Bank held a portfolio of securities for trading (HUF 40.7 billion), which contributed 6.9% to interest earning assets.

Loans

As of 31 December 2016, the volume of loans showing an increase by 1.1% compared to the previous year. Impairment to cover loan losses decreased from HUF 26.6 billion as of 31 December 2015 to HUF 23.9 billion as of 31 December 2016.

Volume of refinanced loans dropped by 62.0% to HUF 31.4 billion during 12 months because of the previously detailed AXA prepayment. As of 31 December 2016, the contribution of refinanced loans and gross own lending was 59.2% in total assets; the same ratio was close to 54.0% a year before.

The collateral value of real estate covering ordinary collaterals amounted to HUF 622.8 billion as of 31 December 2016, 11.5% down compared to 31 December 2015 (HUF 704.1 billion). The LTV ratio applicable for ordinary collateral was 27.3% as of 31 December 2016, lower than the 29.3% LTV as of 31 December 2015.

Portfolio quality

In 2016, FHB Group paid special attention to prevent further deterioration of the loan portfolio and cleaning of the portfolio, as well. In customer segment beside participation in the Government's home protection programs, the Bank also aimed to decrease volume of NPL through individual customer agreements.

Offering real estates for entitled clients to NET program continued. 2,066 properties were offered by the Banking Group for NET since the beginning of the program the majority of which were purchased by NET. In consequence of NET sales 469 loan contracts were closed in 2016.

Due to the measures of portfolio cleaning the ratio of non-performing loans significantly decreased by the end of 2016 compared to the previous year. Volume of non-performing loans was 26.8% down compared to the end of 2015. NPL ratio has been shrinking from 14.7% by 31 December 2015 to 10.6% as of 31 December 2016, influencing by decrease in non-performing loan volume and also growing volume of new loans. The Integrational Organization of Cooperative

Credit Institutions (SZHISZ) prescribed for the FHB Group on the rating date of 31 December 2016, that average loss coverage of outstanding loans with overdue over 90 days must reach 70%. Considering this coverage of non-performing loans was 70.4%, which increased by 13.0% points compared to the end of December 2015.

7.1.2 Other assets

Tangible assets amounted to HUF 6.2 billion as of 31 December 2015 and decreased by HUF 1.2 billion year-on-year to HUF 4.9 billion. As of 31 December 2016, intangibles amounted to HUF 2.0 billion, by HUF 0.1 billion or 6.6% higher year-on-year.

Value of investment in jointly controlled companies consolidated by equity method and in associates amounted to HUF 4.8 billion as of 31 December, 2016.

Other assets amounted to HUF 8.7 billion as of 31 December 2016, increasing by 7.6% (HUF 0.6 billion) year-on-year. Deferred tax assets reached HUF 3.0 billion while a significant item in other assets is the value of deposits amounted to HUF 3.5 billion.

7.1.3 Interest bearing liabilities

Interest bearing liabilities HUF 526.6 billion as of 31 December 2016, (HUF 623.8 billion at the end of 2015) represents 88.7% of the balance sheet total. Issued securities and customer deposits gave major part of interest bearing liabilities.

Interbank funds

As of 31 December 2016, interbank funds amounted to HUF 47.2 billion increased by 18.7% on yearly basis. Contribution of interbank borrowings to interest bearing liabilities was 9.0% as of 31 December 2016.

CMBs and Bonds issued

The contribution of covered mortgage bonds – measured at amortised cost and at fair value – to the Bank's interest bearing liabilities was 27.2% as of 31 December 2016, which ratio was 31.2% in 2015. HUF 143.1 billion value of mortgage bonds as of 31 December 2016 was 26.4% down from figures of 31 December 2015 (HUF 194.5 billion). Decrease in the value of the CMB portfolio was HUF 51.3 billion year-on-year.

The book value of bonds (both measured at amortised cost and at fair value) was HUF 39.1 billion as of 31 December 2016. The year-on-year decrease was 35.3%; the volume of bonds dropped by HUF 21.4 billion.

Deposits

As of 31 December 2016, deposits amounted to HUF 297.1 billion decreasing by 9.7% year-on-year. Last year volume of corporate deposits increased whileretail deposits decreased. As retail deposits grew by 1.5%, corporate deposits decreased by 16.8%. From the middle of 2013 retail deposits lost its dominant position among FHB Group's consolidated deposits as share of corporate deposits was around 56.5% at the end of the period. The sight deposit ratio grew from 37.9% to 47.1% in a year.

7.1.4 Other liabilities

The Bank reported among other liabilities the volume of liabilities generated in conjunction with settlements before due date with the amount of HUF 625.4 million; accounts payable of HUF 583.9 million as well as accruals with the volume of HUF 913.5 million. At the end of 2016 volume of provisions stood at HUF 1.5 billion.

7.1.5 Shareholders' equity

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

On 24 June 2016 the Bank repurchased subordinated Tier 1 capital bond with XS0867086042 ISIN code with a nominal value of EUR 112 million. Among other factors, due to the repurchase within one year, shareholders' equity decreased by 46.9% to HUF 57.6 billion as of 31 December 2016. Balance sheet profit/loss of shareholders of the Bank was HUF 11.0 billion.

7.2 PROFIT & LOSS STRUCTURE

in HUF million	2015 FY	2016 FY	Change
Interest income	41,159	28,742	-30.2%
Interest expense	-26,531	-16,486	-37.9%
Net interest income	**14,628**	**12,256**	**-16.2%**
Fee and commission income	8,591	10,443	21.6%
Fee and commission expense	-1,334	-2,212	65.8%
Net fee and commission income	**7,257**	**8,231**	**13.4%**
Profit/(Loss) from FX transactions	-1,945	329	-
Change in fair value of financial instruments	-2,180	965	-
Gains from securities	3,528	3,034	-14.0%
Net trading result	**-597**	**4,328**	**-**
Other operating income	1,397	2,216	58.6%
Other operating expense	-11,391	-9,205	-19.2%
Net income of associated companies	621	591	-4.8%
Operating income	**11,915**	**18,417**	**54.6%**
Provision for impairment on loan losses	-862	-8,192	-
General and administrative expense	-18,764	-19,545	4.2%
Profit/(Loss) before tax	**-7,711**	**-9,320**	**20.9%**
Income tax benefit/(expense)	-2,838	-6,182	117.8%
Profit/(Loss) for the period	**-10,549**	**-15,502**	**47.0%**

The Bank's consolidated loss for the year by IFRS amounted to HUF 15,502 million in 2016, the consolidated total comprehensive income of the Bank amounted to HUF 15,491 million loss. The negative result is mainly due to the drop of net interest income, and due to other factors: earlier loan losses, predominantly related to retail FX based loans, operating costs, and the one-off deferred tax write-off because of the change of income tax rate. In addition, amount of HUF 1,632 million of special banking tax, HUF 908 million provision set-up for organizational changes and the non-shifted financial transaction levy had negative impact on the result too. The Bank Group's IFRS consolidated profit after tax – ignoring the special banking tax and one-off items – was HUF 2,535 million loss in 2016.

7.2.1 Net interest income

Net interest income was HUF 12.3 billion in 2016, 16.2% lower than a year before. The reason of backwardness are the decreasing loan interests, mainly due to low interest rate environment and mainly due to the limited margin by the "Fair Banking" acts. The net figure emerged as a balance of HUF 28.7 billion interest income (30.2% lower year-on-year) and HUF 16.5 billion interest expense (y/y: -37.9%). The net interest margin to average total assets (NIM) was 1.83% in 2016, 10 bps lower compared to 2015.

Distribution of interest income and expenses shows the following table:

	2015 FY	2016 FY	Change
Interest income			
Loans	46.9%	60.3%	*13.4%-pt*
Refinancing	8.6%	8.0%	*-0.6%-pt*
Mortgage bond interest subsidy	15.4%	14.9%	*-0.4%-pt*
Supplementary interest subsidy	1.3%	1.5%	*0.3%-pt*
Securities and interbank activities	15.1%	14.0%	*-1.1%-pt*
Swap transactions	12.8%	1.2%	*-11.5%-pt*
Interest expenses			
Bonds issued	69.2%	79.2%	*10.0%-pt*
Interbank activities	0.5%	0.7%	*0.2%-pt*
Customer deposits	17.4%	14.4%	*-3.0%-pt*
Derivatives	12.6%	5.8%	*-6.8%-pt*
Other interest expense	0.3%	0.0%	*-0.3%-pt*

7.2.2 Net fees and commissions

In 2016, the Bank achieved a positive balance of HUF 8,231 million from income and expenditures on commissions and fees; 13.4% higher than a year before. Net fees and commissions adjusted by financial transaction levy performed a 15.2% increase year-on-year, respectively.

Compared to the previous year, fee incomes related to mortgage loans increased the most, because over this year the prepayment of refinanced loan portfolio related to AXA Bank has accounted HUF 976 million fee income. Besides bank account and bankcard related fees and fund management fees increased; while guarantee fees decreased. Adjusting one-off fee income and financial transaction levy income, net fees and commissions decreased by 1.8% compared to the previous year.

Income from fees and commissions in 2016 amounted to HUF 10,443 million, of which 20.0% was contributed by charges related to loans and 32.7% by accounts and card related banking charges without financial transaction levy. Volume of HUF 1,613 million of fund management fees contributed by 15.4% to fee income.

Card related fee expenses (HUF 651 million) increased by 30.8% year-on-year, while payment fees reached HUF 209 million in 2016.

7.2.3 Net trading result

In 2016, the balance of financial transactions was HUF 4,328 million profit, which is by HUF 4,925 million higher than a year before. The net result of financial transactions was HUF 329 million in 2016, which is significantly better (by HUF 2,274 million) than it was in 2015. Last year's unfavourable result was due to the foreign exchange loss in customers' loans conversion.

In 2016, the change in the value of financial instruments reported at fair value through P&L was HUF 965 million profit, which is favourable than a year before (HUF 2,180 million loss). The securities transactions resulted in HUF 3,034 million profits as opposed to HUF 3,528 million profits in the previous year.

7.2.4 Other income and expenses

In the year of 2016, the balance of other operating income and expenditure was HUF 7.0 billion net expenditure; arising from HUF 2.2 billion incomes and HUF 9.2 billion expenditures.

In 2016, real estate related income (real estate rent, property management) contributed HUF 213 million to other operating income (real estate rent, management). The Bank group also had HUF 386 million income from card service fees of Hungarian Card Service Plc.

Special banking tax amounted to HUF 1,632 million in 2016, the fees of protection funds, other statutory and voluntary funds, and membership fees of SZHISZ HUF 1,147 million, while paid financial transaction fees HUF 2,280 million.

The Bank has joined to the rationalization project initiated by the Magyar Takarékszövetkezeti Bank Ltd. Due to this the Bank set up HUF 908 million provision for the organizational changes related to the project.

Net income of associated companies contributed HUF 591 million to consolidated figures in 2016, which mainly resulted from three important influencing items of the HUF 245 million (proportional, consolidated) profit of Magyar Takarék Asset Management (MATAK) Ltd. and its investments (of which the proportional result of Takarékbank is HUF 341 million profit), DB Factoring House proportional, HUF 443 million profit and from the HUF 114 million loss (consolidated) realised by Magyar Posta Investment Services Ltd.

7.2.5 Operating expenses

Operating costs amounted to HUF 19.5 billion in 2016 which is 4.2% higher than in 2015. Growth was mainly generated by the increase in personal expenses and in administrative expenses.

Cost-to-income ratio (CIR)[5] was 78.8% in 2016, while 88.1% in 2015.

The contribution of personnel expenses to total operating costs was 40.3% in 2016, 4.73%-points higher than in 2015 (35.6%).

Administrative expenses in 2016 (HUF 9,999 million) increased year-on-year (8.7%). Expenses of business activity altogether slightly decreased year-on-year, HUF 1,092 million expenses in 2016 are 2.4% lower than a year before (HUF 1,118 million).

Other taxes paid reported among operating costs amounted to HUF 96 million in 2016, compared to HUF 56 million in 2015.

7.2.6 Impairment and loan losses

The credit risk costs amounted to HUF 8,192 million in the year of 2016. Beyond the provisioning/releasing impairment for loan losses, the risk cost line is imposed by the results of portfolio cleaning. The impairments amount reduced by 10.2%, HUF 2.7 billion compared to the end of last year.

7.3 CAPITAL POSITION

The consolidated shareholder's equity of FHB Group according to IFRS was HUF 57.6 billion as of 31 December 2016, at the end of 2015 it was HUF 108.5 billion.

FHB Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. The Court of Registration approved and registered the capital increase with its resolution on February 24, 2016. Pursuant to the European Regulation CRR valid since 1st of January 2014, the permission of the NBH as the competent authority is required to consider the issued capital instruments as regulatory capital. In case of the shares issued in the capital increase NBH gave permission with its resolution as of March 9, 2016 only to consider the issued 'B' dividend preference shares and 'C' ordinary shares as Tier 1 capital, consequently their total volume will be taken into consideration in the calculation of the regulatory capital after that date.

On 24 June 2016 FHB Mortgage Bank repurchased subordinated Tier 1 capital bond with XS0867086042 ISIN code with a nominal value of EUR 112 million. Due to the transaction own funds of the Bank Group decreased by HUF 31.7 billion.

[5] In the calculation of the ratio, incomes include net interest income, net fee and commission income and net trading result.

Value of the Bank's own funds was HUF 45.6 billion at 31 December 2016. The capital adequacy ratio was 13.71% (one year ago 20.13%). CET1 ratio stood at 12.14% as of 31 December 2016, at the end of 2015 the ratio was 12.54%.

8 POST-BALANCE SHEET DATE EVENTS

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

Budapest, 4 April, 2017

József Vida
Chairman of the Board of Directors

Márton Oláh
Chief Executive Officer

FHB Jelzálogbank Nyrt.
FHB BANK
1082 Budapest, Üllői út 48.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 2

Report of the Supervisory Board on the financial reports of the Company on the year 2016 in accordance with Hungarian accounting standards and International Financial Reporting Standards („IFRS") (consolidated)

Budapest, 26 April 2017, 2.00 p.m.

Report of the Supervisory Board of FHB Mortgage Bank Plc
on the Company's Annual Report for 2016 (HAS) and the Consolidated Annual Report for 2016 (IFRS)

The Supervisory Board – among the members of the Supervisory Board Dr. Zsolt Harmath, Dr. Kadosa Antal and György Pórfy also acting as the Audit Committee – examined the Company's Annual Report for 2016 and the Financial Statements for 2016 business year consisting of the Balance Sheet, the Profit and Loss Statement and the Notes.

Based on the Auditor's Report, the Supervisory Board has established that the Company had kept its books and accounts, and prepared the financial statements in accordance with the relevant statutory provisions.

The Supervisory Board proposes for the General Meeting to

approve

the Company's Annual Report (Balance Sheet, Profit and Loss Statement and Notes) for the year ending on 31 December 2016 prepared according to the Hungarian Accounting Standards

with a balance sheet total of HUF 333,391 million.

The Supervisory Board proposes to the General Meeting to place the balance sheet loss for 2016 amounting to HUF -6,532 million in capital reserve when resolving on the appropriation of profit.

Furthermore, the Supervisory Board proposes the approval of the Annual Reports for 2016.

The Supervisory Board proposes for the General Meeting to

approve

the Company's Consolidated Annual Report for 2016 prepared according to the International Financial Reporting Standards (IFRS)

with a balance sheet total of HUF 593,404 million and
earnings after tax of HUF -15,502 million.

Budapest, 4 April 2017

Dr. Zsolt Harmath
Chairman of the Supervisory Board

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 3

Report of the Auditor on the financial reports of the Company on the year 2016 in accordance with Hungarian accounting standards („HAS") and International Financial Reporting Standards („IFRS") (consolidated)

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 4

Acceptance of the

i. business report,
ii. financial statements (balance sheet report, profit and loss account, additional notes) of the Company as a bank as prescribed by the Hungarian accounting standards,
iii. decision on the utilization of the after tax profit,

furthermore, the consolidated

i. business report,
ii. financial statement according to the International Financial Reporting Standards

for the year 2016

PROPOSED RESOLUTION
to Item No. 4 of the Agenda

a.i. The General Meeting accepts the Company's Business Report in accordance with the Hungarian Accounting Law on the year 2016.

a.ii. The General Meeting accepts the Company's Accounts (Balance Sheet, Profit/Loss Statement and Notes to Account) on the year 2016.

The General Meeting establishes the Company's

- balance sheet total in	*HUF 333,391 million,*
- after tax profit (loss)	*HUF -6,532 million,*
- balance sheet profit (loss)	*HUF -6,532 million.*

a.iii. The General Meeting decides on the utilization of the after tax profit as follows:

- *Dividend shall not be paid on series „A" shares after year 2016.*
- *Dividend shall not be paid on series „B" shares after year 2016.*
- *Dividend shall not be paid on series „C" shares after year 2016.*
- *The 2016 balance sheet profit shall be placed in the Company's profit reserve.*

b.i. The General Meeting accepts the Company's Consolidated Business Report in accordance with the International Financial Reporting Standards on the year 2016.

b.ii. The General Meeting accepts the Company's Consolidated Accounts in accordance with the International Financial Standards on the year 2016.

The General Meeting establishes the balance sheet and after tay profit of the Company in accordance with the International Financial Standards as follows:

- consolidated balance sheet total in	*HUF 593,404 million,*
- consolidated after tax profit (loss) in	*HUF -15,502 million.*

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 5

Acceptance of the report on Corporate Governance

Budapest, 26 April 2017, 2.00 a.m.

PROPOSAL

Acceptance of the report on Corporate Governance

Companies being present on the stock exchange are obliged to prepare and publish the Corporate Governance Report based upon the Recommendations on Corporate Governance defined by the Budapest Stock Exchange, which, according to Article 3:289 of the Act V of 2013 on Civil Code ("Civil Code"), is to be approved by the general meeting.

According to the guide of BSE, the recommendations can be considered as a supplementation of the Hungarian legislation (basically of the Civil Code), primarily for public companies being present on the stock exchange and having their registered seat in Hungary. The recommendations suggest proposals for the recommended practice. It is recommended to comply with the proposals as defined in the recommendations, however it is not compulsory for the listed companies.

Companies being present on the stock exchange are obliged to report on their practice on corporate governance in two ways. In the first part of the report the practice on corporate governance applied in the respective business year is to be presented in a precise, comprehensive and unambiguous way, expressing the corporate governance policy as well as particular circumstances, if any. In the second part of the report the compliance with the concrete recommendations is to be shown in accordance with the principle of "*comply or explain*", furthermore, information are to be given whether the concrete proposals defined in the recommendations are applied.

Companies being present on the stock exchange are to prepare and publish their Report on Corporate Governance within 120 days from the end of the respective business year (in the case of companies defining business year identical with the calendar year the deadline is 29 April).

The present proposal gives proposal for approving the Corporate Governance Report of FHB Mortgage Bank Plc on the year 2016, as contained in the attached annex.

PROPOSED RESOLUTION
to Item No. 5 of the Agenda

The General Meeting approved the Corporate Governance Report of the Company for year 2016 as set forth in the written proposal related to this item of the agenda.

Corporate Governance Report

of FHB Mortgage Bank Co. Plc

For the business year of

2016

April 2017

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

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

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

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

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

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

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

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

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

The chairman of the Supervisory Board or a member of the Supervisory Board designated by him/her shall take part in the meeting of the Board of Directors as a person invited on a permanent basis. The Chairman of the Board of Directors may invite the auditor, controller or any other person to attend the Board meeting with consultative powers. In 2016 the Auditor and the supervisor of the Central Bank of Hungary acting in the capacity of controller of the financial mediation system, (the supervisory body is hereinafter referred to as “Supervision”) – liable for the supervision of the Company and the representative of the Savings Bank Ltd. and the Integration Organization of Cooperative Credit Institutions were invited to attend the Board meetings in all cases.

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

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

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

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

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

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

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

2.1. Board of Directors

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

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

Dr. Zoltán Spéder – resigned by 14 October 2016
External member and chairman of the Company’s Board of Directors as of 29 April 2008. Between 1991 and 1995 he was a member of the Board of Directors, between 1995 and 2007 he was vice president, from 1996 deputy CEO, as well as head of Strategic and Financial Division of OTP Bank Plc. As of 2007 he is the managing

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

Dr. Christian Riener – was dismissed by the General Meeting by 30 November 2016
External member of the Board of Directors of the Company as of 29 April 2008. Partner, member of the board of directors and managing director of VCP Capital Partners and managing director of VCP Finanz Holding Kft.

Ákos Starcz – was dismissed by the General Meeting by 30 November 2016
A member of the Board of Directors since 24 April 2013. Before that, he served as a member of the Supervisory Board of the Company since 20 April 2011.

Zoltán Kovács– was dismissed by the General Meeting by 30 November 2016
He has been a member of the Company's Board of Directors since 28 April 2015. In 2015 he also was the Deputy Chief Executive Officer liable for Premium Clients and Customer Support at the Hungarian Post Ltd, and a member of the Board of Directors of Hungarian Card Ltd., part of the FHB Group.

József Vida – Chairman – Member of the Board of Directors since 30 November 2016 and Chairman of the Board of Directors since 5 December 2016
József Vida is economist; he studied at several universities related to business management, liquidation and bankruptcy. Currently he is graduating from Szent István Egyetem in the field of trust. His banking carrier started at Citibank Zrt. in 1999; in 2003 he switched the position of head of department in the Bank of Hungarian Savings Cooperatives Pte. Ltd. (herein: the "Savings Bank") */in Hungarian: Magyar Takarékszövetkezeti Bank/* to active business director of Szentgál és Vidéke Takarékszövetkezet, he was from 2006 CEO here, than President-CEO. He played a significant role in the integrational plans in the past ten years; from 2007 as member of the directors of OTSZ he represented his region through two terms in the highest representation organization. As founder and executive he helped the work of Takarék Akadémia, and the IT companies like Takinvest Kft. and TAKINFO Kft. He is member of the Board of Directors of Magyar Takarékszövetkezeti Bank Zrt. and is the CEO of the Magyar Takarék Befektetési és Vagyongazdálkodási Zrt. He led the biggest merge in the credit cooperatives sector, in which from ten credit cooperatives B3 TAKARÉK Szövetkezet was established on 1st September 2015, which is able to serve in Budapest and four counties almost 130 thousand clients. József Vida has contributed to the execution of the governmental integration strategies, supported the performance of the tasks necessary to implement the integration act. In 2014 he was honoured by gróf Sándor Károlyi plaquette for his activities pursued in the interest of innovation of the credit cooperatives integration. In July 2016 he was appointed to be the president of the Board of Directors of the Integration Organization of Cooperative Credit Institutions */in Hungarian: Szövetkezeti Hitelintézetek Integrációs Szervezete/*, and he was in that position until 8 December 2016. On 8 December 2016 he was appointed to be a member of the Board of Directors in the Bank of Hungarian Savings Cooperatives Pte. Ltd. Since 18 January 2017 he has been the Chairman of the Board of Directors and the Chief Executive Officer. Besides his work at the credit cooperatives, he is a farmer, breeds Hannover horses and is executive at several dog-raiser organizations (their names in Hungarian: Magyarországi Ebtenyésztők Országos Egyesületeinek Szövetsége, Leonbergi Ebtenyésztők Országos Egyesülete, a Magyarországi Hovawart Ebtenyésztők Országos Egyesülete), in 2016 he graduated from hunting and related services in Csongrád, thus his childhood wow is now fulfilled, and following his family traditions he is hunter as well.

Gábor Gergő Soltész – Internal member until 30 November 2016 and since then external member
He was Deputy-Chief Executive Officer of the Company from February 2013, and a member of the Board of Directors from 24 April 2013. He also was Chief Executive Officer and a member of the Board of Directors of FHB Bank Zrt. He resigned as a Deputy Chief Executive Officer at the Company and Chief Executive Officer and internal member of the Board of Directors at the FHB Bank Ltd. by 31 January 2015; however he is still the member of the Company's Board of Directors.

Attila Mészáros – Member of the Board of Directors since 30 November 2016
He is agrarian engineer, certificated economist, and has two MBA diplomas. He worked for Credit-Lyonnais Magyarország Bank Zrt., between 2001 and 2007 he was director of Directorate for Relation with Large

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

Internal Board Members, who are employed by the Company:

Gyula Köbli – was dismissed by the General Meeting by 30 November 2016
He has been an internal member of the Board of Directors of the Company since 21 April 2010. He was the Deputy-Chief Financial Officer and the Chief Executive Officer of Finance and Strategy of the Company in prior of his current position. Until 6 February 2017 he was an external member and Chairman of the Board of Directors of FHB Commercial Bank Ltd.

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

Dr. Erik Landgraf – Deputy Chief Executive Officer – since 30 November 2016
He graduated in 1988 from Eötvös Loránd University, Faculty of Law. He was court clerk till 1991 at Budakörnyéki Court, than in-house counsel at Corvinbank Rt. till 1995, and chief legal counsel at Konzumbank Rt. till 1997, between 1997 and 1998 leader of the investment department of PK Bank Rt. He has been working for FHB Co. Plc. as legal counsel from 1998, and as chief legal counsel from 2000, where he leads the overall legal activity necessary for the operation of the banking group; furthermore he is the chairman of the Supervisory Board of FHB Bank Zrt.

2.2. Supervisory Board, Audit Committee

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

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

Enikő Márton Uhrin – resigned by 9 May 2016
Member of the Supervisory Board since 21 April 2010 and Chief Financial Officer of the Budapest Property Utilization and Development Plc.

Miklós Szabó
Member of the Supervisory Board since 20 April 2011.

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

István Sebestyén – since 6 May 2016
István Sebestyén graduated from Kandó Kálmán Műszaki Főiskola in 1996 as electrical engineer, than took a postgraduate degree in 1999 in economics in the College of Finance and Accountancy, Budapest. He started his carrier in 1997 at Jászszentlászló Credit Cooperative, and has been working for Fókusz Credit Cooperative since 1999 first as marketing director, than as deputy managing director, from 2004 as managing director. Between 2002 and 2006 he was Supervisory Board member of OTSZ and in 2010 he became the President of this body. From 2014 he is the President of the Board of Directors of Hungarian Savings Bank.

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

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

2.3. The Management of the Company

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

Chief Executive Officer
Gyula Köbli – until 5 December 2016
Internal member of the Board of Directors. Introduction in Section 2.1.

Chief Executive Officer – since 5 December 2016
Márton Oláh
Internal member of the Board of Directors. Introduction in Section 2.1.

Deputy-Chief Executive Officer
Márton Oláh – until 30 November 2016
Internal member of the Board of Directors. Introduction in Section 2.1.

Deputy-Chief Executive Officer responsible for Legal Affairs
Dr. Erik Landgraf – since 30 November 2016
Internal member of the Board of Directors. Introduction in Section 2.1.

Chief Executive Officer of Business
Gábor Gergő Soltész – until 30 November 2016
Internal member of the Board of Directors. Introduction in Section 2.1.

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

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

3.1. Activities of the Board of Directors in 2016

3.1.1 Summary of the work of the Board of Directors

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

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

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

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

- In 2016 the Board of Directors paid special attention to most important events concerning the Company – which are published in accordance with the capital market rules –, especially the changes within the chief executives and the scope of shareholders of the Company.

- After the accession to the Cooperative Integration the Board of Directors drew special attention to implement the relevant integration rules – especially the risk management rules – properly.

- Similarly to the practice of previous years, as a standing point on the agenda the 2016 Board of Directors meetings always discussed the management report on the business and financial status of the Company and the FHB Banking Group. This allowed the Board to continuously monitor the operations and financial position of the Company. This practice allowed the Board to have sufficient information all through the year on internal and external factors that affected the Company's operations. The Board could assess the unfavourable situations and take the required action to counter them and to support the management with professional advice.

- In 2016 the Board of Directors gave particular attention to the analysis and protection of the quality of the granted credit portfolio and to the method of measures preventing the deterioration of the portfolio of FHB Banking Group. Within the framework thereof effective measures have been taken for the centralization and rationalization of the lending process, and for improving more efficiency of the treatment and recovery of defaulted loans.

- In 2016 the Board of Directors also regularly discussed the management's report on funding, liquidity, market and operational risks of the FHB Banking Group on a regular, quarterly basis.

- In 2016 the Board of Directors also discussed issues related to the implementation of Remuneration Policy.

- All management proposals on the amendment of internal rules that fell in the jurisdiction of the board were found appropriate and all these proposals were approved of according to the resolution proposal or with some minor amendments.

- In 2016 the Board continued to follow up on the inspections by other authorities (Hungarian Tax Authority /"NAV"/, Central Bank of Hungary /MNB/) as well as the elaboration and implementation of the action plan related to the findings of these inspections. None of the inspections found any irregularity or voiced any criticism on the operations of the Board of Directors.

- The Board of Directors constantly obtained information about the operation, business and financial situation of the members of FHB Banking Group through the regular business and financial reports of the management and within the framework of unique items on the agenda. The Board of Directors, as the body exercising shareholder's rights in the name of the Company over certain members of FHB Banking Group, exercised its shareholder rights in point of the member companies in accordance with the law during 2016. Within the framework of the general meetings, the Board adopted the business reports, annual reports of the companies and the made the related and necessary decisions. In addition, the Board of Directors adopted resolutions in its shareholder competence with regard to the operation of the member companies in many cases.

- The management provided regular information for the Board of Directors on the implementation of previous resolutions of the Board of Directors. The management also provided information on the internal rules (instructions) entered into force in the banking group quarterly.

3.1.3. Cooperation of the Board of Directors with other Bodies

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

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

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

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

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

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

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

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

3.2. Activities of the Supervisory Board in 2016

3.2.1 Summary of the Work of the Supervisory Board

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

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

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

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

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

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

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

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

The Internal Audit Department of the Company is in possession of own medium-term strategic objective until the end of 2021 which was approved by the Supervisory Board. The risk map and the audit universe which are the basis of the planning of the Internal Audit Department is annexed to such objective. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors ("IIA") – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.
In 2016 the Supervisory Board discussed the proposal on the Overview and Review of the Remuneration Policy.

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

3.2.2. Operations of the Supervisory Board

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

3.2.3. Cooperation of the Supervisory Board with other Bodies

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

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

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

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

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

The Integration Organization and the Savings Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, sent simultaneously with sending the invitation to the members, but at least 5 (five) business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the Savings Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members are present at the meeting or the representative of either the Integration Organization or the Savings Bank is present as invited at the meeting, or if the members or other invitees not present in person at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The authorized representatives of the Savings Bank and the Integration Organization shall be entitled to attend the Supervisory Board meetings with the right of consultation.

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

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

4. Internal Safeguards, and evaluation of the 2016 business

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

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

4.1. Summary of Risk Management Guidelines

With a view to prudent operations and to limit risk exposure the Company wrote and published on its home page the risk management guidelines and methodology of FHB Banking Group.
The risk management guidelines are consistent in the entire FHB Banking Group and include the risk management concepts of the Company as controlling credit institution, the FHB Commercial Bank Ltd. and the subsidiary companies of FHB Banking Group that are under supervision on a consolidated basis. At the time of the accession of the Company and the FHB Bank Ltd. to the Integration Organization of Cooperative Credit Institutions, the Savings Bank extended the Integration's rules on risk management to both credit institutions. The FHB Banking group became subject to the consolidated supervision with the central bank of the Integration, the Savings Bank, from a prudential point of view. According to the decision of the Supervisory Authority, the Company and those enterprises subject to its consolidated supervision in the past that were managed on a consolidated level (Commercial Bank, FHB Leasing, Real Estate, FHB Invest, Diófa, DBF, and MPBSZ) had to comply with prudential requirements on a sub-consolidated basis as prescribed by the CRR[1], during the period to 31 December 2016.

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

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

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

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

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

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

4.2. Risk Management Organization

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

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

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

4.3. Audits and Feedback

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

a) compliance with laws, those principles and requirements in other professional standards and practices which do not qualify to be regulations, recommendations, directives and resolutions by authorities and internal regulations (hereinafter: compliance rules), as well as the prevention and control of the breach and infringement thereof with the department of the Company that is responsible for compliance (hereinafter referred to as: "Compliance Directorate"), and

b) running the internal audit system whose elements (embedded control by the management and independent internal auditing organization) cover the activities of the Company and all the organizational units of the entire FHB Banking Group which is integrated in the daily activities, possible to monitor and provides regular feedback to the appropriate levels of management and control.

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

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

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

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

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

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

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

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

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

The independence of the Internal Audit organizations of the FHB Banking Group is guaranteed by the rule that under the applicable regulations the internal audit/auditor may not be in charge of any other duty and may not participate in the operations and the decisions of the bank as an executive. The annual audit plan of the Internal Audit Department is approved of by the Supervisory Board. Additional duties may only be prescribed by the Supervisory Board and the head of the Internal Audit Department as well as the Chief Executive Officers and the managing director responsible for prudent operation of the Banking Group with the agreement of the Supervisory Board. The internal audit departments of the companies are controlled by the Supervisory Boards of the companies. The direct professional oversight and methodological guidance of the internal audit activity is carried out at a bank group level. The heads of the Internal Audit Departments of the companies report to the Supervisory Board.

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

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

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

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

4.4. Activities of the Auditor

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

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

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

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

5. Disclosure Policy, Insider Trading Policy

5.1. Disclosure policy

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

The Company shall satisfy all of its reporting and disclosure obligations in compliance with the laws in the format and by the time prescribed. In addition to the statutory reporting obligation the Company and its employees shall also prevent anybody from even suspecting any information abuse. The organized disclosure of information to all shareholders shall make sure that everybody receives the same information at the same time. The management shall make sure that the disclosure policy of the Company complies with the principles identified by the Board of Directors.
The Company makes sure that the information disclosed is truthful, unambiguous and easy to understand. Confidential business information shall be adequately protected. Proper management of confidential information and the adequate and accurate timing of the disclosure should prevent unauthorized access to information and exclude any information abuse. Market players, investors and shareholders shall all be informed about the events affecting the Company in a regulated and public procedure at the same time.

The disclosure policy of the Company gives priority attention to:

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

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

5.2. Insider Trading Policy

According to the Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse (market abuse regulation) (hereinafter shall be referred to as "MAR"), persons discharging managerial responsibilities, as well as persons closely associated with them at the Company (as an issuer), shall notify the Company and the Central Bank of Hungary (MNB), of every transaction conducted on their own account relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto, promptly and no later than three business days after the date of the transaction (Article 19 (1) of MAR). Article 19 (7) and the related Implementing Regulation specify the type of transactions subject to obligation of notification. This obligation of notification shall apply to any subsequent transaction once a total amount of EUR 5,000 has been reached within a calendar year. The threshold of EUR 5,000 shall be calculated by adding without netting all aforementioned transactions (Article 19 (8) of MAR).

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

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

6. Exercising Shareholder Rights and the General Meeting

6.1. Exercising Shareholder Rights

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

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

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

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

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

6.2. Summary of General Meeting Rules

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

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

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

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

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

12.1 Each Series “A” ordinary share of a nominal value of HUF 100 (say one hundred forints) shall give right to one vote and each Series “C” ordinary share of a nominal value of HUF 1000 (say one thousand forints) shall give right to ten votes[2] at the General Meeting. The Company conducts an identification procedure in connection with the General meeting as specified in the Capital Markets Act, the Stock Exchange Rules and in the Rules of KELER Zrt., and the date of the identification procedure may only fall within the period between the 7th and 3rd stock exchange days preceding the General Meeting. A shareholder may only exercise his membership rights at the General Meeting if he owns the share on the date of the identification procedure, and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.
Closure of the register of shareholders shall not limit the right of the holder entered therein to transfer shares after such closure. Nor does the transfer of shares before the day of opening of the General Meeting exclude the right of the holder on the register to participate in the General Meeting and exercise his shareholder rights.

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

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

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

7. Remuneration Statement

7.1. Remuneration Principles for the year 2016

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

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

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

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

A) Permanent (fixed) remuneration components at the Company:
- with respect to employees: basic salary and benefits (regulated by a Banking group Instruction);
- with respect to officials: emolument.

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

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

1. *For key personnel:*

   According to Articles 117 to 121 of Act No. CCXXXVII of 2013on Credit Institutions and Financial Enterprises ("Credit Institutions Act"), to Government Decree No. 131/2011 (VII. 18) on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities, and legal form of credit institutions and investment enterprises, and to the recommendation of the Supervision on the application of the Remuneration policy, the rules of performance based remuneration for the key executives of FHB Mortgage Bank Co. Plc. and of the group under its control are established. According to the above, the executives the activities of whom have material impact on the control and risk profiles of financial institutions and executives performing control functions shall be provided with performance based remuneration in the following proportions:

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

Possible components of performance based remuneration:

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

Special scope of personnel is as follows:

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

Category II: *Chief Executives with risk managing and risk analysing and risk control, internal audit and compliance functions are the chief executives of the heads of*

II.1. Risk management and risk analysis, furthermore risk control
II.2. Internal audit
II.3. Compliance
departments.

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

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

2. *For other scope of personnel:*

Components of performance based remuneration:

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

3. *General incentives for all employees:*

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

7.2. Remuneration Statement for the year 2016

1/ Members of the Management

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

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

2/ Officers

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

3/ Share Option Remuneration

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

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

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

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

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

Corporate Governance Declaration on Compliance with the Corporate Governance Recommendations

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

Level of compliance with the Recommendations

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

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No

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

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

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

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

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

Yes (Complies) No (Please explain)

The Supervisory Board formed an opinion on the remuneration guidelines.

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No (Please explain)

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

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

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

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

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

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

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No (Please explain)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yes (Complies) No

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R 3.4.4 The Remuneration Committee made proposals regarding remuneration guidelines.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) **No**

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No (Please explain)

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

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

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

Yes (Complies) No

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No

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

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

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

Yes (Complies) No (Please explain)

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

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

Level of compliance with the Suggestions

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

S 1.1.3 The Company has an investor relations department.

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

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

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

Yes / No

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

Yes / No

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

Yes / **No**

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

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

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

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

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

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

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

Yes / **No**

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

Yes / No

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

Yes / No

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

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

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

Yes / No

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

Yes / No

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

Yes / No

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

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

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

Yes / No

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

Yes / **No**

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

Yes / No

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

Yes / No

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

Yes / No

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

Yes / No

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

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

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

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

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

Yes / **No**

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

Yes / **No**

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

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

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

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

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

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

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

Yes / No

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

S 3.4.5 The Remuneration Committee prepared the Remuneration Statement.

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

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

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

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

Yes / No

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

Yes / **No**

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

Yes / No

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

Yes / No

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER’S MEETING

No. 6

Decision on the granting of discharge of liability for the executive officers considering the suitability of their activity performed in the business year of 2016

Budapest, 26 April 2017, 2.00 p.m.

PROPOSAL

Decision on the granting of discharge of liability for the executive officers considering the suitability of their activity performed in the business year of 2016

According to Article 3:117 (1) of the Act V of 2013 on the Civil Code ("Civil Code") the General Meeting may provide a discharge of liability to an executive officer at the time of approval of the financial report, thus acknowledging the executive officer's management activities during the previous financial year.

The Board of Directors of the FHB Mortgage Bank Co. Plc. does not request the General Meeting to issue the discharge of liability for the business year 2016.

The Supervisory Board agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION
to Item No. 6 of the Agenda

The General Meeting on the basis of the proposal of the Board of Directors does not issue a discharge of liability to acknowledge the executive officers' management activities during the financial year of 2016.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 7

Report of the Supervisory Board of FHB Mortgage Bank Plc. on the fulfilment of the conditions of the Share Option Programme

Budapest, 26 April 2017 2:00 p.m.

PROPOSAL

Concerning the Fulfilment of the Conditions of the Share Option Programme in 2016

I. Premises

The shareholders of FHB Mortgage Bank Plc. decided on the Annual General Meeting of the Company in 2004 at first to expand the long term incentive of the Board of Directors and the management of the Company by a share compensation programme (hereinafter: the "Programme").

Following several previous renewals of the Programme, in 2016 the Annual General Meeting of the Company set the Share Option Programme with its resolution No. 8/2016 (04.28.) for one year.

Based on the resolution of the annual general meeting, the Supervisory Board shall inform the General Meeting about the respective yearly fulfilment of the terms of the Programme.

II. Terms and Conditions of the Share Option Programme for the year 2016

1. *The term of the Programme is: 1 years (Remuneration within the framework of the Programme relates to the 2016 business years)*

2. *Type of shares available for option: Series "A" ordinary shares with face value at HUF 100, issued by the Company.*

3. *Method of granting: the Company grants option right on shares to entitled parties.*

4. *Price of drawing the option is: 25% of the average price on the Budapest Stock Exchange between 1 January of the subject year and the date of the General Meeting closing the subject business year weighted by the turnover.*

5. *The date of becoming entitled to draw the option: the date of the General Meeting closing the subject business year.*

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

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

7. *The conditions of granting:*

   Shares/options may be granted on condition that the performance of the FHB Banking Group as consolidated under the International Financial Reporting Standards (IFRS) reaches the targets set by this Programme in respect of at least three of the ratios described in detail below, with all of the ratios consolidated and with the impacts of the Programme taken into account.

Financial ratios:

Increase of equity capital: minimum 5%, with the proviso that bonds representing non-subordinated loan capital shall be excluded from the calculation of the ratio.
Increase of the ratio of non-performing loans: the ratio of non-performing loans within the overall loan portfolio in the end of the respective year does not change negatively compared to the previous year
Average return on equity (ROE): ratio of average ROE calculated for the respective year – banking surtax to be excluded - exceeds minimum 4 per cent
Average return on assets (ROA): ratio of average ROA calculated for the respective year – banking surtax to be excluded - exceeds minimum 0.5 per cent
(To be calculated on the basis of annual consolidated IFRS report.)

The Supervisory Board shall inform the General Meeting about the respective yearly fulfilment of the terms of the Programme. If at least three of the performance ratios specified above are achieved (with all of the ratios taken together), the non-executive members of the Board of Directors can exercise their option under the terms of the Programme. The performance of the Chief Executive Officer, the executive Members of the Board of Directors and the Deputy Chief Executive Officers is to be evaluated by the Chairman of the Board of Directors. The individual performance evaluations must be performed in compliance with the policy adopted by the Supervisory Board.

8. *An additional term of granting the share option shall be that the entitled person may exercise his/her option in the period of 3 (three) years in a manner that in the year of becoming entitled he/she shall be entitled to draw maximum 60% of the option, and one year after firstly becoming entitled to draw, he/she shall be entitled to draw additional 20% at maximum, and after another year, he /she shall be entitled to draw the 20% of the option left.*

9. *In the event the legal or employment relationship of an entitled party terminates before the date such party may exercise the right to take receipt of the shares earned, such party shall also lose the right to participate in the program as an individual. Any deviation from this rule requires a separate resolution to that effect by the Board of Directors, which the Board of Directors may pass upon grounds set in an explanation attached to a separate proposal submitted to it.*

10. *The General Meeting asks the Board of Directors of the Company to determine the detailed rules of the Programme no later than 30 September 2016 by taking the Resolution of the General Meeting into consideration. The General Meeting asks the Board of Directors to oversee the implementation of Rules on the detailed rules of the Program, furthermore to inform the General Meeting about the fulfillment of the terms of the Programme yearly.*

III. Evaluation of the Fulfilment of Certain terms of the Programme

There are altogether four criteria set as the term of the share option benefit (four financial performance indicators) at least three of four ratios must be fulfilled in order to provide the preferential purchase of shares.

The defined financial performance ratios based on the consolidated financial statements according to IFRS amounted in 2016 as follows:

1. *Increase of equity capital: minimum 5%, with the proviso that bonds representing non-subordinated loan capital shall be excluded from the calculation of the ratio*

HUF million	2015	2016	Change 2016/2015	Condition	Fulfilled?
Shareholder's equity	108,532	57,602	-46.9%	min. 5%	No
Shareholder's equity w/o additional Tier 1 capital	76,784	57,602	-25.0%	min. 5%	No

2. *Increase of the ratio of non-performing loans: the ratio of non-performing loans within the overall loan portfolio in the end of the respective year does not change negatively compared to the previous year*

HUF million	2015	2016	Change 2016/2015	Condition	Fulfilled?
Share of non-performing loans (NPL rate)	14.7%	10.6%	-27.6%	*does not change negatively*	Yes

3. *Average return on equity (ROE): ratio of average ROE calculated for the respective year – banking surtax to be excluded - exceeds minimum 4 per cent*

HUF million	2015	2016	Change 2016/2015	Condition	Fulfilled?
Net Profit	-10,550	-15,502	46.9%		
Net Profit w/o special banking tax	-7,724	-13,870	79.6%		
Average Equity	98,290	83,067	-15.5%		
Average equity w/o additional Tier 1 capital	66,541	67,193	1.0%		
Return on average equity (ROAE)	-10.7%	-18.7%	-	≥ 4.0%	No
Return on average equity (ROAE) – w/o special banking tax	-7.9%	-16.7%	-	≥ 4.0%	No

4. *Average return on assets (ROA): ratio of average ROA calculated for the respective year – banking surtax to be excluded - exceeds minimum 0.5 per cent*

HUF million	2015	2016	Change 2016/2015	Condition	Fulfilled?
Net Profit	-10,550	-15,502	46.9%		
Net Profit w/o special banking tax	-7,724	-13,870	79.6%		
Average Assets	757,130	669,113	-11.6%		
Return on average assets (ROAA)	-1.4%	-2.3%	-	≥ 0.5%	No
Return on average assets (ROAA) – w/o special banking tax	-1.0%	-2.1%	-	≥ 0.5%	No

IV. Summary of evaluation

Condition	Criteria	Fulfilled?
1. Growth of Shareholder's Equity	min. 5%	No
2. Change of NPL rate	does not change negatively	Yes
3. Return on average equity (ROAE)	≥ 4.0%	No
4. Return on average assets (ROAA)	≥ 0.5%	No
Number of conditions fulfilled		1
Number of conditions required for granting		3
Shares grantable?		No

A detailed evaluation of each condition confirms that the conditions of the Programme were not fulfilled in the year 2016; accordingly, the persons covered by the Programme are not entitled to obtain the respective shares held in the Programme pool for allocation.

PROPOSED RESOLUTION
to Item No. 7 of the Agenda

The General Meeting acknowledges the report on the fulfilment of the conditions of the approved Share Remuneration Programme of the Management for the year 2016 designed to increase the market price of the Company's shares.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 8

Amendment to the Statutes of the Company

Budapest, 26 April 2017, 2 p.m.

PROPOSAL
Amendment to the Statutes of the Company

According to Act V of 2013 on the Civil Code (hereinafter as: the “Civil Code”), the amendment to the Statutes (hereinafter: “Statutes”) of FHB Mortgage Bank Co. Plc. (hereinafter as: “Company”) falls within the exclusive competence of the General Meeting.

1. The last comprehensive amendment to the Statutes of the Company were made at the extraordinary general meeting convened to 9 November 2015, which was required because the Company joined the Integration Organisation of Cooperative Credit Institutions (hereinafter as: the “Integration Organisation”) but the Statutes were amended subsequently as well, last time during the 2016 ordinary general meeting.

The Board of Directors of the Integration Organisation and the Board of Directors of the Bank of Hungarian Savings Co-operatives Pte. Ltd, as the central bank (hereinafter as: the “Savings Bank”), in their resolutions under no. 57/2017. (03.21.) and IG-4/11/2017, respectively, decided to issue new sample statutes to the cooperative credit institutions, and as a result, the sample to be applied for public companies limited by shares was also amended and published. The Integration Organisation and the Savings Bank notified the Company by sending to it the amended sample statutes.

Pursuant to Article 17/H (2) of Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter referred to as: the “Integration Act”), if new sample statutes are issued, “the cooperative credit institution shall be obliged to amend its statutes accordingly, within 60 days at the latest”.

Taking into consideration the aforementioned, the management of the Company resolved to submit the amendments of the Statutes of the Company, required according to the sample statutes, to the 2017 ordinary general meeting of the Company, for approval thereof.

2. Furthermore, the Board of Directors of the Company received two motions submitted by a shareholder holding at least one percent of the votes in the Company. The proposer Savings Bank, being a shareholder of the Company, proposed on one side to have Articles 12.1.1 - 12.1.6 of the Statutes of the Company deleted, having regard to the fact that the sample statutes do not contain such provisions.

Taking into account the aforementioned, the management of the Company resolved that in the future it shall not request the specific permission of the Savings Bank, as central bank, for the deviation from the sample statutes in terms of the concerned Articles, but considers the motion submitted by the Savings Bank in its capacity as a shareholder, as being duly put onto the agenda pursuant to Article 3:259 (2) of the Civil Code.

The shareholder initiated further that in order to be able to prepare for the application of the amended Statutes, the amendments shall enter into force at 15 May 2017. With regard to subsection 2 section 3:259 of the Civil Code, the Board of Directors of the Company submits this proposal to the general meeting as part of the related proposal.

3. The management of the Company informs its honourable shareholders that having due regard to the stipulations made under Articles 1 and 2 above, no separate reasoning or justification shall be attached to amendments of the Statutes, since these are required to be submitted to the General Meeting for approval under the law (the Integration Act and the Civil Code) by all means.

The Supervisory Board expressed its approval regarding the proposal of the Board of Directors.

PROPOSED RESOLUTION
to item No. 8 on the agenda

1. *The General Meeting (the "General Meeting") of FHB Mortgage Bank Co. Plc. (the "Company") amends the Statutes of the Company in accordance with the stipulations specified in the submission put forward by the Board of Directors, with the content determined in Articles 2-80 of this resolution.*

2. *The General Meeting resolves that the Preamble of the Statutes shall read as follows:*

"FHB Mortgage Bank Co. Plc. (hereinafter as: the Company), as a member of the Integration Organization of the Cooperative Credit Institutions (hereinafter as: the Integration Organization) and as a shareholder of the Bank of Hungarian Savings Co-operatives Pte. Ltd. (hereinafter as: the Savings Bank or the Central Bank), pursues its activities as a cooperative credit institution, as defined in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter as: the Integration Act), in accordance with the provisions of its operating license.

The Integration Organization, the Central Bank (hereinafter collectively as: central bodies) and the cooperative credit institutions (hence, the Company as well) and the cooperative companies defined under the decision of the National Bank of Hungary (hereinafter as: the Supervisory Authority or the National Bank of Hungary) are subject to joint supervision.
For matters not regulated under these Statutes, the provisions of the Integration Act, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter as: the Credit Institutions Act), Act CXX of 2001 on the Capital Market (hereinafter as: the Capital Market Act), Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter as: the Mortgage Banks Act), and Act V of 2013 on the Civil Code (hereinafter as: the Civil Code) shall be applied."

3. *The General Meeting resolves that the title preceding Article 1 of the Statutes shall read as follows:*

"CORPORATE NAME, REGISTERED OFFICE AND SCOPE OF ACTIVITIES OF THE COMPANY"

4. *The General Meeting resolves that Article 3 of the Statutes shall read as follows:*

"3 Type of the Company:

The Company operates as a public company limited by shares, that is, its shares are partially or wholly offered to the public and are traded on the stock exchange.

According to its position taken among financial institutions, the Company is a mortgage credit institution, as specialized credit institution."

5. *The General Meeting resolves that Article 4.1 of the Statutes shall read as follows:*

"4.1 The Company shall perform its financial service activities as per Article 3(1) of the Credit Institutions Act and the auxiliary financial services as per Article 3(2) of the Credit Institutions Act, as well as its activities as per Article 7(3) of the Credit Institutions Act in line with and subject to the conditions stipulated under the Credit Institutions Act, the Investment Services Act, the Mortgage Banks Act and the other legislation related to financial service activities, based on the license granted by the Supervisory Authority."

6. *The General Meeting resolves that Article 4.2 of the Statutes shall read as follows:*

"4.2 The activity (activities) of the Company carried out in HUF and/or foreign exchange, in line with Resolution no. 345/1998 of the Supervisory Authority, is/are as follows:

Core activity:

6492’08 Other lending

Within the above sphere of activities the Company carries out exclusively the following activities pursuant to Article 3 of Act XXX of 1997 on the Mortgage Banks and Mortgage Bonds, namely:
- acceptance of repayable liquid assets from the public, not including deposit collection,
- provision of cash loan secured by mortgage established on a real property located on the territory of Hungary or a member state of the EEA,
- provision of loans without the stipulation of mortgage in the case of assumption of joint and several suretyship by the state,
- assumption of suretyship and bank guarantee, and other banker’s commitments.

Other business:

6499’08 Other financial mediation not included elsewhere, namely:
- trading activities in respect of foreign exchange swap transactions serving to cover the exchange risk of interest rate swap transactions and the foreign exchange sources thereof.

6619’08 Other activities auxiliary to financial services”

7. *The General Meeting resolves that the title preceding Article 7 of the Statutes shall read as follows:*

“REGISTERED CAPITAL AND SHARES OF THE COMPANY, THE RIGHTS AND OBLIGATIONS OF THE SHAREHOLDERS”

8. *The General Meeting resolves that Article 7.5 of the Statutes shall read as follows:*

“7.5 In the course of raising the Company’s registered capital by cash contribution, the shareholders of the Company (and, within those, first of all the shareholders possessing shares belonging to the same share series as the newly issued shares) followed by the owners of convertible bonds shall have preferential subscription rights specified in the resolution of the General Meeting; in the case of a capital raise implemented within the competence sphere of the Board of Directors, these conditions are specified in the resolution issued by the Board of Directors.

Through the channels determined in the Statutes the Company shall inform the shareholders and holders of convertible bonds of the possibility and way of exercising the preferential rights to receive the shares including the nominal value and par value of shares that can be obtained in this fashion, as well as of the first and last day of the fifteen days period available to exercise such rights.

Upon the written proposal of the Board of Directors, the General Meeting may, however, exclude or restrict the exercising of the preferential subscription right. The reasons for the motion aimed at the exclusion of the preferential subscription right, as well as the planned issue value of the shares shall be indicated in the proposal. The Board of Directors shall put the discussion of the proposal on the agenda in the invitation convening the General Meeting, as part of the item on the agenda concerning the increase of the registered capital, but prior to that. The General Meeting may not adopt a valid resolution on the increase of the registered capital unless a decision is made on the matter of exclusion or restriction of the exercising of the preferential subscription right. The Board of Directors shall make sure that the resolution of the General Meeting is submitted to the Court of Registration and at the same time is published in the places of publication specified in the Statutes.”

9. *The General Meeting resolves that Article 9.2 of the Statutes shall read as follows:*

“9.2 The Company shall keep a register of shareholders in accordance with the currently effective legislation, these Statutes and the applicable internal regulations. The owner’s quality of shareholders is certified by the entry in the register of shareholders of the Company; accordingly, a shareholder may exercise its shareholder's rights towards the Company only if it has been entered in the register of shareholders. The register of shareholders shall be kept by the Board of Directors and the Board of Directors has the right to commission the person(s) defined by law to keep the register of shareholders, in which case the fact of commissioning and the personal data of the commissioned person must be published."

10. *The General Meeting resolves that Article 9.3 of the Statutes shall read as follows:*

"9.3 The Company shall keep the register of shareholders according to the relevant provisions of the Civil Code and the Capital Market Act."

11. *The General Meeting resolves that Article 9.4 of the Statutes shall read as follows:*

"9.4 The Board of Directors of the Company, or its agent appointed in accordance with the legal rules applicable to securities, shall keep a register of shareholders, which contains at least the following data:
- name of shareholders and/or their proxies (nominees), as well as address, mother's name and citizenship in the case of natural persons, and registered office in the case of legal entities (e.g. business associations) and individual undertakings;
- if a share has several holders, data of holders and the joint representative;
- number of shares of shareholders in a breakdown by share series, the ratio of their ownership share;
- securities code, as well as series and nominal value of shares;
- type of shares;
- date of entry of the share purchase in the register of shareholders;
- date of withdrawal and destruction (cancellation) of shares;
- file number and date of the supervisory decision related to the acquisition of ownership, if it is required for acquisition of ownership.

In an annex to the register of shareholders, the Board of Directors or its proxy as per the applicable legislation shall keep the data identifying the indirect holding (ownership) of all owners having at least five percent in the Company, calculated according to the provisions of Annex no. 3 of the Credit Institutions Act. The owner holding or acquiring at least five percent ownership interest in the Company must notify the Company of its indirect ownership held in the Company, as well as of any changes thereof, and shall simultaneously also disclose data suitable for identification. The voting right of the shareholder who fails to fulfil its above notification obligation shall be suspended by the Supervisory Authority until the obligation is fulfilled."

12. *The General Meeting resolves that Article 9.6 of the Statutes of the Company shall read as follows:*

"9.6 Any shareholder entered in the register of shareholders of the Company is obliged to notify the Board of Directors within 30 days in writing of any change in their data registered in the register of shareholders."

13. *The General Meeting resolves that Article 9.8 of the Statutes shall read as follows:*

"9.8 The Company accepts the proprietary deposit certificate issued by the KELER Central Depository Ltd ("KELER Ltd"), as place of deposit and the securities account extract issued by KELER Zrt. for an appropriate date as certificate of the ownership of the share."

14. *The General Meeting resolves that Article 10.1.3 of the Statutes shall read as follows:*

"10.1.3 The provisions of the Capital Markets Act and the Credit Institutions Act shall apply to the acquisition of influence in the Company."

15. *The General Meeting resolves that Article 10.2.1 of the Statutes shall read as follows:*

"10.2.1 Shareholders are entitled to exercise their shareholders' rights in possession of the holder's certificate defined in the provisions of legal rules applicable to shares and securities. A holder's certificate is not required for exercising the shareholders' rights in cases where eligibility is established through the shareholder's verification under the Capital Markets Act and in compliance with the provisions of the Statutes. In addition to the foregoing, compliance with Article 12.1 is also required for exercising the rights of shareholders in connection with the General Meeting."

16. *The General Meeting resolves that Article 10.2.2 of the Statutes shall read as follows:*

"10.2.2 These rights may be exercised by the shareholder personally or by proxy (a representative) or through a nominee as per the Civil Code and the Capital Markets Act. The representative's authorization shall be valid for a General Meeting or a definite period of time, but not more than 12 months. The validity of the representative's authorization shall extend to the continuing of the suspended General Meeting and the General Meeting convened repeatedly as a result of lack of quorum. The power of attorney shall be submitted to the Company in the form of a public deed or a private deed with full probative force. A member of the Board of Directors and of the Supervisory Board may only proceed as representative, if such person as proxy has obvious and written voting instruction in each and every proposal given by the principal. The Auditor of the Company and the property inspector of the Company may not proceed as representatives. The shareholder may appoint a proxy to represent him at the General Meeting by returning the form included in Annex 1 or Annex 2 to the Statutes and supplied by the Company electronically or by mail. The form shall be returned as a private deed with full probative effect not later than by the end of the working day preceding the day of the General Meeting. If a shareholder is represented by more than one proxy and the proxies cast different votes or make different statements, all votes cast and statements made by the proxies shall be null and void."

17. *The General Meeting resolves that Article 10.2.3 of the Statutes shall read as follows:*

"10.2.3 Shareholders may apply for crediting shares onto a securities account following payment of the total nominal value of their shares, or if the nominal value or the issue value are different, the payment of the total consideration of the latter."

18. *The General Meeting resolves that Article 10.2.4 of the Statutes shall read as follows:*

"10.2.4 Shareholders shall have a right to a share of the after-tax profits of the Company in proportion to the nominal value of their shares (dividend), pursuant to the legal rules of accounting, ordered to be distributed by the General Meeting. The dividend can be determined with due consideration of the rights assigned under the Statutes to the different share classes."

19. *The General Meeting resolves that Article 10.2.5 of the Statutes shall read as follows:*

"10.2.5 Shareholders who are registered in the Company's Register of shareholders on the balance sheet day determined by the General Meeting for dividend payment are entitled to receive dividend. At least 20 business days shall lapse between the date of the decision providing for the initial date of dividend payment and the initial date of dividend payment."

20. *The General Meeting resolves that Article 10.2.6 of the Statutes shall read as follows:*

"10.2.6 In the case of the termination of the Company without a legal successor, shareholders are entitled to a portion of the assets that may be divided as a result of final accounting in proportion to their shares."

21. *The General Meeting resolves that Article 10.2.7 of the Statutes shall read as follows:*

"10.2.7 Shareholders are entitled to attend the General Meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If the applicant finds the denial of his or her request for information to be unjustified, he or she may ask the Court of Registration to oblige the Company to provide the information. As for items on the agenda of the General Meeting, the Board of Directors shall provide the shareholders with information necessary to discuss any and all items on the agenda of the General Meeting, so that the shareholders – upon a written request filed at least eight days prior to the General Meeting – shall receive the necessary information at least three days prior to the General Meeting."

22. *The General Meeting resolves that Article 10.2.8 of the Statutes shall read as follows:*

"10.2.8 Shareholders are entitled to make proposals and – within the frameworks allowed under legislation – to exercise the rights arising from their shares."

23. *The General Meeting resolves that Article 10.2.9 of the Statutes shall read as follows:*

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

24. *The General Meeting deletes Articles 10.2.10-10.1.11 (and hence their numbering will be deleted as well) with due consideration of the fact that the provisions contained therein have been transferred into other Articles.*

25. *The General Meeting resolves that Article 11.3 of the Statutes shall read as follows:*

"11.3 The General Meeting shall be convened by the Board of Directors, with the exceptions stipulated by law or these Statutes, if it is considered necessary for the sake of proper operation of the Company, or if it is required by the Statutes or any piece of legislation. Based on the Integration Act, the Board of Directors shall be obliged to convene the General Meeting of the Company, as soon as possible, if the Board of Directors of the Integration Organization or the Board of Directors of the Central Bank initiated the holding of the General Meeting for purpose of renewing the executive officers."

26. *The General Meeting resolves that Article 11.4 of the Statutes shall read as follows:*

"11.4 The General Meeting shall be convened at least once every year. The Central Bank and the Integration Organization must be notified of the General Meeting, in advance, simultaneously with the sending of the invitations to the owners. The invitation and its annexes must be attached to the notification. The General Meeting may not adopt a valid resolution if the above obligations are breached. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the General Meeting of the Company with the right of consultation.

Shareholders who indicate in writing their preference to that effect shall also be sent electronic notification of the convocation of the General Meeting in addition to the announcement through the places of announcements, according to the Statutes of the Company.

The Company shall disclose the material data of the financial statement prepared under the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board, the summary in connection with the numbers of the shares and of the voting rights at the date of the convocation (as well as the separate summary on the classes of shares), the proposals related to the items of the agenda, the supervisory board reports concerning these, the draft resolutions, as well as the forms used for voting through proxies (if not sent to the shareholders directly) at least twenty one days prior to the General

Meeting according to the provisions of the Statutes of the Company on the publication of the announcements and official statements."

27. *The General Meeting resolves that Article 11.7 of the Statutes shall read as follows:*

"The shareholders may exercise their shareholder rights in person, or through their representatives, in line with Article 10.2.2."

28. *The General Meeting deletes Articles 12.1.1-12.1.6 of the Statutes, these numbers will be deleted as well.*

29. *The General Meeting resolves that Article 12.3 (b) of the Statutes shall read as follows:*

"b) passing of the decision on the change of the type of the Company;"

30. *The General Meeting resolves that Article 12.3 (c) of the Statutes shall read as follows:*

"c) increase and reduction of the registered capital, including the authorization granted to the Board of Directors to increase the registered capital, as defined in Articles 7.3 and 7.4;

31. *The General Meeting resolves that Article 12.3 (k) of the Statutes shall read as follows:*

"k) the evaluation of the work of the executive officers performed during the previous business year, as required under the Civil Code, and decision on the relief that may be granted to them;

32. *The General Meeting resolves that Article 12.5 of the Statutes shall read as follows:*

"12.5 The consent or approval of the Integration Organization and the Central Bank shall also be required for the decision of the General Meeting in the cases determined in the Integration Act."

33. *The General Meeting resolves that Article 12.6 of the Statutes shall read as follows:*

"12.6 The prior consent of the Integration Organization shall be required for amendment of the statutes."

34. *The General Meeting resolves that Article 12.7 of the Statutes shall read as follows:*

"12.7 The General Meeting shall adopt its resolutions on issues falling within its competence by at least the simple majority of the votes approving the draft resolution except for matters specified by Articles 3:102, 3:211(3), 3:276 of the Civil Code and all other cases specified by law where the approval of a 3/4 (three-quarter) majority of the shareholders attending - or if the law provides otherwise then according to the conditions set out therein - is required for the adoption of the resolution concerned. Abstention shall qualify as „no" vote."

35. *The General Meeting resolves that Article 12.8 of the Statutes shall read as follows:*

"12.8 The General Meeting shall adopt a resolution on all issues submitted to the General Meeting by the Board of Directors, the Supervisory Board or the shareholder(s) representing at least one percent of shares. If shareholders who hold at least one percent of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within eight days after publishing the announcement of calling the General Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda."

36. The General Meeting resolves that Article 12.9 of the Statutes shall read as follows:

"12.9 A resolution of the General Meeting aimed at the transformation of the form of public (open) operation of the Company into private, may be adopted if at least a three-quarters majority of shareholders who separately represent not more than 1% of votes gave its prior consent thereto. In connection with the prior consent, the Board of Directors shall be obliged to call upon the concerned shareholders of the Company, in the announcement containing the invitation to the General Meeting, to send their statements whether they give their consent or not. The shareholders concerned shall send the position taken up by them to the registered office of the Company, in writing, addressed to the Board of Directors, until the deadline indicated in the announcement, which shall be at least the second day following the reporting date of the shareholder identification procedure connected to the General Meeting deciding about the change of the public operation form of the Company to a private operation form. Should a shareholder fail to make any statement within the time limit set in the announcement, the shareholder shall be considered as if they gave their consent. Several consents may not be validly made on the basis of a given share. The Board of Directors of the Company shall determine the scope of shareholders concerned, on the basis of the data contained in the shareholder identification connected to the General Meeting deciding about the change of the public operation form of the Company to a private operation form."

37. The General Meeting resolves that Article 12.10 of the Statutes shall read as follows:

"12.10 The resolution of the General Meeting as per paragraphs (c) and (l) of Article 12.3 can be adopted if more than half of the shareholders holding the concerned share types or share series present at the given General Meeting have granted their separate consent to this. The votes cast by the shareholders of the concerned share types or share series shall be evaluated separately as well, in terms of this consent, in the course of determining the results of the vote, and, if necessary, a separate voting must be held for these shareholders. A share type or share series is considered as "a concerned share type or share series" if the resolution of the General Meeting directly and adversely modifies a shareholder right defined in these Statutes, attached to the given share type or share series. In the course of the aforementioned, the provisions applicable to the possible restriction or exclusion of the voting right attached to the share (excluding the prohibition to exercise the voting right related to the own shares) shall not apply. Based on the authorization specified in the resolution of the General Meeting passed according to the provisions of this Article, the consent required under law for the resolution passed by other bodies of the Company is deemed to have been granted."

38. The General Meeting resolves that Article 13.2 of the Statutes shall read as follows:

"13.2 Minutes shall be drawn up of the General Meeting, which shall contain the following:
- corporate name and registered office of the Company;
- method, place, and date of holding the General Meeting;
- name of the chairman of the General Meeting, the keeper of the minutes, the certifier of the minutes and the person counting the votes;
- important events and proposals made during the General Meeting;
- draft resolutions, the number of each share for which a valid vote was cast for a given resolution, the capital share represented by such votes, the number of votes cast for and against the proposal, and the number of abstains;
- objection of the shareholder, a member of the Board of Directors or of the Supervisory Board to a resolution if so requested by the objecting person."

39. The General Meeting resolves that Article 13.3 of the Statutes shall read as follows:

"13.3 The minutes shall be signed by the keeper of the minutes and the chairman of the General Meeting and authenticated by a shareholder in attendance and elected for that purpose. The minutes recorded at the General Meeting shall be sent to the Central Bank, the Integration Organization and the Supervisory Authority within 15 days of the date of the General Meeting."

40. The General Meeting resolves that Article 14.1 of the Statutes shall read as follows:

"14.1 The Board of Directors is the managing body of the Company, and the members of the Board of Directors shall qualify as officers. The Company is managed by the Board of Directors, acting as a body. The Board of Directors shall represent the Company towards third parties, *vis-á-vis* courts and other authorities. Shareholders cannot vindicate the competencies of officers. The provisions of the Civil Code shall be applicable to the liability of executive officers."

41. The General Meeting resolves that Article 14.2 of the Statutes shall read as follows:

"14.2 Only natural persons can be elected as members of the Board of Directors. The Board is made up of at least five and no more than eleven members. The Board of Directors (directors) shall be elected by the General Meeting from among shareholders and other persons. At least two members of the Board of Directors shall be employed by the Company (hereinafter referred to as internal members). Furthermore, at least two members of the Board of Directors shall be Hungarian citizens, residents for foreign exchange purposes, and shall have permanent residence in Hungary for at least one year."

42. The General Meeting resolves that Article 14.5 of the Statutes shall read as follows:

"14.5 Members of the Board of Director may not acquire shares in another business organization pursuing the same main activity as the Company, with the exception of shares of public limited companies, and may not be officers of another business organization pursuing the same main activity as the Company except with the approval of the General Meeting. Members of the Board of Directors and their relatives may not engage in transactions, on their behalf or to their own benefit, which fall within the core activities of the Company, with the exceptions stipulated by law. The executive officer of the Company can be an executive officer, without limitations, in a legal entity (falling under joint supervision with the Central Bank) that is engaged, as its core activity, in pursuing the same economic activity as the Company. If the executive officer of the Company accepts a new executive officer appointment, they shall be obliged to report this fact to the Company within 15 days from acceptance of the given position."

43. The General Meeting resolves that Article 14.10 of the Statutes shall read as follows:

"14.10 The Board of Directors shall hold a meeting at least once every two months, however, the chairman of the Board of Directors may convene the Board of Directors at any time. The chairman shall be obliged to convene the Board of Directors upon request of two members and in all cases prescribed by law. The meetings shall be convened by the chairman or the Board of Directors or the member appointed by him/her by an invitation forwarded at least 5 (five) business days before the date of the meeting. The chairman of the Board of Directors shall notify the Integration Organization and the Central Bank of the meeting of the Board of Directors, in advance, by sending the invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The authorized representatives of the Integration Organization and the Central Bank shall be entitled to attend the meetings of the Board of Directors with the right of consultation. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all related documents, if any, shall be attached to the invitation. A resolution on any matter not included in the agenda may only be adopted if the representative of the Integration Organization or the Central Bank is present at the meeting, or if the members not present in person at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The Board of Directors may not adopt a valid resolution if the above obligations are breached.
The chairman of the Supervisory Board or a member of the Supervisory Board designated by him/her shall take part in the meeting of the Board of Directors as a person invited on a permanent basis."

44. The General Meeting resolves that Article 14.13 of the Statutes shall read as follows:

"14.13 The minutes shall be signed by the chairman of the meeting, by two further members of the Board of Directors in attendance and by the keeper of the minutes. The minutes shall be sent to all members of the Board of Directors and to the chairman of the Supervisory Board, furthermore to the Integration Organization and the Central Bank, within fifteen days following the meeting, irrespective of whether they attended the meeting or not."

45. The General Meeting resolves that Article 14.14 of the Statutes shall read as follows:

"14.14 The members of the Board of Directors are entitled to participate in the meeting of the Board of Directors by means of electronic communication devices, the detailed rules of which are set out by the rules of procedure of the body."

46. The General Meeting resolves that Article 14.15 of the Statutes shall read as follows:

"14.15 The Board of Directors may only adopt a valid resolution outside a meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Board of Directors cast their votes in a private deed with full probative force and send it to the registered office of the Company within two business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Board of Directors.

The provisions of Article 14.10 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, *mutatis mutandis*, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Board of Directors may not adopt a valid resolution if the above obligations are breached."

47. The General Meeting resolves that Article 14.16 of the Statutes shall read as follows:

"14.16 The operation of the Board of Directors shall be regulated in detail by the rules of procedure of the Board of Directors. The rules of procedure shall be elaborated by the Board of Directors itself within the framework set out by these Statutes."

48. The General Meeting resolves that Article 14.18 of the Statutes shall read as follows:

"14.18 The Board of Directors shall:
- prepare the report of the Company pursuant to the Accounting Act and the proposal for the use of profits, and to submit them to the General Meeting together with the report of the Board of Directors;
- prepare the Company's report on responsible corporate governance and submit it to the General Meeting together with the report of the Supervisory Board;
- prepare a report for the General Meeting on an annual basis, and in every three months for the Supervisory Board on management, as well as on the pecuniary situation and business policy of the Company (including the subsidiaries of the Company involved in the consolidation);
- convene the ordinary General Meeting once annually, and convene the extraordinary General Meeting within eight days, with the simultaneous notification of the Supervisory Board, if it comes to the knowledge of any of its members that as a result of the losses the equity of the Company has dropped to two-thirds of the registered capital or below the minimum level set forth in the Civil Code, or if it comes to its knowledge that the Company is threatened by insolvency or has stopped its payments or its assets do not cover its liabilities;
- provide for keeping the business books of the Company in accordance with the rules;
- provide for keeping the register of shareholders and possibility for looking into the register of shareholders at any time in working hours;
- make a decision on the acquisition of the own shares of the Company, if it is necessary in the interest of avoiding a serious damage threatening the Company;

- ensure prudent operation, and compliance with risk taking and capital adequacy provisions at the level of all the businesses under the Company's controlling influence;
- send all of its policies and regulations that are required by the regulations published by the Integration Organization or the Central Bank, within 15 days following entry into force of the given policy or regulation."

49. The General Meeting resolves that Article 14.20 of the Statutes shall read as follows:

"The employer's rights specified in Article 14.19.5 b) shall be exercised by the Board of Directors – through the Chairman of the Board of Directors. Employer's rights relating to other employees of the Company shall be exercised by the chief executive officer."

50. The General Meeting resolves that Article 14.21 of the Statutes shall read as follows:

"14.21 The Board of Directors is entitled, without an authorization of the General Meeting received in advance, to acquire own shares of the Company in a quantity stipulated in the statutory provisions, given that the acquisition is required in the interest of avoiding a serious damage directly threatening the Company. In such cases, the Board of Directors is obliged to disclose information at the next General Meeting on the reasons of acquiring the Company's own shares, on the number and total face value of the acquired shares, as well as on the proportion of these shares in terms of the Company's total registered capital and the amount paid for these shares."

51. The General Meeting deletes Article 14.22 of the Statutes, and this number will be deleted as well.

52. The General Meeting resolves that Article 15.2 of the Statutes shall read as follows:

"15.2 The Supervisory Board consists of at least three and at most nine persons, the majority of whom, but in any case at least three members, must be independent persons as provided for by the Civil Code, and except for the persons representing the employees, shall not be employed by the Company. Supervisory Board members shall be elected by the General Meeting, for a maximum period of five years. The chairman shall convene the General Meeting if the number of members of the Supervisory Board falls below three."

53. The General Meeting resolves that Article 15.3 of the Statutes shall read as follows:

"15.3 All persons of full age may become members of the Supervisory Board whose capacity to act has not been limited in respect of actions required for the fulfilment of their duties. The persons subject to any grounds for exclusion in terms of the position of executive officers, as set forth in the Civil Code, may not be elected as members of the Supervisory Board nor the persons who qualify or whose relative as per Article 8:1(2) of the Civil Code qualifies as an executive officer of the Company according to the Civil Code."

54. The General Meeting resolves that Article 15.4 of the Statutes shall read as follows:

"15.4 Members of the Supervisory Board shall participate in the work of the Supervisory Board personally. Members of the Supervisory Board shall be independent from the Board of Directors of the Company and may not be instructed in the course of their activities."

55. The General Meeting resolves that Article 15.6 of the Statutes shall read as follows:

"15.6 The Supervisory Board shall elect a chairman from its members."

56. The General Meeting resolves that Article 15.9 of the Statutes shall read as follows:

"15.9 The meetings shall be convened by the chairman by a written invitation sent in an electronic message (e-mail) or in the form of a deed, at least 5 (five) business days before the date of the meeting. The Integration Organization and the Central Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, sent simultaneously with sending the invitation to the members, but at least 5 (five) business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the Central Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members or the representative of the Integration Organization is present at the meeting, or if the members not present in person at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the Supervisory Board meetings with the right of consultation. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations."

57. The General Meeting resolves that Article 15.10 of the Statutes shall read as follows:

"15.10 The Supervisory Board has a quorum if two-thirds of its members, but at least three members are in attendance. It shall adopt its resolutions by simple majority of votes. The Supervisory Board has no quorum if the Integration Organization and the Central Bank have not been invited to the Supervisory Board meeting at least 5 business days before the meeting by an invitation to which all materials, proposals relevant to the agenda items have been attached."

58. The General Meeting resolves that Article 15.12 of the Statutes shall read as follows:

"15.12 Minutes shall be taken of the meetings of the Supervisory Board. The minutes shall contain:
- place and date of the meeting,
- name of the members present,
- the motions put forward,
- decisions made, and any objections to such decisions.

Members of the Supervisory Board may request to enter their opinion word for word in the minutes.

The minutes shall be signed by the chairman of the meeting and two further members of the Supervisory Board present at the meeting. The minutes shall be sent to all members of the Supervisory Board within fifteen days following the meeting, irrespective of whether they attended the meeting or not."

59. The General Meeting resolves that Article 15.13 of the Statutes shall read as follows:

"15.13 Members of the Supervisory Board may participate in the meetings of the Supervisory Board by means of broadcast of electronic communications devices, the detailed rules of which shall be set out in the rules of procedure of the body."

60. The General Meeting resolves that Article 15.14 of the Statutes shall read as follows:

"15.14 The Supervisory Board may only adopt a valid resolution outside the meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Supervisory Board put their votes in a private deed with full probative force and send it to the registered office of the Company within two business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Supervisory Board.

The provisions of Article 15.9 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, mutatis mutandis, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations."

61. The General Meeting resolves that Article 15.15 of the Statutes shall read as follows:

"15.15 The Supervisory Board shall establish its rules of procedure itself, subject to the rules stipulated in the Statutes, which shall be approved by the General Meeting."

62. The General Meeting resolves that the below Subsection 5 shall be added to Article 15.17 (h) of the Statutes:

"5. Prior consent is required from the Supervisory Board for decisions made regarding the establishment and termination of the employment of manager and employees of the Internal Audit Organisation, and regarding the determination of their remuneration;"

63. The General Meeting resolves that Article 15.17 (c) of the Statutes shall be deleted and the following shall be indicated:

"c) [deleted]"

64. The General Meeting resolves that Article 15.17 (j) of the Statutes shall read as follows:

"j) discussion of the report on responsible corporate governance;"

65. The General Meeting resolves that Article 15.17 (m) of the Statutes shall read as follows:

"m) acceptance and review of the remuneration policy;"

66. The General Meeting resolves that Article 15.20 of the Statutes shall read as follows:

"15.20 The members of the Supervisory Board shall attend the General Meeting with the right of consultation."

67. The General Meeting resolves that Article 17.1 of the Statutes shall read as follows:

"17.1 A Continuing Auditor is working for the Company. The Continuing Auditor shall be elected by the General Meeting from the register of auditors published by the Central Bank, for the maximum period of five years, to ensure the lawful operation of the Company and to control the management. The period of the mandate of the Continuing Auditor may not be shorter than the period between his or her election by the General Meeting and the adoption of the subsequent report by the General Meeting."

68. The General Meeting resolves that Article 17.2 of the Statutes shall read as follows:

"17.2 The continuing auditor may only be engaged if he complies with the conditions set out in Subsections (1)-(2) and (4)-(5) of Article 260 of the Credit Institutions Act and Subsections (6)-(8) of Article 17/K of the Integration Act. The Company may not commission any employee of the Supervisory Authority or their close relative as per Article 8:1 (1) of the Civil Code to become the continuing auditor.

In addition to the requirements set out in Article 260 of the Credit Institutions Act, it shall be a requisite for the private person continuing auditor of the Company that

a) they may only carry out auditor activities at maximum five cooperative credit institutions at the same time,

b) their incomes (revenues) from a single cooperative credit institution may not exceed thirty percent of their annual incomes (revenues),
c) the income (revenue) of the auditor from cooperative credit institutions, investment firms, investment fund managers, exchanges or clearing houses controlled by the same group or holding, or from an investment fund managed by an investment fund manager controlled by the same group or holding cannot exceed 60 % of his annual income (revenue)."

69. The General Meeting resolves that Article 17.3 of the Statutes shall read as follows:

"17.3 The mandate agreement shall be concluded with the continuing auditor, with the conditions and remuneration established by the General Meeting, by the Board of Directors within ninety days as of the appointment or election. The mandate agreement entered into with the continuing auditor shall reflect the obligations of the continuing auditor originating from the Integration Act as well as from these Statutes. In case the agreement is not entered into within this deadline, the General Meeting shall elect a new continuing auditor."

70. The General Meeting resolves that Article 17.4 of the Statutes shall read as follows:

"17.4 A new mandate agreement can be concluded with the same auditor after lapse of four years following the termination of the mandate. The auditor (employee, executive officer, member subject to the obligation of performing work) employed by an auditing company, who has personal responsibility for the auditing work, may perform auditing tasks for the same credit institution no longer than for a period of five years, and such auditor can perform auditing tasks at the same credit institution again, only after the lapse of four years following the termination of his/her mandate."

71. The General Meeting resolves that Article 17.6 of the Statutes shall read as follows:

"17.6 It is the duty of the continuing auditor to carry out the permanent audit orderly, and based on this to make a statement in an independent auditor report on whether the report of the Company drawn up in accordance with the Accounting Act complies with the relevant legislation, and presents a true and fair view of the financial and earnings position of the Company and its results of operation. Within the framework thereof, he/she shall, in particular:
a) may inspect the books of the Company, may request information from officers, members of the Supervisory Board and employees of the Company, may inspect the cash desk, as well as the portfolio of securities and goods, the contracts and bank accounts of the Company;
b) inspect the trueness and compliance with legislation of the report of the Company drawn up in accordance with the Accounting Act and submit a report thereon to the General Meeting;
c) shall examine all essential business reports submitted to the General Meeting, in particular the report drawn up in Accordance with the Accounting Act and the statement of assets from the respect whether they contain true data or are in compliance with statutory provisions;
d) may inspect the Company's files and accounting records, may request information from the executive officers as per Article 3:21 (1) of the Civil Code, the members of the Supervisory Board and the employees of the Company, and inspect the Company's payment account, petty cash and securities and goods stock and contracts;
e) may participate in the meetings of the Supervisory Board with rights of consultation, and if so requested under the notice of the Supervisory Board he is obliged to participate in the meeting of the Supervisory Board, and may request the Supervisory Board to put on the agenda the matter recommended by him, which shall be put on the agenda by the Supervisory Board;
f) may submit reports to the Supervisory Authority in cases defined by the Credit Institutions Act, particularly in cases defined by Article 142 of the Credit Institutions Act;
g) if he detects a deterioration in the Company's assets that jeopardizes the satisfaction of the claims against the Company, or detects any circumstance that entails the responsibility of the executive officers as per Article 3:21 (1) of the Civil Code or the members of the Supervisory Board for activities carried out in their capacity as such, he shall without delay initiate at the management any measures that are required for the members to make a decision. If the initiative does not yield results, he shall notify the

court of registration carrying out judicial oversight in respect of the legal person of the discovered circumstances."

72. *The General Meeting resolves that Article 17.8 of the Statutes shall read as follows:*

"17.8 In case the continuing auditor discovers that the report drawn up in accordance with the Accounting Act of the Company does not comply with the laws or does not present a true and fair view of the assets, financial and earnings position of the Company and its results of operation, then he shall, further to the legal consequences laid down in other legislation, notify within 3 business days as of discovery the Audit Committee, the Supervisory Authority, the Integration Organization and the Central Bank about these findings."

73. *The General Meeting resolves that Article 17.10 of the Statutes shall read as follows:*

"17.10 The continuing auditor shall record his findings regarding those in Article 263 (1) of the Credit Institutions Act in a separate supplementary report, and shall send this report until 31 May of the year following the relevant year at the latest to the Board of Directors of the Company, the managing director, the chairman of the Supervisory Board, the Supervisory Authority, as well as to the Central Bank and the Integration Organization."

74. *The General Meeting resolves that Article 19.1 of the Statutes shall read as follows:*

"19.1 The Chief Executive Officer is the Company's employee, the senior employee, in connection with whom the employer's rights – with the exception of those falling into the exclusive competence of the General Meeting – are exercised by the Board of Directors, through the Chairman of the Board of Directors."

75. *The General Meeting deletes Chapter 21 of the Statutes and the provisions contained therein and adds the following text to replace the deleted Chapter:*

"21. [Deleted provision]"

76. *The General Meeting deletes Chapter 22 of the Statutes and the provisions contained therein and adds the following text to replace the deleted Chapter:*

"22. [Deleted provision]"

77. *The General Meeting deletes Chapter 23 of the Statutes and the provisions contained therein and adds the following text to replace the deleted Chapter:*

"23. [Deleted provision]"

78. *The General Meeting resolves that Chapter 24 of the Statutes shall read as follows:*

"24. Withdrawal of shares from the stock exchange

The General Meeting may only make a decision resulting in the withdrawal of the shares of the Company from the stock exchange, including the decision leading to the cancellation of the securities series as a sanction, in the events specified under the currently effective capital markets and stock exchange rules."

79. *The General Meeting resolves that Article 25.2 of the Statutes shall read as follows:*

"25.2 The Company shall be entitled to apply to the courts against the decisions or instructions of the Board of Directors of the Central Bank as per the Integration Act, also under the rules of judicial review of corporate resolutions. Applying to the court shall have no suspensive effect, and the decision or instruction shall be implemented within the deadline designated therein, regardless of the procedure."

80. The General Meeting resolves that Article 25.3 of the Statutes shall read as follows:

"25.3 The Company shall be entitled to apply to the courts against the decision of the Integration Organization addressed to it, to establish whether the instruction is in line with the law, other legislation, and the regulations and directives issued by the Integration Organization and the other regulations of the integration. Applying to the court shall have no suspensive effect, and the decision shall be implemented within the deadline designated therein, regardless of the procedure."

81. The General Meeting decides so that the present amendments shall enter into force on 15 May 2017.

82. The General Meeting invites and authorizes the Board of Directors to file this resolution with the Court of Registration within the statutory deadline.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 9

Authorization of the Board of Directors to acquire own shares
(in Hungarian: *„saját részvény"*)

PROPOSAL
Authorization of the Board of Directors to acquire own shares

By virtue of Resolution No. 9/2016. (04.28.) passed by the Annual General Meeting of FHB Mortgage Bank Plc („Company") on 28 April 2016, the General Meeting authorized the Board of Directors to acquire the Company's own shares (treasury shares, "*saját részvény*" in Hungarian), pursuant to Section 3:223 Subsection 1 of the Act V of 2013 on Civil Code. The authorization given to the Board of Directors is valid for 18 months.

Acquiring own shares is preferable in the forthcoming period in the interest of preserving the stability of the share exchange rate and executing the business strategy of the Company.

Based upon the above, the Board of Directors of the Company proposes that the General Meeting resolve to reissue the authorization for the Board of Directors, valid for 18 months, including specification of the type, class, number, par value, lowest and highest consideration to be paid for the shares, pursuant to Section 3:223 Subsection 1 of Act V of 2013 on Civil Code.

The Supervisory Board of FHB Mortgage Bank Co. Plc. agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION
to Item No. 9 of the Agenda

The General Meeting of FHB Mortgage Bank Co. Plc. authorizes the Board of Directors that pursuant to the provisions of Section 3:223 Subsection 1 of Act V of 2013 on Civil Code ("Civil Code to acquire the Company's own shares (treasury shares, "saját részvény" in Hungarian), subject to the following conditions:

1. *Type, par value and amount of treasury shares that can be acquired:*
    - *Series 'A' ordinary shares with a par value of HUF 100;*
    - *Series 'B' preferential shares with a par value of HUF 1,000;*
    - *Series 'C' ordinary shares with a par value of HUF 100;*

   the maximum amount of which in total with regard to the same date shall not exceed 25 per cent of the total nominal value of the share capital.

2. *Purpose of acquisition of treasury shares:*
    - *preserving the stability of the share exchange rate and executing the business strategy of the Company.*

3. *Method of acquisition of own shares:*
    - *On the Budapest Stock Exchange or on the OTC market, for consideration.*

4. *The minimum and maximum amount of consideration payable for one own share:*
    - *the minimum purchase price of "A" and "B" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 125% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction;*
    - *the minimum purchase price of "C" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 1250% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction.*

5. *This authorization shall be valid for 18 months from the date of this resolution.*

6. *Other conditions of acquisition of own shares shall be governed by the relevant provisions of the Civil Code.*

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 10

Decision on the remuneration of members of the Board of Directors and the Supervisory Board

PROPOSAL

Remuneration of the members of the Board of Directors
and the Supervisory Board

The Board of Directors proposes for the General Meeting not to modify the current extent of remuneration of the members of the Board of Directors and of the Supervisory Board, which is

- in case of member of the Board of Director HUF 200,000 pro month;
- in case of chairman of the Board of Directors HUF 400,000 pro month;
- in case of member of the Supervisory Board HUF 212,000 pro month;
- in case of chairman of the Board of Directors HUF 318,000 pro month.

The reason for the proposal is the recent negative changes in the macroeconomic and regulatory environment that affected the Company and FHB Banking Group as a whole, and the impact of such changes on the Company’s profitability.

The Supervisory Board agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION
to Item No. 10 of the Agenda

The General Meeting determines the remuneration of the chairman and the members of the Board of Directors as well as of the chairman and the members of the Supervisory Board in the amount equal to the remuneration determined in the year 2016 for the year 2017.

FHB MORTGAGE BANK CO. PLC.
GENERAL SHAREHOLDER'S MEETING

No. 11

Amendment of the Remuneration Guidelines

Budapest, 26 April 2017, 14.00 p.m.

PROPOSAL
Amendment of the Remuneration Guidelines

The Remuneration Principles of the Banking group, adopted in 2011 and then amended in 2013 and 2014 by the General Meeting of the FHB Mortgage Bank Co. Plc., constituted the main framework for the FHB Banking group's Remuneration Policy. These amended principles served as a basis for the Remuneration Policy that was included in the financial incentive system of the Banking group, in the form of a Banking group instruction.

The FHB Mortgage Bank Co. Plc. and the FHB Bank Ltd. became members of the Integration Organization of Cooperative Credit Institutions on 23 September 2015; both companies are part of the guarantee community for cooperative credit institutions. Since the accession to the Integration Organization of Cooperative Credit Institutions, the framework of remuneration in respect of the two banks and the "FHB" companies subject to the consolidated supervision of the Hungarian Savings Bank Cooperatives Ltd. */in Hungarian: Magyar Takarékszövetkezeti Bank Zrt./* is determined by the directly applicable remuneration policy of the integration. Given the aforementioned and legislative and other changes that have taken place in the meantime, it is required to review the Remuneration Principles as last approved by the General Meeting of the FHB Mortgage Bank Co. Plc on 28 April 2014.

Departments relevant to corporate governance were involved in the development of remuneration principles. The development of the basic proposal was coordinated by the Department of Human Resources.

The Directly Applicable Rules No. 5/2015 that is currently in force specifies the policy regarding the granting of benefits in respect of the Cooperative Credit Institutions, the Savings Bank and the companies subject to consolidated supervision.

The Supervisory Board agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION
to Item No. 11 of the Agenda

The General Meeting approved the amendment of the Remuneration Guidelines of the Company as set forth in the Annex to the written proposal.

Annex No. 1.

Remuneration Guidelines

The Remuneration Principles of the Banking group, adopted in 2011 and then amended in 2013 and 2014 by the General Meeting of the FHB Mortgage Bank Co. Plc., constituted the main framework for the FHB Banking group's Remuneration Policy. These amended principles served as a basis for the Remuneration Policy that was included in the financial incentive system of the Banking group, in the form of a Banking group instruction.

The FHB Mortgage Bank Co. Plc. and the FHB Bank Ltd. became members of the Integration Organization of Cooperative Credit Institutions on 23 September 2015; both companies are part of the guarantee community for cooperative credit institutions. Since the accession to the Integration Organization of Cooperative Credit Institutions, the framework of remuneration in respect of the two banks and the "FHB" companies subject to the consolidated supervision of the Hungarian Savings Bank Cooperatives Ltd. */in Hungarian: Magyar Takarékszövetkezeti Bank Zrt./* is determined by the directly applicable remuneration policy of the integration. Given the aforementioned and legislative and other changes that have taken place in the meantime, it is required to review the Remuneration Principles as last approved by the General Meeting of the FHB Mortgage Bank Co. Plc on 28 April 2014.

Departments relevant to corporate governance were involved in the development of remuneration principles. The development of the basic proposal was coordinated by the Department of Human Resources.

The Directly Applicable Rules No. 5/2015 that is currently in force specifies the policy regarding the granting of benefits in respect of the Cooperative Credit Institutions, the Savings Bank and the companies subject to consolidated supervision.

The Company shall define the Principles as follows:

The Remuneration Principles reflect the medium- and long term approach of the Savings Bank, define a clear, transparent and predictable remuneration framework for the employees concerned, furthermore the principles of proportionality set out in the Government Decree No. 131/2011 (VII.18) in applying them.

A/ Scope and effect

1. Personal scope:

The scope and effect of the Principles shall be applicable to the key personnel of the companies within the FHB Banking group:

Special scope of personnel is as follows:

I. Senior executives (according to the related sectoral laws and the Labor Code of Hungary – members of the Board of Directors and the Supervisory Board, Chief Executive Officers, Deputy Chief Executive Officers, the employer's director and any other person under his direct supervision and authorized to act as the director's deputy) at the companies within the Banking group

II. Chief Executives of the heads of departments with control functions (Risk Management, Risk Analysis (risk control) – control, internal audit, compliance)

III. Other employees, whose activities has a significant effect on risk taking who

2. Material scope:

The scope and effect of the Principles shall be applicable to:

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

3. Temporal scope:

These Principles shall have full force and effect as the date of approval by the General Meeting of the company until they are rescinded by the body holding the power to do so from time to time.
The Remuneration Policy shall be in force for an indefinite period of time, provided that its rules shall be reviewed annually.

B/ Principles

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

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

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

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

2. Key personnel – Remuneration principles for employees

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

2.1. *Basic remuneration:* the monthly wage determined in the employment contract, furthermore all such remuneration that may be granted to every employee.
The remuneration shall be considered as basic remuneration, if the award criteria are transparent, pre-determined, reflect professional experience, are permanent, do not encourage risk-taking which exceeds the risk-taking limit of the group member, and may not be withdrawn.

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

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

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

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

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

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

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

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

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

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

Payment shall be excluded, if

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

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

2.3. Remuneration system

In compliance with Section 117 to 121 of the Credit Institutions Act on remuneration policy and the Government Decree issued relating to its implementation, furthermore the related Recommendation of the Central Bank of Hungary (MNB), the management body in its supervisory function shall adopt and periodically review the general principles of the remuneration policy of the Company and the management body in its managerial function shall be responsible for overseeing its implementation, and the implementation of the remuneration policy is, at least annually, subject to review by the credit institution's department of internal control.

3. Key personnel – Optional Remunerations for employees

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

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

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

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

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

5. Key personnel – Principles of Remunerating Officers

Determination of the remuneration of Officers shall fall to the exclusive scope of competence of the General Meeting. The amount of the remuneration shall be fixed and payable monthly. The remuneration of Officers shall be determined in a manner to ensure that the rate of remuneration reflects the degree of responsibility, does not put a significant strain on the Company, is proportionate to the job performed by the Officer, to the economic performance of the Company in the preceding year and the number of employees, furthermore it should also be in line with his/her social prestige, his/her position and role in the economic sector. Based on the specific decision of the Board of Directors, the Company may grant the use of a car owned by the Banking group and a business card to particular members of the Board of Directors of the Company, for carrying out a special duty, in compliance with the all time valid internal regulations and tax regulations.

6. Closing Provisions

The General Meeting of the Company has the competence to adopt these Principles. The effective date of these Principles shall be the date of approval set in the Resolution of the General Meeting.

These Principles shall be published at the official website of the Company (www.fhb.hu).

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 12

Approval of the amendment of the Rules of Procedure of the Supervisory Board

Proposal

Approval of the amendment of the Rules of Procedure of the Supervisory Board

According to Section 3:122.§ (3) of Act V of 2013 on Civil Code the Supervisory Board shall establish its own rules of procedure, subject to approval by the business association's supreme body; point 15.5 of the Statutes contains the same provision. Therefore the General Meeting of FHB Mortgage Bank Co. Plc. („Company") shall approve with its resolution the initiated amendment of Rules of Procedure of the Supervisory Board.

The Board of Directors of the Integration Organisation and the Board of Directors of the Bank of Hungarian Savings Co-operatives Pte. Ltd, as the central bank (hereinafter as: the "Savings Bank"), in their resolutions under no. 57/2017. (03.21.) and IG-4/11/2017, respectively, decided to issue new sample statutes to the cooperative credit institutions, and as a result, the sample to be applied for public companies limited by shares was also amended and published. The Integration Organisation and the Savings Bank notified the Company by sending to it the amended sample statutes.

Pursuant to Article 17/H (2) of Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy, if new sample statutes are issued, the cooperative credit institution shall be obliged to amend its statutes accordingly, within 60 days at the latest, and this amendment affects the operation of the Supervisory Board as well.

Therefore the Supervisory Board amended its Rules of Procedure with that condition precedent, that the General Meeting adopts the proposed amendment of the Statute, hence the amended Statutes and Rules of Procedure could be in line with each other.

The Rules of Procedure in consolidated structure with the amendments is attached to this proposal.

Proposed resolution
to Item nr. 12 on the Agenda

The General Meeting approves the amendment of the Rules of Procedure of the Supervisory Board decided by the resolution no. 13/2017. (04.04) of the Supervisory Board in accordance with the annex of the proposal.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 13

Recall of member(s) of the Board of Directors and election of new member(s) of the Board of Directors

Budapest, 26 April 2017, 2.00 p.m.

Rules of Procedure

of the Supervisory Board of FHB Mortgage Bank Plc.

(Consolidated version with the provisions on the operation of the Audit Committee included)

Budapest, ~~9 November 2015~~26 April 2017

1. General provisions

In line with the provisions of Act V of 2013 on the Civil Code (hereinafter as: Civil Code), the Supervisory Board shall supervise the management of FHB Mortgage Bank Plc. (hereinafter: the Company) on behalf of the General Meeting.

It shall operate and perform its activities primarily on the basis of the Statutes of the Company, the Civil Code, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (the Credit Institutions Act), Act CXX of 2001 on the Capital Market (hereinafter referred to as: the Capital Market Act); Act XXX of 1997 on Mortgage Banks and Mortgage Bonds; Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter referred to as: the "Integration Act")and the other legislation applicable to the Company, and these Rules of Procedure.

2. The organisational structure of the Supervisory Board, the establishment and termination of Supervisory Board membership

2.1. All persons of full age may become members of the Supervisory Board whose capacity to act has not been limited in respect of actions required for the fulfilment of their duties. The persons subject to any grounds for exclusion in terms of the position of executive officers, as set forth in ~~Article 3:21(1) of the~~ Civil Code, may not be elected as members of the Supervisory Board nor the persons who qualify or whose relative as per Article 8:1(2) of the Civil Code qualifies as an executive officer of the Company pursuant to ~~Article 3:21(1) of the~~ Civil Code.

2.2. The Supervisory Board shall be made of a minimum of three and a maximum of nine members. Supervisory Board members shall be elected by the General Meeting, for a maximum period of five years. If the number of full time employees of the Company exceeds two hundred on an annual average, one third of the Supervisory Board members shall be made of the employees' representatives. The employees' representatives acting in the Supervisory Board shall be elected by the Workers' Council out of the employees.

2.3. Members of the Supervisory Board (with the exception of employee members delegated by the Workers' Council) may be removed at any time and may be re-elected after the expiration of their appointment.

2.4. The person elected as member of the Supervisory Board shall, within 15 days of accepting the position, inform in writing those business associations where he is already a member of the respective supervisory board. If a person becomes an executive officer or a supervisory board member in another business association during his term as supervisory board member at the Company, he shall notify the chairman of the Supervisory Board within 15 days of accepting such position. If the chairman of the Supervisory Board finds that there is a conflict of interest between such positions, he shall immediately request the given member to terminate that position. If the member concerned fails to meet such request within 30 days, the chairman of the Supervisory Board shall inform the shareholders about that fact.

2.5. Supervisory Board membership shall cease upon the expiration of the mandate, the removal of the Supervisory Board member, the occurrence of statutory grounds for disqualification, resignation, the death of the member, restriction of the member's capacity to act to such an extent which affects his activities in the Supervisory Board, the occurrence of any grounds for exclusion or conflict of interest regarding the member, or in case of an employee member the termination of his/her employment relationship.

2.6. Members of the Supervisory Board may resign from their membership by submitting a written declaration addressed to the chairman of the Board of Directors of the Company. However, if so required for the sake of proper operation of the Supervisory Board – including, in particular, if due to resignation, the actual number of Supervisory Board members should fall below three – such resignation shall only take effect on the sixtieth day after announcement thereof, unless the General Meeting has already provided for the election of the new member within that period of time.

3. The chairman of the Supervisory Board and his responsibilities:

3.1. Members of the Supervisory Board shall elect a chairman from among themselves~~ with the provision that the prior consent of the board of directors of the Savings Bank shall be required for the election of the chairman in accordance with Article 15(12) of the Integration Act~~.

3.2. Members of the Supervisory Board participate at the General Meeting in an advisory capacity, where the findings of the Supervisory Board are presented by the chairman.

3.3. The chairman shall convene the General Meeting if the number of members of the Supervisory Board falls below three.

3.4. According to the Statutes of the Company, the chairman, or a member of the Supervisory Board appointed by him, may participate at the meetings of the Board of Directors as a permanent invitee, in an advisory capacity.

3.5. If the chairman's mandate expires, the Supervisory Board, having regard Article 3.1, shall elect a new chairman. To that end, the Company's management or any member is entitled to convene a meeting of the Supervisory Board.

4. The competence and duties of the Supervisory Board:

4.1. The Supervisory Board supervises the management of the Company. As part of this activity, it may request reports or information from the members of the Board of Directors or the employees of the Company, and may examine the documents and books of the Company or may commission experts to examine such documents. The Company provides access for the Supervisory Board to the information concerning the risks of the credit institution, the risk control function, and the opinions of third party experts. During its activities, if justified, the Supervisory Board may use external experts, if needed, at the expense of the Company. The Supervisory Board shall keep itself informed on a continuous basis of the performance of the annual plan as approved by General Meeting, for which the necessary information shall be provided by the Board of Directors.

4.2. The Supervisory Board is obliged to examine the financial statements prepared according to Act C of 2000 on Accounting, the proposal regarding the distribution of after-tax profits, as well as all other submissions that are related to issues within the competence of the General Meeting. The findings of this examination shall be presented by the chairman of the Supervisory Board. The General Meeting may only adopt a valid resolution regarding the financial statements prepared according to the Accounting Act and the distribution of after-tax profits in the possession of the written report of the Supervisory Board.

4.3. The duties of the Supervisory Board – in addition to the above – include in particular:

4.3.1. Ensuring that the Company has a comprehensive audit system, one that is suitable for effective operation;

4.3.2. Evaluation of the operation of the financial reporting system and making recommendations regarding any necessary arrangements;

4.3.3. Making recommendations to the General Meeting regarding the ~~person of the~~ auditor as a company, or a human being; and his/her/its remuneration~~, preparing the auditor's contract~~ on basis of the preliminary proposal of the management ~~based~~ and~~on~~ the Audit Committee's recommendation;

4.3.4. Monitoring the auditor's compliance with the professional requirements,~~ and~~ conflict of interest, and requirements on his/her/its independence~~rules regarding the auditor~~, taking care of activities related to the cooperation with the auditor, monitoring other services provided by the auditor to the Company in addition to the audit of the financial statements according to the Hungarian Accounting Act, furthermore – if required – making proposals to the Board of Directors on taking certain actions~~performing the duties related to the cooperation with the auditor~~;

4.3.5. Commenting the financial statement prepared according to the Accounting Act and monitoring its audit;

4.3.6. Supervision of the Company's annual and interim financial statements;

4.3.7. Managing the Internal Auditor Organisation, including:

(a) approval of the annual audit plan of the Internal Audit Organisation,

(b) discussion of the reports prepared by the Internal Audit Organisation at least every six months, and verification of the implementation of the necessary measures,

(c) assisting the work of the Internal Audit Organisation by engaging the services of an external expert, if necessary,

(d) making recommendations regarding the modification of the headcount of the Internal Audit Organisation;

4.3.8. Preparation of recommendations and proposals based on the findings of the audits of the Internal Audit Organisation;

4.3.9. Through the Internal Audit Organisation, continuous checking and monitoring of the compliance of the application of the Bank's methods and systems applied for purpose of meeting the capital requirements prescribed by law;

4.3.10. Monitoring the effectiveness of the subsystems of the internal controlling lines apart from the internal audit (i.e. risk management, compliance function) and evaluation thereof at least once a year.

4.3.11. Discussing of Corporate Governance Report.

~~4.3.10.~~4.3.12. Helping the work of the Board of Directors in order to properly audit the financial reporting system

~~4.3.11.~~4.3.13. ~~Annually – in connection with the inspection of the internal auditing – reviewing the operation of the~~ Acceptance and review of rules of the remuneration policy ~~in the given period. Should any serious irregularity be found, the Supervisory Board shall report this at the following General Meeting~~ of the Company.

4.4. The Supervisory Board is entitled to assign audit duties for the Internal Audit Organisation, in addition to the annual audit plan.

4.5. Prior consent is required from the Supervisory Board for decisions made regarding the establishment and termination of the employment of managers and employees of the Internal Audit Organisation, and regarding the determination of their remuneration.

4.6. The Supervisory Board shall act as a body. The Supervisory Board may entrust any of its members to fulfil certain supervisory tasks, or may divide supervisory duties among its members on a permanent basis. Such division of supervisory duties shall not affect the responsibility of the Supervisory Board member, or his right to extend his supervision to other activities falling within the supervisory duties of the Supervisory Board.

4.7. If the Supervisory Board becomes aware of any fact or omission or failure that violates the law, the Statutes of the Company or any resolutions of the General Meeting, it shall immediately inform the Board of Directors of such event. If, in the judgement of the Supervisory Board, the activity of the Board of Directors or of the management violates the law, the Statutes of the Company or any resolutions of the General Meeting, or otherwise infringes the interests of the Company or its shareholders, the Supervisory Board shall convene an extraordinary General Meeting and shall propose its agenda.

4.8. The Supervisory Board shall establish its rules of procedure itself, subject to the rules stipulated in the Statutes, which shall be approved by the General Meeting. ~~The Supervisory Board shall send its~~

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

4.9. The chairman of the Supervisory Board shall – within ten days following the meeting of the Supervisory Board – send to the National Bank of Hungary, acting within its competence of supervising the financial intermediary system (hereinafter as: Supervisory Authority) those minutes of meetings, submissions and reports that are related to such agenda items discussed by the Supervisory Board that address any serious violation of the Company's internal regulations or serious irregularity in the management or governance of the Company.

4.10. The Supervisory Board, or its chairman, may propose in writing, via the chairman of the Board of Directors, that the meeting of the Board of Directors be convened and specific topics be put on its agenda.

5. The rights and obligations of the members of the Supervisory Board

5.1. Members of the Supervisory Board may exercise their rights and obligations only in person, representation is not allowed.

5.2. Members of the Supervisory Board may not be instructed in their capacity as Supervisory Board members by the Board of Directors.

5.3. Members of the Supervisory Board may participate at the General Meeting in an advisory capacity~~, and may propose its agenda~~.

5.4. Members shall treat information received regarding the business of the Company as confidential information.

5.5. Members of the Supervisory Board shall comply with the legislation concerning the prohibition of insider trading. Members of the Supervisory Board shall not use, transfer or make known to unauthorised persons any information related to the operation and the customers of the Company that has become known to them in connection with their position in the Supervisory Board.

5.6. Members of the Supervisory Board shall announce to the Board of Directors of the Company shares in their possession issued by the Company.

5.7. Immediately after the transaction, the members of the Supervisory Board shall announce to the Supervisory Authority any and all transactions they entered into in person or by proxy involving shares issued by the Company or other financial instruments whose value is dependent on the value or the share price of such shares. The Supervisory Board member shall be obliged to notify the Company immediately about any transaction exceeding the transaction limit specified in the Capital Market Act, within two days the latest.

Such notification shall include:

- name of the concerned member,
- reason for the notification obligation,
- name of the concerned issuer, i.e. the name of the Company,
- description of the financial instrument involved in the transaction,
- quantity of the financial instrument involved in the transaction,
- price of the financial instrument involved in the transaction,
- nature of the transaction (such as sale or purchase),

- date and place of the transaction,
- name of the investment company or credit institution who carried out the transaction.

5.8. Members of the Supervisory Board shall immediately make an announcement to the Supervisory Authority if

a) they are elected as members of the Board of Directors or the Supervisory Board at another financial institution, or if they terminate such a position,

b) they acquire a qualifying holding in an enterprise, or if they terminate such a holding,

c) the criminal proceeding set forth in the Credit Institutions Act is brought against them.

5.9. Members of the Supervisory Board shall bear liability, according to the rules of civil law, for any damage caused to the Company resulting from violating their supervisory duties.

6. Operation of the Supervisory Board

6.1. The Supervisory Board shall prepare an annual or semi-annual work plan and perform its activities on the basis of that plan.

6.2. The chairman may invite to the meetings of the Supervisory Board the auditor or a representative of the Supervisory Authority.

6.3. The Supervisory Board shall hold a meeting when necessary, but at least every 3 months. The Chairperson of the Supervisory Board shall be entitled to convene the meeting of the Supervisory Board at any time. Any member of the Supervisory Board may request the chairman to convene the meeting of the Supervisory Board in writing, by indicating the reasons and goal thereof, and the chairman, within 10 (ten) days, shall take all measures which are necessary for the convocation of the Supervisory Board meeting to a date within 30 (thirty) days. If the chairman fails to convene the Supervisory Board meeting pursuant to the above, the member shall become entitled to do so. The convocation of the Supervisory Board may also be requested in writing by the chairman or two members of the Board of Directors.

6.4. The meetings shall be convened by the chairman by a written invitation sent in an electronic message (e-mail) or in the form of a deed, at least 8 (eight) business days before the date of the meeting. The Integration Organization and the ~~Savings~~ Central Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, sent simultaneously with sending the invitation to the members, but at least 5 (five) business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the ~~Savings~~ Central Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members are present at the meeting or the representative of either the Integration Organization or the ~~Savings~~ Central Bank is present ~~as invited~~ at the meeting, or if the members or other invitees not present in person at the meeting participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and unanimously consent to discuss the matter not included amongst the agenda items. The authorized representatives of the ~~Savings~~ Central Bank and the Integration Organization shall be entitled to attend the Supervisory Board meetings with the right of consultation. The Supervisory Board may not adopt a valid resolution if the above obligations are breached.

6.5. At the meetings of the Supervisory Board, in addition to its members – based on the decision of the chairman of the Supervisory Board – experts and other parties may be present in an advisory capacity, if their presence is necessary for a given point on the agenda.

6.6. The chairman of the Board of Directors and, the Chief Executive Officer or the person appointed by him/her representative may, the continuing auditor shall be entitled to attend the Supervisory Board meeting with a right of consultation; the continuing auditor must attend the Supervisory Board meeting if the Supervisory Board so requests. The Supervisory Board shall be obliged to put the agenda all matters proposed to be discussed by the continuing auditor.

6.7. The Supervisory Board shall have a quorum if two thirds of its members but at least 3 members are present. The Supervisory Board shall adopt its resolutions by simple majority, through open ballot. If so requested by any member, the chairman may order a secret ballot prior to adopting a resolution. The Supervisory Board has no quorum if the Integration Organization and the ~~Savings~~ Central Bank have not been invited to the Supervisory Board meeting at least 5 business days before the meeting by an invitation to which all materials, proposals relevant to the agenda items have been attached.

6.8. Minutes shall be prepared of every Supervisory Board meeting, which shall include:

- place, date and time of the Supervisory Board meeting,
- names of the participating members of the Supervisory Board,
- names of the submitters,
- the motions put forward,
- the decisions made, and objections against such decisions,
- the number of votes for and against the motions.

The minutes shall record all facts or opinions that were put forward by the members. Any minority or dissenting opinions, or objections must be recorded in the minutes in every case, or they shall be attached to the minutes in writing. The result of the voting shall be recorded, along with the opinions of those voting against a motion. The minutes shall be prepared within 15 days after the meeting. The minutes shall be authenticated by the chairman and he shall send it to the members~~ and to those persons who were invited to the meeting~~.

Members of the Supervisory Board ~~and other invitees~~ may participate in the meetings of the Supervisory Board by means of broadcast of electronic communications devices, the detailed rules of which is set out in point 6.11.

6.9. Outside of meeting – without calling and holding a meeting – ~~T~~the Supervisory Board may only adopt a valid resolution by telephone, facsimile, email ~~and~~ or in any other similar way if more than half of the members of the Supervisory Board ~~put their votes in a private deed with full probative force and~~ send their votes~~it~~ to the registered office of the Company within two working days after sending them the request and the related documents (especially the proposals and voting sheets). The provisions set out in Article 6.4 shall be appropriately applicable in respect of resolutions adopted outside of a meeting, with the provision that in case the ~~Savings~~ Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Supervisory may not adopt valid resolutions in case of breach of these obligations. Parallel to the notification of the Integration Organization and the Central Bank, the related documents shall be made available to the members of the Supervisory Board, but the request for voting shall be sent two working days before the day, on which the resolution in compliance with the above provisions can be passed earliest.

6.10. Resolutions of the Supervisory Board shall be filed with each resolution equipped with a consecutive number and the year indicated. Administrative duties related to the operation of the Supervisory Board shall be performed by the Company's organizational unit in charge of secretarial duties.

6.11. Members of the Supervisory Board and other invitees may participate in the meetings of the Supervisory Board through conference call or other electronic communications devices if all participants present are able to communicate directly with each other at the same time. This participation is considered as personal attendance and shall be indicated in the minutes.

7. Special Rules Applied for the Operation of the Audit Committee

7.1. The rules applicable for the operation of the Supervisory Board shall be applied for the operation of the Audit Committee respectively, unless stipulated otherwise in this Chapter.

7.2. The Audit Committee shall be made of at least three and at most nine persons. Members of the Audit Committee shall be elected by the General Meeting from among the independent members of the Supervisory Board, for a period of maximum five years.

7.3. The Audit Committee shall assist the Supervisory Board in checking the financial reporting system, selecting the auditor, and cooperating with the auditor. Accordingly, the competence of the Audit Committee shall include:

a) commenting the financial statement prepared according to the Accounting Act and monitoring its audit;
b) making a recommendation to the Supervisory Board regarding the appointment of the auditor;
c) ~~supporting the preparation of the contract to be concluded with the auditor;~~
d) monitoring the auditor's compliance with the prescribed professional and conflict of interests related requirements, taking care of activities related to the cooperation with the auditor, including especially the reviewing and monitoring of other services provided to the Company, and – if required – making proposals to the Supervisory Board on taking certain actions;
e) evaluating the operation of the financial reporting system and monitoring the processes thereof, as well as making recommendations on taking any necessary actions;
f) monitoring the efficiency of the internal auditing and the risk management systems of the Company; and
g) supporting the work of the Supervisory Board in order to properly audit the financial reporting system.

7.4. The Audit Committee shall have at least two meetings every year, and one of the meetings shall be held prior to publication of the motions for the annual ordinary General Meeting of the Company. If the Audit Committee and the Supervisory Board – at least partly – have the same members, the meetings of the Audit Committee can be held together with the meetings of the Supervisory Board.

7.5. The Audit Committee may propose to the Supervisory Board the amendment of that Chapter of these rules of procedure which applies to the Audit Committee, and the Supervisory Board shall be obliged to support such proposal, unless it violates the law.

7.6. In addition to the events specified in these rules of procedure, the Audit Committee membership shall be terminated when the Supervisory Board membership is terminated.

The Supervisory Board of FHB Plc. approved the amendment of these rules of procedure by its Resolution no. [...] according to the above provisions, in a consolidated version (with amendments included) and this was approved by the General Meeting of the Company by its Resolution no [...].

Budapest, 26 April 2017

~~Csaba Lantos~~dr. Zsolt Harmath
Chairman of the Supervisory Board

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER’S MEETING

No. 14

Recall of member(s) of the Supervisory Board and election of new member(s) of the Supervisory Board

Budapest, 26 April 2017, 2.00 p.m.

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 15

Recall of member(s) of the Audit Committee and election of the new member(s) of the Audit Committee

FHB MORTGAGE BANK CO. PLC
GENERAL SHAREHOLDER'S MEETING

No. 16

Miscellaneous