



FHB Mortgage Bank Plc.

**Half-year financial report for the first half of
2017**

Budapest, 17 August, 2017

I. SUMMARY CONSOLIDATED FIGURES AND TREND OF KEY PERFORMANCE INDICATORS

in HUF million	30/06/2016	31/12/2016	31/03/2017	30/06/2017	30/06/2017/ 31/03/2017	30/06/2017/ 31/12/2016	30/06/2017/ 30/06/2016
Main balance sheet items							
Total assets	617,647	593,404	575,145	574,588	-0.1%	-3.2%	-7.0%
Refinanced loans	73,783	31,423	43,708	56,884	30.1%	81.0%	-22.9%
Loans (gross)	313,982	318,326	320,509	318,648	-0.6%	0.1%	1.5%
Mortgage bonds	148,512	143,131	158,501	161,658	2.0%	12.9%	8.9%
Senior unsecured bonds	45,682	39,143	20,756	19,245	-7.3%	-50.8%	-57.9%
Customer deposits	290,301	297,072	289,548	284,508	-1.7%	-4.2%	-2.0%
Shareholders' equity	71,057	57,602	58,137	57,530	-1.0%	-0.1%	-19.0%

in HUF million	Q2 2016	Q1 2017	Q2 2017	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016	H1 2016	H1 2017	H1 2017 / H1 2016
Main P/L items								
Net interest income	3,502	3,448	3,464	0.5%	-1.1%	6,976	6,912	-0.9%
<i>Net interest margin</i>	<i>2.07%</i>	<i>2.39%</i>	<i>2.42%</i>	<i>0.02%-pt</i>	<i>0.35%-pt</i>	<i>2.06%</i>	<i>2.39%</i>	<i>2.79%-pt</i>
Net fees and commissions	1,906	1,948	1,718	-11.8%	-9.9%	3,610	3,666	1.5%
Net operating income	5,405	5,601	4,407	-21.3%	-18.5%	10,771	10,007	-7.1%
Provision for impairment on loan losses	-413	-598	592	-	-	-2,000	-6	-99.7%
Operating cost	-4,952	-4,666	-5,101	9.3%	3.0%	-9,556	-9,768	2.2%
<i>Cost to income ratio</i>	<i>91.6%</i>	<i>83.3%</i>	<i>115.8%</i>	<i>32.4%-pt</i>	<i>24.1%-pt</i>	<i>88.7%</i>	<i>97.6%</i>	<i>-</i>
<i>Cost/income ratio w/o special banking tax</i>	<i>86.8%</i>	<i>79.5%</i>	<i>109.2%</i>	<i>29.6%-pt</i>	<i>22.3%-pt</i>	<i>84.1%</i>	<i>92.7%</i>	<i>8.6%-pt</i>
Profit before tax	39	336	-103	-	-	-785	233	-
Profit after tax	-268	279	-121	-	-55.1%	-1,546	158	-
Profit after tax w/o special banking tax and other one-offs	-81	724	973	34.4%	-	-791	1,697	-
<i>Basic EPS (HUF)</i>	<i>-6.08 Ft</i>	<i>11.01 Ft</i>	<i>-7.38 Ft</i>	<i>-</i>	<i>21.5%</i>	<i>-10.35 Ft</i>	<i>1.76 Ft</i>	<i>-</i>
<i>Return on Assets</i>	<i>-0.16%</i>	<i>0.19%</i>	<i>-0.08%</i>	<i>-</i>	<i>-47.0%-pt</i>	<i>-0.46%</i>	<i>0.05%</i>	<i>0.5%-pt</i>
<i>Return on Equity</i>	<i>-1.2%</i>	<i>2.0%</i>	<i>-0.8%</i>	<i>-</i>	<i>-30.6%-pt</i>	<i>-8.8%</i>	<i>0.6%</i>	<i>9.4%-pt</i>
<i>ROAA w/o special banking tax and other one-offs</i>	<i>-0.05%</i>	<i>0.50%</i>	<i>0.68%</i>	<i>35.8%-pt</i>	<i>-</i>	<i>-0.23%</i>	<i>0.59%</i>	<i>0.8%-pt</i>
<i>ROAE w/o special banking tax and other one-offs</i>	<i>-0.4%</i>	<i>5.1%</i>	<i>6.7%</i>	<i>32.3%-pt</i>	<i>-</i>	<i>-4.5%</i>	<i>5.9%</i>	<i>10.4%-pt</i>

II. REPORT ON THE FIRST HALF-YEAR RESULTS OF FHB GROUP IN 2017

The report of FHB Mortgage Bank Public Co Plc. for the first half-year of 2017 is based on the data of the consolidated balance sheet and profit and loss account prepared according to the International Financial Reporting Standards (IFRS). The Group performed the analysis of its operation based on the consolidated, audited figures as of 31 December 2016, non-audited figures as of June 30 2016, March 31 2017, June 30 2017.

The Group accounted the entire amount of special banking tax prescribed for 2017 according to IFRS pursuant to the provisions of Act LIX of 2006. The Group accepts and does not dispute this amount set by law, the Group is obliged to pay during the course of the year 2017 the full amount. However, in order to present the impacts of actual operation, the analysis and comparative indicators of interim reports are based on the adjusted financial statements that include special banking tax pro rata.

To provide comprehensive information for investors, appendix of this interim report presents the financial statements including the special banking tax for the entire business year and the financial statements that include special banking tax pro rata, as well.

1. Summary of the achievements of the past period

FHB Banking group closed the first half of 2017 with **HUF 158 million profit after tax**. Compared to the first quarter's positive result, loss of the second quarter was due to one-off items (main items are banking tax, non-shifted part of financial transaction duty and impairment on share in associate). The second quarter result would have been positive without the one-off items.

Lending

By the end of the second quarter of 2017 the **consolidated refinanced loan portfolio increased to HUF 56.8 billion** from 43.7 billion compared to the end of the first quarter of 2017, the number of loans disbursed increased to 30,180 from 28,471 respectively. **In June 2017 the total refinanced loan portfolio is distributed among 10 banks**, the FHB Mortgage Bank has the most refinanced bank partner in 2017 since its establishment.

The lending volume developed favourable compared to the first quarter of 2017. New retail lending volume of HUF 6.3 billion shows a 21.0% increase compared to the previous quarter, of which nearly **HUF 4.6 billion disbursement of retail mortgage loans increased** by HUF 661 million compared to the previous quarter and exceeded **by 15.0% the volume a year before**. **The volume of disbursed corporate loans of HUF 13.2 billion** reflects a **36.0% expansion** quarter-on-quarter.

Gross loans amounted to HUF 318.6 billion as of June 30, 2017, showing HUF 4.6 billion increase compared to June 30, 2016.

Due to the increasing new loan disbursements and the continuing measurements for portfolio cleaning, the quality of the loan portfolio improved further. Rate of non-performing loans (**NPL ratio**) **dropped to 9.0%** by the end of June 2017 from 9.8% as of the previous quarter, representing 0.8%-points improvement compared to the previous quarter and 3.6%-points improvement from the 12.6% level on June 30, 2016. Coverage of non-performing portfolio was 69.8% at the end of the first half.

Savings

Within savings managed by members of the Bank Group, the volume of savings managed by Magyar Posta Takarékszövetkezet Real Estate Fund increased in the second quarter, retail deposits slightly decreased, which was not compensated by the growth of corporate deposits.

Consolidated IFRS deposit volume amounted to HUF 284.5 billion at the end of June, showing a decrease of HUF 5.1 billion compared to the end of the previous quarter. Volume of corporate deposits increased by 0.8% or by HUF 1.2 billion, while the volume of retail deposits declined by 4.9% by the end of the second quarter. The volume of Postal deposits still represents a notable share in retail deposits with its volume of HUF 39.8 billion, showing quarterly shrinking of 6.6% and 11.3% growth compared to the same period of previous year. The **number of current accounts opened in the Hungarian Post's network moderated to 67.5 thousand** by the end of the quarter. Volume of – **non-consolidated – total savings managed** by the members of FHB Group amounted to **HUF 923 billion** as of June 30, 2017, of which client's security portfolio under management by **Magyar Posta Investment Ltd. (MPBSZ) exceeded HUF 182.1 billion** by the end of the quarter growing by 0.9% quarter-to-quarter and by **24.2% on an annual basis** (of which it was a growth in balance of government bonds with 20% and of investment funds with 49%). The number of securities and investment accounts managed by the company was close to 57.5 thousand at end of June, 2017. The net asset value of **investment funds** under management of **Diófa Asset Management Ltd.** increased by 9.2% compared to the previous quarter. Net asset value of **Magyar Posta Takarékszövetkezet Real Estate Fund** reached **HUF 173 billion** at the end of June representing nearly 38% of the value of total net assets managed by Diófa Asset Management. The total net assets value of funds and other portfolios managed by Diófa Asset Management Ltd. amounted to HUF 460.8 billion by the end of the first half of 2017.

FHB Group's consolidated total assets amounted to HUF 574.6 billion on June 30, 2017 that is lower by 0.1% compared to the previous quarter and by 7.0% or HUF 46.1 billion compared to the total assets as of 30 June 2016.

Main P&L items

The Banking Group's **net interest income** amounted to HUF 3.5 billion in the second quarter, which is 1.1% lower than a year before and 0.5% higher than in the first quarter of 2017. **Net interest margin** to average total assets increased slightly from 2.39% at the first quarter of 2017 to 2.42% by the end of the first half of 2017 due to the fall in the volume of average total assets.

Net fees and commissions amounted to HUF 1.7 billion, due to the raise in fee incomes from mortgage loans, fund management services, guarantee fees, and cardservices while declined the fee incomes from bankaccounts, and direct debit orders. The shrinkage of net fees and commissions is mainly caused by the fee expense which includes the result of the termination of a swap before its maturity which occurred in the second quarter.

Operating costs amounted to HUF 5.1 billion in the second quarter of 2017, which include that severance payment, for which the Group made a provision at the end of 2016. The proportional provision reversal amounted to HUF 168 million in the second quarter.

The extent **cost of risk** is significantly influenced by the costs related to portfolio cleaning and the reversal of provision which is driven by the derecognition of terminated FX loan commitments. In the second quarter of 2017 its effect on profit is HUF + 592 million, which is significant change compared to the second quarter of 2016 and to the first quarter of 2017. The volume of impairment decreased by 11.46% or by HUF 2.6 billion compared to the previous quarter in line with the improving NPL ratio and decreasing NPL volume.

The loss derives from associates amounted to 1,156 HUF million in the second quarter due to a consolidation adjustment for the sale of an entity which was consolidated with equity method and for which the Bank made HUF 1.3 billion impairment. This adjustment does not appear in the HAS based separate accounts of FHB Mortgage Bank therefore it has no effect on HAS based results as at 30 June, 2017. The transaction is expected to be closed by the third quarter of 2017. The separated HAS result of FHB Mortgage Bank is expected to be positively affected by the closure of the transaction. Among the companies in the scope of consolidation the result of **Diófa Asset Management Plc.** is still noteworthy, which closed the second quarter with HUF 200 million profit after tax according to Hungarian Accounting Standards.

The Group's IFRS consolidated profit before tax without the special banking tax and other one-off items was HUF 973 million gain in the second quarter of the year.

Capital position

The Hungarian National Bank - in accordance with the request from the Integrational Organization of Cooperative Credit Institutions (SZHISZ) the Magyar Takarékszövetkezeti Bank Ltd. (Takarékbank), the FHB Mortgage Bank and the FHB Commercial Bank – issued the H-EN-I-36./2017. ruling to grant exemption for FHB Group from the individual and subconsolidated compliance obligations.

The consolidated **regulatory capital of the Integrational Organization of Cooperative Credit Institutions was over HUF 270 billion** at the end of the quarter and the **capital adequacy ratio of the Integration was 21.85%**.

Performance of FHB shares

In terms of capitalisation, FHB is ranked 6th in "Premium" category listed companies on Jun 30, 2017 and contributes with 0.49% to the aggregate capitalisation of the BSE based on 30 June 2017 data.

As of the end of June in 2017, FHB's weight in the BUX index was 0.34%, while in BUMIX, which is the index of share prices of mid- and small-cap companies, it was 7.16%.

The price of FHB Mortgage Bank's shares closed at HUF 525 in the second quarter of 2017 compared to the closing price of HUF 545 on 31 March, 2017. In the second quarter, FHB's share price fluctuated between HUF 516 and 566 vis-a-vis the HUF 513-596 in the previous quarter. However, the share price volatility slightly decreased, at FHB share market the trading activity was more intensive compared to the previous quarter. It was a result of an extraordinary announcement about the ownership structure of the bank during the period. In the same period Takarékbank and 22 saving cooperatives made a take over bid to buy all the shares of FHB Mortgage Bank.

The stock market turnover of FHB shares showed a significant jump (HUF 13.04 billion) compared to the first quarter of 2017 (HUF 1.96 billion). Average daily turnover grew to HUF 213.8 million compared to the average HUF 30.6 million in the first quarter. The daily turnover jump is concentrated to the date of the above mentioned announcements.

2. Strategy of the Banking Group, targets and outlook

The FHB Mortgage and the FHB Commercial Bank integration into the Integration of the Cooperative Credit Institutions begun in Autumn 2015 and expected to be finished by this year. Strengthened cooperation were emphasised by the 2017-2021 Strategy of the Credit Cooperative Integration which was approved by the members in June 2017. As a part of the Strategy the structure of the integration will change. The restructuring will have been mostly implemented by the end of 2017.

The Integration of the Credit Cooperatives will be transformed to a financial group which acting and appearing unitarily and supplying high level and innovative financial services. The function of the central financial institution will be solely performed by Takarékbank; the FHB Mortgage Bank's current group management functions – covering FHB Group members – will be passed over to the Takarékbank. According to the plans, the satellite institutions of the Integration, including the mutual fund management, factoring and leasing service suppliers will be directly subordinated to the Takarékbank.

According to the Strategy, Takarékbank will transfer most parts of its commercial banking activities to the FHB Commercial Bank. Principally only the central treasury and investment services function with the related product development and back office remain at the Takarékbank and similar functions of the FHB Mortgage Bank will be merged. The Strategy defines several functional services, which are supplied by the Takarékbank to the credit cooperatives and the FHB Group on a cost effective way.

2.1 Strategy of the FHB Mortgage Bank

According to the plans FHB Mortgage Bank will operate as an exclusive mortgage function bank from 2018. Its business and direct customer lending activities will be transferred to FHB Commercial Bank (however holding of the previously contracted customer loans in the outstanding portfolio demands business and legal considerations). FHB Group's headoffice functions and the group internal service facilities will be handed over to Takarékbank. The mortgage bank's profile will have been clarified, the issuance and sale of mortgage bond will be emphasised and the bank will refinance the affected mortgage portfolio for external partners and for partners of the integration.

2.2 Strategy of the FHB Commercial Bank

The principal commercial bank of the integration will be a competitor of the large domestic banks in larger cities and Budapest, representing the Takarékbank Group as a high prestige financial institution. It also gives a good supplementation of the saving cooperatives in corporate business line by its ability to provide cross-sales and by organising functions for internal syndicated loan within the integration. The Bank will take primary responsibility for strengthening large corporate segment business, development of service profile and elaborating competitive individual proposals.

The Commercial Bank will become a determinant part of the Integration by its countrywide large-city branch network. Its main targets are to develop of its household services through fulfilling the demands of premium and private banking segment clients.

Integrated principals of the corporate governance are granted by staff overlaps between Takarékbank and FHB Commercial Bank's business management, approved in 2017.

3. Trend of market environment

The Hungarian economy becomes dynamic in the first half of 2017. GDP-growth accelerated to 4.2% year to year in the first quarter, markedly up from 2% that on average characterized year 2016. Domestic and external factors all contributed to faster growth. Of the former it is especially private consumption (fuelled by strong wage growth and heavy job creation in the labour market) and corporate investments that need to be mentioned, although government spending and household spending activity (essentially the development and renovation of residential real estate) have also become more dynamic after several years of being dormant. Of the latter the most important factor is the better than expected economic performance of the European Union, which – through higher demand for exportable Hungarian products and services – also gave a boost to GDP-growth. The sustainability of these favourable trends is expected to be certain on a two to three-year horizon.

In the real estate market, which has crucial importance from the Banking Group's aspect, there is also fairly dynamic growth. The number of newly built flats in the first half of 2017 exceeded 5,000, which is 46% growth compared to the first half of 2016. Based on the number of existing building permits growth is expected to remain strong, albeit a little more moderate. The number of newly issued building permits reached 20,000 in the first half of 2017, approximately 40% more than in the same period of last year. This impressive figure, however, camouflages large regional differences: in Budapest the growth of the number of building permits was higher than 100%, while in villages it amounted to 20% and in smaller towns in the countryside it was 'only' 10%. There is also marked growth in the office and industrial real estate segment, where demand from tenants reached multi-year peak in the first half of this year. Vacancy rates dropped to as low as 8.6% in Budapest's office market and to only 5.5% in the industrial real estate market by the second quarter of 2017.

Driven by the economic upturn and the generally favourable outlook bank lending has considerably strengthened recently. Whereas amortization of the debt accumulated earlier is at a peak in the household segment, new disbursements by now have become sufficient to bring the massive erosion of the outstanding stock of household debt to an end. In the first half of 2017 the banking sector disbursed HUF 324 billion new mortgage-backed loans (housing loans, and other mortgage loans), which is 25% higher than in the same period of 2016. Hence, the stock of this type of debt decreased by only an insignificant amount in the second quarter of 2017, although on an annual basis the decline is still close to 7.8%. Consumer loans, on the other hand, are already on the rise even looking at outstanding stocks. This is mostly due to very fast growth in new personal loans: disbursements in this segment were more than 50% higher in the first six months of 2017 than a year before. Banks provided 40% higher loan commitments to non-financial corporations in the first half of 2017 than in the first half of 2016 and balances also increased in this segment. At the end of June 2017 this stock amounted to HUF 6,136 billion, a healthy 4% increment compared to HUF 5,904 billion, which prevailed at the end of June 2016. In the household segment further rising new loan disbursements are expected to turn the stock of outstanding debt into growth by early 2018, while in the corporate segment growth may be preserved at around the current 4% rate.

4. Main activities and subsidiaries' performance

Own lending

Volume of gross own sale loans of FHB Group amounted to HUF 318.6 billion as of 30 June 2017 decreased by 0.6% compared to the previous quarter's figure (HUF 320.5 billion) while year-on-year the increase was 1.5%. Share of FX based loans in total outstanding loan portfolio was 11.1%, opposite to the percentage in previous quarter and a year before, which was 10.6% and 9.1%, respectively. The share of FX loans within retail loans is remaining stable around 1.0% since the beginning of 2016.

Retail loans remained dominating within the loan portfolio with a contribution of 62.0% (63.0% on 31 March 2017). Retail loans decreased by 2.1% (or by HUF 4.3 billion) and by 7.6% (or by HUF 16.3 billion) quarter-on-quarter and year-on-year, respectively.

in HUF million	30/06/2016	31/12/2016	31/03/2017	30/06/2017	30/06/2017/ 31/03/2017	30/06/2017/ 31/12/2016	30/06/2017/ 30/06/2016
Retail loans	213,826	207,009	201,840	197,513	-2.1%	-4.6%	-7.6%
Housing loans	113,402	112,930	111,871	111,673	-0.2%	-1.1%	-1.5%
Other mortgage loans	85,914	78,852	76,211	72,733	-4.6%	-7.8%	-15.3%
Consumer loans	10,423	11,190	9,832	9,261	-5.8%	-17.2%	-11.1%
Loans for employees	1,293	1,299	1,249	1,181	-5.4%	-9.1%	-8.7%
Retail real estate leasing	2,794	2,738	2,677	2,665	-0.4%	-2.7%	-4.6%
Corporate loans	100,156	111,317	118,669	121,135	2.1%	8.8%	20.9%
Corporate loans	95,339	104,076	107,570	107,163	-0.4%	3.0%	12.4%
Corporate real estate leasing	1,690	2,120	2,113	2,279	7.9%	7.5%	34.9%
Equipment leasing	3,127	5,121	8,986	11,693	30.1%	157.0%	273.9%
Total own lending, gross	313,982	318,326	320,509	318,648	-0.6%	0.1%	1.5%
Impairment	-22,588	-23,853	-22,595	-20,011	-11.4%	-16.1%	-11.4%
Loans, net	291,394	294,473	297,914	298,636	0.2%	1.4%	2.5%
Refinanced loans	73,783	31,423	43,708	56,884	30.1%	81.0%	-22.9%

In the first half of 2017 HUF 11.5 billion retail and HUF 22.9 billion corporate loans have been disbursed; the latter figure is 11% higher than in the same period of 2016. During the second quarter of the year the volume of retail disbursement was HUF 6.3 billion, while the disbursement of corporate loans was HUF 13.2 billion, showing 21.0% and 36.0% growth compared to the first quarter of 2017, respectively. In the first half of 2017 the Bank disbursed HUF 1.1 billion loans to corporate customers within the framework of Funding for Growth Scheme which is 23.3% lower than in the same period of 2016. Among corporate loans the disbursement of fixed purpose loans and of leasings was outstanding (HUF 11.5 billion and HUF 8.0 billion in H1 2017), previous shows 1.0% decrease compared to the same period of the previous year, while latter increased significantly, by HUF 6.2 billion. The disbursement of fixed purpose loans in the second quarter (Q2) increased by 87.0% compared to Q1 2017, while the disbursement of leasings decreased by 12.0%. The most significant retail products were housing loans and personal loans, the disbursement during the first half of the year was HUF 8.6 billion in case of the first product, while in case of the latter it was HUF 1.2 billion. In the first 6 months of 2017 the volume of disbursed housing loans was 37.0% higher than in the same period of 2016. The disbursement of housing loans during the quarter exceeded the volume of Q1 2017 by 17.0%.

In case of Non-Refundable Family Home Creating Benefit ('CSOK') more than 3,100 loan applications had been approved from the introduction in June 2015 until the end of June 2017, from which the number of disbursed loans was nearly 2,400 with a total volume of HUF 7.4 billion. Clients also submitted loan applications besides CSOK in more than 50% of all cases.

Refinancing

In the second quarter of 2017 similarly than in the previous quarter the refinancing activity of FHB Mortgage Bank has been highly active as a result of MFAR (Mortgage funding adequacy ratio) ratio prescribed by relevant regulations. After come into the refinancing agreements, refinancing cooperation commenced with 4 new bank partner and renewed with one existing partner.

By the end of the second quarter of 2017 the consolidated refinanced loan portfolio increased to 56.8 billion from 43.7 billion as at the end of the first quarter of 2017, the number of loans disbursed increased to 30,180 from 28,471 respectively.

The total refinanced loan portfolio is distributed among 10 banks, the FHB Mortgage Bank has the most refinanced bank partner in 2017 since its establishment. FHB Commercial Bank Ltd.'s share in the refinanced loan portfolio was 52.8% at the end of the second quarter of 2017.

During the second quarter of 2017, based on the new agreements 2,912 retail loans were refinanced to 5 partner banks in the amount of HUF 16.7 billion. In this period there was no new offer from the FHB Commercial Bank Ltd.

In connection with the MFAR (Mortgage funding adequacy ratio) indicator effective from 1 April 2017 (20/2015 and 6/2016 NBH decrees), increasing refinancing activity and increasing refinanced portfolio are expected in the next quarter of 2017.

FHB Commercial Bank Ltd.

According to Hungarian Accounting Standards (HAS), total assets of FHB Commercial Bank were HUF 439.7 billion as of 30 June 2017, showing a 0.8% increase compared to a year before (HUF 436.4 billion) and 0.7% decrease compared to the previous quarter.

On 30th June 2017, volume of gross loans according to HAS was HUF 231.3 billion increasing by 6.1% compared to 30 June 2016. Gross loans represented 52.6% of total assets. Corporate loans of FHB Commercial Bank according to HAS – excluding intra-group loans – amounted to HUF 99.7 billion at the end of the period (an equal value compared to the previous quarter), having a share of 43.1% in the total loan portfolio.

Interest bearing liabilities amounted to HUF 400 billion; representing 91.0% of liabilities, showing 2.5% decrease year-on-year and 1.1% decline quarter-on-quarter. According to HAS deposits of HUF 286.3 billion represented 71.6% of interest bearing liabilities, while interbank liabilities represented 25.9% with the amount of HUF 103.7 billion, including refinanced loans from FHB Mortgage Bank, refinancing related to outstanding loans drawn under the Funding for Growth Scheme and a short term loan obtained from the ECB.

Deposits decreased by 2.0% compared to the same period of the previous year and decreased by 1.7% during the second quarter. The volume of retail deposits decreased by 1.0% compared to the end of the previous quarter. Volume of sight deposits amounted to HUF 118.6 billion, representing 41.4% of total deposits. Retail sight deposit increased by 33.6% in one year in accordance with permanently low interest rate trends while term deposit decreased by 13.2%.

At the end of June 2017, the number of retail and corporate accounts managed by the Commercial Bank was almost 188.9 thousand and more than 12.1 thousand, respectively, and 176 thousand retail and 6.8 thousand corporate banking cards related to these accounts. The number of retail current accounts decreased in the comparison of the previous year while the volume of issued retail banking cards increased. During the half year nearly 11,200 pieces of retail accounts have been collectively terminated which contributed to the shrinkage of retail accounts. It occurred mostly as a result of account opening campaign which aimed to close 5,400 inactive accounts and an account rationalising project also had a significant effect on it which aimed to change accounts with obsolete conditions to new account classes and additional 5,700 inactive / overdrawn accounts have been terminated. By the end of June the number of Postal accounts decreased to 67.5 thousand.

According to HAS profit after tax of Commercial Bank within the first half of 2017 was HUF 99.1 million loss. Net results were influenced by the non-shifted part of financial transaction duty (HUF 104.5 million) and by the special banking tax (HUF 344.6 million). Adjusted by above mentioned one-off items, profit after tax of FHB Commercial Bank was accounted to HUF 350 million gain in the first half of 2017.

Net interest income in the first six months of 2017 – in controlling approach – was 19.0% lower than a year before as a result of decreasing interest income (by 20.6%) and decreasing interest expenses (by 24.2%). Net fee and commission income of the Commercial Bank was 8.3% higher than a year before. Operating costs increased by 6.4% compared to the previous quarter, while they grew by 2.4% compared to the first half of 2016.

FHB Real Estate Ltd.

Main business of FHB Real Estate Ltd. is to provide collateral valuation, real estate investment, sales and management services, and real estate valuation services for FHB Group, in addition it provides valuation services, services related to energy certification and real estate agency to external customers.

The real estate collateral valuation business generated HUF 311.5 million revenue in the first half of 2017, which is HUF 177.8 million more than a year before, while real estate agency reached HUF 83.6 million income in the first six months of 2017, which is significantly more than that of the same period in 2016 (HUF 30.2 million).

FHB Real Estate closed in the first half of 2017 with HUF 24.8 million profit after tax. Share capital of the company was HUF 70 million on 30th June 2017, shareholder's equity amounted to HUF 239.7 million.

FHB Lease Ltd.

As of 30th June 2017, the loans and advances to customers volume of FHB Lease Ltd. was HUF 18.9 billion. New disbursements amounted to HUF 8.3 billion in the first half of 2017, of which HUF 7.6 billion derives from the equipment leasing. Leasing portfolio reached HUF 16.1 billion as of 30th June 2017. FHB Lease Ltd. closed the first six months of 2017 with HUF 65.3 million profit according to HAS.

Net interest income in the first half of the year was HUF 214.8 million (it is 35.8% higher than in the first half of 2016, and 14.1% higher than Q4 2016). During the second quarter of the year it accumulated HUF 121.2 million net interest income, lagging behind the second quarter of the year 2016 by 23.4%, but surpassing the number of the first quarter by HUF 27 million. Net fee and commission income was HUF 17.9 million in this quarter. Other result reached HUF 176.9 million in the first half of 2017, exceeding that of the same period in 2016 (HUF 150.9 million) by 18.3%. Volume of non-performing loans in FHB Lease Ltd. was HUF 495.1 million as of 30th June 2017, which is HUF 193.2 million less than in the previous quarter.

Diófa Asset Management Ltd.

In the first half of 2017 Diófa Asset Management Ltd. continued to increase its total managed assets regarding the retail investment funds, which has a positive effect on the financial profitability of the asset manager company. Retail investment funds managed by the Diófa Asset Management Ltd. were popular in the first half of the year, their net asset value grew by almost HUF 44 billion in only the second quarter, while the net growth was HUF 50 billion within a year. Following the market trend the the focus of the retail fund sales at the Diófa Asset Management was on the Magyar Posta Takarékszövetkezet Real Estate Fund, the Magyar Posta Takarékszövetkezet Harmónia Mixed Fund and the Takarékszövetkezet FHB Apollo Equity Fund . The MPT Real Estate Fund alone was able to show a growth of HUF 21.4 billion in the second quarter of 2017 (of which HUF 17 billion was attributed to the household sales and partner campaigns), and its net asset value (NAV) increased to HUF 173 billion, also the MPT Harmónia Mixed Fund increased its assets by HUF 3.4 billion (NAV: HUF 8.9 billion) and the Takarékszövetkezet FHB Apollo Equity Fund grew by HUF 1.5 billion (NAV: HUF 2.6 billion), equivalent to 131% growth within only 3 months.

The MPT Real Estate Fund expanded the Fund's portfolio with a city logistics property, the South Pest Business Park with 90% rental occupancy rate and further development potential. Under the time horizon of the last quarter, the premium wealth management business also developed dynamically.

At the end of the first half of 2017 the total net asset value and other portfolios under management increased to HUF 460.8 billion from HUF 412.9 billion a year before, resulting 11.6% growth. According to BAMOSZ statistics, investment funds market share of Diófa Asset Management increased from 3.5% as of 30th June 2016 to 4.3% by the end of June 2017 (net NAV data), while its market share from wealth management of pension funds reached 14.8%. According to this data, Diófa Asset Management is the 9th largest market participant and 3rd largest pension fund manager in the domestic market.

Asset Management Ltd. closed the first half of 2017 with HUF 333.6 million profit after tax according to HAS, subscribed capital amounted to HUF 196.2 million and shareholders' equity to HUF 783.5 million as 30 June 2017.

FHB INVEST Investment and Real Estate Management Llc.

FHB INVEST Investment and Real Estate Management Llc., which is the direct owner of some investments of FHB Group as a subsidiary of FHB Mortgage Bank dealing with facility management and also real estate lease since 2014.

Share capital of the Company was HUF 636.4 million on 30th June 2017, shareholder's equity amounted to HUF 3.7 billion and profit after tax reached 583.6 million gain (according to HAS) during the first half of 2017 according to HAS.

Joint ventures and associates

Profit before tax of the **Díjbeszedő Faktorház Ltd. (DBF)** was HUF 249.2 million in the first half of 2017 according to HAS. The revenue of enterprise – similarly than in the previous years – principally relates to receivables which are purchased before their maturity. Shareholder's equity of the Company amounted to HUF 5.4 billion at the end of June 2017.

The main activity of **DijNET Ltd.** is operation and development of an electronic bill presentment and payment system. In the first half of 2017, profit after tax (according to HAS) was HUF 20.2 million gain. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 282.7 million as of 30 June 2017.

Díjbeszedő IT Llc. (DBIT), which provides services related to the IT activities of companies belonging to the Díjbeszedő Group, reached HUF 21.2 million profit after tax (according to HAS) in the first six months of 2017. Subscribed capital amounted to HUF 672 million, while shareholder's equity amounted to HUF 727.6 million.

By the end of June 2017, **Magyar Posta Investment Services Ltd. (MPBSZ)** opened about 58 thousand securities and long-term investment accounts to its customers; the savings managed on accounts was HUF 188.9 billion at the end of June 2017, compared to HUF 153.5 billion at the end of June 2016. From this **clients' security portfolio exceeded HUF 182.1 billion** by the end of the first half of the year which means a 0.9% growth compared to first quarter and **24.2% rise on an annual basis** (driven by 20% government bonds and 49% investment funds growth). MPBSZ closed the first six month of 2017 with HUF 109.9 million loss (according to HAS). The company's shareholder's equity was HUF 448.2 million and total assets amounted to HUF 5.4 billion.

Magyar Takarékné Asset Management (MATAK) Ltd.'s result - including net result of Takarékbank and its consolidated subsidiaries - contributed by HUF 484.3 million to the consolidated result of the first six months of 2017 of FHB Group.

Organisational changes and headcount

As of 30th June 2017, the consolidated full-time equivalent (FTE) headcount was 1,005.4, which meant a decrease by 31.2 employees compared to the previous quarter (1036.5), but an annual growth of 28.6 FTEs growth from 976.8 employees. Mainly the Commercial Bank contributed to the reduction of the number of the staff, by 28.0 FTEs within the second quarter. FHB Mortgage Bank reduced the number of its employees by 11.2 FTEs in the last quarter, meanwhile all the other subsidiaries slightly increased the number of their employees (Diófa Asset Manager by 3.9 FTEs, Diófa Real Estate Management by 1.8 FTEs). Aggregated changes did not result sensitive modification within the structure of the employment on group level, but contributed to a 3% fall in employment within the last 3 months.

Headcounts of the Group members were as follows:

	30/06/2016	31/03/2017	30/06/2017	30/06/2017/ 31/03/2017	30/06/2017/ 30/06/2016
FHB Mortgage Bank Plc.	128.8	133.4	122.2	-8.4%	-5.1%
FHB Commercial Bank Ltd.	760.0	787.8	759.9	-3.5%	0.0%
FHB Real Estate Ltd.	8.6	15.5	17.3	11.3%	100.6%
FHB Leasing Ltd.	15.8	18.6	19.2	3.2%	21.2%
Diófa Asset Managemet Ltd.	37.7	46.6	50.5	8.4%	34.0%
Diófa Real Estate Management Llc	11.4	20.0	21.8	8.7%	90.8%
FHB Invest Ltd.	1.1	1.1	1.1	0.0%	2.3%
Hungarian Card Ltd.	13.4	13.5	13.5	0.0%	-
FHB Consolidated	976.8	1,036.5	1,005.4	-3.0%	2.9%

Changes in key position

The Annual General Meeting of the Company held on 26 April 2017 recalled from their position as members of the Board of Directors Mr. Márton Oláh and Dr Erik Landgraf, and elected Edit Erika Tóth and Dr Gyula László Nagy as members of the Board of Directors.

In line with the disclosed and effective resolutions of the General Meeting the new Board of Directors of the Company on its meeting held on 26 April 2017 recalled Mr. Márton Oláh Chief Executive Officer and Dr Erik Landgraf Deputy Chief Executive Officer from their positions.

On the same meeting, the Board of Directors of the Company appointed Dr Gyula László Nagy as Chief Executive Officer and Edit Erika Tóth as Deputy Chief Executive Officer of the Company.

On the meeting of Board of Directors of FHB Commercial Bank Ltd. held also on 26 April 2017 recalled Mr. Márton Oláh Chief Executive Officer and Gábor Tokodi and János Szuda Deputy Chief Executive Officers from their positions.

On the same meeting, the Board of Directors of FHB Bank appointed Mr. Levente László Szabó as Chief Executive Officer (who is also general Deputy Chief Executive Officer of Takarékbank) and appointed as Deputy Chief Executive Officer Mr. Antal Martzy (who is also Deputy Chief Executive Officer of Strategy and Finance in Takarékbank); Ms. Edit Kovács (who is also Deputy Chief Executive Officer of Business Division of Takarékbank) and Ms. Edit Erika Tóth (who is also Deputy Chief Executive Officer of FHB Mortgage Bank).

Post-balance sheet date events

On 31st July 2017 Moody's Investor Service announced that it has upgraded to B1 from B2 the long-term local and foreign-currency deposit ratings of FHB Mortgage Bank Co. Plc. (FHB). Concurrently, the bank's baseline credit assessment (BCA) was upgraded to b3 from caa1, its adjusted BCA was upgraded to b2 from b3 and its long-term Counterparty Risk Assessment (CRA) was upgraded to Ba2(cr) from Ba3(cr). The outlook of the bank's long-term deposit ratings is stable. FHB's short-term Not Prime deposit ratings and Not Prime(cr) CRA are unaffected.

This rating action concludes the review for upgrade initiated on 8 May 2017. The review was prompted by the rating agency's expectation for further gradual improvements in FHB's standalone financial metrics, which together with higher assumption of affiliate support from the Integration Organization of Hungary's Saving Cooperatives (SZHISZ or Integration Organization; unrated) would significantly improve the bank's credit profile.

Magyar Takarékszövetkezeti Bank Zrt. has received valid declaration of acceptance regarding „A” series equity shares (20,092,211 pieces) of FHB Jelzálogbank Nyrt. at the end of Takover Bid (July 31. 2017). According to this Magyar Takarékszövetkezeti Bank Zrt. has 37.74 % direct influence in FHB Jelzálogbank Nyrt., which number includes the owned shares before the Takover Bid.

FHB Kereskedelmi Bank Zrt. has sold its share in Budapest Ingatlan Hasznosítási és Fejlesztési (BIF) Nyrt. At the end of this transaction (July 3, 2017), the FHB Kereskedelmi Bank Zrt. owned BIF shares have reduced to zero.

III. ANALYSIS OF FHB MORTGAGE BANK PLC.'S CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS

1. P&L structure

in HUF million	Q2 2016	Q1 2017	Q2 2017	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016	H1 2016	H1 2017	H1 2017 / H1 2016
Interest income	7,548	5,932	5,960	0.5%	-21.0%	16,072	11,892	-26.0%
Interest expense	-4,046	-2,484	-2,496	0.5%	-38.3%	-9,096	-4,979	-45.3%
Net interest income	3,502	3,448	3,464	0.5%	-1.1%	6,976	6,912	-0.9%
Fees and commissions income	2,280	2,331	2,485	6.6%	9.0%	4,287	4,816	12.4%
Fees and commissions expense	-373	-383	-767	100.3%	105.5%	-676	-1,150	70.1%
Net fees and commissions	1,906	1,948	1,718	-11.8%	-9.9%	3,610	3,666	1.5%
Foreign exchange gains, net	491	140	185	32.6%	-62.3%	410	325	-20.7%
Fair value adjustment	-307	117	683	-	-	-197	801	-
Gain on securities, net	-72	410	331	-19.2%	-	1,040	741	-28.7%
Net result of investment services	25	15	4	-73.9%	-84.5%	156	18	-88.2%
Net financial (trading) result	136	681	1,204	76.6%	-	1,409	1,885	33.8%
Other operating income	1,663	515	706	37.1%	-57.5%	2,386	1,221	-48.8%
Other operating expenses	-1,999	-1,361	-1,529	12.4%	-23.5%	-4,005	-2,890	-27.8%
o/w special banking tax & one-off PTI	-299	-267	-267	0.0%	-10.7%	-598	-534	-10.7%
Other results	-337	-846	-823	-2.7%	144.5%	-1,618	-1,669	3.1%
Net income of associated companies	197	369	-1,156	-	-	394	-787	-
Total non-interest income (with net fees)	1,903	2,153	942	-56.2%	-50.5%	3,795	3,095	-18.4%
Net operating income	5,405	5,601	4,407	-21.3%	-18.5%	10,771	10,007	-7.1%
Net operating income w/o provisions	5,405	5,601	4,407	-21.3%	-18.5%	10,771	10,007	-7.1%
Provision for impairment on loan losses	-413	-598	592	-	-	-2,000	-6	-99.7%
Personnel expenses	-1,924	-2,072	-2,268	9.4%	17.8%	-3,773	-4,340	15.0%
Banking operation cost	-2,590	-2,334	-2,395	2.6%	-7.5%	-5,065	-4,729	-6.6%
Cost of business activity	-299	-108	-315	192.2%	5.2%	-433	-423	-2.3%
Depreciation	-131	-115	-121	4.9%	-7.8%	-238	-236	-0.7%
Other tax payable	-7	-38	-3	-91.0%	-54.2%	-48	-41	-14.0%
Operating costs	-4,952	-4,666	-5,101	9.3%	3.0%	-9,556	-9,768	2.2%
Income before income taxes	39	336	-103	-	-	-785	233	-
Income taxes	-307	-57	-18	-69.4%	-94.3%	-761	-75	-90.2%
Profit after tax	-268	279	-121	-	-55.1%	-1,546	158	-
Profit after tax w/o special banking tax	31	546	146	-73.2%	-	-947	692	-
After tax profit w/o special banking tax and other one-offs	-81	724	973	34.4%	-	-791	1,697	-

The Bank's consolidated profit after tax according to IFRS amounted to HUF 158 million gain in the first six months of 2017, while the consolidated total comprehensive income of the Bank amounted to HUF 136 million gain.

In the second quarter of 2017 the profit before tax of the Bank Group was HUF 103 million loss, and the profit after tax was HUF 121 million loss.

In the first six months of 2017 HUF 534 million of special banking tax, the non-shifted financial transaction levy (HUF 283 million), and the sale of an entity, which was consolidated with equity method and for which the Bank made a provision (HUF 1.3 billion), had negative impact on the result as significant one-off items. The Bank Group's IFRS consolidated profit after tax – without the special banking tax and one-off items – was HUF 1,697 million gain in the first half-year of 2017, which is significantly favourable than HUF 791 million loss in the first half-year of 2016.

Net interest income

Net interest income was HUF 6.9 billion in the first six months of 2017, 0.9% lower than a year before, and it showed 0.5% increase compared to the previous quarter (HUF 3.4 billion). The net figure of second quarter consist of the balance of HUF 6 billion interest income (0.5% higher quarter-on-quarter and 21.0% lower year-on-year, respectively) and HUF 2.5 billion interest expense (q/q: 0.5%, y/y: -38.3%).

Distribution of interest income and expenses shows the following table:

	Q2 2016	Q1 2017	Q2 2017	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016	H1 2016	H1 2017	H1 2017 / H1 2016
Interest income								
Loans	54.4%	72.8%	72.7%	-0.1%-pt	18.3%-pt	55.6%	72.8%	17.1%-pt
Refinancing	8.5%	4.5%	5.0%	0.6%-pt	-3.5%-pt	8.3%	4.8%	-3.5%-pt
Mortgage bond interest subsidy	13.8%	11.1%	9.9%	-1.2%-pt	-3.9%-pt	15.4%	10.5%	-4.9%-pt
Supplementary interest subsidy	1.5%	1.8%	1.8%	0.0%-pt	0.3%-pt	1.4%	1.8%	0.4%-pt
Securities and interbank activities	18.9%	8.1%	7.8%	-0.4%-pt	-11.1%-pt	16.3%	8.0%	-8.4%-pt
Swap transactions	2.9%	1.6%	2.8%	1.1%-pt	-0.1%-pt	2.9%	2.2%	-0.7%-pt
Interest expenses								
Bonds issued	78.2%	84.3%	78.0%	-6.3%-pt	-0.2%-pt	79.7%	81.2%	1.5%-pt
Interbank activities	0.3%	1.3%	0.4%	-0.9%-pt	0.1%-pt	0.3%	0.9%	0.5%-pt
Customer deposits	16.0%	14.5%	9.9%	-4.6%-pt	-6.1%-pt	15.6%	12.2%	-3.4%-pt
Derivatives	5.5%	-0.4%	11.6%	12.0%-pt	6.1%-pt	4.4%	5.6%	1.2%-pt
Other interest expense	0.0%	0.2%	0.1%	-0.1%-pt	0.1%-pt	0.0%	0.1%	0.1%-pt

The net interest margin to average total assets (NIM) was 2.42% in H1 2017 which is 35 bps higher than in the same period of the previous year. The **net interest margin** which is projected to the average total assets increased as a result of the decreasing total assets.

Net fee and commission income

In the first six months of 2017, the Bank achieved a positive balance of HUF 3,665.8 million from commission and fee income and expenses; 1.5% higher than a year before. Net fee and commission income decreased by 11.8% in the second quarter compared to Q1 2017.

Compared to the previous quarter, incomes related to mortgage loans, fund management, guarantee fees and card services increased, while fee incomes from bankaccount services, and direct debit orders declined. Income from fees and commissions – with related incomes from investment services - in Q2 2017 amounted to HUF 2,609 million, of which 12.5% was contributed by charges related to loans (12.0% in Q1 2017) and 34.5% by accounts and card related banking charges without financial transaction levy (36.8% in previous quarter). Volume of HUF 440 million of fund management fees contributed by 16.9% to quarterly fee income.

Card related fee expenses (HUF 197 million) increased by 19.9% quarter-on-quarter, while payment fees reached HUF 33 million in Q2 2017.

Net result of financial transactions

In the first six months of 2017, the profit from financial transactions was HUF 1,885 million, which is significantly higher (33.8%) than the profit in the same period of the previous year (HUF 1,409 million). The result of the second quarter also increased significantly (76.6%) compared to HUF 681 million of the previous quarter.

In Q2 2017, the result from foreign exchange differences was HUF 185 million gain, that is more favourable (by 32.6%) than the result of the previous quarter (HUF 140 million gain).

In Q2 2017, the change in the value of financial instruments reported at fair value through P&L was HUF 683 million gain, which is significantly higher than the HUF 117 million result in Q1 2017. The growth is caused by the termination of a negative fair value swap before its maturity which occurred in the second quarter of 2017. The fee expense from swap termination reduced the net fee and commission income line in the P/L.

In the second quarter of 2017, the security transactions resulted HUF 331 million profit as opposed to HUF 410 million in the previous quarter.

Other operating income and expenditure

In the first half-year of 2017, the net operating income was HUF 1,668.6 million net expenditure, arising from HUF 1,220.9 million incomes and HUF 2,889.5 million expenditures.

In the first six months of 2017, real estate rental and real estate management related income contributed to other operating income by HUF 97 million. The Bank Group also realised HUF 186 million income from card service fees of Hungarian Card Service Plc.

Special banking tax amounted to HUF 534 million in the first six months of 2017, the fees of deposit protection funds, other statutory and voluntary funds, and membership fees of SZHISZ amounted to HUF 536 million, while paid financial transaction levy was HUF 1,185 million.

Net income of associates was HUF 787.4 million loss in the first six months of 2017, which is mainly derived from three important influencing items: Bank Group's profit share from Magyar Takarékszövetkezet Asset Management (MATAK) Ltd. and its investments (profit of the first half-year, consolidated) amounted to HUF 484 million, DB Factoring House proportional HUF 111 million profit and a consolidation adjustment for the sale of an entity which was consolidated by equity method and for which the Bank made HUF 1.3 billion impairment according to IFRS.

Impairments on loan losses

Risk costs amounted to HUF 6.4 million in the first half of 2017, while in the second quarter it amounted to HUF -591.7 million (release). The risk costs improved compared to the previous quarter's figure. The release of impairment is the result of the fact, that receivables from administration program have been completely ceased and transactions with regular runoffs are also disappeared from NPL portfolio. The volume of impairments decreased by 11.4%, by HUF 2.6 billion compared to the end of previous quarter.

Operating costs

Operating costs amounted to HUF 5.1 billion in Q2 2017, which is 3% greater than in the same period of the previous year, and 9.3% higher than in the previous quarter. In this period nearly all costs increased. The greatest growth occurred in the cost of operation that nearly increased to threefold in last quarter.

Personnel expenses were higher than in the same period of 2016 by 17.8%, due to the raise of headcount by 2.9% since June of 2016. The noteworthy growth of headcount continued in the first quarter of 2017, but in the second quarter dropped by 3%. Payments related to organisational change increased the personnel expenses in the second quarter, for which FHB group made a provision as at 31 December 2016. In the proportion of the paid-up amount the provision has been reversed in the amount of HUF 168 million.

Administrative expenses (HUF 2,395 million) decreased by 7.5% in Q2 2017 compared to the same period of last year, and it increased by 2.6% compared to the previous quarter.

Expenses of business activity (HUF 423 million) in H1 2017 show a decreasing level compared to the same period in 2016 (HUF 433 million).

Depreciation was HUF 121 million in Q2 2017, which means a rise of HUF 6 million compared to the previous quarter (HUF 115 million). Depreciation declined from last year's same period amounted to HUF 238 million to HUF 236 million which is a 0.7% decline.

Other taxes paid reported among operating costs (for example real estate tax, vehicle tax, etc.) amounted to HUF 41 million in H1 of 2017, which is a 14.0% decrease compared to the same quarter of the previous year and also remarkably lower than Q1 of 2017 (91%). This change is in accordance with the trend that is concluded from previous years. Payments occur in the first and third quarters of the year in accordance with the scheduling of due dates of other taxes.

2. Balance Sheet

in HUF million	30/06/2016	31/12/2016	31/03/2017	30/06/2017	30/06/2017/ 31/03/2017	30/06/2017/ 31/12/2016	30/06/2017/ 30/06/2016
Cash	4,813	4,327	4,235	3,273	-22.7%	-24.4%	-32.0%
Due from banks & NBH	69,997	130,924	76,786	73,802	-3.9%	-43.6%	5.4%
Financial assets available-for-sale and held for trading	146,130	107,029	126,760	119,403	-5.8%	11.6%	-18.3%
Financial assets held for trading at fair value	72,229	40,734	54,868	48,344	-11.9%	18.7%	-33.1%
Financial assets available for sale at fair value	73,902	66,295	71,892	71,059	-1.2%	7.2%	-3.8%
Fair value of derivative financial assets	1,619	933	707	444	-37.2%	-52.5%	-72.6%
Investment in associates and jointly controlled companies	4,580	4,816	5,185	3,670	-29.2%	-23.8%	-19.9%
Refinanced mortgage loans	73,783	31,423	43,708	56,884	30.1%	81.0%	-22.9%
Loans and advances	313,982	318,326	320,509	318,648	-0.6%	0.1%	1.5%
Impairment and provision	-22,588	-23,853	-22,595	-20,011	-11.4%	-16.1%	-11.4%
Tangible assets	6,046	4,942	4,840	4,797	-0.9%	-2.9%	-20.7%
Goodwill and other intangible assets	1,932	2,042	2,106	2,111	0.2%	3.4%	9.2%
Other assets	17,352	12,495	12,904	11,569	-10.3%	-7.4%	-33.3%
Total Assets	617,647	593,404	575,145	574,588	-0.1%	-3.2%	-7.0%
Liabilities total	546,590	535,802	517,008	517,058	0.0%	-3.5%	-5.4%
Interbank borrowings	51,020	47,229	39,398	42,593	8.1%	-9.8%	-16.5%
Mortgage bonds	148,512	143,131	158,501	161,658	2.0%	12.9%	8.9%
Bonds issued	45,682	39,143	20,756	19,245	-7.3%	-50.8%	-57.9%
Deposits	290,301	297,072	289,548	284,508	-1.7%	-4.2%	-2.0%
Fair value of derivative financial liabilities	3,562	1,579	1,313	988	-24.7%	-37.4%	-72.2%
Leasing liability	12	3	3	3	0.0%	0.0%	-75.2%
Other liabilities	7,500	7,645	7,489	8,062	7.7%	5.5%	7.5%
Shareholders' equity	71,057	57,602	58,137	57,530	-1.0%	-0.1%	-19.0%
Subscribed capital	10,849	10,849	10,849	10,849	0.0%	0.0%	0.0%
Capital reserve	27,926	27,926	27,926	27,926	0.0%	0.0%	0.0%
Treasury shares	-207	-207	-207	-207	0.0%	0.0%	0.0%
Cash-flow hedge reserve	0	0	1	5	-	-	-
Other reserves	108	609	864	581	-32.7%	-4.6%	-
Retained earnings	12,661	12,661	1,613	1,613	0.0%	-87.3%	-87.3%
Non-controlling interest	20,276	16,812	16,797	16,669	-0.8%	-0.9%	-17.8%
Balance sheet profit	-556	-11,048	294	95	-67.8%	-	-
Total liabilities and shareholders' equity	617,647	593,404	575,145	574,588	-0.1%	-3.2%	-7.0%

As of 30 June 2017, the Bank's IFRS based consolidated total assets amounted to HUF 574.6 billion, which is 0.1% (HUF 0.5 billion) lower than as at the end of previous quarter; and 7.0% lower than the same period of previous year.

On the asset side on an annual basis, the volume of available-for-sale and held for trading financial assets decreased by HUF 26.7 billion or 18.3% year-on-year, the refinanced loans increased by HUF 25.5 billion and 81.0% compared to the end of previous year. During the second quarter of 2017, the due from banks and NBH decreased by HUF 3 billion, the fair value of derivative financial assets by HUF 263 million quarter-on-quarter, while cash decreased by 32.0% year-on-year.

Liabilities decreased by 5.4% compared to the reference figures of previous year. Compared to the same period in 2016 interbank liabilities decreased by 16.5%, the volume of bonds issued decreased by 57.9%, while the portfolio of mortgage bonds issued increased by 8.9%, respectively. Besides, the deposits decreased by HUF 5.8 billion over a year and HUF 5 billion (1.7%) in the last three months. In the second quarter the volume of the issued bonds increased by HUF 1.6 billion, which is the result of the mortgage bonds increased by HUF 3.1 billion and the volume of bonds decrease by 1.5 billion; respectively the fair value of derivative financial liabilities declined by HUF 325 million.

Shareholders' equity decreased by HUF 13.5 billion or 19.0% year-on-year, while during the second quarter it decreased only by HUF 606 million (1.0%). Compared to the same period of last year, shareholder's equity decreased due to the losses realised in 2016. During the first half of 2017, the net result of the period (HUF 95 million) resulted increase of shareholders' equity.

Interest earning assets

The Group's interest earning assets decreased from HUF 591.2 billion as of 31 December 2016 to HUF 572 billion as of 30 June 2017. Interest earning assets contributed 99.5% to the total assets.

NBH and other interbank lending decreased from HUF 130.9 billion as of the end of December 2016 to HUF 73.8 billion as of 30 June 2017, which is nearly equal to the volume of HUF 70 billion in the same period in 2016. The proportion of this item in interest earning assets dropped from 22.3% at the end of 2016 to 12.9% by the end of first half of 2017. During the quarter the volume of interbank lending decreased by HUF 3 billion.

The value of Bank's available-for-sale and held for trading securities increased from HUF 107 billion as of 31 December 2016 to HUF 119.4 billion by 30 June 2017, while it has decreased by 18.3% compared to HUF 146.1 billion as of 30 June 2016. At the end of Q2 2017, available for sale and held for trading securities contributed 20.9% to interest earning assets. In comparison with the same period in 2016 the shrinkage of trading securities is mainly due to their maturity.

Loans

As of 30 June 2017, volume of loans was 1.5% higher year-on-year, and decreased on quarterly basis by 0.6%. In the first half of 2017 the impairment for loan losses amounted to HUF 20 billion, which is 16.1% lower than on 31 December 2016 and 11.4% lower compared to 30 June 2016 in connection with the drop of volume of non-performing loans.

Refinancing loans increase by 81.0% to HUF 56.9 billion in the last half year, while there was a 22.9% drop related to this item over the last year. As of 30 June 2017, contribution of refinanced loans and gross own lending was 65.7% of interest earning assets; this rate was 64.2% a year before.

Portfolio quality

In the second quarter the volume of non-performing loans decreased by 9%, HUF 2,834.8 million quarter-on-quarter, while it decreased by 27.4% year-on-year basis mainly because of the steps in portfolio cleaning. NPL ratio declined from 9.8% of previous quarter to 9.0% by 30 June 2017. NPL ratio was 10.6% on 31 December 2016, and 12.6% on 30 June 2016. The coverage of non-performing loans is 69.8% according to IFRS, and 57.2% a year before.

Other assets

Tangible assets amounted to HUF 4.8 billion as of 30 June 2017 and decreased by HUF 1.2 billion year-on-year and decreased by HUF 43 million quarter-on-quarter. By the end of June in 2017, intangibles amounted to HUF 2.1 billion, which is higher by HUF 179 million or 9.1% year-on-year and HUF 69 million or 3.4% compared to the 31 December 2016 figure due to the investments of Magyar Kártya Ltd.

Value of investment in associates and joint ventures consolidated by equity method amounted to HUF 3.7 billion as of 30 June 2017. The reason of the decrease is the impairment on an entity consolidated with equity method amounted to HUF 1.3 billion.

Other assets amounted to HUF 11.6 billion as of 30 June 2017, decreasing by 33.3% (HUF 5.8 billion) year-on-year. Deferred tax assets reached HUF 3 billion, and value of real estates reported as inventory was HUF 546.3 million.

Interest bearing liabilities

Interest bearing liabilities decreased from HUF 526.6 billion as of 31 December 2016 to HUF 508 billion as of 30 June 2017, representing approximately 88.4% of the total assets. A year earlier, client deposits gave the major part of interest bearing liabilities with a share of 54.2%. For the end of June 2017 their proportion increased to 56.0%, while the share of securities issued within interest bearing liabilities decreased from 36.3% to 35.6% year-on-year, but shows an increase compared to the previous quarter's 35.3%.

Interbank funds

By the end of June 2017, interbank funds amounted to HUF 42.6 billion, showing an 8.1% increase compared to previous quarter and a 16.5% fall compared to the previous year. Contribution of interbank borrowings to interest bearing liabilities was 8.4% at the end of second quarter of 2017.

CMBs issued

The Bank completed six issuance in the first half-year in the course of which the first tap of 3- and 5-year mortgage bonds series were issued in total nominal value of HUF 32.3 billion by involving consortium members and upon public auction procedure.

HUF 161.7 billion book value of mortgage bonds as of 30 June 2017 increased by 8.9% or HUF 13 billion from figures of 30 June 2016 (HUF 148.5 billion), while compared to the previous quarter it decreased by 2.0% or by HUF 3 billion.

in HUF million	31/12/2016		30/06/2017	
	Book value	Nominal value	Book value	Nominal value
Non-listed mortgage bonds				
Fixed	16,667	16,449	16,620	16,449
Floating	0	0	0	0
Listed mortgage bonds				
Fixed	81,448	74,139	75,737	69,680
Floating	40,850	40,958	66,283	66,379
Total	138,965	131,547	158,640	152,507
Accrued interest	4,167		3,018	
Mortgage bonds Total	143,132	131,547	161,658	152,507

in HUF million	31/12/2016		30/06/2017	
	Book value	Nominal value	Book value	Nominal value
Non-listed bonds				
Fixed	19,586	19,564	4,315	4,305
Floating	0	0	0	0
Listed bonds				
Fixed	14,911	14,955	12,187	12,015
Floating	1,883	1,885	1,845	1,846
Total	36,381	36,404	18,347	18,165
Accrued interest	2,762		898	
Bonds Total	39,143	36,404	19,245	18,165

Bonds issued

The book value of bonds was HUF 19.2 billion as of 30 June 2017, compared to 31 March 2017 (HUF 20.8 billion) decreasing by HUF 1.6 billion or 7.7%. The stock of bonds decreased by HUF 26.5 billion (58%) on an annual basis. In case of bonds issued by FHB Mortgage Bank the reason of decrease is the fact that there was not any recent significant bond issuance for the substitute of bonds which matured on the first half of the year, instead of it FHB mortgage bond issuance occurred, therefore financing shifted to lower cost of funds.

Mortgage bonds collateral¹

The net value of ordinary collateral of mortgage bonds issued by FHB Mortgage Bank amounted to HUF 237.1 billion as of 30 June 2017 (HUF 186.7 billion of capital and HUF 50.4 billion of interests), 2.9% more than the HUF 230.5 billion as of 31 March 2017 and 7.5% (HUF 19.1 billion) below the figure of 30 June 2016 (HUF 256.2 billion).

in HUF million	30/06/2016	31/12/2016	31/03/2017	30/06/2017
Outstanding mortgage bonds in circulation				
Face value	151,563	153,385	165,670	174,235
Interest	33,294	28,328	27,663	23,660
Total	184,857	181,713	193,333	197,895
Value of the regular collateral				
Principal	189,347	170,890	177,427	186,649
Interest	66,872	56,718	53,083	50,430
Total	256,219	227,608	230,510	237,079
Value of assets involved as supplementary collateral				
Government and Hungarian Development Bank bonds	0	8,001	15,438	19,733
Total	0	8,001	15,438	19,733

As of 30 June 2017, the net present value of ordinary collateral was HUF 228.1 billion and the present value of mortgage bonds were HUF 194.7 billion, and the present value of collateral exceeded that of CMBs in circulation not yet repaid, with a ratio of 117.2%.

¹ Non-consolidated data of FHB Mortgage Bank Plc. only, according to HAS

By the end of the second quarter in 2017, net value of ordinary and supplementary collateral principal to unpaid face value of mortgage bonds in circulation not yet repaid was 118.5%, and the interest on net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 213.2%. The collateral value of real estate covering ordinary collaterals amounted to HUF 663.7 billion as of 30 June 2017, 3.6% above the 31 March 2017 value (HUF 640.8 billion). The LTV ratio applicable for ordinary collateral was 27.9% by the end of June in 2017.

Deposits

As of 30 June 2017, deposits amounted to HUF 284.5 billion decreasing by 2.0% year-on-year and by 1.7% quarterly. Volume of corporate deposits decreased by 5.3% compared to the previous year, but volume of retail deposits increased by 2.7% in one year. The volume of deposits decreased by HUF 5 billion compared to data of the end of previous quarter, volume of retail deposits decreased by 4.9%, which was not compensated by the slight 0.8% growth of corporate deposits (by HUF 1.214 billion). The sight deposit ratio changed to 51.6% by 30 June 2017 from 40.2% a year before and 48.2% at the end of previous quarter.

Other liabilities

The Bank reported provisions related to contingent and future liabilities amounted to HUF 1.3 billion among the HUF 8.1 billion of other liabilities. This provision includes those provision which was made for rationalization project as at 31 December, 2016, and amounted to HUF 742 million as at 30 June, 2017. At the end of June 2017 prepayments of clients reached HUF 699.6 million. The Bank reported accounts payable of HUF 668.3 million as of the second quarter of 2017, accruals HUF 1,012.7 million and liabilities connected to investment services of HUF 1,269.3 million.

Shareholders' equity

Shareholders' equity decreased from HUF 71 billion as of 30 June 2016 to HUF 57.5 billion by 30 June 2017, and in a quarterly comparison there was decrease of HUF 606.5 million. The Bank reported HUF 16.7 billion as non-controlling interest as part of shareholder's equity. The profit relating to the parent company was HUF 95 million gain at the end of June 2017.

Financial liabilities measured at fair value through profit or loss

The financial liabilities measured at fair value through profit or loss includes a group of mortgage bonds as a part of issued securities and the reason of the balance decrease is the fact that mortgage bonds matured.

Capital position

The Hungarian National Bank - in accordance with the request from the Integrational Organization of Cooperative Credit Institutions (SZHISZ) the Magyar Takarékszövetkezeti Bank Ltd. (Takarékbank), the FHB Mortgage Bank and the FHB Commercial Bank – issued the H-EN-I-36./2017. ruling to grant exemption for FHB Group from the individual and subconsolidated compliance obligations.

The total own funds of the Integrational Organization of Cooperative Credit Institutions amounted over HUF 270 billion at the end of March 2017, while its capital adequacy ratio was 21.85%.

DECLARATION

The management report for the first half of 2017 of FHB Jelzálogbank Nyrt. (FHB Mortgage Bank Plc.) is based on consolidated, non-audited IFRS financial statements.

FHB Jelzálogbank Nyrt. hereby declares that the half-year financial statement was made in good faith and gives a true and fair view of the issuer and its consolidated subsidiaries assets, liabilities, financial position, profit and losses and does not conceal any fact or information which is relevant for the assessment of the position.

Budapest, 17 August, 2017

Dr. Gyula Nagy
Chief Executive Officer

Edit Erika Tóth
Deputy-CEO

Consolidated Financial Statements of FHB Mortgage Bank Plc. prepared in accordance with International Financial Reporting Standards (IFRS)

The consolidation fully applies also to FHB Kereskedelmi Bank Zrt. (FHB Commercial Bank Ltd.), Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), FHB Ingatlan Zrt. (FHB Real Estate Ltd.), to FHB Lízing Zrt. (FHB Leasing Ltd.) and its Croatian affiliate (Central European Credit d.d.), FHB Invest Llc., Magyar Kártya Szolgáltató Zrt. (Hungarian Card Service Ltd.); Káry-Villa Ingatlanfejlesztő Kft. (Káry-Villa Property Development Ltd.); Diófa Ingatlankezelő Kft. (Diófa Real Estate Management Llc.). Joint ventures – as Díjbeszedő Faktorház Zrt. (Díjbeszedő Factoring Ltd.), DíjNet Ltd., Díjbeszedő Informatikai Kft. (Díjbeszedő IT Llc.), and Magyar Posta Befektetési Szolgáltató Zrt. (Hungarian Post Investment Services Ltd.) – and Magyar Takarék Befektetési és Vagyonkezelő Zrt. (Magyar Takarék Asset Management Ltd.) are consolidated by equity method.

Consolidated Income Statement 'A'

Table includes the special banking tax for the period of reporting pro rata

(consolidated non-audited data as of 30 June 2016 and 30 June 2017 according to IFRS)

in HUF million	H1 2016	H1 2017	H1 2017/ H1 2016
Interest income	16,072	11,892	-26.0%
Interest expense	-9,096	-4,979	-45.3%
Net interest income	6,976	6,912	-0.9%
Fee and commission income	4,287	4,816	12.4%
Fee and commission expense	-676	-1,150	70.1%
Net fee and commission income	3,610	3,666	1.5%
Profit/(Loss) from FX transactions	410	325	-20.7%
Change in fair value of financial instruments	-197	801	-
Gains from securities	1,040	741	-28.7%
Gains from investment services	156	18	-88.2%
Net trading result	1,409	1,885	33.8%
Other operating income	2,386	1,221	-48.8%
Other operating expense	-4,005	-2,890	-27.8%
Net other operating result	-1,618	-1,669	3.1%
Net income of associated companies	394	-787	-
Operating income	10,771	10,007	-7.1%
Provision for impairment on loan losses	-2,000	-6	-99.7%
General and administrative expense	-9,556	-9,768	2.2%
Profit/(Loss) before tax	-785	233	-
Income tax benefit/(expense)	-761	-75	-90.2%
Profit/(Loss) for the period	-1,546	158	-

Basic EPS (yearly)	-10.4 Ft	1.8 Ft	-
Diluted EPS (yearly)	-10.4 Ft	1.8 Ft	-

	2016 H1	2017 H1	2017 H1/ 2016 H1
Profit/(Loss) for the period	-1,546	158	-
Change in cash-flow hedge reserve	0	6	-
Change in fair value of financial assets available for sale	-593	-23	-96.1%
FX translation reserve	-14	-8	-43.4%
Deferred tax effect for other comprehensive income	113	2	-98.0%
Other comprehensive income/(loss) for the period net of taxes	-494	-22	-95.5%
Total comprehensive income/(loss) for the period, net of income taxes	-2,039	136	-

Consolidated Income Statement 'A' (quarterly)

Table includes the special banking tax for the period of reporting pro rata

(consolidated non-audited data as of 30 June 2016, 31 March 2017 and 30 June 2017 according to IFRS)

in HUF million	Q2 2016	Q1 2017	Q2 2017	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016
Interest income	7,548	5,932	5,960	0.5%	-21.0%
Interest expense	-4,046	-2,484	-2,496	0.5%	-38.3%
Net interest income	3,502	3,448	3,464	0.5%	-1.1%
Fee and commission income	2,280	2,331	2,485	6.6%	9.0%
Fee and commission expense	-373	-383	-767	100.3%	105.5%
Net fee and commission income	1,906	1,948	1,718	-11.8%	-9.9%
Profit/(Loss) from FX transactions	491	140	185	32.6%	-62.3%
Change in fair value of financial instruments	-307	117	683	-	-
Gains from securities	-72	410	331	-19.2%	-
Gains from investment services	25	15	4	-73.9%	-84.5%
Net trading result	136	681	1,204	76.6%	-
Other operating income	1,663	515	706	37.1%	-57.5%
Other operating expense	-1,999	-1,361	-1,529	12.4%	-23.5%
Net other operating result	-337	-846	-823	-2.7%	144.5%
Net income of associated companies	197	369	-1,156	-	-
Operating income	5,405	5,601	4,407	-21.3%	-18.5%
Provision for impairment on loan losses	-413	-598	592	-	-
General and administrative expense	-4,952	-4,666	-5,101	9.3%	3.0%
Profit/(Loss) before tax	39	336	-103	-	-
Income tax benefit/(expense)	-307	-57	-18	-69.4%	-94.3%
Profit/(Loss) for the period	-268	279	-121	-	-55.1%
				-	-
Basic EPS (yearly)	-6.1 Ft	11.0 Ft	-7.4 Ft	-	21.5%
Diluted EPS (yearly)	-6.1 Ft	11.0 Ft	-7.4 Ft	-	21.5%

	2016 Q2	2017 Q1	2017 Q2	2017 Q2 / 2017 Q1	2017 Q2 / 2016 Q2
Profit/(Loss) for the period	-268	279	-121	-	-55.1%
Change in cash-flow hedge reserve	0	1	5	-	-
Change in fair value of financial assets available for sale	-791	285	-308	-	-61.1%
FX translation reserve	-4	-4	-3	-25.0%	-11.0%
Deferred tax effect for other comprehensive income	150	-25	28	-	-81.7%
Other comprehensive income/(loss) for the period net of taxes	-645	256	-279	-	-56.8%
Total comprehensive income/(loss) for the period, net of income taxes	-913	535	-399	-	-56.3%

Consolidated Income Statement 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2016 and 30 June 2017 according to IFRS)

in HUF million	H1 2016	H1 2017	H1 2017/ H1 2016
Interest income	16,072	11,892	-26.0%
Interest expense	-9,096	-4,979	-45.3%
Net interest income	6,976	6,912	-0.9%
Fee and commission income	4,287	4,816	12.4%
Fee and commission expense	-676	-1,150	70.1%
Net fee and commission income	3,610	3,666	1.5%
Profit/(Loss) from FX transactions	410	325	-20.7%
Change in fair value of financial instruments	-197	801	-
Gains from securities	1,040	741	-28.7%
Gains from investment services	156	18	-88.2%
Net trading result	1,409	1,885	33.8%
Other operating income	2,386	1,221	-
Other operating expense	-4,603	-3,424	-
Net other operating result	-2,217	-2,203	-0.6%
Net income of associated companies	394	-787	-
Operating income	10,172	9,473	-6.9%
Provision for impairment on loan losses	-2,000	-6	-99.7%
General and administrative expense	-9,556	-9,768	2.2%
Profit/(Loss) before tax	-1,383	-301	-78.2%
Income tax benefit/(expense)	-647	-27	-95.9%
Profit/(Loss) for the period	-2,030	-328	-83.8%
Basic EPS (yearly)	-19.4 Ft	-4.4 Ft	-77.1%
Diluted EPS (yearly)	-19.4 Ft	-4.4 Ft	-77.1%

Consolidated Comprehensive Income Statement	2016 H1	2017 H1	2017 H1/ 2016 H1
Profit/(Loss) for the period	-2,030	-328	-
Change in cash-flow hedge reserve	0	6	-
Change in fair value of financial assets available for sale	-593	-23	-96.1%
FX translation reserve	-14	-8	-43.4%
Deferred tax effect for other comprehensive income	113	2	-98.0%
Other comprehensive income/(loss) for the period net of taxes	-494	-22	-95.5%
Total comprehensive income/(loss) for the period, net of income taxes	-2,524	-350	-86.1%

Consolidated Income Statement 'B' (quarterly)

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2016, 31 March 2017 and 30 June 2017 according to IFRS)

in HUF million	Q2 2016	Q1 2017	Q2 2017	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016
Interest income	7,548	5,932	5,960	0.5%	-21.0%
Interest expense	-4,046	-2,484	-2,496	0.5%	-38.3%
Net interest income	3,502	3,448	3,464	0.5%	-1.1%
Fee and commission income	2,280	2,331	2,485	6.6%	9.0%
Fee and commission expense	-373	-383	-767	100.3%	105.5%
Net fee and commission income	1,906	1,948	1,718	-11.8%	-9.9%
Profit/(Loss) from FX transactions	491	140	185	32.6%	-62.3%
Change in fair value of financial instruments	-307	117	683	-	-
Gains from securities	-72	410	331	-19.2%	-
Gains from investment services	25	15	4	-73.9%	-84.5%
Net trading result	136	681	1,204	76.6%	-
Other operating income	1,663	515	706	37.1%	-57.5%
Other operating expense	-1,700	-2,162	-1,262	-41.6%	-25.8%
Net other operating result	-37	-1,647	-556	-66.2%	-
Net income of associated companies	197	226	-1,014	-	-
Operating income	5,704	4,657	4,816	3.4%	-15.6%
Provision for impairment on loan losses	-413	-598	592	-	-
General and administrative expense	-4,952	-4,666	-5,101	9.3%	3.0%
Profit/(Loss) before tax	338	-608	307	-	-9.3%
Income tax benefit/(expense)	-364	15	-42	-	-88.6%
Profit/(Loss) for the period	-26	-593	265	-	-
Basic EPS (yearly)	2.9 Ft	-13.0 Ft	4.1 Ft	-	39.9%
Diluted EPS (yearly)	2.9 Ft	-13.0 Ft	4.1 Ft	-	39.9%

Consolidated Comprehensive Income Statement	2016 Q2	2017 Q1	2017 Q2	Q2 2017 / Q1 2017	Q2 2017 / Q2 2016
Profit/(Loss) for the period	-26	-593	265	-	-
Change in cash-flow hedge reserve	0	1	5	-	-
Change in fair value of financial assets available for sale	-791	285	-308	-	-61.1%
FX translation reserve	-4	-4	-3	-25.0%	-11.0%
Deferred tax effect for other comprehensive income	150	-25	28	-	-81.7%
Other comprehensive income/(loss) for the period net of taxes	-645	256	-279	-	-56.8%
Total comprehensive income/(loss) for the period, net of income taxes	-671	-337	-13	-96.0%	-98.0%

Consolidated Financial Position 'A'

Table includes the special banking tax for the period of reporting pro rata

(consolidated non-audited data as of 30 June 2016, 31 March 2017 and 30 June 2017, and audited data as of 31 December 2016 according to IFRS)

in HUF million	Jun 30. 2016	Dec 31. 2016	Mar 31. 2017	Jun 30. 2017	30/06/2017/ 31/03/2017	30/06/2017/ 31/12/2016	30/06/2017/ 30/06/2016
Cash on hand	4,813	4,327	4,235	3,273	-22.7%	-24.4%	-32.0%
Due from banks & NBH	69,997	130,924	76,786	73,802	-3.9%	-43.6%	5.4%
Securities held for trading	72,229	40,734	54,868	48,344	-11.9%	18.7%	-33.1%
Financial assets available for sale	73,902	66,295	71,892	71,059	-1.2%	7.2%	-3.8%
Investment in associates	4,580	4,816	5,185	3,670	-29.2%	-23.8%	-19.9%
Derivate financial assets	1,619	933	707	444	-37.2%	-52.5%	-72.6%
Refinanced mortgage loans	73,783	31,423	43,708	56,884	30.1%	81.0%	-22.9%
Loans and advances to consumers	313,982	318,326	320,509	318,648	-0.6%	0.1%	1.5%
Impairment and provision	-22,588	-23,853	-22,595	-20,011	-11.4%	-16.1%	-11.4%
Tangible assets	6,046	4,942	4,840	4,797	-0.9%	-2.9%	-20.7%
Goodwill and other intangible assets	1,932	2,042	2,106	2,111	0.2%	3.4%	9.2%
Deferred tax asset	8,017	3,030	2,986	2,997	0.4%	-1.1%	-62.6%
Other assets	9,336	9,465	9,917	8,572	-13.6%	-9.4%	-8.2%
Total assets	617,647	593,404	575,145	574,588	-0.1%	-3.2%	-7.0%
Due to banks	51,020	47,229	39,398	42,593	8.1%	-9.8%	-16.5%
Issued securities	182,601	170,283	172,120	173,721	0.9%	2.0%	-4.9%
Mortgage bonds	136,919	131,140	151,364	154,477	2.1%	17.8%	12.8%
Bonds	45,682	39,143	20,756	19,245	-7.3%	-50.8%	-57.9%
Deposits from customers	290,301	297,072	289,548	284,508	-1.7%	-4.2%	-2.0%
Derivative financial liabilities	3,562	1,579	1,313	988	-24.7%	-37.4%	-72.2%
Financial liabilities at fair value through profit or loss	11,593	11,991	7,137	7,181	0.6%	-40.1%	-38.1%
Finance lease liabilities	12	3	3	3	0.0%	0.0%	-75.2%
Current tax liability	1	0	0	1	87.4%	-	-41.9%
Deferred tax liability	1	0	0	0	7.5%	35.8%	-60.5%
Provisions	705	1,546	1,545	1,331	-13.9%	-13.9%	88.8%
Other liabilities	6,793	6,099	5,943	6,730	13.2%	10.4%	-0.9%
Total liabilities	546,590	535,802	517,008	517,058	0.0%	-3.5%	-5.4%
Share capital	10,849	10,849	10,849	10,849	0.0%	0.0%	0.0%
Share premium	27,926	27,926	27,926	27,926	0.0%	0.0%	0.0%
Treasury shares	-207	-207	-207	-207	0.0%	0.0%	0.0%
Cash-flow hedge reserve	0	0	1	5	-	-	-
Other reserves	108	609	864	581	-32.7%	-4.6%	-
Retained earnings	12,661	12,661	1,613	1,613	0.0%	-87.3%	-87.3%
Minority interest	20,276	16,812	16,797	16,669	-0.8%	-0.9%	-17.8%
Balance sheet profit	-556	-11,048	294	95	-67.8%	-	-
Total shareholders' equity	71,057	57,602	58,137	57,530	-1.0%	-0.1%	-19.0%
Total liabilities and shareholders' equity	617,647	593,404	575,145	574,588	-0.1%	-3.2%	-7.0%

Consolidated Financial Position 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2016, 31 March 2017 and 30 June 2017, and audited data as of 31 December 2016 according to IFRS)

in HUF million	Jun 30. 2016	Dec 31. 2016	Mar 31. 2017	Jun 30. 2017	30/06/2017/ 31/03/2017	30/06/2017/ 31/12/2016	30/06/2017/ 30/06/2016
Cash on hand	4,813	4,327	4,235	3,273	-22.7%	-24.4%	-32.0%
Due from banks & NBH	69,997	130,924	76,786	73,802	-3.9%	-43.6%	5.4%
Securities held for trading	72,229	40,734	54,868	48,344	-11.9%	18.7%	-33.1%
Financial assets available for sale	73,902	66,295	71,892	71,059	-1.2%	7.2%	-3.8%
Investment in associates	4,580	4,816	5,042	3,670	-27.2%	-23.8%	-19.9%
Derivative financial assets	1,619	933	707	444	-37.2%	-52.5%	-72.6%
Refinanced mortgage loans	73,783	31,423	43,708	56,884	30.1%	81.0%	-22.9%
Loans and advances to consumers	313,982	318,326	320,509	318,648	-0.6%	0.1%	1.5%
Impairment and provision	-22,588	-23,853	-22,595	-20,011	-11.4%	-16.1%	-11.4%
Tangible assets	6,046	4,942	4,840	4,797	-0.9%	-2.9%	-20.7%
Goodwill and other intangible assets	1,932	2,042	2,106	2,111	0.2%	3.4%	9.2%
Deferred tax asset	8,130	3,030	3,058	3,045	-0.4%	0.5%	-62.5%
Other assets	9,318	9,465	9,905	8,564	-13.5%	-9.5%	-8.1%
Total assets	617,743	593,404	575,062	574,628	-0.1%	-3.2%	-7.0%
Due to banks	51,020	47,229	39,398	42,593	8.1%	-9.8%	-16.5%
Issued securities	182,601	170,283	172,120	173,721	0.9%	2.0%	-4.9%
Mortgage bonds	136,919	131,140	151,364	154,477	2.1%	17.8%	12.8%
Bonds	45,682	39,143	20,756	19,245	-7.3%	-50.8%	-57.9%
Deposits from customers	290,301	297,072	289,548	284,508	-1.7%	-4.2%	-2.0%
Derivative financial liabilities	3,562	1,579	1,313	988	-24.7%	-37.4%	-72.2%
Financial liabilities at fair value through profit or loss	11,593	11,991	7,137	7,181	0.6%	-40.1%	-38.1%
Finance lease liabilities	12	3	3	3	0.0%	0.0%	-75.2%
Current tax liability	1	0	0	1	87.4%	-	-41.9%
Deferred tax liability	1	0	0	0	7.5%	35.8%	-60.5%
Provisions	705	1,546	1,545	1,331	-13.9%	-13.9%	88.8%
Other liabilities	7,374	6,099	6,732	7,256	7.8%	19.0%	-1.6%
Total liabilities	547,171	535,802	517,797	517,584	0.0%	-3.4%	-5.4%
Share capital	10,849	10,849	10,849	10,849	0.0%	0.0%	0.0%
Share premium	27,926	27,926	27,926	27,926	0.0%	0.0%	0.0%
Treasury shares	-207	-207	-207	-207	0.0%	0.0%	0.0%
Cash-flow hedge reserve	0	0	1	5	-	-	-
Other reserves	108	609	864	581	-32.7%	-4.6%	-
Retained earnings	12,661	12,661	1,613	1,613	0.0%	-87.3%	-87.3%
Minority interest	20,276	16,812	16,567	16,515	-0.3%	-1.8%	-18.5%
Balance sheet profit	-1,040	-11,048	-347	-238	-31.5%	-97.8%	-77.1%
Total shareholders' equity	70,572	57,602	57,265	57,044	-0.4%	-1.0%	-19.2%
Total liabilities and shareholders' equity	617,743	593,404	575,062	574,628	-0.1%	-3.2%	-7.0%

Cash Flow Statement 'A'

Table includes the special banking tax for the period of reporting pro rata

(consolidated non-audited data as of 30 June 2017 and audited data as of 31 December 2016 according to IFRS)

in HUF million	31 December 2016	30 June 2017
Cash flow from operating activities		
Profit/(loss) for the year	-15,502	158
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	475	236
Amortization of tangible assets	1,100	0
Provision for losses	-569	-2,249
(Gain)/Loss on tangible assets derecognized	-7	93
(Gain)/Loss on intangible assets derecognized	45	-20
Capitalized interest	317	55
Fair value of derivatives	-778	-97
Fair value adjustment on financial liabilities through profit and loss	-987	-940
Change in foreign currency translation reserve	-16	-7
Change of investments in associates	2,939	-1,146
Change in leasing liabilities	-9	0
Operating profit before change in operating assets	-12,992	-1,625
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	11,179	-7,610
Financial assets available for sale	7,773	-4,785
Refinanced mortgage loans	51,367	-25,461
Loans and advances to customers	-5,376	-2,184
Other assets	4,586	927
Deposits	-31,976	-12,564
Due to banks	-85,290	-77,102
Other liabilities	-3,053	632
Net cash flow from operating activities	-63,782	-129,772
Cash flow from investing activities		
Proceeds from sales of tangible assets	35	36
Purchase of tangible and intangible assets	-549	-269
Net cash flow from investing activities	-514	-233
Cash flow from financing activities		
Proceed from issued securities	39,248	36,220
Principal repayment on issued securities	-110,981	-36,651
Long term loans repayment	92,745	72,466
Dividend payment to non-controlling interests	-214	-207
Tier 1 Subordinated loan capital	-35,225	0
Net cash flow from financing activity	-14,427	71,828
Net increase in cash and cash equivalents	-78,723	-58,177
Opening balance of cash and cash equivalents	213,974	135,251
Closing balance of cash and cash equivalents	135,251	77,074
Breakdown of cash and cash equivalents:		
Cash	4,327	3,273
Balances with National Bank of Hungary	60,635	32,255
Dues from banks with a maturity of less than 90 days	70,289	41,546
Closing balance of cash and cash equivalents	135,251	77,074
<i>Supplementary data</i>		
Tax paid	-1,478	-723
Interest received	29,276	11,999
Interest paid	-19,384	-9,486

Cash Flow Statement 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2017 and audited data as of 31 December 2016 according to IFRS)

in HUF million	31 December 2016	30 June 2017
Cash flow from operating activities		
Profit/(loss) for the year	-15,502	-328
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	475	236
Amortization of tangible assets	1,100	0
Provision for losses	-569	-2,249
(Gain)/Loss on tangible assets derecognized	-7	93
(Gain)/Loss on intangible assets derecognized	45	-20
Capitalized interest	317	55
Fair value of derivatives	-778	-97
Fair value adjustment on financial liabilities through profit and loss	-987	-940
Change in foreign currency translation reserve	-16	-7
Change of investments in associates	2,939	-1,146
Leasing liabilities	-9	0
Operating profit before change in operating assets	-12,992	-2,111
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	11,179	-7,610
Financial assets available for sale	7,773	-4,785
Refinanced mortgage loans	51,367	-25,461
Loans and advances to customers	-5,376	-2,184
Other assets	4,586	887
Deposits	-31,976	-12,564
Due to banks	-85,290	-77,102
Other liabilities	-3,053	1,158
Net cash flow from operating activities	-63,782	-129,772
Cash flow from investing activities		
Proceeds from sales of tangible assets	35	36
Purchase of tangible and intangible assets	-549	-269
Net cash flow from investing activities	-514	-233
Cash flow from financing activities		
Proceed from issued securities	39,248	36,220
Principal repayment on issued securities	-110,981	-36,651
Long term loans repayment	92,745	72,466
Dividend payment to non-controlling interests	-214	-207
Subordinated Tier 1 capital	-35,225	0
Net cash flow from financing activity	-14,427	71,828
Net increase in cash and cash equivalents	-78,723	-58,177
Opening balance of cash and cash equivalents	213,974	135,251
Closing balance of cash and cash equivalents	135,251	77,074
Breakdown of cash and cash equivalents:		
Cash	4,327	3,273
Balances with National Bank of Hungary	60,635	32,255
Dues from banks with a maturity of less than 90 days	70,289	41,546
Closing balance of cash and cash equivalents	135,251	77,074
<i>Supplementary data</i>		
Tax paid	-1,478	-723
Interest received	29,276	11,999
Interest paid	-19,384	-9,486

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Sector: Financial services
Reporting period: 01.01.2017 – 30.06.2017

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Investor relations: Rita Bozzai

Statement of Shareholders' Equity 'A'

Table includes the special banking tax for the period of reporting pro rata

(consolidated non-audited data as of 30 June 2017 and audited data as of 1 January 2016 and 1 January 2017 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	Cash-flow hedge reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Changes due to minority interest	Retained earnings (deficit)	Shareholders' Equity
1 January 2016	10,849	-207	27,926	0	31,749	584	14	21,480	16,137	108,531
Profit/(Loss)								-4,454	-11,048	-15,502
Other comprehensive income						27	-16			11
Subordinated Tier 1 capital					-31,749				-3,477	-35,226
Dividend in 2016								-214		-214
1 January 2017	10,849	-207	27,926	0	0	611	-2	16,812	1,612	57,601
Profit/(Loss)								64	95	159
Other comprehensive income				5		-21	-7			-23
Dividend in 2017								-207		-207
30 June 2017	10,849	-207	27,926	5	0	590	-9	16,669	1,707	57,530

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Statement of Shareholders' Equity 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2017 and audited data as of 1 January 2016 and 1 January 2017 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	Cash-flow hedge reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Changes due to minority interest	Retained earnings (deficit)	Shareholders' Equity
1 January 2016	10,849	-207	27,926	0	31,749	584	14	21,480	16,137	108,531
Profit/(Loss)								-4,454	-11,048	-15,502
Other comprehensive income						27	-16			11
Subordinated Tier 1 capital					-31,749				-3,477	-35,226
Dividend in 2016								-214		-214
1 January 2017	10,849	-207	27,926	0	0	611	-2	16,812	1,612	57,601
Profit/(Loss)								-90	-238	-328
Other comprehensive income				5		-21	-7			-23
Dividend in 2017								-207		-207
30 June 2017	10,849	-207	27,926	5	0	590	-9	16,515	1,374	57,043

Off-balance Sheet items – Commitments

(consolidated non-audited data as of 30 June 2016, 31 March 2017 and 30 June 2017 and audited data as of 31 December 2016 according to IFRS)

in HUF million	30 June 2016	31 December 2016	31 March 2017	30 June 2017
Commitments				
Guarantees	12,925	11,350	11,653	11,030
Undrawn commitments	62,443	38,503	47,031	43,239
Total	75,368	49,853	58,684	54,269

Transactions with related parties

(consolidated non-audited data as of 30 June 2016, and 30 June 2017 according to IFRS)

in HUF million	Transactions between FHB Mortgage Bank and owners with influential share	
	30 June 2016	30 June 2017
Due from banks	30,349	28,106
Refinanced mortgage loans	0	0
Fair value of derivatives	0	0
Other assets	29	11
Total assets	30,378	28,118
Due to banks	0	4,000
Issued securities	0	0
Financial liabilities at fair value through profit and loss	0	0
Other liabilities	0	0
Total liabilities	0	4,000
	30 June 2016	30 June 2017
Interest income	175	37
Interest expense	0	0
Net interest income	175	37
Fees and commission income	67	46
Fees and commission expense	0	-11
Net fees and commissions	67	35
Gains from securities	0	0
Net trading result	0	0
Other operating income	5	21
Other operating expense	0	0
Operating profit	246	94
Credit loss expense	0	0
General and administrative expense	-34	-13
Profit for the year	213	80

For the purpose of the financial statements, related parties include 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.

Related parties have the power of control over or have a significant influence in decisions relating to finance and operation of another enterprise. The Group enters into transactions with associated parties under market conditions. In the above report transactions between FHB Mortgage Bank and owners with influential share are presented.

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Data forms relating to the structure of shares and the group of owners

Ownership structure, participation and voting rates (as at 30 June 2017)

Description of owner	Total equity ¹						Listed series ¹					
	At the beginning of actual year			End of actual period			At the beginning of actual year			End of actual period		
	% ²	% ³	Qty	%	%	Qty	%	%	Qty	%	%	Qty
Series "A" shares listed on BSE												
Domestic institution/company	39.0%	45.0%	42,345,991	37.6%	43.4%	40,808,675	39.0%	45.0%	42,345,991	37.6%	43.4%	40,808,675
Foreign institution/company	10.7%	12.3%	11,597,658	11.9%	13.7%	12,888,161	10.7%	12.3%	11,597,658	11.9%	13.7%	12,888,161
Domestic individual	5.9%	6.8%	6,435,206	6.1%	7.0%	6,616,692	5.9%	6.8%	6,435,206	6.1%	7.0%	6,616,692
Foreign individual	0.0%	0.0%	22,330	0.0%	0.0%	25,876	0.0%	0.0%	22,330	0.0%	0.0%	25,876
Employees, senior officers	0.1%	0.1%	87,963	0.0%	0.0%	26,008	0.1%	0.1%	87,963	0.0%	0.0%	26,008
Treasury shares	0.2%	0.0%	253,601	0.2%	0.0%	253,601	0.2%	0.0%	253,601	0.2%	0.0%	253,601
Government held owner ⁴	4.5%	5.1%	4,832,225	4.5%	5.1%	4,832,225	4.5%	5.1%	4,832,225	4.5%	5.1%	4,832,225
Other	0.4%	0.5%	425,036	0.5%	0.6%	548,772	0.4%	0.5%	425,036	0.5%	0.6%	548,772
Series total	60.8%	69.9%	66,000,010	60.8%	69.9%	66,000,010	60.8%	69.9%	66,000 010	60.8%	69.9%	66,000 010
Series "B" shares non-listed on BSE												
Domestic institution/company	13.1%	0.0%	14,163,430	13.1%	0.0%	14,163,430						
Series total	13.1%	0.0%	14,163,430	13.1%	0.0%	14,163,430						
Series "C" shares non-listed on BSE												
Domestic institution/company	26.1%	30.1%	2,832,686	26.1%	30.1%	2,832,686						
Series total	26.1%	30.1%	2,832,686	26.1%	30.1%	2,832,686						
TOTAL	100.0%	100.0%	82,996,126	100.0%	100.0%	82,996,126						

¹If the listed series is the same as the entire share capital, this must be indicated and no separation is required. If there are several series on the Stock Market, the ownership structure must be given for every series.

²Ownership share

³The voting rights ensuring participation in decision making at the General Shareholder's Meeting of Issuer. If the ownership share and the voting rights are identical, only the ownership share column must be filled and submitted/disclosed, while the fact must be indicated!

⁴E.g.: MNV Zrt, TB, local authorities, companies with 100% state ownership, etc.

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Number of treasury shares held in the year under review relating to listed series

	30 June 2016		31 December 2016		31 March 2017		30 June 2017	
FHB Mortgage Bank Plc.	253,601	0.23%	253,601	0.23%	253,601	0.23%	253,601	0.23%

Owners with more than 5% ownership relating to listed series (as at 30 June 2017)

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
Magyar Takarékszövetkezeti Bank Ltd.	no	15,970,000	24.20%
Clearstream Banking SA (Silvermist Estate SA)	yes	8,708,085	13.19%
Fókusz Takarékszövetkezet	no	8,620,534	13.06%
B3 TAKARÉK Szövetkezet	no	6,952,134	10.53%
Magyar Nemzeti Vagyonkezelő Zrt.	no	4,832,225	7.32%
Total		45,082,978	68.31%

Owners with more than 5% ownership relating to total equity (as at 30 June 2017)

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
Magyar Takarékszövetkezeti Bank Ltd.	no	17,922,592	19.22%
Clearstream Banking SA (Silvermist Estate SA)	yes	8,708,085	8.03%
Fókusz Takarékszövetkezet	no	9,036,166	8.91%
B3 TAKARÉK Szövetkezet	no	7,086,030	6.72%
Magyar Nemzeti Vagyonkezelő Zrt.	no	4,832,225	4.45%
Total		47,585,098	47.33%

Data forms related to the organisation and operation of the issuer

Changes in the headcount of full-time staff (persons)

	End of reference period 31/06/2016	Current year opening 31/12/2016	End of last quarter 31/03/2017	Current period closing 30/06/2017
Bank	129	133	133	122
Consolidated	977	996	1,037	1,005

Persons in senior positions and (strategic) employees having an influence on the operations of the Issuer (as at 30 June 2017)

Type ¹	Name	Position	Beginning of mandate	End/ termination of mandate	No. of shares held
BoD	Vida József	Chairman	30.11.2016	30.11.2021	0
BoD	dr. Nagy Gyula	Member, CEO	26.04.2017	30.11.2021	0
BoD	Tóth Edit	Member, Deputy CEO	26.04.2017	30.11.2021	0
BoD	Mészáros Attila	Member	30.11.2016	30.11.2021	0
BoD	Soltész Gábor Gergő	Member	30.11.2016	30.11.2021	0
SB/AC	dr. Harmath Zsolt	Chairman	02.01.2017	02.01.2022	0
SB/AC	dr. Antal Kadosa	Member	02.01.2017	02.01.2022	0
SB	dr. Kovács Mónika	Member	02.01.2017	02.01.2022	0
SB/AC	Pórfy György	Member	02.01.2017	02.01.2022	0
SB	dr. Reiniger Balázs	Member	02.01.2017	02.01.2022	0
TOTAL No. of shares held by management:					0

¹ Member of the Board of Directors (BoD), member of the Supervisory Board (SB), member of the Audit Committee (AC)

Information and disclosures in 2017

Important information and disclosures issued by the FHB Group fall into the following categories:

- Events relating to Group operation (banking announcements, changes in the Rules of Operation)
- Interim management reports, annual reports
- Information in relation to mortgage bonds (offerings and repurchase, updating of the domestic and international mortgage bond issues program, value of mortgage bonds and their cover)
- Month end information about the amount of issued capital and the voting rights
- Proposals submitted to the AGM (Annual General Meeting) and invitation to the AGM
- Invitation and proposals submitted to the Extraordinary General Meeting
- Shareholders' announcements

Announcements, information and disclosures published by FHB are available at the following sites:

www.bet.hu
www.kozzetetelek.hu
www.fhb.hu