



**Preliminary report of FHB Mortgage
Bank Plc for the first half of 2008**

Budapest, 7th August, 2008

Preliminary report of FHB Mortgage Bank for the first half of 2008 on the activities and results of the Company

The preliminary report of FHB Mortgage Bank Public Company Limited by Shares for the first half of 2008 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 consolidation applies also to FHB Szolgáltató Zrt. (FHB Services Ltd.), FHB Kereskedelmi Bank Zrt. (FHB Commercial Bank Ltd.), FHB Ingatlan Zrt. (FHB Real Estate Ltd.) and FHB Életjáradék Ingatlanbefektető Zrt. (FHB Annuity Real Estate Investment Ltd. The narratives compare the consolidated, non-audited figures as of 30 June 2007, as of 31 March 2008 and 30 June 2008.

I. Summary of the activities and events of the latest period

Earnings before taxation in the first half of 2008 were over 4.9 billion forints, 34.8% higher than first half 2007 EBT figure. **Excluding the change in the fair value of swaps** for hedging **earnings before taxation was almost 4.9 billion forints in 2008**, 11.6% higher than in the first half of 2007.

The **average net interest margin dropped** by 38 base points year on year, from 3.07% as of 30 June 2007 to 2.69% due to keen competition in the mortgage loan market, the rising funding cost and the changing distribution of the Group's loan portfolio. Over the past quarter the drop in the margin was eight base points.

The Bank's **consolidated balance sheet footing was up by 8.5%**, from 581.6 billion forints to **630.7 billion forints year-on-year**.

The Group's **cost-income ratio** dropped from 59.7% (including the impact of taxes) in the same period of 2007 to 53.9%.

Shareholders' equity reached 36.5 billion forints as of 30 June 2008 as a result of a **28.7% year-on-year increase**.

After-tax profit was 3.5 billion forints in the first half of 2008, 24.1% above the first half of 2007 figure.

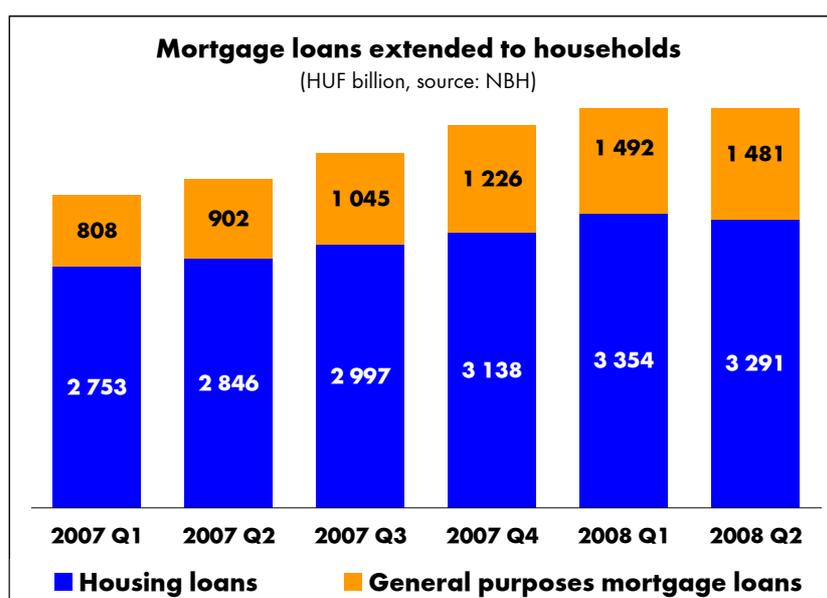
The profit of FHB Bank Group is in line with financial plans in the first half of 2008.

Retail mortgage loan market

According to National Bank of Hungary figures, the retail mortgage loan portfolio amounted to 4,772.5 billion forints as of 30 March 2008. This portfolio – caused by the effect of FX rate changes - dropped by 74.1 billion forints (or 1.5%) over the previous quarter's figure (4,846.5 billion forints) while it is 1,017.3 billion forints (or 27.1%) higher than the figure in 30 June, 2007 (3,755.2 billion forints). In terms of both volume and intensity the year-on-year growth is greater than the 594.4 billion forints growth achieved in the first half of 2007, which was 18.8% higher than the 2006 figure. Disregarding the impact of exchange rates fluctuation the year-on-year growth of the retail mortgage loans portfolio was 1,030.3 billion forints, or 27.5% (at 30 June 2008 rate), and the increase was 258.0 billion forints (or 5.7%) from the previous quarter's figure.

Growth in the portfolio continues to be generated by the increasing rate of foreign exchange-denominated loans: the annual growth of the FX loan portfolio was 1,160.8 billion forints (1,975.6 billion forints as at 30 June, 2007), but dropped by 34.5 billion forints over the previous quarter's figure, affected by the strong impact of FX rate changes. At the same time the forint-based loan portfolio shrank by 143.5 billion forints compared to the same quarter of the previous year and 39.6 billion forints compared to the previous quarter's figure. At the end of the quarter the total amount of retail mortgage loans denominated in foreign exchange was 3,136.4 billion forints, 65.4% of the total retail mortgage loan portfolio as opposed to 1,636.1 billion forints HUF loans, steadily shrinking. The intensity of growth is marked by the fact that in the same period of the previous year the proportion of FX loans was 52.6%.

Year-on-year growth in housing loans extended to households was 15.6% or 444.9 billion forints. The annual growth was significantly higher than the 2007 figure of 320.1 billion forints. The average growth per month was 37.1 billion forints. The second quarter 2008 drop was 62.9 billion forints from the base quarter growth.



The increase in FX-based loans was greatly contributed to by **soaring general-purpose mortgage loans** whose growth had been insignificant over the previous years. Compared to 908.9 billion forints contributing 24.2% to the overall retail loans portfolio as of 30 June 2007, the contribution of general-purpose loans to retail lending grew to reach 31.0% by the end of the period of reporting due to general-purpose loans' 56.3% contribution to the growth of the loan portfolio over the past year.

The substantial increase in the portfolio of **general-purpose loans to retail customers** was 21.7% in the first quarter of 2008, the decrease was 11.1% in Q2, with a year-on-year growth of 63.0%. Average monthly growth over the year was 47.7 billion forints. Of the total amount of general-purpose loans 97.7% was disbursed in foreign exchange; the total portfolio value was nearly 1,481.3 billion forints as of 30 June 2008. General-purpose mortgage loans contributed 62.2% to total consumer loans as of 30 June 2008 as opposed to 52.3% in the reference period. This indicates a significant restructuring within the consumer loans product: the growth of consumer and personal loans is less and less dynamic and the growth of general-purpose loans continues to be strong. The main reason for the trend is the need for households to supplement their shrinking real income from cheap mortgage loans in order to maintain their level of consumption.

Own lending

The net amount of loans sold by the Bank was 282.7 billion forints as at end of 30 June, 2008, a decrease of 1.6% compared to the figure of 31 March, 2008. The year-on-year increase was 21.9% compared to 30 June, 2007.

In the second quarter of 2008 the Group's loan disbursements amounted to 19.0 billion forints, 16.3% higher compared to 16.4 billion forints in the same period of the reference year but 4.2% below the 19.9 billion forints of Q1 2008 as a result of seasonal effects. In keeping with the general trend in the mortgage loans market, foreign exchange-denominated lending continues to dominate the lending business contributing 89.6% to Q1, and 87.9% to Q2 of 2008 disbursements.

Mortgage loan products

General-purpose mortgage loans continue to be the Group's most popular loan product with a contribution of 54.4% in the first half. Disbursements in this category amounted to 21.2 billion forints, denominated practically entirely in FX. Disbursements exceeded the 9.2 billion forints of the first half of 2007 by over 132.8% and the performance of Q2 was 8.2% higher than that of Q1 of 2008. As of 30 June the portfolio amounted to 100.7 billion forints, 99.7% of the Q1 figure but 70% more than in the same quarter of the reference year.

The contribution of *housing loans* to the total disbursements has been shrinking, compared to prior year's performance. While in the second quarter of 2007 housing loans contributed 37.2% with 6.1 billion forints disbursed, contribution in Q1 of 2008 was 29.7% (with 5.9 billion forints disbursed), and the contribution of this product to the Group's lending performance in Q2 of

2008 this product was 30.7% with 5.8 billion forints disbursed. Housing loan disbursements continue to be dominated by loans extended for the purchase of existing homes: their contribution was 3.6 billion forints in both Q1 and Q2 of 2008 (compared to 3.3 billion forints in Q2 of 2007). Loans extended for the purchase of new homes amounted to 1.0 billion forints (0.9 billion forints in Q1 of 2008 and 0.5 billion forints in Q2 of 2007), and the total value of home building loans was 1.1 billion forints also in Q1 and Q2 of 2008 (1.8 billion forints in Q2 of 2007). The value of the housing loans portfolio was 183.2 billion forints as of 30 June 2008, 7.6% higher than the Q2 of 2007 figure.

The performance of corporate loans was strong in the first quarter of 2008; however, the 1.8 billion forints achieved in Q2 did not manage to repeat the 3.3 billion forints achieved in Q1 of 2008. A large portion, 1.5 billion forints, was contributed by commercial real estate financing in Q2. Disbursements of home building project loans only amounted to 0.2 billion forints, practically the same as the Q1 of 2008 figure and one-third of the Q2 of 2007 achievement. Corporate loans contributed a significant 16.8% to total disbursements in the first quarter but only 7.9% in the second quarter. The value of the portfolio was 16.5 billion forints as of 30 June 2008; year-on-year growth was almost 65% with a minimal drop compared to Q1 of 2008.

Land development loans achieved 0.1 billion forints in the second quarter of 2008, lagging behind the Q1 of 2007 disbursements of 0.2 billion forints and the Q2 of 2007 figure of 0.2 billion forints. The value of the land development loans portfolio was 1.9 billion forints at the end of the second half of 2007, which the Bank managed to increase by 73% by the end of second quarter of 2008.

Launched in 2007, the mortgage product loan extended to senior citizens followed a dynamic growth curve and achieved 0.3 billion forints in the first quarter of 2008. This was repeated in the second quarter of 2008. Since the fourth quarter of 2007 the Bank has offered this product denominated also in euro, though the 2008 loans were overwhelmingly denominated in forint. The breakdown is 86.1% HUF and 13.9% FX.

Distribution channels

The performance of the various channels of own lending compared to the same period of the preceding year shows changes. The contribution to disbursements by the network of agents was 57.8% in first half of 2007, the Bank's own network of branches contributed 42.2%. In the first half of 2008, the network of agents contributed 70.0%, the network of branches contributed 30.0% to own loans.

Refinancing

As of 30 June 2008 the portfolio of refinanced loans showed a 4.9%, or 13.4 billion forints year-on-year increase and amounted to 287.3 billion forints. The value of the portfolio was 26.2 billion forints, or 8.4%, down from the 31 March 2008 figure. Newly refinanced mortgage loans extended by partners other than FHB Commercial Bank amounted to 21.2 billion forints in the first quarter of 2008. This performance dropped drastically in the second quarter and amounted only to 0.5 billion forints, only 3.3% of the Q2 of 2007 contribution. The drop was caused by the fact that the most important partner of FHB suspended the refinancing of FX loans from April 2008 due to mounting costs of funds and the provided funds for its parent bank. The changes in the refinancing business line are in line with the Bank's financial plans for 2008.

In accordance with the agreement with FHB Commercial Bank Ltd., the value of intra-Group refinancing amounted to 15.4 billion forints in the first quarter of 2008 and 10.5% less, 12.3 billion forints, in the second quarter. As this business was started between the two Banks in the same period of 2007, the 0.1 billion forints transaction value is not yet a basis for comparison of performance in this year.

FHB Commercial Bank Ltd.

Loans extended by FHB Commercial Bank in the second quarter of 2008 amounted to approximately 15.3 billion forints, contributing 81% to own lending. This amount is 9.7% higher than the 14.0 billion forints achieved in Q1 of 2008 and more than tripled year-on-year. The amount was entirely contributed by mortgage loan sales. Disbursements are predominantly in Swiss franc (96.5% in Q2 compared to 99.9% in Q1). Euro and forint disbursements jointly amounted to only 19.3 million forints in Q1 and 532 million forints in Q2. As was the case in the preceding quarter, the loans portfolio is dominated by general-purpose mortgage loans contributing 9.9 billion forints to total disbursements in Q1 and 10.8 billion forints in the reported quarter. The main products within the housing loans portfolio were loans extended for the purchase of new and existing homes with a total contribution of 3.9 billion forints to the Commercial Bank's achievement in the second quarter following 3.7 billion forints in Q1. After its take-off in the first quarter (with 408.4 million forints) corporate lending disbursed for commercial real estate financing loans in Q2 was only 62 million forints in the reported quarter. Conversely, other types of corporate loans appeared in the second quarter and amounted to 500 million forints.

The number of retail accounts was almost 25,700 as of 30 June 2008, more than double the Q1 figure. There was a substantial increase in funds on retail and corporate accounts compared to the previous quarter and contributed 4.5% to the Group's balance. The number of bank cards issued in the second quarter of 2008 was almost 3,800. Taking into account the 2,600 new cards issued in Q1 of 2008, the total number of cards issued so far to FHB Commercial Bank customers was approximately 10,300.

FHB Life Annuity Ltd.

FHB Annuity Ltd. offers two products to senior customers. FHB Annuity is sold directly by FHB Annuity Ltd. The other product, FHB Mortgage Annuity is a reverse mortgage product, which means the contracts are reported directly in the balance sheet of FHB Plc. In terms of this product, FHB Annuity Ltd. is involved in product development as well as sales, the latter on the basis of an agency agreement signed with FHB Plc.

From its foundation to 30 June 2008 FHB Annuity signed annuity contracts amounting to 3.9 billion forints, 1.1 billion forints in Q1 and 1.3 billion forints in Q2 with approximately the same total respective real estate value. The portfolio value in the second quarter is almost five times the Q2 of 2007 total contract value of 262 million forints. This indicates the gradual ascent of this new product and an increasing interest on the part of customers. Since the launch of the product the total contract value was 1.75 billion forints and aggregate annuity disbursements amounted to 1.3 billion forints.

FHB Real Estate Ltd.

The core business of FHB Real Estate Ltd. is to provide collateral valuation, real estate investment and sales, real estate management and real estate valuation services to members of the Group. In addition to the Group, FHB Real Estate Ltd. offers valuation services to external buyers.

In the first quarter of 2008 the FRH Real Estate launched the real estate agency business. Expansion and further development of the new activity is in progress. The major event in Q2 of 2008 was the introduction of the real estate development business and preparation of the relevant organization. Services planned include project management, engineering, expert services and consultancy.

Mortgage bond issues and financing

Long term funding included issues of mortgage bonds and unsecured bonds in the domestic market in the second quarter of 2008. The gross amount of new funds issued by the Mortgage Bank was 33.8 billion forints (from which 13,7 billion forints were unsecured bonds), over six billion forints more than in the same quarter of 2007 and almost 2.7 billion forints more than in Q1 of 2008.

Net funds involved in the first half amounted to nearly 65 billion forints, almost 11 billion forints more than in the first half of 2007. Eight series matured in the first half with a total face value of 52.4 billion forints. Total redemption value was 5.4 billion forints.

In the first quarter of 2008 the Bank's Issues Programme for 2007 and 2008 was authorized with a maximum total face value of 200 billion forints. The first series under the new Programme were launched in February and March.

An event of major importance for the Bank was the definitive Aa rating of FHB's mortgage bonds by Moody's as of 1 April 2008. The FHB mortgage bonds were put on the negative watch only because of the possible implications of the privatization in August 2007. The mortgage bonds were downgraded from Aa2 to Aa3 but the Bank managed to keep mortgage bonds in the Aa category still deemed excellent by investors.

On 4 March 2008 the Luxembourg Stock Exchange approved the Bank's Mortgage Bonds and Bonds Issues Programme with a total value of three billion euros. From this date the Bank's mortgage bonds are also classified as "ECB eligible".

Trading of FHB's mortgage bonds in the stock exchange was slow in the second quarter of 2008 and stayed under half a billion forints, similarly to previous quarters. A large portion of trading was contributed by fixed interest earning mortgage bonds.

The aggregate mortgage bond portfolio of the three Hungarian mortgage banks amounted to 1,734.1 billion forints as of 30 June 2008. FHB's share of the mortgage bond market was 27.6% at the end of the first quarter, which dropped minimally, to 27.4% by the end of the first half.

Changes in the legislative environment

The most important legislative changes in Q1 and Q2 of 2008 that affect the Group's business were as follows:

Decree No. 9 of 2008 (26 January) of the Government on the amendment of certain Government decrees pertaining to construction, with effect from 2 February 2008 (including, for example, Decree No. 244 of 2006 (5 December) on detailed rules of eligibility to exercise the function of technical supervisor and the responsible technical coordinator, and Decree No. 291 of 2007 (31 October) on building supervision activity).

Decree No. 3 of 2008 (26 February) of the Minister of Finance on the data to be provided for the Hungarian Financial Supervisory Authority by credit institutions and the method of provision entered into effect on 27 February 2008.

Decree No. 65 of 2008 (27 June) of the Government on the amendment of Decree No. 12 of 2001 (31 January) of the Government on state housing subsidy. The decree mainly amends the provisions pertaining to so-called advance loans.

Restructuring and staff figures

Staff figures

The consolidated headcount was 564 at the end of the reported quarter, practically the same as the 563 staff at the end of Q1 of 2008 and 13.9% up from the Q2 of 2007 figure of 496. As of 30 June 2008 branch staff was 171 (175 in Q1) and that of headquarters was 393 (388 in Q1). All of the branch staff are employed by FHB Commercial Bank. Group companies had the following staff figures as of 30 June 2008: FHB Mortgage Bank Plc. 85, FHB Commercial Bank Ltd. 270, FHB Services Ltd. 174, FHB Annuity Ltd. 15.6, and FHB Real Estate Ltd. 20.

Officers and executives

On 29 April 2008 all members of the Board of Directors resigned from their position. The Annual General Meeting elected the following persons to serve on the Board of Directors, each with a mandate of five years: Dr. Zoltán Spéder, Dr. Gábor Borsányi, Dániel Gyuris, László Harmati, Dr. Christian Riener, Dr. Károly Salamon, István Somkuti and Dr. Márton Vági. At its first meeting held after the AGM the Board of Directors elected Dr. Zoltán Spéder as Chairman. The following members of the Supervisory Board resigned from their position as of 29 April 2008: Róbert Somfai, Dr. Gyula Czok, Éva Baranyi and Márta Szántó. The AGM re-elected Róbert Somfai with a mandate for five years. At its first meeting held after the AGM the Supervisory Board elected Róbert Somfai as Chairman.

II. Summary figures of the latest period (IFRS)¹

The Bank's **balance sheet total consolidated** according to International Financial Reporting Standards was up year-on-year by **8.5%**, from 581.6 billion forints to **630.7 billion forints**. The increase was predominantly generated by the growth in the mortgage loans portfolio.

Shareholders' equity grew by 28.7% over the period of a year to reached **36.5 billion forints**, due primarily to an increase in retained earnings.

Earnings before taxation were **4.9 billion forints** in the reported quarter (swap effect: +102 million forints), 34.8% up from the reference half figure. **After-tax profit** was **3.5 billion forints**.

| Key financial indicators | Consolidated figures by IFRS | | |
|--|------------------------------|--------------|-------------------------------|
| | 30 June 2007 | 30 June 2008 | 30 June 2008/ 30 June 2007 |
| Balance sheet total (HUF million) | 581,552 | 630,738 | 8.5% |
| Book value of mortgage loans (HUF million) | 505,890 | 570,001 | 12.7% |
| Book value of mortgage bonds (HUF million) | 491,251 | 467,649 | -4.8% |
| Bonds issued (HUF million) | - | 61,630 | - |
| Shareholders' equity (HUF million) | 28,351 | 36,484 | 28.7% |
| Earnings before taxation (HUF million) | 3,675 | 4,954 | 34.8% |
| After tax profit (HUF million) | 2,787 | 3,460 | 24.1% |
| Net interest margin (NIM) | 3.07% | 2.69% | -12.3% |
| EPS (HUF) | 85 | 106 | 24.5% |
| P/E (share price/EPS) | 27.00 | 10.66 | -60.5% |
| P/BV (share price/equity/number of shares) | 5.35 | 2.04 | -61.8% |
| Adjusted capital (by HAS) | 23.728 | 26.654 | 12.3% |
| Capital adequacy ratio (by HAS) | 11.3% | 9.3% | -17.5% |
| ROAA (return on average assets) | 1.0% | 1.1% | 11.0% |
| ROAE (return on average equity) | 17.5% | 29.1% | 66.6% |

¹ IFRS, consolidated, non-audited figures

III. Analysis of FHB Mortgage Bank Plc.'s financial statements prepared according to IFRS

P/L structure²

Data in HUF million

| DESCRIPTION | 2007 Q2 (Apr-June) | 2008 Q1 (Jan-Mar) | 2008 Q2 (Apr-June) | 2008 Q2/ 2007 Q2 | 2008 Q2/ 2008 Q1 |
|---|-----------------------|----------------------|-----------------------|---------------------|---------------------|
| Net interest income | 4,088 | 4,137 | 4,102 | 0.3% | -0.9% |
| Net fees and commissions income | 258 | 469 | 424 | 64.0% | -9.6% |
| Net profit from financial transactions | 1 | 938 | 172 | - | -81.7% |
| Other income and expenditure | -52 | 468 | 556 | - | 18.7% |
| Gross operating income | 4,295 | 6,011 | 5,253 | 22.3% | -12.6% |
| Operating expenses | -2,862 | -2,984 | -3,090 | 7.9% | 3.5% |
| Net operating income | 1,433 | 3,027 | 2,163 | 51.0% | -28.5% |
| Losses from lending and impairment | -150 | 205 | -441 | 195.3% | -315.4% |
| Profit before taxation | 1,283 | 3,232 | 1,723 | 34.2% | -46.7% |
| Taxes | -233 | -906 | -588 | 152.8% | -35.1% |
| After tax profit | 1,051 | 2,326 | 1,134 | 7.9% | -51.2% |
| Profit before tax without changes in fair value of swap transactions | 1,789 | 2,980 | 1,872 | 4.6% | -37.2% |
| Profit after tax without changes in fair value of swap transactions | 1,557 | 2,073 | 1,284 | -17.5% | -38.1% |

In the second quarter of 2008 the Bank realised **1.1 billion forints consolidated after-tax profit by IFRS**, 51.2% less than in Q1 of 2008 but 7.9% higher year-on-year. **Profit before tax was 1.7 billion forints.**

After-tax profit excluding hedges amounted to 1.3 billion forints in the second quarter of 2008, 17.5% below the figure for the reference quarter of 2007 and 38.1% less than the Q1 of 2008 figure.

² IFRS, consolidated, non-audited figures

Data in HUF million

| DESCRIPTION | 2007 Jan-June | 2008 Jan-June | 2008/ 2007 |
|---|------------------|------------------|---------------|
| Net interest income | 8,398 | 8,239 | -1.9% |
| Net fees and commissions income | 572 | 892 | 55.9% |
| Net profit from financial transactions | 53 | 1,110 | 1977.9% |
| Other income and expenditure | -66 | 1,024 | -1655.0% |
| Gross operating income | 8,958 | 11,264 | 25.7% |
| Operating expenses | -5,348 | -6,074 | 13.6% |
| Net operating income | 3,610 | 5,190 | 43.8% |
| Losses from lending and impairment | 65 | -236 | -464.7% |
| Profit before taxation | 3,675 | 4,954 | 34.8% |
| Taxes | -888 | -1,494 | 68.3% |
| After tax profit | 2,787 | 3,460 | 24.1% |
| Profit before tax without changes in fair value of swap transactions | 4,346 | 4,852 | 11.6% |
| Profit after tax without changes in fair value of swap transactions | 3,459 | 3,358 | -2.9% |

In the first half of 2008 **consolidated after-tax profit by IFRS amounted to 3.5 billion forints**, 24.1% up from the first half of 2007. **Earnings before taxation was 4.9 billion forints**, 34.8% above the EBT achieved in the first half of 2007. After-tax profit excluding hedge swaps was 3.4 billion forints in 2008, while the first half of 2007 figure was 3.5 billion forints.

Net interest income

Net interest income was 4.1 billion forints in the second quarter of 2008, identical with the figure achieved in the same period of last year (4.1 billion forints) and 0.9% less than the Q1 of 2007 figure. The net figure emerged as a balance of 17.2 billion forints interest income (118.5% of the Q2 of 2007 figure and the same as in Q1 of 2008) and 13.1 billion forints interest expenditures (125.5% of the Q2 of 2007 figure and 100.2% of the Q1 of 2008 figure). Net interest income in the first half of 2008 was 8.2 billion forints, 1.9% down from the first half of 2007 figure, due mainly to a 19.5% (or 34.5 billion forints up to 30 June 2008) increase in interest income and a 28.3% (or 26.3 billion forints up to 30 June 2008) increase in interest expenditure.

In second quarter of 2008 the main contributor to interest income was interest on own lending at 41.3% (compared to 42.4% in Q1 of 2008 and 43.0% in Q2 of 2007) followed by refinanced mortgage loans at 33.2% (compared to 34.1% in Q1 of 2008 and 41.0% in Q2 of 2007). The aggregate interest on interbank deposits and securities contributed 3.6% (1.8% in Q1 of 2008 and 3.7% in Q2 of 2007), while the contribution of interest income on derivatives was 21.8% (21.7% in Q1 of 2008 and 12.2% in Q2 of 2007).

In terms of breakdown for the first half, 41.9% of interest income was contributed by interest on own loans (43.3% in the first half of 2007). The contribution of interest income on refinanced loans was 33.7% (41.5% in the reference half). The aggregate contribution of interest income on interbank deposits and securities was 2.7%, down from the previous year's figure of 3.7%. The biggest change occurred in the item of interest income on derivative transactions that contributed 21.7% to total interest income as opposed to 11.6% in the first half of 2007.

The breakdown of income from interest followed the earlier trend: the contribution of interest income on refinanced loans decreased while interest income on derivatives increased (in line with projections). The contribution of interest income on interbank deposits and securities steadily appears low.

Within the line item of interest income, the contribution of interest subsidy (subsidy of interest on mortgage bonds and supplementary interest subsidy) was 49.4% in the second quarter of 2007 and 43.8% in the second quarter of 2008. In keeping with the trend in earlier years, subsidized interest income has been dropping while income from customers has increased: in the first half of 2007 interest subsidies income contributed 50.3% to total interest income and dropped to 44.8% in the first half of 2008.

In second quarter of 2008 62.9% of interest expenditures was incurred in conjunction with mortgage bonds. The contribution of interest paid on interbank loans received was 2% and that of derivative hedges was 23.3%. The contribution of interest expenditures on mortgage bonds was 65.0% in the first quarter of 2008 and as much as 77.4% in Q2 of 2007. Interest paid on derivative transactions contributed 25.1% in Q1 of 2008 and 19.1% in Q2 of 2007.

The half-year breakdown of interest expenditure shows a varied picture, similarly to the reference year: 64.0% of interest expenditures was incurred in conjunction with mortgage bonds; the contribution of interest paid on interbank loans received was negligible (2.3%), and the contribution of derivative transactions was 24.2% in the first half of 2008. The breakdown in the first half of 2007 was 77.6% and 19.0%.

The average net interest margin (NIM) was 2.69% as of 30 June 2008 and 2.77% as of 31 March 2008 compared to 3.07 in the second quarter of 2007. The drop in NIM is caused by two major factors. One is the Bank's transforming loans portfolio structure, which has been an ongoing process for a longer period and has a long-term effect on the breakdown of the Bank's own and refinanced loans portfolio. In the refinanced loans portfolio there has been a steady decline in subsidized loans as new loans are predominantly denominated in FX and thus scheduled repayments of principal and prepayments are higher than the amount of new loans disbursed. Dwindling subsidized loans are replaced by lower margin FX-based loans. Another negative impact on overall NIM is that most of the subsidized portfolio was re-priced in 2007 and 2008. A similar transformation is taking place in terms of the portfolio of the Bank's own loans, where a negative effect stems from rising EUR and CHF yield curves and especially the increasing funding costs, which the banking sector did not pass over to the customers.

Net fees and commission income

In the first quarter of 2008 the Bank achieved a positive balance of 469 million forints. The balance in the second quarter was somewhat less, 424 million forints, which is 64.0% higher than the 258.4 million forints achieved in Q2 of 2007. In the reported period net income from fees contributed 8.1% to gross operating profit.

Net fees and commissions income in the first half of 2008 was 892 million forints, 55.9% higher than the 572.2 million forints achieved in the reference period. The contribution of net fees and commissions income to gross operating income was 7.9% in the first half.

Almost half of the net fees and commissions income (537.9 million forints) were contributed by fees paid by credit institutions, 23.8% was contributed by fees involved by mortgage loans, and 17.3% by handling fees. On the expenditures side, the contribution of commissions paid to acquisition agents was 29.0% and fees paid in conjunction with mortgage bonds launches contributed 36.7%. Interest premium paid to consortial partners contributed 3.8%.

As of 30 June 2008 fees and commissions income amounted to 1,041 million forints, 17.0% more than in the first half of 2007. Handling fees amounted to 194.0 million forints, fees received from credit institutions amounted to 498.4 million forints, and income related to million forints was 271.5 million forints.

As regards fees and commissions paid in the first half (148.5 million forints), commissions paid to agents - as a result of effective interest rate calculations - amounted to 26.2 million forints and contributed 17.7% to the total fees and commissions paid. Fees paid to consortial partners were a total of 10.1 million forints (contributing 6.8% to total expenditures), fees paid in connection with the launching of mortgage bonds amounted to 70.7 million forints (48.6%). In the first half of 2007 total fees and commissions expenditures were 317.4 million forints and included 258.2 million forints (81.4%) paid to acquisition agents, 33.9 million forints (10.7%) paid in conjunction with mortgage bonds launches, and 11.2 million forints (3.5%) paid to consortial partners.

Net profit from securities and currency transactions

Caused by the change of FX rates, the contribution of FX transactions to profit was 727.1 million forints in the first half of 2008, 191.2 more than in the first half of 2007, when the profit on FX transactions was 535.9 million forints.

After the 252 million forints positive balance of derivative transactions achieved in the first quarter of 2008, a 150.2 million forints loss was generated in the second quarter. The balance in the first half of 2007 was a loss of 672 million forints whereas the first half of 2008 closed with a profit of 102.2 million forints on derivative transactions.

In Q1 of 2008 profit from securities transactions amounted to 273.2 million forints, which, added to the 7.2 million forints achieved up to 31 March 2008, resulted in a total of 280.4 million

forints achieved in the first half. The same item was 189.5 million forints in the first half of 2007. The figure emerged as a balance of exchange gains and losses on securities issued and repurchased during the year.

Other income

As of 30 June 2008 the balance of other income and expenditure was 1,023.6 million forints, arising from 526 million forints income achieved in the Q1 and 518 million forints achieved in Q2 income net of 58.1 million forints expenditure in Q1 and 36 million forints expenditure in Q2. In the first half of 2007 the balance of other income and expenditure was -65.8 million forints and included 212.4 million forints income net of 278.2 million forints expenditure. The item of other income and expenditure contains 1.0 billion forints related to the business of FHB Annuity Ltd., which includes income from the valuation of receivables from annuities. On the other expenditures side, the line item also includes donations, late charges and settlement with the tax authorities.

Operating expenses

Data in million HUF

| DESCRIPTION | 2007 Q2 (Apr-June) | 2008 Q1 (Jan-Mar) | 2008 Q2 (Apr-June) | 2008 Q2/ 2007 Q2 | 2008 Q2/ 2008Q1 |
|---------------------------------|-----------------------|----------------------|-----------------------|---------------------|--------------------|
| General administrative costs | 2,230 | 2,290 | 2,481 | 11.3% | 8.4% |
| Personnel expenses | 776 | 1,104 | 1,163 | 49.8% | 5.3% |
| - wages | 379 | 676 | 725 | 91.5% | 7.2% |
| - other personnel expenses | 234 | 181 | 163 | -30.6% | -10.5% |
| - social security expenses | 163 | 247 | 275 | 68.5% | 11.5% |
| Other administrative costs | 1,454 | 1,185 | 1,319 | -9.3% | 11.3% |
| Taxes paid | 254 | 317 | 148 | -41.6% | -53.2% |
| Depreciation | 378 | 378 | 460 | 21.6% | 21.7% |
| TOTAL OPERATING EXPENSES | 2,862 | 2,984 | 3,090 | 7.9% | 3.5% |

Operating costs amounted to 3.1 billion forints in the second quarter of 2008, 3.5% higher than in the first quarter (3.0 billion forints). Operating costs in the reported quarter were 7.9% higher than the 2.9 billion forints achieved in the second quarter of 2007. As a result of infrastructure investment and restructuring the cost/income ratio (CIR) was 59.7% as of 30 June 2007 and 53.9% in the first half of 2008. CIR excluding banking contribution was 49.8% as of 30 June 2008.

There was a minor change in the **breakdown** of operating costs. The contribution of **personnel expenses** in the second quarter of 2008 was 37.3% compared to 37.0% in the first quarter. The increase in personnel expenses over the Q1 figure was 5.3%. **Other administrative costs** were 11.3% up from the Q1 of 2008 figure and 9.3% down from the second quarter of 2007. There is a slight upward change in the contribution of this item to operating costs, from 39.7% as of 31 March 2008 to 41.2% by the end of the reported quarter.

Data in million HUF

| DESCRIPTION | 2007 (Jan-June) | 2008 (Jan-June) | 2008 / 2007 |
|---------------------------------|--------------------|--------------------|--------------|
| General administrative costs | 4,304 | 4,771 | 10.9% |
| Personnel expenses | 1,645 | 2,267 | 37.8% |
| - wages | 935 | 1,401 | 49.9% |
| - other personnel expenses | 353 | 344 | -2.4% |
| - social security expenses | 357 | 522 | 46.0% |
| Other administrative costs | 2,659 | 2,504 | -5.8% |
| Taxes paid | 507 | 465 | -8.3% |
| Depreciation | 537 | 838 | 55.8% |
| TOTAL OPERATING EXPENSES | 5,348 | 6,074 | 13.6% |

In the first half of 2008 operating costs amounted to 6.1 billion forints as opposed to 5.3 billion forints in the first half of 2007. The increase is 13.6% and results mainly from mounting personnel expenses. Personnel expenses contributed 37.3% in 2008 as opposed to

30.8% in 2007, with a growth of 37.8%. Other administrative costs contributed 49.7% in the first half of 2007 and were down to 41.2% in the first half of 2008.

Over the past period there has been a considerable change in terms of some of the items contributing to other administrative costs. As a result of the expansion of the network of branches rents amounted to 424 million forints in the first half of 2008 and amounted to 212 million forints in both Q1 and Q2. As of 31 June 2008 the contribution of rents to other administrative costs was 7.0% as opposed to 8.9% in the first half of 2007.

Marketing and advertising costs amounted to 459 million forints as of 30 June 2008, with a 1.5% year-on-year increase. Costs were similar in the two quarters.

There was a significant decrease in consultants' fees compared to 2007. The item increased from 143 million forints in the first quarter of 2008 to 162 million forints in the second quarter. The first-half figure was 305 million as opposed to 579 million forints in 2007. This significant drop is attributed to the fact that the strategic project had been completed in 2007. While the contribution of consultants' fees to other administrative costs in the first half of 2007 was 21.8%, this rate dropped to 12.2% by the first half of 2008.

Within the line item of other administrative costs general and administrative costs amounted to 223.4 million forints in the first quarter of 2008. The item in the reported quarter was 270.4 million forints, 21% higher than in Q1 of 2008 and 47.1% up from the 183.9 million forints incurred in the second quarter of 2007. General and administrative costs amounted to a total of 493.8 million forints in the first half of 2008, with a year-on-year increase of 54.5%.

Expenses of banking activity in the first half of 2008 contribute 17.3% to other administrative costs (22.3% in Q1 of 2008 and 12.7% in Q2 of 2008). The main component of special mortgage banking costs was life insurance costs related to loan cover, which contributed 52.8% to special mortgage banking costs as of 31 March 2008 and 45.7% as of 30 June 2008.

In the first half of 2008 **depreciation** amounted to 838 million forints, of which 378 million forints were incurred in the first quarter and 460 million in the second quarter. Year-on-year increase of the first-half figure is 21.6%. The change compared to the first half of 2007 is due to the depreciation of newly acquired tangible and intangible assets. Of the first half of 2008 depreciation, 65.6% was contributed by intangible assets and 34.4% by tangibles.

Taxes paid dropped in the period of reporting: as opposed to 254.0 million forints in the second quarter of 2007 and 316.8 million forints as of 31 March 2008, taxes paid by the Bank in the second quarter of 2008 amounted to 148 million forints. Almost the whole amount of taxes comes from banking contribution.

Portfolio quality, loss in value and provisions

Portfolio quality continues to be good. There was a slight drop in the proportion of problem-free loans in both the overall and the loans portfolio (receivables from customers and commitments) compared to the second quarter of 2007.

The portfolio value determined according to IFRS amounted to 599.3 billion forints as of 30 June 2008 as opposed to 649.3 billion forints as of 31 March 2008 and 551.1 billion forints as of 30 June 2007. The portion of the portfolio constituting the basis for impairment reported according to IFRS rules was 1.24% as of 30 June 2008, 0.96 as of 31 March 2008, and 0.82% as of 30 June 2007. Impairment to the entire portfolio was 0.20% as of 30 June 2008, 0.14 as of 31 March 2008, and 0.12% as of 30 June 2007.

The balance of impairment was 1,2 billion forints as at 30 June, 2008, which is 568.2 million forints over the 30 June 2007 figure. The table below shows the balance of impairment and the losses booked in the period:

Data in thousand HUF

| Description | 30 June, 2008 | 30 June, 2007 |
|---|------------------|----------------|
| Impairment as at 1st January | 999,701 | 819,296 |
| Charge for the period | 1,907,278 | 1,129,564 |
| Release during the period | -1,705,226 | -1,315,270 |
| Impairment at period end | 1,201,753 | 633,590 |
| Net effect of charge and release | 227,329 | -165,596 |
| Loans written off | | |
| Loss on loans sold | | 90,963 |
| Loss on terminated loans | 13,405 | 9,920 |
| Charge/(release) for commitments | -4,234 | -134 |
| Losses on loan and advances | 236,500 | -64,847 |

Balance sheet³

Data in HUF million

| DESCRIPTION | 30.06.2007. | 31.03.2008. | 30.06.2008. | 30.06.2008. / 30.06.2007. | 30.06.2008. / 31.03.2008. |
|---|----------------|----------------|----------------|------------------------------|------------------------------|
| Cash | 367 | 516 | 447 | 21.7% | -13.4% |
| Receivables from NBH | 394 | 460 | 1,531 | 288.9% | 233.1% |
| Interbank deposits | 27,012 | 10,150 | 9,018 | -66.6% | -11.1% |
| Available for sale securities | 25,453 | 4,451 | 23,277 | -8.5% | 423.0% |
| Refinanced mortgage loans | 273,968 | 313,515 | 287,327 | 4.9% | -8.4% |
| Loans | 231,922 | 287,349 | 282,675 | 21.9% | -1.6% |
| Fair value of derivatives | 5,251 | 1,809 | 7,021 | 33.7 | 288.2% |
| Property for investment | 351 | 2,554 | 3,892 | - | 52.4% |
| Tangible assets | 8,568 | 9,582 | 9,936 | 16.0% | 3.7% |
| Other assets | 8,267 | 7,024 | 5,614 | -32.1% | -20.1% |
| Assets total | 581,552 | 637,411 | 630,738 | 8.5% | -1.0% |
| Payables total | 553,201 | 601,350 | 594,254 | 7.4% | -1.2% |
| - Interbank borrowings | 48,760 | 21,645 | 22,144 | -54.6% | 2.3% |
| - Mortgage bonds | 491,251 | 512,655 | 467,649 | -4.8% | -8.8% |
| - Bonds issued | 0 | 47,064 | 61,734 | - | 31.2 |
| - Deposits | 2,530 | 4,442 | 28,635 | - | 544.7% |
| - Fair value of derivatives | 7,028 | 10,309 | 9,010 | 28.2% | -12.6% |
| - Reserves for annuity | 163 | 626 | 984 | - | 57.3% |
| - Other liabilities | 3,468 | 4,610 | 4,098 | 18.1% | -11.1% |
| Shareholders' equity | 28,351 | 36,061 | 36,484 | 28.7% | 1.2% |
| - Subscribed capital | 6,600 | 6,600 | 6,600 | 0.0% | 0.0% |
| - Repurchased own shares | -19 | -166 | -126 | 566.0% | -24.3% |
| - Share premium | 1,709 | 1,709 | 1,709 | 0.0% | 0.0% |
| - General reserve | 2,827 | 3,285 | 3,424 | 21.1% | 4.2% |
| - Cash-flow hedge reserve | -2,985 | -158 | -562 | -81.2% | 255.3% |
| - Stock option reserve | 63 | 209 | 22 | -65.4% | -89.6% |
| - Changes in fair value of avail. for sale fin. assets | 0 | -25 | -19 | - | -24.0% |
| - Accumulated assets | 20,156 | 24,607 | 25,436 | 26.2% | 3.4% |
| Liabilities total | 581,552 | 637,411 | 630,738 | 8.5% | -1.0% |

³ IFRS, consolidated, non-audited figures

As of 31 June 2008 the Bank's consolidated **balance sheet total** by IFRS amounted to **630.7 billion forints**, which is 6.7 billion forints, or approximately 1.0% less than in the first quarter of 2008 and 49.2 billion forints, or 8.5%, higher than the balance sheet total as of 30 June 2007. Compared to the 30 June 2007 reference period, the increase in assets was the joint impact of different factors including a 50.8 billion forints expansion of the loan portfolio reduced by a 18 billion forints interbank lending and a 2.2 billion forints drop in securities, which was not compensated by the 1.1 billion forints increase in receivables from the NBH. On the liabilities side, 61.7 billion forints of the increase were contributed by the expansion of bonds and 26.1 billion forints by mounting deposits. This, however, was considerably reduced by a 26.6 billion forints decrease in interbank borrowings and a 23.6 billion forints shrinking of bonds portfolio. Shareholders' equity increased by approximately eight billion forints year-on-year, primarily as a result of an increase in accumulated assets. The drop in assets compared to the balance sheet as of 31 March 2008 was caused predominantly by shrinking refinanced and own loans by an aggregate 31 billion forints, which was only partially compensated by the 18.8 billion forints expansion in securities. On the liabilities side, the mortgage bonds shrank by 45.0 billion forints while bonds issued increased by 14.7 billion forints. Deposits increased by 24.2 billion forints in the second quarter. As a result of these effects there was only a 423 million forints change in shareholders' equity in Q2.

Interest earning assets

The Group's interest earning assets dropped from 615.9 billion forints as of 31 March 2008 to 603.8 billion forints as of 30 June 2008, however, still exceeding the Q2 of 2007 figure by 8.1%. Loans to retail customers disbursed by the Bank were 21.9% higher as of 30 June 2007 than a year earlier and 1.6% down from the Q1 of 2008 figure. Impairment to cover for losses from lending was up from 633.6 million forints in June of 2007 to 1,202 million forints. The year-on-year increase in refinanced loans was 4.9%, however, there was a 8.4% drop in this item in the past quarter. As of 30 June 2007 refinancing and the Bank's own loans contributed 90.5% to interest earning assets. This contribution grew to reach 94.4% by 30 June 2008.

The collateral value of real estate covering ordinary collateral amounted to 1,388.8 billion forints as of 30 June 2008, 1.7% higher than the figure (1,386.5 billion forints) as of 31 March 2008 and 10.6% up from the figure in the second quarter of the reference year (1,255.9 billion forints). The LTV ratio (loan principal receivable to collateral value) was 38.4% as of 30 June 2008, somewhat better than the 38.1% LTV ratio in the reference period of the previous year.

The portfolio of NBH and other interbank deposits dropped from 10.6 billion forint as of 31 March 2008 to 10.5 billion forints in the reported quarter, which means its contribution to interest earning assets was 1.7%.

The value of the **securities portfolio** of the Bank decreased from 24.5 billion forints as of 30 June 2007 to 4.4 billion forints as of 31 March 2008 and 23.3 billion forints as of 30 June 2008. The contribution of securities to interest earning assets was thus 3.9% after a year of volatility. NBH discount bonds replacing NBH deposits contributed 17.9 billion forints to securities, the contribution of discount treasury bills was 4.6 billion forints and government bonds contributed the remaining 0.5 billion forints. The Bank's securities portfolio continues to serve exclusively as a liquidity reserve.

Property for investment, own and other assets

The value of **real estate** transferred into the Bank's possession as a result of annuity sales over the year was approximately 4.0 billion forints as of 30 June 2008, 52.4% up from the 2.6 billion forints achieved in the prior quarter of 2008.

The net value of **tangible and intangible assets** amounted to 8.6 billion forints as of 30 June 2007. This amount increased to reach 9.9 billion forints by the end of reported half due primarily to new IT and other hardware and other tangible assets as well as software.

Other assets amounted to 5.6 billion forints as of 30 June 2008 as opposed to 8.3 billion forints in the same period of the reference year. The change is due primarily to the low balance of settlements (of interest subsidies) with the Hungarian State in the reference period.

Interest bearing liabilities

Mortgage bonds contributed 72.9% to the Bank's interest bearing liabilities as of 30 June 2008. The same item was 81.0% as of 31 March 2008 and 91.0% as of 30 June 2007. The 467.4 billion forints book value of mortgage bonds as of 30 June 2008 was 8.8% less than in the first quarter of 2008 (512.7 billion forints), the year-on-year drop amounting to 23.8 billion forints was contributed by 60.5 billion forints new issues, 67.7 billion forints repayments and 5.4 billion forints repurchase including related exchange rate adjustments.

Mortgage bond collateral

The value of assets used as **ordinary collateral** for the mortgage bonds issued by the Bank was **920.5 billion forints** as of 30 June 2008, 4.3% down from the figure as of 31 March 2008 (962.3 billion forints) and 8.3% up from the figure as of 30 June 2007 (850.3 billion forints).

The value of the group of assets involved as collateral as of 30 June 2008 (HUF million)

| Outstanding mortgage bonds in circulation | |
|--|----------------|
| face value: | 457,871 |
| interest: | 135,357 |
| total: | 593,228 |

| Value of the regular collateral | |
|--|----------------|
| principal: | 538,758 |
| interest: | 381,772 |
| total: | 920,530 |

| Value of assets involved as supplementary collateral (state bonds) | |
|---|----------|
| principal: | 0 |
| interest: | 0 |
| total: | 0 |

The present value of mortgage bonds amounted to 520.8 billion forints, and the present value of collateral was 611.9 billion forints as of 31 March 2008, thus the rate of cover was 117.5%. As of 30 June 2008 the present value of mortgage bonds dropped to 472.3 billion forints, and that of collaterals to 582.2 billion forints, which resulted the rate of cover of 123.2%.

As of 30 June 2008 net ordinary and supplementary collateral principle to the face value of mortgage bonds in circulation not yet repaid was 117.7%. Net interest on ordinary and supplementary collateral to interest on mortgage bonds in circulation not yet repaid was 282.0%.

Bonds issued

Launched first in September 2007, bond issues constitute a new fund raising securities type instrument in addition to mortgage bond issues. The issues resulted in bonds with a book value of 61.7 billion forints as of the 30 June 2008 balance date as a result of a 14.7 billion forints increase in the second quarter.

Interbank funds

As of 30 June 2008 the 22.1 billion forints **interbank portfolio** included short term interbank drawdown amounting to 4.1 billion forints, a EUR club loan equivalent to 10.3 billion forints, and Schuldschein loan equivalent to 7.7 billion forints denominated in euro. The Bank has used the short term interbank facilities as supplementary funds.

Deposits

As of 30 June 2008 deposits amounted to 28.6 billion forints including 0.9 billion forints surety deposits covering corporate loans and 27.1 billion forints deposits from retail and corporate

customers of FHB Commercial Bank. As of 31 March 2008 deposits amounted to 4.4 billion forints compared to 2.5 billion forints as of 30 June 2007.

Other liabilities

The Bank's other liabilities amounting to 4.1 billion forints include, among others, debts to suppliers (contributing 5.9% as of 30 June 2008 compared to 22.9% as of 30 June 2007), passive accruals (9.2% as of 30 June 2008 compared to 13.7% as of 30 June 2007), and taxes payable (24.4% as of 30 June 2008 compared to 13.7% as of 30 June 2007). Liabilities from settlement with customers were also substantial, 1.3 billion forints contributing 31.1% to other liabilities compared to 29.0% in 2007.

Shareholders' equity

The year-on-year increase in shareholders' equity was 28.7% (8.1 billion forints), **reaching 36.5 billion forints** as of 30 June 2008. The increase over the quarter was 270 million forints. The bulk of the year-on-year increase resulted from a 5.3 billion forints increase in retained earnings. Cash-flow hedge reserves were up by 2.4 billion forints due to the change in real value in the wake of yield and exchange rate changes and had a positive impact on the increase in shareholders' equity. Premium on shares and general reserve increased by an aggregate 0.6 billion forints and contributed approximately 7.5% to the increase in shareholders' equity.

The slight increase in shareholders' equity compared to Q1 was predominantly contributed by two factors: a 0.4 billion forints drop in cash flow hedge reserves, and a 0.8 billion forints rise in retained earnings.

Capital structure

Data in HUF million

| DESCRIPTION | 30 June, 2008 | 31 Mar, 2008 | 30 June, 2007 |
|---|---------------|---------------|---------------|
| Tier 1 | | | |
| Subscribed capital | 6,600 | 6,600 | 6,600 |
| Own shares | -126 | -166 | -19 |
| Premium | 1,709 | 1,709 | 1,709 |
| General reserve | 3,424 | 3,285 | 2,827 |
| Stock option reserve | 22 | 209 | 63 |
| Changes in fair value of available for sale fin. assets | -19 | -25 | 0 |
| Retained earnings | 25,436 | 24,607 | 20,156 |
| Cash-flow hedge reserve* | 0 | 0 | 0 |
| Shareholder's equity** | 37,046 | 36,219 | 31,336 |
| Intangible assets | -7,455 | -7,061 | -6,153 |
| Tier 2 | | | |
| General risk reserve | 0 | 0 | 0 |
| Total Tier 2 capital | 0 | 0 | 0 |
| Total regulatory capital | 29,591 | 29,158 | 25,183 |

*Cash flow hedge reserve is excluded when calculating regulatory capital

**Without cash flow hedge reserve

Off balance sheet items

The Bank's pending liabilities among the off-balance sheet items were 4.1 billion forints. Contracted but not yet disbursed loans amounted to 3.7 billion forints. Future liabilities amounted to 287.0 billion forints and mainly include hedge transactions relating to mortgage bonds. Liabilities from currency swaps amounted to 12.8 billion forints and included 10,3 billion forints CHF swap and 1,9 billion forints EUR swap. Interest swaps amounted to 4.6 billion forints and mainly included HUF-denominated transactions (4.0 billion forints), and, to a lesser extent, CHF transactions (0.6 billion forints). **The Bank only undertakes hedge transactions to close currency positions and eliminate risks, and does not engage in derivative transactions for speculative purposes.**

Declaration

FHB Jelzálogbank Nyrt. (FHB Mortgage Bank Plc.) hereby declares that the figures and statements of this Preliminary Report comply with reality, and it does not conceal any fact or information that would be substantial in the judgement of the issuer's position.

As issuer, FHB Jelzálogbank Nyrt. assumes exclusive liability for the contents of the preliminary 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, 7th August, 2008

Dániel Gyuris
CEO

Jenő Siklós
Deputy CEO

Name: FHB Mortgage Bank Plc.
 Address: 1132 Budapest, Váci út 20.
 Sector code: 6522
 Reporting period: 01.01.2008 – 30.06.2008

Telephone: (1) 452 - 9100
 Fax: (1) 452 - 9200
 E-mail: bardosp@fhb.hu
 Investor relations: Péter Bárdos

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

Profit and Loss Statement

(consolidated, non- audited data as at 30 June, 2008 and 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | 30 June, 2008 | 30 June, 2007 | Change (%) |
|--|-------------------|------------------|--------------|
| Interest income | 34,499,637 | 28,872,875 | 19.5% |
| Interest expense | -26,260,953 | -20,474,439 | 28.3% |
| Net interest income | 8,238,684 | 8,398,436 | -1.9% |
| Fee and commission income | 1,040,864 | 889,661 | 17.0% |
| Fee and commission expense | -148,493 | -317,413 | -53.2% |
| Profit from FX transactions | 727,134 | 535,944 | 35.7% |
| Profit from changes of fair value of derivatives | 102,216 | -672,004 | -115.2% |
| Gain less losses from securities | 280,421 | 189,468 | 48.0% |
| Other operating income | 1,045,798 | 212,414 | 392.3% |
| Other operating expense | -22,228 | -278,238 | -92.0% |
| Operating income | 11,264,396 | 8,958,268 | 25.7% |
| Losses/provisions on loans and impairment | -236,501 | 64,847 | -464.7% |
| Operating expenses | -6,073,989 | -5,348,442 | 13.6% |
| Profit before tax | 4,953,907 | 3,674,673 | 34.8% |
| Taxation expense | -1,494,133 | -887,698 | 68.3% |
| Profit for the period | 3,459,774 | 2,786,975 | 24.1% |

Name: FHB Mortgage Bank Plc.
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 Sector code: 6522
 Reporting period: 01.01.2008 – 30.06.2008

Telephone: (1) 452 - 9100
 Fax: (1) 452 - 9200
 E-mail: bardosp@fhb.hu
 Investor relations: Péter Bárdos

Balance Sheet

(consolidated, non-audited data as at 30 June, 2008 and 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | 30 June, 2008 | 30 June, 2007 | Change (%) |
|--|--------------------|--------------------|--------------|
| Assets | | | |
| Cash | 446,865 | 367,313 | 21.7% |
| Due from National Bank of Hungary | 1,530,577 | 393,616 | 288.9% |
| Placements with other banks | 9,018,420 | 27,012,286 | -66.6% |
| Available for sale securities | 23,277,449 | 25,452,909 | -8.5% |
| Refinancing of mortgage loans | 287,326,420 | 273,968,393 | 4.9% |
| Loans | 282,674,866 | 231,921,721 | 21.9% |
| Fair value of derivatives | 7,021,188 | 5,250,963 | 33.7% |
| Property for investment | 3,892,045 | 350,574 | - |
| Property and equipment | 9,936,106 | 8,567,843 | 16.0% |
| Other assets | 5,614,305 | 8,266,205 | -32.1% |
| Total Assets | 630,738,241 | 581,551,823 | 8.5% |
| Liabilities | | | |
| Deposits from banks | 22,144,310 | 48,759,727 | -54.6% |
| Mortgage bond liabilities | 467,649,057 | 491,251,410 | -4.8% |
| Bonds issued | 61,734,680 | 0 | - |
| Deposits | 28,634,711 | 2,530,312 | - |
| Fair value of derivatives | 9,009,754 | 7,027,672 | 28.2% |
| Reserve for annuity payment | 984,295 | 163,322 | 502.7% |
| Other liabilities | 4,097,591 | 3,468,408 | 18.1% |
| Total Liabilities | 594,254,398 | 553,200,851 | 7.4% |
| Shareholders' Equity | | | |
| Share capital | 6,600,001 | 6,600,001 | 0.0% |
| Repurchased own shares | -125,677 | -18,871 | 566.0% |
| Share premium | 1,709,014 | 1,709,014 | 0.0% |
| General reserve | 3,423,679 | 2,827,210 | 21.1% |
| Cash-flow hedge reserve | -562,190 | -2,984,713 | -81.2% |
| Stock option reserve | 21,622 | 62,517 | -65.4% |
| Variation in fair value of tradable financial assets | -18,957 | -334 | - |
| Retained earnings/(deficit) | 25,436,352 | 20,156,148 | 26.2% |
| Total Shareholders' Equity | 36,483,844 | 28,350,972 | 28.7% |
| Total Liabilities and Shareholders' Equity | 630,738,241 | 581,551,823 | 8.5% |

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Telephone: (1) 452 - 9100
Fax: (1) 452 - 9200
E-mail: bardosp@fhb.hu
Investor relations: Péter Bárdos

Cash Flow

(consolidated, non-audited data as at 30 June, 2008 and 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | 30 June, 2008 | 30 June, 2007 |
|---|-------------------|--------------------|
| Cash flows from operating activities | | |
| Net profit | 3,459,774 | 2,786,975 |
| Non cash adjustments to net income to net cash from operating activities: | | |
| Depreciation | 837,477 | 537,392 |
| Change of fair value of property for investment | -998,126 | |
| Provision for losses | 197,683 | -185,980 |
| Loss/(profit) on sale of fixed assets | 8,665 | 61,123 |
| Stock option reserve | -160,488 | -119,654 |
| Share granted | 0 | 0 |
| Derivatives | 5,807,703 | -48,361 |
| Real value of annuity | 599,120 | 163,322 |
| Cash flow hedge reserve | | |
| Operating profit / (loss) before changes in operating assets | 9,751,808 | 3,194,818 |
| <i>Increase (decrease) in operating assets:</i> | | |
| Refinancing of mortgage loans | 7,393,558 | -4,778,213 |
| Loans | -17,774,841 | -20,054,198 |
| Accrued interest receivable | 0 | 0 |
| Other assets | -204,625 | -3,198,009 |
| <i>Increase (decrease) in operating liabilities:</i> | | |
| Deposits | 25,035,622 | 2,530,312 |
| Due to other banks | -3,645,067 | 5,611,898 |
| Accrued interest payable | 0 | 0 |
| Other liabilities | -291,399 | -651,865 |
| Net cash used in operating activities | 20,265,116 | -17,345,257 |
| Cash flows from investing activities | | |
| Increase in available for sale securities | -1,575,880 | -22,592,574 |
| Proceeds from sale of property and equipment | 3,921 | 12,210 |
| Purchase of property and equipment | -1,140,800 | -3,012,528 |
| Purchase of property for investment | -1,386,632 | |
| Investment service | 42 | |
| Net cash used in investing activities | -4,099,349 | -25,592,892 |
| Cash flows from financing activities | | |
| Sale/(purchase) of own shares | -106,806 | -596,423 |
| own shares of prior year | -165,842 | |
| Long term loans | -5,556,600 | -1,601,000 |
| Paid dividend | 0 | -2,112,000 |
| Cash flow hedge reserve | 0 | 0 |
| Instalment from mortgage bonds | -57,674,860 | -12,583,130 |
| Proceeds from issue of mortgage bonds | 45,762,891 | 48,153,553 |
| Net cash from financing activities | -17,741,217 | 31,261,000 |
| Net increase in cash and cash equivalents | -1,575,450 | -11,677,149 |
| Cash and cash equivalents at beginning of year | 12,571,312 | 39,450,364 |
| Cash and cash equivalents at end of period | 10,995,862 | 27,773,215 |
| Cash and cash equivalents comprises of: | | |
| Cash | 446,865 | 367,313 |
| Due from Central Bank | 1530,577 | 393,616 |
| Placements with other banks, with a maturity of less than 90 days | 9,018,420 | 27,012,286 |
| Cash and cash equivalents at end of period | 10,995,862 | 27,773,215 |
| <i>Supplemental information</i> | | |
| Interest received | 32,208,425 | 28,520,096 |
| Interest paid | -28,646,554 | -22,359,194 |
| Tax paid | -577,290 | -736,384 |

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Statement of Shareholders' Equity

(consolidated, non-audited data as at 30 June, 2008 and 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | Share Capital | Treasury Shares | Share Premium | General reserve | Cash-flow hedge reserve | Stock option reserve | Variation in fair value (financial assets) | Retained earnings (deficit) | Shareholders' Equity |
|--|------------------|-----------------|------------------|------------------|-------------------------|----------------------|--|-----------------------------|----------------------|
| 30 Jun 2007 | 6,600,001 | -18,871 | 1,709,014 | 2,827,210 | -2,984,713 | 62,517 | -334 | 20,156,148 | 28,350,972 |
| Transfer to general reserve | | | | 232,327 | | | | -232,327 | 0 |
| Change of fair values cash flow hedge | | | | | 1,014,353 | | | | 1,014,353 |
| Shares granted | | | | | | | | 75,562 | 75,562 |
| Creation of stock option reserve | | | | | | 119,593 | | | 119,593 |
| Changes in fair value of available for sale financial assets | | | | | | | -10,270 | | -10,270 |
| Profit for the period | | | | | | | | 2,507,179 | 2,507,179 |
| 31 Dec 2007 | 6,600,001 | -18,871 | 1,709,014 | 3,059,537 | -1,970,360 | 182,110 | -10,604 | 22,506,562 | 32,057,389 |
| Transfer to general reserve | | | | 364,142 | | | | -364,142 | 0 |
| Change of fair values cash flow hedge | | | | | 1,408,170 | | | | 1,408,170 |
| Own shares purchase | | -106,806 | | | | | | | -106,806 |
| Shares granted | | | | | | -182,110 | | -165,842 | -347,952 |
| Creation of stock option reserve | | | | | | 21,622 | | | 21,622 |
| Changes in fair value of available for sale financial assets | | | | | | | -8,353 | | -8,353 |
| Profit for the period | | | | | | | | 3,459,774 | 3,459,774 |
| 30 Jun 2008 | 6,600,001 | -125,677 | 1,709,014 | 3,423,679 | -562,190 | 21,622 | -18,957 | 25,436,352 | 36,483,844 |

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Loans

(consolidated, non-audited data as at 30 June, 2008 and as at 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | 30 June, 2008 | 30 June, 2007 |
|------------------------------------|--------------------|--------------------|
| Real estate purchase | 113,146,387 | 106,784,476 |
| Real estate construction | 50,464,749 | 49,015,941 |
| Real estate reconstruction | 4,295,223 | 4,468,470 |
| Real estate extension | 11,451,640 | 12,203,683 |
| Other loans secured by real estate | 100,687,034 | 58,661,860 |
| Loans secured by non real estate | 9,184 | 19,509 |
| Employee loans | 1,912,281 | 1,595,780 |
| Loans, gross | 281,966,498 | 232,749,719 |
| from this: retail loans | 264,567,310 | 222,173,358 |
| other | 17,399,188 | 10,576,361 |
| Loan loss provision | -1,201,753 | -633,590 |
| Accrued interest | 1,129,675 | 751,378 |
| Accrued contracting fee | 0 | -945,786 |
| Amortised cost | 780,446 | 0 |
| Loans, net | 282,674,866 | 231,921,721 |

Mortgage bonds

(consolidated, non-audited data as at 30 June, 2008 and 30 June, 2007, according to IFRS, data in thousand HUF)

| DESCRIPTION | Carrying amount | Nominal value | Carrying amount | Nominal value |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 30 June, 2008 | | 30 June, 2007 | |
| Non-listed mortgage bonds | | | | |
| Fixed | 172,178,415 | 172,394,150 | 181,954,377 | 181,490,750 |
| Floating | 74,536,422 | 75,033,360 | 70,186,179 | 70,236,500 |
| Listed mortgage bonds | | | | |
| Fixed | 137,808,602 | 139,784,520 | 153,356,986 | 153,382,290 |
| Floating | 70,331,376 | 70,659,320 | 72,704,013 | 72,906,180 |
| Accrued interest | 12,794,241 | | 13,049,856 | |
| Total | 467,649,057 | 457,871,350 | 491,251,410 | 478,015,720 |

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DATA FORMS RELATING TO THE STRUCTURE OF SHARES AND THE GROUP OF OWNERS

RS1. Ownership structure, participation and voting rates

| Description of group of owners | Entire share capital | | | | | | Listed series ¹ | | | | | |
|---|---------------------------------------|----------------|-------------------|-----------------------------|----------------|-------------------|---------------------------------------|----------------|-------------------|-----------------------------|----------------|-------------------|
| | Beginning of target year (01.01.2008) | | | End of period (30.06.2008.) | | | Beginning of target year (01.01.2008) | | | End of period (30.06.2008.) | | |
| | % ² | % ³ | Db | % ² | % ³ | Db | % ² | % ³ | Db | % ² | % ³ | Db |
| Domestic institutional / company | 57.13 | 57.14 | 37,709,002 | 53.71 | 53.86 | 35,446,080 | 55.90 | 49.13 | 32,423,302 | 52.00 | 45.83 | 30,160,380 |
| Foreign institutional / company | 37.85 | 37.85 | 24,979,670 | 37.74 | 37.84 | 24,907,549 | 43.07 | 37.85 | 24,979,670 | 42.94 | 37.85 | 24,907,549 |
| Domestic private individuals | 0.76 | 0.76 | 500,265 | 1.49 | 1.49 | 978,549 | 0.86 | 0.76 | 500,265 | 1.69 | 1.5 | 978,549 |
| Foreign private individuals | 0.00 | 0.00 | 1,000 | 2.40 | 2.40 | 1,581,850 | 0.00 | 0.00 | 1,000 | 2.73 | 2.4 | 1,581,850 |
| Employees, executives | 0.13 | 0.13 | 84,974 | 0.28 | 0.28 | 187,533 | 0.15 | 0.13 | 84,974 | 0.32 | 0.28 | 187,533 |
| Treasury shares | 0.01 | 0.00 | 8,829 | 0.28 | 0.00 | 183,189 | 0.02 | 0.00 | 8,829 | 0.32 | 0.00 | 183,189 |
| State ⁴ | 4.12 | 4.12 | 2,716,270 | 4.10 | 4.13 | 2,715,260 | 0.00 | 0.00 | 1,970 | 0.00 | 0.00 | 960 |
| International Development Institutes ⁵ | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 |
| Other | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0 |
| TOTAL | 100.00 | 100.00 | 66,000,010 | 100.00 | 100.0 | 66,000,010 | 100.00 | 87.88 | 58,000,010 | 100.00 | 87.88 | 58,000,010 |

¹ If 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.

The ownership share is equal to the voting rates for entire share capital.

RS2. Changes in the number of treasury shares (pcs) in the year concerned

| | 24 April | 30 June | 30 September | 31 December |
|--------------|----------------|----------------|--------------|-------------|
| FHB Nyrt. | 160,761 | 183,189 | | |
| Subsidiaries | 0 | 0 | | |
| Total | 160,761 | 183,189 | | |

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RS3/1. List and presentation of Owners holding a share exceeding 5% (at the end of the period) regarding the listed series

| Name | Nationality ¹ | Activity ² | Quantity (pcs) | Share (%) ³ | Voting rights (%) ^{3,4} | Notes ⁵ |
|-------------------------|--------------------------|-----------------------|----------------|------------------------|----------------------------------|--------------------|
| Clearstream Nominee | K | L | 11,423,843 | 19.70 | 17.36 | |
| Citibank Nominee | B | L | 8,045,918 | 13.87 | 12.22 | |
| VCP Finanz Holding Kft. | B | T | 6,500,000 | 11.21 | 9.88 | |
| A64 Vagyonkezelő Kft. | B | T | 6,356,938 | 10.96 | 9.66 | |
| HSBC Bank Plc | K | I | 6,270,000 | 10,81 | 9,53 | |
| RZB Austria | K | L | 4,349,790 | 7.50 | 6.61 | |
| Raiffeisen Nominee | B | L | 3,796,319 | 6.55 | 5.77 | |

¹ Resident (B), Non-resident (K)

² Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)

³ To be given rounded up to two decimals

⁴ The voting right assuring participation in decision making in the General Shareholder's Meeting of Issuer.

⁵ E.g.: strategic investor, financial investor, etc.

RS3/2. List and presentation of Owners holding a share exceeding 5% (at the end of the period) regarding the entire share capital

| Name | Nationality ¹ | Activity ² | Quantity (pcs) | Share (%) ³ | Voting rights (%) ^{3,4} | Notes ⁵ |
|--------------------------------|--------------------------|-----------------------|----------------|------------------------|----------------------------------|--------------------|
| Clearstream Nominee | K | L | 11,423,843 | 17.31 | 17.36 | |
| Citibank Nominee | B | L | 8,045,918 | 12,19 | 12,22 | |
| Allianz Hungária Biztosító Rt. | B | I | 6,538,050 | 9,91 | 9,93 | |
| VCP Finanz Holding Kft. | B | T | 6,500,000 | 9,85 | 9,88 | |
| A64 Vagyonkezelő Kft. | B | T | 6,356,938 | 9,63 | 9,66 | |
| HSBC BANK PLC | K | I | 6,270,000 | 9,50 | 9,53 | |
| RZB Austria | K | L | 4,349,790 | 6,59 | 6,61 | |
| Raiffeisen Nominee | B | L | 3,796,319 | 5,75 | 5,77 | |

¹ Resident (B), Non-resident (K)

² Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)

³ To be given rounded up to two decimals

⁴ The voting right assuring participation in decision making in the General Shareholder's Meeting of Issuer.

⁵ E.g.: strategic investor, financial investor, etc.

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DATA FORMS RELATED TO THE ORGANISATION AND OPERATION OF THE ISSUER

TSZ2. Changes in the headcount of full-time staff (persons)

| | End of base period (30 June 2007.) | Beginning of target year (1 January 2008.) | End of target period (30 June 2008.) |
|--------------|---------------------------------------|---|---|
| Bank | 96 | 92 | 85 |
| Consolidated | 496 | 532 | 564 |

TSZ3. Persons in senior positions and (strategic) employees having an influence on the operations of the Issuer

| Type ¹ | Name | Position | Beginning of mandate | End / termination of mandate | Shares held (pcs) |
|--------------------------|----------------------|--------------------|----------------------|------------------------------|-------------------|
| IT | Dr. Zoltán Spéder | Chairman | 29.04.2008. | 29.04.2013. | 0 |
| IT | István Somkúti | Member | 29.04.2008. | 29.04.2013. | 0 |
| IT | Dr. Gábor Borsányi | Member | 29.04.2008. | 29.04.2013. | 14,000 |
| IT | Dr. Károly Salamon | Member | 29.04.2008. | 29.04.2013. | 6,000 |
| IT | Dániel Gyuris | Member, CEO | 29.04.2008. | 29.04.2013. | 14,500 |
| IT | László Harmati | Member, Deputy CEO | 29.04.2008. | 29.04.2013. | 16,192 |
| IT | Dr. Márton Vági | Member | 29.04.2008. | 29.04.2013. | 0 |
| IT | Dr. Christian Riener | Member | 29.04.2008. | 29.04.2013. | 0 |
| FB | Róbert Somfai | Chairman | 29.04.2008. | 29.04.2013. | 5,000 |
| FB | Winkler Ágnes | Member | 26.07.2002. | 27.04.2012. | 0 |
| FB | Mónika Kék | Member | 05.05.2005. | 05.05.2010. | 0 |
| FB | Kata Orsolya Molnár | Member | 05.05.2005. | 05.05.2010. | 0 |
| FB | Dr. Erik Landgraf | Member | 02.05.2006. | 02.05.2011. | 6,609 |
| FB | Nguyen Hoang Viet | Member | 02.05.2006. | 02.05.2011. | 5 245 |
| SP | Jenő Siklós | Deputy CEO | 21.10.1997. | Indefinite | 18,310 |
| SP | Tamás Foltányi | Deputy CEO | 07.11.2005. | Indefinite | 12,000 |
| Shares held (pcs) TOTAL: | | | | | 97,856 |

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

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INFORMATION AND DISCLOSURES

The more important information and disclosures issued by FHB Group fall into the following categories:

- Events relating to Group operation (banking announcements, changes in the Rules of Operation);
- Disclosure of flash reports and annual reports;
- Information in relation to mortgage bonds (offerings and repurchase, updating of the domestic and international mortgage bond issues programme, value of mortgage bonds and their cover);
- Shareholders' announcements regarding acquisition of holdings in excess of 5%;
- Notification of FHB share transactions;
- Rating by Moody's;
- Proposals submitted to the AGM and invitation to the AGM.

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

www.bef.hu

www.kozzetetelek.hu

www.fhb.hu