



FHB Mortgage Bank Plc.

Half-year financial report for the first half of 2014

Budapest, 14th August, 2014

I. SUMMARY CONSOLIDATED FIGURES

in HUF million	30/06/2013	31/03/2014	30/06/2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
Main balance sheet items					
Total assets	739,032	789,321	674,715	-14.5%	-8.7%
Refinanced loans	148,842	129,981	125,053	-3.8%	-16.0%
Loans (gross)	365,781	366,001	365,206	-0.2%	-0.2%
Mortgage bonds	234,971	202,438	177,310	-12.4%	-24.5%
Senior unsecured bonds	110,777	96,004	99,533	3.7%	-10.1%
Customer deposits	168,957	243,809	259,887	6.6%	53.8%
Shareholders' equity	75,929	76,949	73,397	-4.6%	-3.3%
<i>Capital adequacy ratio</i>	-	11.35%	11.43%	0.68%-pt	-
<i>CET1 ratio¹</i>	-	8.76%	9.15%	4.52%-pt	-

in HUF million	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013	H1 2013	H1 2014	H1 2014 / H1 2013
Main P/L items								
Net interest income	4,399	5,226	5,062	-3.1%	15.1%	8,671	10,288	18.6%
<i>Net interest margin</i>	2.43%	2.78%	2.77%	-0.09%-pt	13.94%-pt	2.34%	2.94%	0.59%-pt
Net fees and commissions	1,010	1,280	1,048	-18.1%	3.8%	1,865	2,328	24.8%
Total income (with net fees)	2,146	6,897	1,158	-83.2%	-46.0%	6,617	8,055	21.7%
Provision for impairment on loan losses	-1,284	-1,474	-1,115	-24.4%	-13.2%	-3,935	-2,589	-34.2%
Operating cost	-4,124	-3,841	-4,400	14.6%	6.7%	-8,126	-8,241	1.4%
<i>Cost to income ratio</i>	192.2%	55.7%	379.9%	582.2%-pt	97.7%-pt	122.8%	102.3%	-20.5%-pt
<i>Cost/income ratio w/o special banking tax</i>	131.1%	50.5%	235.9%	367.0%-pt	79.9%-pt	97.6%	87.0%	-10.6%-pt
Profit before tax	-3,262	1,581	-4,357	-375.5%	-	-5,444	-2,775	-
Profit after tax	-3,004	1,145	-3,554	-410.4%	-	-4,594	-2,409	-
Profit after tax w/o special banking tax	-2,004	1,852	-2,847	-253.7%	-	-2,887	-995	-65.5%
<i>Basic EPS (HUF)</i>	<i>-182.72 Ft</i>	<i>68.12 Ft</i>	<i>-213.90 Ft</i>	<i>-414.0%</i>	<i>17.1%</i>	<i>-140.47 Ft</i>	<i>-73.89 Ft</i>	<i>-47.4%</i>
<i>Return on Assets</i>	<i>-1.66%</i>	<i>0.61%</i>	<i>-1.95%</i>	<i>-420.2%</i>	-	<i>-1.24%</i>	<i>-0.69%</i>	<i>0.6%</i>
<i>Return on Equity</i>	<i>-15.9%</i>	<i>6.1%</i>	<i>-19.0%</i>	<i>-412.5%</i>	-	<i>-12.1%</i>	<i>-6.5%</i>	<i>5.6%</i>
<i>ROAA w/o special banking tax</i>	<i>-1.11%</i>	<i>0.98%</i>	<i>-1.56%</i>	<i>-258.6%</i>	<i>40.7%</i>	<i>-0.78%</i>	<i>-0.28%</i>	<i>0.5%</i>
<i>ROAE w/o special banking tax</i>	<i>-10.6%</i>	<i>9.8%</i>	<i>-15.2%</i>	<i>-254.7%</i>	<i>43.6%</i>	<i>-7.6%</i>	<i>-2.7%</i>	<i>4.9%</i>

¹ As of 31 March, 2014, the value of CET1 ratio differs from the first quarter's figure published in interim management report due to a change in the method of calculation, since the National Bank provided specific methodological guidance on the method of calculating the ratio for CET1 after the publication of the report.

II. REPORT ON THE FIRST HALF AND THE SECOND QUARTER OF 2014 RESULTS OF FHB GROUP

This report of FHB Mortgage Bank Public Company Limited by Shares for first half of 2014 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 narratives compare the consolidated, audited figures as of 31 December 2013, and the consolidated, non-audited figures as of 30 June 2013, 31 March 2014 and 30 June 2014.

The Group accounted the entire amount of special banking tax prescribed for 2014 according to IFRS pursuant to the provisions of Act LIX of 2006. The Group accepts and does not contest this amount set by law, the Group is bound to pay during the course of the year 2014 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.

For the information of 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 realised **HUF -3,554 million consolidated profit after tax** in Q2 2014, considering the first half of the year HUF 2.4 billion loss. Negative result was due to the provisions of HUF 4.7 billion generated for the expected impact of the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions declaring the use of foreign-exchange-rate margins is void.

The Hungarian Parliament adopted the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions on 4 July 2014, and its main provisions become effective on 26 July 2014. Considering that the concrete way of financial settlement with clients is going to be handled in a separate act, and the approved law grants legal remedy to credit institutions in connection with unilateral changes to consumer agreements, the impact of measures in the act may not be quantified at the moment. According to preliminary estimations, as a result the use of foreign-exchange-rate margins is void the FHB Group may be obliged to repay approximately HUF 4.7 billion, to which the Group generated provisions in the second quarter. The impact of legal provisions on the fairness of unilateral changes to consumer agreements may be estimated to HUF 12-15 billion, which amount may either significantly different depending on the way of financial settlement and the interpretation of legislation on limitation period. In connection with the latter amount the Bank intends to exercise the aforementioned legal remedy. After accomplishment of the legal action and clarification of rules of financial settlements, the Group will account the possible negative impacts on that probably in Q3 of 2014.

Adjusted by one-off items – such as HUF 4.7 billion of above mentioned provision; HUF 1.4 billion of special banking tax and further HUF 500 million due to financial institution levy related to exchange rate protection scheme and non-shifted financial transaction levy – **profit before tax of the Banking Group amounted to HUF 3.8 billion.**

Net interest income decreased by HUF 164 million compared to the previous quarter, due to declining interest rates and to the fall in total assets. Net interest income in the second quarter was exceeding HUF 5.0 billion. **Net interest margin** based on the average balance sheet total is **2.77%**, as compared to the previous quarter, shows essentially no change, while by 34 basis points higher than a year ago.

The amount of **net fee and commission income** decreased slightly compared to the first quarter, but it was partially offset by 7% increase of net financial (trading) results.

The amount of **operating costs** - without financial transaction tax and credit institution levy recorded under other expenses from 2014 - was **HUF 4.4 billion** in the second quarter, 14.6% higher than the previous quarter, while comparing the first half data of 2014 to the first half of 2013 shows a 1.4% growth and corresponds to the average quarterly spending for the past year - despite the Group's expansion.

The **contribution of associates' performance** on the first half-year's consolidated profit was HUF 659 million.

Consolidated total assets of the FHB Group amounted to HUF 674.7 billion on 30 June 2014, down 8.7%, to approximately HUF 64.3 billion lower than a year earlier and by HUF 114.6 billion, 14.5% lower than at the end of previous quarter.

The decrease in total assets has been driven essentially by the liability side, including the decline in interbank liabilities which could be explained by maturity of 2 years covered loan facility issued by Hungarian National Bank to stimulate corporate lending. The transformation of the structure of interest-bearing liabilities continued: deposits nearly HUF 260 billion at the end of the quarter share of 44.6% of the total, compared with the end of the previous quarter's 35.6% and the previous year's 26.5%. **Volume of deposits** increased by over HUF 90 billion in one year, of which more than 60% related to corporate business. In Q2 2014 growth of retail deposits came from deposits sold in postal network.

Loans amounted to HUF 365.2 billion on 30 June 2014, which was 0.2% lower than a year before and representing 0.2% decrease compared to 31 March 2014. The retail loan disbursements increased steadily during the semester, however, the stock continued to decline. The corporate loan portfolio increased to HUF 85.3 billion by 30 June, which is 23.3% of the total loan portfolio.

Quality of the loan portfolio showed slight improvement continuing the trends of the previous quarters. NPL ratio decreased to 20.1% for the end of Q2 2014 and coverage of non-performing portfolio reached 53.5% after a small increase.

Capital adequacy ratio of FHB Group – based on regulation effective since 1 January 2014 (CRR) – including also additional supervisory capital requirements (SREP) is 11.43% as of 30 June 2014, compared to 11.35% in the previous quarter. CET1 ratio reached 9.15% at the end of June, while it was 8.76% as of 31 March 2014. As a result of lower capital requirements, both CET1 and the total capital adequacy ratio show an improvement compared to the previous quarter, despite a slight decrease in own funds due to HUF 3 billion losses realized in Q2 2014.

Performance of FHB shares

In terms of capitalisation, FHB is 5th in the rank of "Premium" category listed companies and contributes 1.55% to the aggregate capitalisation of the BSE based on 30 June 2014 data.

As of 30 June 2014, FHB's weight in the BUX index was 1.26% (remains the 5th biggest weight in the basket), and was still 1st with a weight of 15.47% in BUMIX, the index of share prices of mid- and small-cap companies.

The price of FHB Mortgage Bank's shares slightly changed, it closed the second quarter at HUF 888 – after a HUF 2 decrease compared to the end of the previous quarter.

2. Main activities and subsidiaries' performance

CMB issues, funding

As with the magnitude of previous policy-rate cut at the end of May, the Monetary Council of the National Bank of Hungary (NBH) lowered the base rate by another 10 basis points to 2.30% (which is 2.10% since 23 July 2014), in line with analysts' expectation. The series of interest rate cuts has not shaken the Forint, while Hungary's country risk assessment improved and the government bond yields dropped drastically.

FHB Mortgage Bank completed five bond issuances in a total value of HUF 14.3 billion in Q2 2014. Three bond issues took place via auctions (including two new issues and a tap issue), while two issuances of bonds were done by public placement on the market.

The housing market and retail mortgage lending

The housing construction has grown in H1 2014. According to CSO statistics, 3,265 new homes were built in H1 2014, 22% more than in H1 2013 while the number of new housing construction permits issued was 4,009, 18% higher compared to the 2013 data.

As of 30 June 2014, the volume of retail mortgage loans (HUF 5,498 billion) was down by 2.6% compared to 30 June 2013; the volume change adjusted by exchange rate volatility was -6.4%. Volume of HUF loans (HUF 2,094 billion) decreased by 1.0% year-on-year; while the FX loan portfolio (HUF 3,404 billion) declined by 3.6% (-9.5% adjusted by the volatility of exchange rate).

Retail housing loans decreased by 0.5% in Q2, change adjusted by exchange rate volatility was -1.2%. At the end of June 2014, housing loans amounted to HUF 3,344 billion representing a decline of 2.1% year-on-year, and 5.4% adjusted by exchange rate volatility. Volume of housing loans denominated in HUF was HUF 1,569 billion, showing a 0.2% increase during the last quarter, while volume of FX loans decreased by 1.0% (adjusted by the volatility of exchange rate it was a 2.3% decline).

General-purpose mortgage loans amounted to HUF 2,154 billion as of 30 June 2014; after exchange rate adjustment the portfolio decreased by 7.9% and 2.2% quarter-on-quarter and year-on-year, respectively. HUF denominated general-purpose mortgage loans (HUF 525 billion) increased by HUF 3 billion quarter-on-quarter and by 0.8% year-on-year. The exchange rate adjusted change in FX denominated general-purpose mortgage loans was -3.0% in Q2 2014 and -10.4% year-on-year.

Own lending

Volume of gross loans of FHB Group amounted to HUF 365.2 billion as of 30 June 2014, and decreased by 0.2% compared to the previous quarter's figure (HUF 366.0 billion) and year-on-year decrease was also 0.2%. Share of FX loans in total outstanding loan portfolio was 49.3% as of 30 June 2014, which is 27 bps lower than in the previous quarter. The share of FX loans of retail loans was 57.8% which is slightly lower than in Q1 2014 due to the weakening of the Forint.

Retail loans remained dominating within the loan portfolio with a contribution of 76.7% (76.8% on 31 March 2014). Retail loans declined by 0.4% (or HUF 1.15 billion) and 4.1% (or HUF 11.85 billion) quarter-on-quarter and year-on-year, respectively.

in HUF million	30/06/2013	31/03/2014	30/06/2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
Retail loans	291,784	281,083	279,934	-0.4%	-4.1%
Housing loans	146,307	140,378	138,906	-1.0%	-5.1%
Other mortgage loans	134,303	129,760	128,433	-1.0%	-4.4%
Consumer loans	6,270	6,704	8,409	25.4%	34.1%
Loans for employees	1,652	1,531	1,522	-0.6%	-7.9%
Retail leasing	3,252	2,710	2,664	-1.7%	-18.1%
Corporate loans	73,998	84,918	85,272	0.4%	15.2%
Corporate loans	73,049	83,910	84,161	0.3%	15.2%
Corporate leasing	949	1,008	1,111	10.2%	17.1%
Total own lending, gross	365,782	366,001	365,206	-0.2%	-0.2%
Impairment	-39,372	-39,171	-39,293	0.3%	-0.2%
Loans, net	326,410	326,830	325,913	-0.3%	-0.2%
Refinanced loans	148,842	129,981	125,053	-3.8%	-16.0%

In terms of structure of retail loans, housing loans as the largest volume contributed 49.6% and other mortgage loans contributed 45.9% to the retail loan portfolio. A year before proportion was 50.1% and 46.0%, respectively. Reverse mortgages achieved HUF 3.1 billion as of 30 June 2014, there was no significant change. The volume of consumer loans amounted to HUF 8.4 billion, which is 25.4% higher than in the previous quarter. Volume of corporate loans amounted to HUF 85.3 billion, representing 23.3% of the total portfolio. The amount increased by 0.4% compared to the previous quarter and showed a 15.2% increase year-on-year.

In Q2 2014, HUF 4.1 billion of retail and HUF 2.3 billion of corporate loans have been disbursed; the first figure is more than 60% higher than in last year. The Bank placed HUF 1.8 billion loans to corporate customers within the framework of Funding for Growth Scheme. Retail loan disbursement was 44% higher than in Q1 2014, share of subsidized housing loans was approximately 20%.

During the quarter, number of clients contracted to the FX rate protection scheme grew by 689, as of 30 June 2014, the number of signed contracts was 9,289. FHB offered further 106 properties to the National Asset Management Company (NET) in Q2 2014 and 233 transactions were closed because of NET sale with a total amount of almost HUF 1 billion. Since the start of the program the number of completed transactions exceeded 1,600 units.

FHB Commercial Bank Ltd.

According to Hungarian Accounting Standards, total assets of FHB Commercial Bank were HUF 469.1 billion as of 30 June 2014, showing a 1.6% increase compared to a year before (HUF 461.6 billion).

In the second quarter of 2014, volume of gross loans according to Hungarian Accounting Standards was HUF 237.4 billion increasing by 7.6% compared to Q2 2013. Gross loans represented 50.6% of total assets. Corporate loans of FHB Commercial Bank – excluding intra-group loans – amounted to HUF 72.2 billion having a share of 30.4% among total loan portfolio.

Interest bearing liabilities amounted to HUF 428.6 billion, representing 91.4% among liabilities, and showed a slight growth year-on-year and a 16.7% decline quarter-on-quarter. Deposits represented 60.5%, HUF 259.2 billion among interest bearing liabilities, while interbank liabilities represented the second highest ratio with the amount of HUF 145.7 billion, containing refinanced loans from FHB Mortgage Bank, and refinancing related to outstanding loans already drawn under the Funding for Growth Scheme. The reduction in interbank in the quarter was attributed to the phasing out of two-year mortgage bonds-covered liabilities introduced by NBH to stimulate corporate lending.

Deposits increased by more than 51% compared to the previous year, due to a significant increase in corporate deposits and growing amount of retail deposits driven by deposit collection through post offices. Volume of corporate deposits was slightly above retail deposit's volume as of 30 June 2014; its share was 53.2%. Volume of sight deposits increased by more than HUF 48 billion year-on-year and HUF 21 billion quarter-on-quarter. As a result, sight deposits represented 34.8% of total deposits.

At the end of the first half of 2014, number of retail and corporate accounts managed by Commercial Bank was 173 and 10 thousand, respectively, and 129 thousand retail and 6.5 thousand corporate banking cards related to these accounts. Both number of accounts and cards represented growth in yearly and quarterly comparison, as well, despite the fact that related to the campaign launched at the end of 2013 aiming to promote higher activity at bank accounts significant number of inactive accounts were terminated. The sale of postal account packages, which has started in April 2014, also contributed to growth of the number of retail accounts.

According to Hungarian Accounting Standards, profit after tax was HUF 80 million loss, which primarily was due to provisions of HUF 2,450 million generated by the Bank following the approval of the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions declaring the voidness of use of foreign exchange-rate margins. Net interest income – in controlling approach - was 1.0% higher as a result of decreasing interest income (11.7%), and interest expenses (20.7%). Net fee and commission income was 1.7% higher than a year before. Operating costs declined by 2.3% compared to H1 2013.

Shareholder's equity according to HAS was HUF 30.3 billion as of 30 June 2014.

FHB Annuity Ltd.

FHB Annuity Ltd. offers two kinds of products to senior customers. FHB Annuity product is sold directly by FHB Annuity Ltd. FHB Mortgage Annuity product is a reverse mortgage loan, which means the contracts being reported in the balance sheet of FHB Mortgage Bank Plc.

At 3 June 2013, the Parliament accepted amendment in the Act LX of 2003 on Insurance Companies and Insurance Activities. Hence the alteration, the company does not sign new annuity contracts anymore. As of 30 June 2014, the number of contracts alive was 601, which represents HUF 10.9 billion real estate. Profit after tax of the company according to HAS was HUF 538.8 million loss in H1 2014.

FHB Real Estate Ltd.

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

The real estate cover valuation business generated HUF 109 million revenue in H1 2014, which is HUF 51 million more than in H1 2013, while real estate brokerage reached HUF 51 million income in H1 2014, which is lower by 41% compared to the same period in 2013 (HUF 87 million). Profit after tax of the company was HUF 42 million loss in the first half of 2014.

FHB Real Estate Lease Ltd.

Since 2011, the company has exclusively sold real estate lease products (besides managing its existing mortgage loan portfolio).

As of 30 June 2014, the consolidated loan volume of FHB Real Estate Lease Ltd. according to IFRS was HUF 7.4 billion. Lease financing disbursement amounted to HUF 674 million in 2014. Leasing portfolio reached HUF 3.75 billion as of 30 June 2014. The quarterly change was 1.4% increase (from HUF 3.7 billion as of 31 March 2014), while the year-on-year rise was 10.3% (from HUF 3.4 billion as of 30 June 2013). FHB Real Estate Lease Ltd. closed the first half of 2014 with HUF 350 million loss consolidated according to IFRS.

Diófa Asset Management Ltd.

Diófa Asset Management Ltd. was acquired by FHB Mortgage Bank Plc in early September of 2013. Prior to joining the FHB Banking Group, Diófa Asset Management Ltd. was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients.

After the acquisition, Diófa Asset Management Ltd. still sustains its former focus areas, in addition new retail funds have been launched in the branch network of FHB Bank. Sales volume of FHB Forte Short Bond Fund, FHB Money Market Fund and FHB Absolute Yield Fund exceeded HUF 10.7 billion by the end of H1 2014 compared to HUF 5.2 billion at the end of 2013.

At the beginning of 2014, Asset Management Ltd. has launched two new funds, which are distributed by Magyar Posta Investment Services Ltd. through the Hungarian Post Office's network. Net assets value of Hungarian Post Real Estate Fund exceeded HUF 8.6 billion by the end of June, while the market value of Hungarian Post Money Market Fund was over HUF 1.6 billion.

In the last quarter, Asset Management Ltd. successfully participated in several asset management tenders invited by pension funds. As a result, net asset value of managed portfolio of institutional asset management exceeded HUF 79 billion as of 30 June 2014, compared to HUF 3.2 billion at the end of Q1 2014. Increase of value of institutional asset management related to ten portfolios of two pension funds.

In the last six months, total net value of assets and other portfolios under management increased to HUF 124.5 billion from HUF 26.1 as of 31 December 2013.

Asset Management Ltd. closed H1 2014 with HUF 1.2 million loss according to Hungarian Accounting Standards, subscribed capital amounted to HUF 135.4 million and shareholders' equity to HUF 122.8 million as of 30 June 2014.

Dijbeszedő Operational and Service Llc.

Dijbeszedő Operational and Service Llc. (DÜSZ) was established by splitting-off from Dijbeszedő Holding Ltd. DÜSZ Llc. is 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 million on 30 June 2014, shareholder's equity amounted to HUF 1.3 billion and profit after tax reached HUF 19,1 million (according to HAS) in H1 2014.

Associated companies

Dijbeszedő Faktorház Ltd. (DBF) realised HUF 148 million pre-tax profit related to purchased claims before maturity in the second quarter of 2014 (the profit of the first half was HUF 461 million) according to HAS, while pre-tax profit from purchased expired receivables amounted to HUF 803 million (the profit of the first half of 2014 was HUF 1.591 million HUF) according to HAS. Shareholder's equity of DBF was HUF 8,064 million at the end of the second quarter of 2014.

The main activity of **DijNET Ltd.** is operation and development of an electronic bill presentment and payment system. In Q2 2014, profit after tax (according to HAS) was HUF 3.5 million. The cumulated profit after tax

reached HUF 15.5 million at the end of the first half of 2014. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 111 million at 30 of June, 2014.

Dijbeszedő IT Llc. (DBIT), which provides services related to the IT activities of companies belonging to the Dijbeszedő Group, reached HUF 43.3 million losses in the second quarter of 2014 was (profit after tax in H1 2014 was HUF 43.7 million losses). Subscribed capital amounted to HUF 670 million, while shareholder's equity amounted to HUF 573.6 million at the end of June, 2014.

By the end of June 2014, **Magyar Posta Investment Services Ltd. (MPBSZ)** opened more than 11 thousand securities and long-term investment accounts; the securities portfolio managed on accounts was more than HUF 23 billion at the end of the first half of 2014, compared to approximately HUF 4.5 billion at the end of December 2013. MPBSZ closed H1 2014 with HUF 306 million loss (according to HAS). The company's shareholder's equity was HUF 659 million and total assets amounted to HUF 1.0 billion.

Associated companies owned by DÜSZ are jointly managed by FHB and Magyar Posta (Hungarian Post Ltd.) according to the syndicate agreement.

FHB Mortgage Bank acquired direct interest amounting to 25% in **Magyar Takarék Asset Management (MATAK) Ltd.** through a share capital increase in February 2014. MATAK had no revenue in the first half of 2014 and generated a net loss of HUF 250 million according to HAS.

Organisational changes and headcount

As of 30 June 2014, the consolidated full-time headcount was 815.6, 12.5 persons more than the headcount of 803.1 as of 31 March 2014 and 52.5 persons more than the headcount of 763.1 as of 30 June 2013. The number of employees has increased in line with the Group's expansion, due to the new subsidiaries joining the Group and growing the number of tasks and activities related to these new members.

Headcounts of the Group members were as follows:

	30/06/2013	31/03/2014	30/06/2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
FHB Mortgage Bank Plc.	171.3	181.2	184.6	1.9%	7.8%
FHB Commercial Bank Ltd.	567.1	583.3	587.5	0.7%	3.6%
FHB Life Annuity Ltd.	7.2	6.0	5.9	-2.1%	-17.5%
FHB Real Estate Ltd.	8.1	8.9	8.9	0.0%	9.2%
FHB Real Estate Leasing Ltd.	9.5	10.7	9.9	-8.2%	3.7%
Diófa Asset Management Ltd.	0.0	10.9	15.9	45.8%	-
Hungarian Card Ltd.	0.0	2.0	3.0	50.0%	-
FHB Consolidated	763.1	803.1	815.6	1.6%	6.9%

Changes in key position

The Annual General Meeting of the Company on 28 April 2014 elected Deloitte Hungary Audit and Consulting Ltd. for the auditor also for 2014 (location: 1068 Budapest, Dózsa György str. 84/C; reg. number: 01-09-071057; chamber membership number: 000083; HFSA number: T-000083/94). The appointed auditor responsible is Tamás Horváth (mother's name: Veronika Grósz; birth place, date: Budapest, 08/03/1969; location: 1028 Budapest, Bölény str. 16; chamber membership number: 003449; HFSA number: E003449).

Based on the proposal of Board of Directors, Annual General Meeting re-elected Csaba Lantos as member of Supervisory Board.

In line with the rules of new Civil Code, Annual General Meeting decided on the setting up of Audit Committee and elected Csaba Lantos, Enikő Mártonné Uhrin, Miklós Szabó and Tibor Kádár to the Audit Committee as members.

There were no personnel changes during the second quarter in the Bank's management and executive bodies.

Post-balance sheet date events

On 4 July 2014 the Hungarian Parliament adopted the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions, whose main provisions become effective on 26 July 2014. Considering that the concrete way of financial settlement with clients is going to be handled in a separate act, and the approved law grants legal remedy to credit institutions in connection with unilateral changes to consumer agreements, the impact of measures in the act may not be quantified at the moment.

According to preliminary estimations, as a result the use of foreign-exchange-rate margins is void the FHB Group may be obliged to repay approximately HUF 4.7 billion, to which the Group generated provisions in the second quarter. The impact of legal provisions on the fairness of unilateral changes to consumer agreements may be estimated to HUF 12-15 billion, which amount may either significantly differ depending on the way of financial settlement and the interpretation of legislation on limitation period. In connection with the latter amount the Bank intends to exercise the aforementioned legal remedy. After accomplishment of the legal action and clarification of rules of financial settlements, the Group will account the possible negative impacts on that probably in Q3 of 2014.

The National Bank of Hungary authorized with its decision dated 9 May 2014, that Magyar Takarékszövetkezet Asset Management (MATAK) Ltd. – standing in close links with FHB Mortgage Bank – shall gain a direct interest amounting to 50% and FHB through MATAK Ltd. shall gain an indirect, more than 10%, but less than 20% qualifying interest in Bank of Hungarian Savings Cooperatives Co. (MTB) Ltd. through share purchase. Closing of the transaction took place in two steps on 30 May 2014 and on 5 August 2014. As a result MATAK Ltd. acquired 54.82% direct interest, and FHB through MATAK Ltd. has 13.71% indirect interest in MTB Ltd.

The Moody's Investor Service published on 12 August 2014, that it takes rating actions on 2 Hungarian Banks, included the ratings of FHB Mortgage Bank Co. Plc. The local and foreign currency long terms deposit rating of FHB Mortgage Bank changed from "B2" to "B3", and the "Not Prime short term ratings" remained unchanged. The outlook on the bank's deposits ratings remains negative. The standalone bank financial strength (BFSR) rating of "E+/b3" was downgraded to "E/caa1" with stable outlook.

On 13 August 2014 Moody's Investor Service announced the downgrade of the rating of covered mortgage bonds issued by FHB Mortgage Bank Co. Plc. The rating of covered mortgage bonds has been downgraded to „Ba3” from „Ba2”. This rating action on FHB's covered bonds was prompted by the mentioned above Moody's downgrade of FHB Mortgage Bank's local and foreign currency long terms deposit rating.

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

1. P&L structure

in HUF million	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013	H1 2013	H1 2014	H1 2014 / H1 2013
Interest income	15,914	14,840	13,998	-5.7%	-12.0%	33,297	28,838	-13.4%
Interest expense	-11,515	-9,614	-8,935	-7.1%	-22.4%	-24,625	-18,550	-24.7%
Net interest income	4,399	5,226	5,062	-3.1%	15.1%	8,671	10,288	18.6%
Fees and commissions income	1,184	1,470	1,332	-9.4%	12.5%	2,221	2,802	26.2%
Fees and commissions expense	-174	-190	-284	49.3%	63.0%	-356	-474	33.2%
Net fees and commissions	1,010	1,280	1,048	-18.1%	3.8%	1,865	2,328	24.8%
Foreign exchange gains, net	-1,070	1,192	-497	-	-53.6%	497	695	39.8%
Fair value adjustment	-909	-476	755	-	-	-2,465	279	-
Gain on securities, net	261	394	930	136.3%	256.6%	577	1,324	129.4%
Net financial (trading) result	-1,718	1,110	1,188	7.0%	-	-1,391	2,298	-
Other operating income	295	628	92	-85.4%	-68.9%	617	720	16.6%
Other operating expenses	-1,840	-1,749	-6,488	271.0%	252.7%	-3,146	-8,237	161.8%
o/w special banking tax & one-off PTI	-1,000	-707	-707	0.0%	-29.3%	-1,707	-1,414	-17.1%
Other results	-1,545	-1,120	-6,397	470.9%	314.0%	-2,528	-7,517	197.3%
Net income of associated companies	0	402	256	-36.1%	-	0	658	-
Net operating income	2,146	6,897	1,158	-83.2%	-46.0%	6,617	8,055	21.7%
Provision for impairment on loan losses	-1,284	-1,474	-1,115	-24.4%	-13.2%	-3,935	-2,589	-34.2%
Personnel expenses	-1,539	-1,570	-1,696	8.0%	10.2%	-3,065	-3,265	6.5%
Banking operation cost	-1,792	-1,540	-1,797	16.6%	0.3%	-3,547	-3,337	-5.9%
Cost of business activity	-158	-85	-254	200.7%	61.1%	-239	-339	41.6%
Depreciation	-630	-623	-645	3.5%	2.4%	-1,251	-1,268	1.3%
Other tax payable	-6	-23	-8	-64.8%	40.8%	-23	-31	36.8%
Operating costs	-4,124	-3,841	-4,400	14.6%	6.7%	-8,126	-8,241	1.4%
Income before income taxes	-3,262	1,581	-4,357	-	33.6%	-5,444	-2,775	-49.0%
Income taxes	258	-437	803	-	211.3%	850	366	-56.9%
Profit after tax	-3,004	1,145	-3,554	-	18.3%	-4,594	-2,409	-47.6%
Profit after tax w/o special banking tax	-2,004	1,852	-2,847	-	42.1%	-2,887	-995	-65.5%
After tax profit w/o special banking tax and other one-offs	-1,794	2,052	2,143	4.4%	-	-2,601	4,195	-

in HUF million	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013	H1 2013	H1 2014	H1 2014 / H1 2013
<i>Net interest margin</i>	<i>2.43%</i>	<i>2.78%</i>	<i>2.77%</i>	<i>0.0%-pt</i>	<i>0.3%-pt</i>	<i>2.34%</i>	<i>2.94%</i>	<i>0.6%-pt</i>
<i>ROAA</i>	<i>-1.66%</i>	<i>0.61%</i>	<i>-1.95%</i>	<i>-2.6%-pt</i>	<i>17.1%-pt</i>	<i>-1.24%</i>	<i>-0.69%</i>	<i>-44.6%-pt</i>
<i>ROAE</i>	<i>-15.86%</i>	<i>6.07%</i>	<i>-18.96%</i>	<i>-25.0%-pt</i>	<i>19.6%-pt</i>	<i>-12.07%</i>	<i>-6.50%</i>	<i>-46.1%-pt</i>
<i>ROAA w/o special banking tax</i>	<i>-1.11%</i>	<i>0.98%</i>	<i>-1.56%</i>	<i>-2.5%-pt</i>	<i>40.7%-pt</i>	<i>-0.78%</i>	<i>-0.28%</i>	<i>-63.6%-pt</i>
<i>ROAE w/o special banking tax</i>	<i>-10.58%</i>	<i>9.82%</i>	<i>-15.19%</i>	<i>-25.0%-pt</i>	<i>43.6%-pt</i>	<i>-7.59%</i>	<i>-2.68%</i>	<i>-64.6%-pt</i>
<i>EPS (HUF)</i>	<i>-182.72</i>	<i>68.12</i>	<i>-213.90</i>	<i>-</i>	<i>17.1%</i>	<i>-140.47</i>	<i>-73.89</i>	<i>-47.4%</i>

The Bank's consolidated profit after tax according to IFRS amounted to HUF 3,554 million loss in Q2 2014 and HUF 2,409 million loss as of H1 2014.

During the half year, besides the amount of HUF 1.4 billion of special banking tax, financial institution levy related to exchange rate protection scheme, non-shifted financial transaction levy and HUF 4.7 billion provision for expected losses due to voidness of use of foreign-exchange-rate margins had negative impact on the result as extraordinary (one-off) items with total amount of approximately HUF 6.6 billion. Ignoring all these items, the corrected consolidated profit before tax amounted to HUF 3.8 billion in H1 2014 and HUF 1.3 billion in Q2 2014.

Net interest income

Net interest income was HUF 5.1 billion in Q2 2014, 15.1% higher than a year before and 3.1% lower compared to the previous quarter. The net figure emerged as a balance of HUF 14.0 billion interest income (5.7% and 12.0% lower quarter-on-quarter and year-on-year, respectively) and HUF 8.9 billion interest expense (q/q: -7.1%, y/y: -22.4%).

In line with the central bank's interest rate changes, the declining interest rate environment resulted in the decline of both interest incomes and interest expenses. Among interest incomes – compared to the previous quarter – primarily the interest income on securities decreased. The decrease in interest expenses was primarily due to the declining interest expense of interbank activities and customer deposits.

Distribution of interest income and expenses shows the following table:

	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013	H1 2013	H1 2014	H1 2014 / H1 2013
Interest income								
Loans	37.7%	41.0%	43,6%	2,6%-pt	13.4%-pt	37.6%	42,2%	4,6%-pt
Refinancing	11.8%	9.3%	9,0%	-0,3%-pt	6.3%-pt	11.8%	9,2%	-2,6%-pt
Mortgage bond interest subsidy	14.6%	14.4%	14,6%	0,2%-pt	-15.3%-pt	14.1%	14,5%	0,4%-pt
Supplementary interest subsidy	1.5%	1.3%	1,2%	-0,1%-pt	-1.6%-pt	1.4%	1,3%	-0,1%-pt
Securities and interbank activities	12.3%	13.7%	11,1%	-2,6%-pt	-1.1%-pt	12.2%	12,5%	0,3%-pt
Swap transactions	22.2%	20.3%	20,5%	0,2%-pt	-1.7%-pt	22.9%	20,4%	-2,5%-pt
Interest expenses								
Bonds issued	56.0%	50.8%	57.9%	7.1%-pt	2.0%-pt	53.2%	54.2%	1.1%-pt
Interbank activities	10.8%	7.7%	1.9%	-5.8%-pt	-8.9%-pt	12.6%	4.9%	-7.7%-pt
Customer deposits	14.8%	17.7%	16.7%	-1.0%-pt	2.0%-pt	13.9%	17.2%	3.3%-pt
Derivatives	16.2%	21.1%	20.5%	-0.6%-pt	4.2%-pt	18.3%	20.8%	2.5%-pt
Other interest expense	2.2%	2.7%	3.0%	0.3%-pt	0.8%-pt	2.1%	2.8%	0.8%-pt

The average net interest margin (NIM) was 2.77% in Q2 2014, essentially not changing compared to Q1 2014 (2.78%) and increased by 59 bps year-on-year to 2.94% (Q2 2013: 2.34%).

Net fee and commission income

In Q2 2014, the Bank achieved a positive balance of HUF 1,048 million of income from and expenditures on commissions and fees; 18.1% lower than in Q1 2014 figures and 3.8% higher than in Q2 2013. Net fees and commissions adjusted by financial transaction levy performed a 20.0% and 5.2% decline quarter-on-quarter and year-on-year, respectively.

Compared to the previous quarter, commissions from bank accounts, insurance agent fees and fund management fee income increased; but fees related to guarantees, bankcards, mortgage loans and other (real estate brokerage) fees decreased.

Income from fees and commissions in Q2 2014 amounted to HUF 1,332 million, of which 15.5% was contributed by charges related to loans (15.6% in Q1 2014) and 19.2% by accounts and card related banking charges without financial transaction levy (30.8% in Q1 2014). Commissions resulting from the strategic cooperation agreement signed with Allianz Insurance Company contributed 7.7% to income from fees and commissions in the reported quarter (6.9% in Q1 2014).

Card related fee expenses (HUF 88 million) haven't changed considerably quarter-on-quarter. The agent fees amounted to HUF 54 million, while the payment fees reached HUF 45 million in Q2.

Net result of financial transactions

As of H1 2014, the balance of financial transactions was HUF 2,297.8 million, HUF 3,688.4 million higher than a year before (2013 H1: HUF -1,390 million). In Q2 2014, this balance amounted to HUF 1,187.9 million, HUF 78.0 million higher compared to the previous quarter.

In Q2 2014, the volume of foreign exchange loss was HUF 497, significantly worse than the previous quarter's figure (HUF 1,192 million profit).

As of 30 June 2014, the change in the value of financial instruments reported at fair value through P&L was HUF 754.6 million profit, which is substantially better than the HUF 475.8 million loss in Q1 2014 as well as a year before.

In Q2 2014, securities transactions resulted in HUF 930 million profit as opposed to HUF 393.7 million in the last period.

Other operating income and expenditure

In H1 2014, the balance of other operating income and expenditure was HUF 7.5 billion net expenditure; arising from HUF 720 million incomes and HUF 8,237 million expenditures.

As of 30 June 2014, the balance of other operating income and expenditure was HUF 6.4 billion net expenditures, which is HUF 5 billion less than in the previous quarter and a year before, as well.

In Q2 2014 real estate related income contributed 59.2%, HUF 54.2 million to other operating income (real estate rent, revaluation).

Extraordinary increase in other expenses was due to provisions of HUF 4,695 million generated by the Bank following the approval of the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions declaring the use of foreign-exchange-rate margins is void. Special banking tax amounted to HUF 707 million in Q2 2014 (HUF 1,414 million in H1 2014). Among other expenses the annuity payments were accounted for HUF 158.0 million.

The Bank accounted also HUF 95 million fine among other expenses, imposed by decision of Financial Stability Board of National Bank of Hungary announced on 13 March 2014, that was laid on financial institutions – including FHB Commercial Bank –, which raised fees and charges for customers by the view of NBH on unlawful way. In line with the decision of NBH, the Bank has been modified the concerned fees and conditions, however FHB exercised legal remedy concerning to paying back the additional fee charges to clients, accordingly this part of the decision is suspended and legal action is in progress.

Net income of associated companies contributed HUF 658.1 million to consolidated figures, which mainly resulted from the HUF 852.6 million (proportional) profit of DBF.

Impairments and provisions for possible loan losses

HUF 2.6 billion of risk costs in H1 2014 improved by 34.2% compared to the previous year's figure, while the amount of HUF 1.1 billion of Q2 2014 was 24.4% lower quarter-on-quarter, and 13.2% lower year-on-year. Improvement was related to lower volume of provisions for loan losses in line with decreasing volume of non-performing loans compared to the end of the previous quarter. Among loan losses close to HUF 1.3 billion loss was reported due to closed transactions covered by real-estates sold to National Asset Management Company, but it was partially compensated by release of loan loss provision related to that transactions.

Operating expenses²

Operating costs amounted to HUF 4.4 billion in Q2 2014 which is 6.7% higher than in the same period of 2013. The increase is mainly due to the HUF 157 million growth of personnel expenses is significant. Operating expenses are 14.6% higher than in the previous quarter, which is caused by the growth of personnel, administrative and business activity expenses.

Cost-to-income ratio was 78.6% in Q2 2014 (as opposed to 153.2% in Q2 2013 and 59.1% in Q1 2014). Ratio adjusted by special banking tax was 69.8% in Q2 2014, while 111.7% in Q2 2013, and 53.3% in Q1 2014.

Personnel expenses were higher than in the same period of 2013 (+10.2%) and also higher than in the first quarter of 2014 (+8.0%). The main reason behind the significant raise of personnel expenses is the growth of the headcount closely according to the expansion of the Bank Group.

Administrative expenses in Q2 2014 (HUF 1,797 million) increased quarter-on-quarter (HUF 1,540 million), and are nearly the same as in Q2 2013 (HUF 1,792 million).

Expenses of business activity (HUF 254.5 million) were significant higher than in Q2 2013 (HUF 158 million), and also are increasing quarter-on-quarter (HUF 84.6 million). The reason behind the growth to both periods is the increase of marketing expenses.

Depreciation was HUF 645 million in Q2 2014, with slight increase compared to basis periods. Approximately three-quarters of depreciation are related to intangibles.

Other taxes paid reported among operating costs amounted to HUF 8 million in Q2 2014 because of reclassification of credit institution and financial transaction levy. The other taxes among cost (for example real estate tax, vehicle tax, etc.) are the same in every quarter because of the stability of assets.

² Due to reclassification from 2014, amounts of financial transaction levy and credit institution levy are included in other operating expenses instead of operating costs. In favour of comparability these items figures have been reclassified in the data of prior periods, as well.

2. Balance Sheet

in HUF million	30/06/2013	31/03/2014	30/06/2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
Cash	1,806	1,734	1,865	7.5%	3.3%
Due from banks & NBH	31,797	79,190	35,930	-54.6%	13.0%
Financial assets available-for-sale and held for trading	181,395	197,346	133,856	-32.2%	-26.2%
Fair value of derivative financial assets	1,485	2,002	541	-73.0%	-63.6%
Investment in associates (jointly controlled companies)	0	6,227	6,484	4.1%	-
Refinanced mortgage loans	148,842	129,981	125,053	-3.8%	-16.0%
Loans and advances	365,781	366,001	365,206	-0.2%	-0.2%
Impairment and provision	-39,372	-39,171	-39,293	0.3%	-0.2%
Tangible assets	5,750	7,042	7,008	-0.5%	21.9%
Goodwill and other intangible assets	11,927	10,912	10,600	-2.9%	-11.1%
Other assets	29,621	28,056	27,466	-2.1%	-7.3%
Total Assets	739,032	789,321	674,715	-14.5%	-8.7%
Liabilities total	663,103	712,372	601,319	-15.6%	-9.3%
Interbank borrowings	112,660	133,174	36,616	-72.5%	-67.5%
Mortgage bonds	234,971	202,438	177,310	-12.4%	-24.5%
Bonds issued	110,777	96,004	99,533	3.7%	-10.1%
Deposits	168,957	243,809	259,887	6.6%	53.8%
Fair value of derivatives	17,146	18,431	6,087	-67.0%	-64.5%
Leasing liability	9,449	8,481	8,736	3.0%	-7.5%
Reserves for annuity	2,420	2,450	2,567	4.8%	6.1%
Other liabilities	6,722	7,584	10,582	39.5%	57.4%
Shareholders' equity	75,929	76,949	73,397	-4.6%	-3.3%
Subscribed capital	6,600	6,600	6,600	0.0%	0.0%
Capital reserve	1,709	1,709	1,709	0.0%	0.0%
Treasury shares	-29	-158	-207	31.4%	-
Subordinated Tier1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	154	279	293	5.0%	90.6%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Balance sheet profit	-4,594	1,108	-2,409	-	-47.6%
Total liabilities and shareholders' equity	739,032	789,321	674,715	-14.5%	-8.7%

As of 30 June 2014, the Bank's consolidated balance sheet total by IFRS amounted to HUF 674.7 billion, moving 14.5% down from the end of previous quarter and HUF 64.3 billion, or 8.7% lower than the balance sheet total as of 30 June 2013.

On the asset side on an annual basis, the volume of financial assets available-for-sale and held for trading dropped by HUF 47.5 billion, or 26.2%, and the refinanced loans fell by 23.8 billion and 16.0%, respectively. During the quarter, the interbank lending and financial assets available-for-sale and held for trading decreased significantly

Liabilities decreased by 9.3% compared to the reference figures of 2013. Compared to the same period in 2013 interbank liabilities decreased by 67.5%, in addition to the portfolio of mortgage bonds issued decreased by 24.5%, the volume of bonds issued decreased by more than 10% respectively. In contrast, the deposits grew significantly by more than 53.8% over a year.

Shareholders' equity decreased by HUF 2.5 billion or 3.3% year-on-year.

Interest earning assets

The Group's interest earning assets decreased from HUF 727.8 billion as of 30 June 2013 to HUF 660.0 billion as of 30 June 2014. Interest earning assets contributed 98.0% to the balance sheet total.

NBH and other interbank lending increased from HUF 31.8 billion as of 30 June 2013 to HUF 35.9 billion as of 30 June 2014. The ratio of this item in interest earning assets was 5.4% at the end of 2014 Q2.

The value of Bank's securities available-for-sale and held for trading decreased from HUF 181.4 billion as of 30 June 2013 to HUF 133.9 billion as of 30 June 2014, while its decreased by more than 32% compared to 31 March 2014 amounted to HUF 197.3 billion. At the end of 2014 Q2, securities available for sale and held for trading contributed 20.2% to interest earning assets. Securities available for sale and held for trading include NBH bonds amounting to HUF 30.0 billion, discount treasury bills amounting to HUF 75.6 billion and government bonds amounting to HUF 15.3 billion.

Loans

As of 30 June 2014, volume of loans was 0.2% down year-on-year (adjusted by FX changes it was 4.0% down), and decreased quarterly by 0.2% (adjusted by FX changes it was -0.8%). Impairment to cover loan losses did not change compared to 30 June 2013 and amounted HUF 39.3 billion as of 30 June 2014, in the reported quarter showed 0.3% increase (from HUF 39.2 billion as of 31 March 2014).

Year-on-year decline in refinanced loans was 16.0% to HUF 125.1 billion, and there was also a 3.8% drop in this item over the last quarter. As of 30 June 2014, contribution of refinanced loans and gross own lending was 74.2% to interest earning assets; this rate was 70.1% a year before.

Portfolio quality

Volume of non-performing loans decreased slightly by 0.8% quarter-on-quarter, while it has decreased by 3.0% year-on-year. NPL ratio reduced to 20.1% by 30 June 2014 from 20.2% as of 31 March 2014. Coverage of non-performing loans is 53.5% which represents further growth in the quarter.

Other assets

Tangible assets amounted to HUF 7.0 billion as of 30 June 2014 and increased by HUF 1.3 billion year-on-year and down by HUF 33.9 million quarter-on-quarter. As of 30 June 2014, intangibles amounted to HUF 10.6 billion, down by HUF 1.3 billion or 11.1% year-on-year and HUF 312 million (-2.9%) below the 31 March 2014 figure. Volume of intangible assets contains also goodwill related to the acquisition of Diófa Asset Management Ltd.

Value of investment in associated companies consolidated by equity method amounted to HUF 6.5 billion as of 30 June 2014, including goodwill related to the acquisition of DÜSZ. The quarterly increase is due to the consolidation of MATAK Ltd.

Other assets amounted to HUF 27.5 billion as of 30 June 2014, decreasing by 7.3% (HUF 1.3 billion) year-on-year. Deferred tax assets reached HUF 8.3 billion while value of real estates reported as inventory was HUF 1.6 billion.

Investment properties amounted to HUF 10.9 billion.

Interest bearing liabilities

Interest bearing liabilities decreased from HUF 636.8 billion as of 30 June 2013 to HUF 582.1 billion as of 30 June 2014, representing approximately 86.3% to the balance sheet total. As a year before, issued securities gave major part of interest bearing liabilities with a share of 54.3%, for the end of 2014 H1 their proportion decreased to 47.6%, while the share of client deposits within interest bearing liabilities grew from 26.5% to 44.6% year-on-year.

Interbank funds

As of 30 June 2014, interbank funds amounted to HUF 36.6 billion showing -72% change compared to previous quarter, volume was 67.5% down year-on-year. The decrease is explained by maturity of 2 years covered loan facility issued by Hungarian National Bank to stimulate corporate lending and funding of disbursed loans within the framework of Funding for Growth Scheme (NHP). Contribution of interbank borrowings to interest bearing liabilities was 6.3% as of 30 June 2014.

CMBs issued

HUF 177.3 billion book value of mortgage bonds as of 30 June 2014 decreased by 24.5% or HUF 57.7 billion from figures of 30 June 2013 (HUF 234.9 billion).

in HUF million	30/06/2013		30/06/2014	
	Book value	Nominal value	Book value	Nominal value
Non-listed mortgage bonds				
Fixed	66,025	65,868	29,356	29,226
Floating	295	295	0	0
Listed mortgage bonds				
Fixed	146,645	145,779	141,181	136,249
Floating	11,992	12,426	0	0
Total	224,957	224,368	170,537	165,475
Accrued interest	10,014		6,772	
Mortgage bonds Total	234,971	224,368	177,309	165,475
Non-listed bonds				
Fixed	54,532	54,202	32,157	32,138
Floating	6,657	6,572	4,193	4,147
Listed bonds				
Fixed	41,735	42,938	54,881	55,944
Floating	3,001	2,995	4,614	4,732
Total	105,924	106,708	95,844	96,961
Accrued interest	4,852		3,689	
Bonds Total	110,776	106,708	99,533	96,961

Mortgage bonds collateral³

The net collateral value of real estate covering mortgage bonds issued by FHB Mortgage Bank amounted to 425.6 billion HUF as of 30 June 2014 (HUF 293.3 billion of capital and HUF 132.3 billion of interests), 4.3%

³ Non-consolidated data of FHB Mortgage Bank Plc. only, according to HAS

less than the HUF 444.7 billion as of 31 March 2014 and 17.0% below the figure of 30 June 2013 (HUF 512.7 billion).

The value of the group of assets involved as collateral:

in HUF million	30/06/2013	31/03/2014	30/06/2014
Outstanding mortgage bonds			
Face value	297,736	229,376	196,809
Interest	64,933	53,997	43,754
Total	362,669	283,374	240,562
Value of the regular collateral			
Principal	333,090	301,218	293,257
Interest	179,615	143,506	132,314
Total	512,705	444,724	425,571
Value of assets involved as supplementary collateral			
Balance of the separate blocked account at the NBH - principal	0	0	0
Total	0	0	0

As of 30 June 2014, the present value of ordinary collateral was HUF 333.8 billion and the present value of mortgage bonds were HUF 229.6 billion, thus the present value of collateral exceeded that of CMBs in circulation not yet repaid, ratio was 145.4%. As of 30 June 2014, net value of ordinary and supplementary collateral principal to unpaid face value of mortgage bonds in circulation was 149.0%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 302.4%.

The collateral value of real estate covering ordinary collaterals amounted to HUF 842.1 billion as of 30 June 2014, 3.7% down compared to 31 December 2013 (HUF 874.6 billion) and 1.6% below the 31 March 2014 value (HUF 855.8 billion). The LTV ratio applicable for ordinary collateral was 34.8% as of 30 June 2014, lower than the 35.1% LTV as of 31 December 2013.

Bonds issued

The book value of bonds was HUF 99.6 billion as of 30 June 2014, compared to 31 March 2014 (96 billion HUF) increasing by 3.5 billion or 3.7%. The stock of bonds fell by HUF 11.2 billion (10.1%) in one year.

Deposits

As of 30 June 2014, deposits amounted to HUF 259.9 billion increasing by 53.8% year-on-year and 6.6% quarterly. In the last year, volume of corporate deposits significantly increased (by 68.6%), similarly to retail deposits (+38.6%).

The sight deposit ratio grew to 34.8% from 23.8% a year before and 27.8% at the end of previous quarter.

Other liabilities

Other liabilities amounted to HUF 10.6 billion, within that liabilities related to early instalments of clients amounted to HUF 791 million. The Bank reported accounts payable HUF 729 million as of 30 June 2014, accruals HUF 999.4 million and deferred tax liabilities HUF 429.8 million.

Shareholders' equity

Within one year, shareholders' equity declined by 3.3% to HUF 73.4 billion as of 30 June 2014. In line with IFRS, the Bank reported the EUR 112 million Tier 1 subordinated bond as part of shareholder's equity. Balance sheet profit was HUF 2.4 billion loss.

Capital position

Capital adequacy ratio of FHB Group – based on regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) including also additional supervisory capital requirements (SREP) is 11.43% as of 30 June 2014, compared to 11.35% in the previous quarter. CET1 ratio reached 9.15% at the end of June, while it was 8.76% as of 31 March 2014.

As a result of lower capital requirements, both CET1 and the total capital adequacy ratio show an improvement compared to the previous quarter, despite a slight decrease in own funds due to HUF 3 billion losses realized in Q2 2014. The capital requirements compared to the previous quarter decreased due to reduction of risk-weighted exposure in line with decline in total assets.

Compared to 2013, the decrease in the capital adequacy ratio is the impact of the regulatory changes and is in accordance with the Bank's preliminary calculations.

DECLARATION

This management report of FHB Jelzálogbank Nyrt. (FHB Mortgage Bank Plc.) is based on consolidated, non-audited IFRS financial statements.

FHB Jelzálogbank Nyrt. hereby declares that the figures and statements of this management report comply with reality, and it does not conceal any fact or information that would be substantial in the judgment of the issuer's position.

As issuer, FHB Jelzálogbank Nyrt. assumes exclusive liability for the contents of the Interim management report. FHB Jelzálogbank Nyrt. declares that it is liable as issuer for the reimbursement of losses caused by the omission and/or the misleading contents of regular and extraordinary information.

Budapest, 14 August, 2014

Mr Gyula Köbli
Chief Executive Officer

Mr Gábor Gergő Soltész
Deputy-CEO, Business

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.) and FHB Életjáradék Ingatlanbefektető Zrt. (FHB Annuity Real Estate Investment Ltd), to FHB Ingatlanlizing Zrt. (FHB Real Estate Leasing Ltd.) and its Croatian affiliate (Central European Credit d.d.), Díjbeszedő Üzemeltetési és Szolgáltatási Kft.(Díjbeszedő Operational and Service Llc.), Magyar Kártya Szolgáltató Zrt. (Hungarian Card Service Plc.); and to "WODOMUS 54" Ingatlanfejlesztő Kft. (WODOMUS 54 Property Development Ltd.); Káry-Villa Ingatlanfejlesztő Kft (Káry-Villa Property Development Ltd.); FHB DWH Ltd. (formerly known as Portfolio Money cPlc.); Hitelunió Kft. (Creditunion Ltd.). Jointly controlled companies – 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 Takarékbefektetési és Vagyonkezelő Zrt. (Magyar Takarékbefektetési 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 2013 and of 30 June 2014 according to IFRS)

in HUFmillion	H1 2013	H1 2014	H1 2014/ H1 2013
Interest income	33,297	28,838	-13.4%
Interest expense	-24,625	-18,550	-24.7%
Net interest income	8,671	10,288	18.6%
Fee and commission income	2,221	2,802	26.2%
Fee and commission expense	-356	-474	33.2%
Net fee and commission income	1,865	2,328	24.8%
Profit/(Loss) from FX transactions	497	695	39.8%
Change in fair value of financial instruments	-2,465	279	-
Dividend received		0	-
Gains from securities	577	1,324	129.4%
Net trading result	-1,391	2,298	-
Other operating income	617	720	16.6%
Other operating expense	-2,243	-8,237	267.2%
Net other operating result	-1,626	-7,517	362.4%
Net income of associated companies	0	658	-
Operating income	7,520	8,055	7.1%
Provision for impairment on loan losses	-3,935	-2,589	-34.2%
General and administrative expense	-9,029	-8,241	-8.7%
Profit/(Loss) before tax	-5,444	-2,775	-49.0%
Income tax benefit/(expense)	850	366	-56.9%
Profit/(Loss) for the period	-4,594	-2,409	-47.6%

Basic EPS (yearly)	-140.5 Ft	-73.9 Ft	-47.4%
Diluted EPS (yearly)	-140.5 Ft	-73.9 Ft	-47.4%

Consolidated Comprehensive Income Statement	H1 2013	H1 2014	H1 2014/ H1 2013
Profit/(Loss) for the period	-4,594	-2,409	-47.6%
Revaluation reserve	0	2	-
Change in cash-flow hedge reserve	0	0	-
Change in fair value of financial assets available for sale	100	-126	-
FX translation reserve	-1	-17	-
Deferred tax effect for other comprehensive income	49	27	-44.5%
Other comprehensive income/(loss) for the period net of taxes	148	-114	-
Total comprehensive income/(loss) for the period, net of income taxes	-4,446	-2,523	-43.2%

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 2013, 31 March 2014 and of 30 June 2014 according to IFRS)

in HUFmillion	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013
Interest income	15,914	14,840	13,998	-5.7%	-12.0%
Interest expense	-11,515	-9,614	-8,935	-7.1%	-22.4%
Net interest income	4,399	5,226	5,062	-3.1%	15.1%
Fee and commission income	1,184	1,470	1,332	-9.4%	12.5%
Fee and commission expense	-174	-190	-284	49.3%	63.0%
Net fee and commission income	1,010	1,280	1,048	-18.1%	3.8%
Profit/(Loss) from FX transactions	-1,070	1,192	-497	-	-53.6%
Change in fair value of financial instruments	-909	-476	755	-	-
Dividend received	0	0	0	-	-
Gains from securities	261	394	930	136.3%	256.6%
Net trading result	-1,718	1,110	1,188	7.0%	-
Other operating income	295	628	92	-85.4%	-68.9%
Other operating expense	-1,293	-1,749	-6,488	271.0%	401.7%
Net other operating result	-999	-1,120	-6,397	470.9%	540.5%
Net income of associated companies	0	402	256	-36.1%	-
Operating income	2,692	6,897	1,158	-83.2%	-57.0%
Provision for impairment on loan losses	-1,284	-1,474	-1,115	-24.4%	-13.2%
General and administrative expense	-4,670	-3,841	-4,400	14.6%	-5.8%
Profit/(Loss) before tax	-3,262	1,581	-4,357	-	33.6%
Income tax benefit/(expense)	258	-437	803	-	211.3%
Profit/(Loss) for the period	-3,004	1,145	-3,554	-	18.3%

Basic EPS (yearly)	-182.7 Ft	68.1 Ft	-213.9 Ft	-	17.1%
Diluted EPS (yearly)	-182.7 Ft	68.1 Ft	-213.9 Ft	-	17.1%

Consolidated Comprehensive Income Statement	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013
Profit/(Loss) for the period	-3,004	1,145	-3,554	-	18.3%
Revaluation reserve	0	2	0	-	-
Change in cash-flow hedge reserve	0	0	0	-	-
Change in fair value of financial assets available for sale	44	-168	42	-	-4.6%
FX translation reserve	3	-10	-7	-25.0%	-
Deferred tax effect for other comprehensive income	-9	34	-7	-	-27.0%
Other comprehensive income/(loss) for the period net of taxes	38	-142	28	-	-26.3%
Total comprehensive income/(loss) for the period, net of income taxes	-2,966	1,003	-3,526	-	18.9%

Consolidated Income Statement 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2013 and of 30 June 2014 according to IFRS)

in HUF million	H1 2013	H1 2014	H1 2014/ H1 2013
Interest income	33,297	28,838	-13.4%
Interest expense	-24,625	-18,550	-24.7%
Net interest income	8,671	10,288	18.6%
Fee and commission income	2,221	2,802	26.2%
Fee and commission expense	-356	-474	33.2%
Net fee and commission income	1,865	2,328	24.8%
Profit/(Loss) from FX transactions	497	695	39.8%
Change in fair value of financial instruments	-2,465	279	-
Dividend received	0	0	-
Gains from securities	577	1,324	129.4%
Net trading result	-1,391	2,298	-
Other operating income	617	720	16.6%
Other operating expense	-3,950	-9,649	144.3%
Net other operating result	-3,332	-8,930	168.0%
Net income of associated companies	0	658	-
Operating income	5,814	6,642	14.3%
Provision for impairment on loan losses	-3,935	-2,589	-34.2%
General and administrative expense	-9,029	-8,241	-8.7%
Profit/(Loss) before tax	-7,151	-4,188	-41.4%
Income tax benefit/(expense)	1,175	635	-46.0%
Profit/(Loss) for the period	-5,976	-3,553	-40.5%

Basic EPS (yearly)	-182.7 Ft	-109.0 Ft	-40.4%
Diluted EPS (yearly)	-182.7 Ft	-109.0 Ft	-40.4%

Consolidated Comprehensive Income Statement	H1 2013	H1 2014	H1 2014/ H1 2013
Profit/(Loss) for the period	-5,976	-3,553	-40.5%
Change in cash-flow hedge reserve	0	0	-
Change in fair value of financial assets available for sale	100	-126	-
FX translation reserve	-1	-17	-
Deferred tax effect for other comprehensive income	49	27	-44.5%
Other comprehensive income/(loss) for the period net of taxes	148	-114	-
Total comprehensive income/(loss) for the period, net of income taxes	-5,828	-3,667	-37.1%

Consolidated Income Statement 'B' (quarterly)

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2013, 31 March 2014 and of 30 June 2014 according to IFRS)

in HUF million	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013
Interest income	15,914	14,840	13,998	-5.7%	-12.0%
Interest expense	-11,515	-9,614	-8,935	-7.1%	-22.4%
Net interest income	4,399	5,226	5,062	-3.1%	15.1%
Fee and commission income	1,184	1,470	1,332	-9.4%	12.5%
Fee and commission expense	-174	-190	-284	49.3%	63.0%
Net fee and commission income	1,010	1,280	1,048	-18.1%	3.8%
Profit/(Loss) from FX transactions	-1,070	1,192	-497	-	-53.6%
Change in fair value of financial instruments	-909	-476	755	-	-
Dividend received	0	0	0	-	-
Gains from securities	261	394	930	136.3%	256.6%
Net trading result	-1,718	1,110	1,188	7.0%	-
Other operating income	295	628	92	-85.4%	-68.9%
Other operating expense	-881	-3,868	-5,782	49.5%	556.4%
Net other operating result	-586	-3,240	-5,690	75.7%	870.6%
Net income of associated companies	0	402	256	-36.1%	-
Operating income	3,104	4,778	1,864	-61.0%	-39.9%
Provision for impairment on loan losses	-1,284	-1,474	-1,115	-24.4%	-13.2%
General and administrative expense	-4,670	-3,841	-4,400	14.6%	-5.8%
Profit/(Loss) before tax	-2,850	-538	-3,650	579.1%	28.1%
Income tax benefit/(expense)	180	-34	669	-	272.4%
Profit/(Loss) for the period	-2,670	-572	-2,982	421.7%	11.7%

Basic EPS (yearly)	-160.6 Ft	-37.0 Ft	-179.6 Ft	385.1%	11.8%
Diluted EPS (yearly)	-160.6 Ft	-37.0 Ft	-179.6 Ft	385.1%	11.8%

Consolidated Comprehensive Income Statement	Q2 2013	Q1 2014	Q2 2014	Q2 2014 / Q1 2014	Q2 2014 / Q2 2013
Profit/(Loss) for the period	-2,670	-572	-2,982	421.7%	11.7%
Change in cash-flow hedge reserve	0	0	0	-	-
Change in fair value of financial assets available for sale	44	-168	42	-	-4.6%
FX translation reserve	3	-10	-7	-25.0%	-
Deferred tax effect for other comprehensive income	-9	34	-7	-	-27.0%
Other comprehensive income/(loss) for the period net of taxes	38	-142	28	-	-26.3%
Total comprehensive income/(loss) for the period, net of income taxes	-2,632	-714	-2,954	314.0%	12.2%

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 2013, 31 March 2014 and of 30 June 2014 according to IFRS)

in HUF million	Jun 30, 2013	Mar 31, 2014	Jun 30, 2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
Cash on hand	1,806	1,734	1,865	7.5%	3.3%
Due from banks & NBH	31,797	79,190	35,930	-54.6%	13.0%
Securities held for trading	32,574	63,734	36,024	-43.5%	-
Financial assets available for sale	148,822	133,612	97,832	-26.8%	-34.3%
Investment in associates		6,227	6,484	4.1%	-
Derivate financial assets	1,485	2,002	541	-73.0%	-63.6%
Refinanced mortgage loans	148,842	129,981	125,053	-3.8%	-16.0%
Loans and advances to consumers	365,781	366,001	365,206	-0.2%	-0.2%
Impairment and provision	-39,372	-39,171	-39,293	0.3%	-0.2%
Investment property	11,457	11,285	10,944	-3.0%	-4.5%
Tangible assets	5,750	7,042	7,008	-0.5%	21.9%
Goodwill and other intangible assets	11,927	10,912	10,600	-2.9%	-11.1%
Deferred tax asset	7,560	7,442	8,297	11.5%	9.7%
Other assets	10,604	9,330	8,226	-11.8%	-22.4%
Total assets	739,032	789,321	674,715	-14.5%	-8.7%
Due to banks	94,689	115,161	36,616	-68.2%	-61.3%
Issued securities	268,481	251,632	240,418	-4.5%	-10.5%
Mortgage bonds	199,488	169,718	155,018	-8.7%	-22.3%
Bonds	68,993	81,913	85,399	4.3%	23.8%
Deposits from customers	168,957	243,809	259,887	6.6%	53.8%
Derivative financial liabilities	17,146	18,431	6,087	-67.0%	-64.5%
Financial liabilities at fair value through profit or loss	95,236	64,824	36,426	-43.8%	-61.8%
Finance lease liabilities	9,449	8,481	8,736	3.0%	-7.5%
Reserve for annuity payments	2,420	2,450	2,567	4.8%	6.1%
Current tax liability	16	29	26	-10.8%	57.2%
Deferred tax liability	587	477	430	-9.9%	-26.8%
Provisions	232	1,102	5,858	431.8%	-
Other liabilities	5,887	5,977	4,268	-28.6%	-27.5%
Total liabilities	663,103	712,372	601,319	-15.6%	-9.3%
Share capital	6,600	6,600	6,600	0.0%	0.0%
Share premium	1,709	1,709	1,709	0.0%	0.0%
Treasury shares	-29	-158	-207	31.4%	-
Subordinated Tier 1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	154	279	293	5.0%	90.6%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Balance sheet profit	-4,594	1,108	-2,409	-	-
Total shareholders' equity	75,929	76,949	73,397	-4.6%	-3.3%
Total liabilities and shareholders' equity	739,032	789,321	674,715	-14.5%	-8.7%

Consolidated Financial Position 'B'

Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 30 June 2013, 31 March 2014 and of 30 June 2014 according to IFRS)

in HUF million	Jun 30, 2013	Mar 31, 2014	Jun 30, 2014	30/06/2014/ 31/03/2014	30/06/2014/ 30/06/2013
Cash on hand	1,806	1,734	1,865	7.5%	3.3%
Due from banks & NBH	31,797	79,190	35,930	-54.6%	13.0%
Securities held for trading	32,574	63,734	36,024	-43.5%	-
Financial assets available for sale	148,822	133,612	97,832	-26.8%	-34.3%
Investment in associates	0	6,227	6,484	4.1%	-
Derivative financial assets	1,485	2,002	541	-73.0%	-63.6%
Refinanced mortgage loans	148,842	129,981	125,053	-3.8%	-16.0%
Loans and advances to consumers	365,781	366,001	365,206	-0.2%	-0.2%
Impairment and provision	-39,372	-39,171	-39,293	0.3%	-0.2%
Investment property	11,457	11,285	10,944	-3.0%	-4.5%
Tangible assets	5,750	7,042	7,008	-0.5%	21.9%
Goodwill and other intangible assets	11,927	10,912	10,600	-2.9%	-11.1%
Deferred tax asset	7,885	7,845	8,565	9.2%	8.6%
Other assets	9,675	9,304	8,208	-11.8%	-15.2%
Total assets	738,427	789,698	674,966	-14.5%	-8.6%
Due to banks	94,689	115,161	36,616	-68.2%	-61.3%
Issued securities	268,481	251,632	240,418	-4.5%	-10.5%
Mortgage bonds	199,488	169,718	155,018	-8.7%	-22.3%
Bonds	68,993	81,913	85,399	4.3%	23.8%
Deposits from customers	168,957	243,809	259,887	6.6%	53.8%
Derivative financial liabilities	17,146	18,431	6,087	-67.0%	-64.5%
Financial liabilities at fair value through profit or loss	95,236	64,824	36,426	-43.8%	-61.8%
Finance lease liabilities	9,449	8,481	8,736	3.0%	-7.5%
Reserve for annuity payments	2,420	2,450	2,567	4.8%	6.1%
Current tax liability	16	29	26	-10.8%	57.2%
Deferred tax liability	587	477	430	-9.9%	-26.8%
Provisions	232	1,102	5,858	431.8%	-
Other liabilities	6,664	8,070	5,664	-29.8%	-15.0%
Total liabilities	663,880	714,465	602,714	-15.6%	-9.2%
Share capital	6,600	6,600	6,600	0.0%	0.0%
Share premium	1,709	1,709	1,709	0.0%	0.0%
Treasury shares	-29	-158	-207	31.4%	-
Subordinated Tier 1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	154	279	293	-	90.6%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Balance sheet profit	-5,976	-609	-3,553	-	-
Total shareholders' equity	74,547	75,233	72,252	-4.0%	-3.1%
Total liabilities and shareholders' equity	738,427	789,698	674,966	-14.5%	-8.6%

Name: FHB Mortgage Bank Plc.
Address: 1082 Budapest, Üllői út 48.
Sector: Financial services
Reporting period: 01.01.2014 – 30.06.2014

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E-mail: Lendvai.Beata@fhb.hu
Investor relations: Beáta Lendvai

Cash Flow Statement 'A'

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

(consolidated audited data as of 31 December 2013 and non-audited data as of 30 June 2014 according to IFRS)

in HUF million	31 December 2013	30 June 2014
Cash flow from operating activities		
Profit/(loss) for the year	-4,664	-2,409
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	2,533	1,268
(Increase)/Decrease in fair value of Investment property	184	97
Recognition of investment property through income statement	57	-162
Provision for losses	1,554	6,077
(Gain)/Loss on tangible assets derecognized	25	-10
(Gain)/Loss on intangible assets derecognized	-2	0
Share option reserve	0	27
Capitalized interest	-840	-1,040
Fair value of derivatives	-7,054	-6,240
Fair value adjustment on financial liabilities through profit and loss	-1,448	-1,223
Change in fair value of annuity reserve	361	262
Change in foreign currency translation reserve	-2	-14
Leasing liabilities	0	-326
Operating profit before change in operating assets	-9,296	-3,693
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	-34,135	5,926
Financial assets available for sale	7,347	53,939
Refinanced mortgage loans	31,298	8,639
Loans and advances to customers	14,767	-6,162
Other assets	-1,380	579
<i>Increase/(Decrease) in operating liabilities:</i>		
Deposits	70,295	37,386
Due to banks	24,263	-97,868
Other liabilities	-1,088	1,206
Net cash flow from operating activities	102,071	-48
Cash flow from investing activities		
Proceeds from sales of tangible assets	6	26
Purchase of tangible and intangible assets	-696	-1,894
Purchase of investment property	-409	-15
Sale of investment property	319	448
Paid from reserves on annuity business	-308	-158
Goodwill on subsidiaries	-1,054	0
Net cash flow from acquisition of subsidiary	-5,254	0
Net cash flow from investing activities	-7,396	-1,594
Cash flow from financing activities		
Proceed from issued securities	77,184	37,154
Principal repayment on issued securities	-174,488	-31,608
Treasury shares purchased	0	-178
Long term loans repayment	-510	-225
Long term loan borrowings	683	71
Finance lease liabilities repayment	-1,737	-556
Additional Tier 1 capital	2,826	0
Net cash flow from financing activity	-96,042	4,658
Net increase in cash and cash equivalents	-1,367	3,017
Opening balance of cash and cash equivalents	36,145	34,778
Closing balance of cash and cash equivalents	34,778	37,795
Breakdown of cash and cash equivalents:		
Cash	2,039	1,865
Balances with National Bank of Hungary	11,469	13,427
Dues from banks with a maturity of less than 90 days	21,270	22,503
Closing balance of cash and cash equivalents	34,778	37,795
<i>Supplementary data</i>		
Tax paid	-960	-520
Interest received	65,168	29,492
Interest paid	-52,281	-22,171

Name: FHB Mortgage Bank Plc.
Address: 1082 Budapest, Üllői út 48.
Sector: Financial services
Reporting period: 01.01.2014 – 30.06.2014

Telephone: (1) 452 - 9100
Fax: (1) 452 - 9200
E-mail: Lendvai.Beata@fhb.hu
Investor relations: Beáta Lendvai

Cash Flow Statement 'B'

Table includes the special banking tax for the entire business year

(consolidated audited data as of 31 December 2013 and non-audited data as of 30 June 2014 according to IFRS)

in HUF million	31 December 2013	30 June 2014
Cash flow from operating activities		
Profit/(loss) for the year	-4,664	-3,553
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	2,533	1,268
(Increase)/Decrease in fair value of Investment property	184	97
Recognition of investment property through income statement	57	-162
Provision for losses	1,554	6,077
(Gain)/Loss on tangible assets derecognized	25	-10
(Gain)/Loss on intangible assets derecognized	-2	0
Share option reserve	0	27
Capitalized interest	-840	-1,040
Fair value of derivatives	-7,054	-6,240
Fair value adjustment on financial liabilities through profit and loss	-1,448	-1,223
Change in fair value of annuity reserve	361	262
Change in foreign currency translation reserve	-2	-14
Leasing liabilities	0	-326
Operating profit before change in operating assets	-9,296	-4,837
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	-34,135	5,926
Financial assets available for sale	7,347	53,939
Refinanced mortgage loans	31,298	8,639
Loans and advances to customers	14,767	-6,162
Other assets	-1,380	329
<i>Increase/(Decrease) in operating liabilities:</i>		
Deposits	70,295	37,386
Due to banks	24,263	-97,868
Other liabilities	-1,088	2,600
Net cash flow from operating activities	102,071	-48
Cash flow from investing activities		
Proceeds from sales of tangible assets	6	26
Purchase of tangible and intangible assets	-696	-1,894
Purchase of investment property	-409	-15
Sale of investment property	319	448
Paid from reserves on annuity business	-308	-158
Goodwill on subsidiaries	-1,054	0
Net cash flow from acquisition of subsidiary	-5,254	0
Net cash flow from investing activities	-7,396	-1,594
Cash flow from financing activities		
Proceed from issued securities	77,184	37,154
Principal repayment on issued securities	-174,488	-31,608
Treasury shares purchased	0	-178
Long term loans repayment	-510	-225
Long term loan borrowings	683	71
Finance lease liabilities repayment	-1,737	-556
Additional Tier 1 capital	28,923	0
Net cash flow from financing activity	-69,945	4,658
Net increase in cash and cash equivalents	-1,367	3,017
Opening balance of cash and cash equivalents	36,145	34,778
Closing balance of cash and cash equivalents	34,778	37,795
Breakdown of cash and cash equivalents:		
Cash	2,039	1,865
Balances with National Bank of Hungary	11,469	13,427
Dues from banks with a maturity of less than 90 days	21,270	22,503
Closing balance of cash and cash equivalents	34,778	37,795
<i>Supplementary data</i>		
Tax paid	-960	-520
Interest received	65,168	29,492
Interest paid	-52,281	-22,171

Name: FHB Mortgage Bank Plc.
Address: 1082 Budapest, Üllői út 48.
Sector: Financial services
Reporting period: 01.01.2014 – 30.06.2014

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Investor relations: Beáta Lendvai

Statement of Shareholders' Equity 'A'

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

(consolidated audited data as of 1 January 2013, and 1 January 2014 and non-audited data as of 30 June 2014 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	General reserve	Share option reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Retained earnings (deficit)	Shareholders' Equity
1 January 2013	6,600	-29	1,709	181	0	28,923	-216	31	40,341	77,540
Transfer to general reserve				13					-13	0
Profit/(Loss)									-4,664	-4,664
Other comprehensive income							372	-2		370
Purchase/(Sale) of treasury shares										0
Subordinated Tier 1 capital						2,826				2,826
Change in share option reserve										0
1 January 2014	6,600	-29	1,709	194	0	31,749	156	29	35,664	76,072
Transfer to general reserve										0
Profit/(Loss)									-2,409	-2,409
Other comprehensive income							-102	-14		-116
Purchase/(Sale) of treasury shares		-178								-178
Subordinated Tier 1 capital						0				0
Change in share option reserve					26					26
30 June 2014	6,600	-207	1,709	194	26	31,749	54	15	33,255	73,395

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Address: 1082 Budapest, Üllői út 48.
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Reporting period: 01.01.2014 – 30.06.2014

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Investor relations: Beáta Lendvai

Statement of Shareholders' Equity 'B'

Table includes the special banking tax for the entire business year

(consolidated audited data as of 1 January 2013, and 1 January 2014 and non-audited data as of 30 June 2014 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	General reserve	Share option reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Retained earnings (deficit)	Shareholders' Equity
1 January 2013	6,600	-29	1,709	181	0	28,923	-216	31	40,341	77,540
Transfer to general reserve				13					-13	0
Profit/(Loss)									-4,664	-4,664
Other comprehensive income							372	-2		370
Purchase/(Sale) of treasury shares										0
Subordinated Tier 1 capital						2,826				2,826
Change in share option reserve										0
1 January 2014	6,600	-29	1,709	194	0	31,749	156	29	35,664	76,072
Transfer to general reserve										0
Profit/(Loss)									-3,552	-3,552
Other comprehensive income							-102	-14		-116
Purchase/(Sale) of treasury shares		-178								-178
Subordinated Tier 1 capital						0				0
Change in share option reserve					26					26
30 June 2014	6,600	-207	1,709	194	26	31,749	54	15	32,112	72,252

Off-balance Sheet items – Commitments

(consolidated non-audited data as of 30 June 2013, 31 March 2014 and of 30 June 2014 according to IFRS)

in HUF million	30 June 2013	31 March 2014	30 June 2014
Guarantees	7,449	18,324	14,896
Undrawn commitments	35,663	43,533	43,764
Total	43,112	61,857	58,660

Transactions with related parties

(consolidated non-audited data as of 30 June 2013 and 30 June 2014 according to IFRS)

in HUF million	Transactions between FHB Mortgage Bank and owners with influential share	
	30 June 2013	30 June 2014
Due from banks	0	0
Refinanced mortgage loans	0	0
Fair value of derivatives	0	0
Other assets	0	0
Total assets	0	0
Due to banks	0	0
Issued securities	0	0
Financial liabilities at fair value through profit and loss	0	0
Other liabilities	1	2
Total liabilities	1	2
	30 June 2013	30 June 2014
Interest income	0	0
Interest expense	0	0
Net interest income	0	0
Fees and commission income	0	0
Fees and commission expense	0	0
Net fees and commissions	0	0
Gains from securities	0	0
Net trading result	0	0
Other operating income	0	0
Other operating expense	0	0
Operating profit	0	0
Credit loss expense	0	0
General and administrative expense	-100	-36
Profit for the year	-100	-36

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. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10% (VCP Finanz Holding Ltd., A64 Trustee Ltd. and from 2010 also Allianz Hungary Insurance Ltd). Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with associated parties under market conditions.

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

Ownership structure, participation and voting rates (as at 30 June 2014)

(The listed series is the same as the entire share capital.)

Description of owner	Total equity ¹					
	At the beginning of actual year			End of actual period		
	% ²	% ³	Qty	%	%	Qty
Domestic institution/company	57.6%	57.7%	38,040,017	61.3%	61.6%	40,475,017
Foreign institution/company	21.7%	21.7%	14,297,742	21.7%	21.8%	14,297,742
Domestic individual	7.5%	7.5%	4,943,054	7.5%	7.5%	4,943,054
Foreign individual	0.1%	0.1%	45,045	0.1%	0.1%	45,045
Employees, senior officers	0.2%	0.2%	148,055	0.2%	0.2%	148,055
Treasury shares	0.1%	0.0%	53,601	0.4%	0.0%	253,601
Government held owner ⁴	7.2%	7.2%	4,724,833	7.3%	7.3%	4,832,225
International Development Institutions ⁵	0.0%	0.0%	0	0.0%	0.0%	0
Other	5.7%	5.7%	3,747,663	1.5%	1.6%	1,005,271
TOTAL	100.0%	100.0%	66,000,010	100.0%	100.0%	66,000,010

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

² Ownership share

³ The 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 completed and submitted/disclosed, while the fact must be indicated!

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

⁵ E.g.: EBRD, EIB, etc.

Number of treasury shares held in the year under review

	30 June 2013		31 March 2014		30 June 2014	
FHB Mortgage Bank Plc.	53,601	0.08%	197,822	0.30%	253,601	0.38%

Owners with more than 5% ownership (as at 30 June 2014)

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
VCP Finanz Holding Ltd.	no	15,970,000	24.20%
A64 Vagyonkezelő Ltd.	no	13,181,468	19.97%
Allianz Hungária Biztosító Ltd.	no	6,856,662	10.39%
Silvermist Estate SA	no	6,318,116	9.57%
Hungarian National Asset Management Inc.	no	4,832,225	7.32%
Total		47,158,471	71.45%

Data forms related to the organisation and operation of the issuer

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

	End of reference period 30/06/2013	End of last quarter 31/03/2014	Current period closing 30/06/2014
Bank	171	181	185
Consolidated	763	803	816

Persons in senior positions and (strategic) employees having an influence on the operations of the Issuer (as at 30 June 2014)

Type ¹	Name	Position	Beginning of mandate	End/ termination of mandate	No. of shares held
BoD	Dr. Zoltán Spéder	Chairman	29.04.2008	29.04.2018	16,000
BoD	Gabriella Balogh	Member	30.04.2013	29.04.2018	0
BoD	Dr. Christian Riener	Member	29.04.2008	29.04.2018	8,000
BoD	Gyula Köbli	Member, CEO	21.04.2010	29.04.2018	16,000
BoD	Tamás Foltányi	Member, Deputy CEO	21.04.2010	29.04.2018	12,000
BoD	Gábor Gergő Soltész	Member, Deputy CEO	30.04.2013	29.04.2018	0
BoD	Ákos Zoltán Starcz	Member	30.04.2013	29.04.2018	0
SB	Csaba Lantos	Chairman	28.04.2009	29.04.2018	0
SB	Enikő Mártonné Uhrin	Member	21.04.2010	21.04.2015	0
SB	Tibor Kádár	Member	24.04.2013	23.04.2018	0
SB	Miklós Szabó	Member	20.04.2011	20.04.2016	2,200
TOTAL No. of shares held by management:					54,200

¹ Employee in a strategic position (SP), Member of the Board of Directors (BoD), member of the Supervisory Board (SB)

Information and disclosures in second quarter of 2014

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 and invitation to the AGM
- Shareholders' announcements

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

www.bet.hu/
www.kozzetetek.hu
www.fhb.hu