



FHB Mortgage Bank Plc.

**Interim management report
for the third quarter of 2014**

Budapest, November 14, 2014

I. SUMMARY CONSOLIDATED FIGURES

in HUF million	30/09/2013	30/06/2014	30/09/2014	30/09/2014/ 30/06/2014	30/09/2014/ 30/09/2013
Main balance sheet items					
Total assets	782,598	674,715	759,949	12.6%	-2.9%
Refinanced loans	141,161	125,053	120,047	-4.0%	-15.0%
Loans (gross)	376,362	365,206	366,823	0.4%	-2.5%
Mortgage bonds	205,024	177,310	176,536	-0.4%	-13.9%
Senior unsecured bonds	115,347	99,533	105,979	6.5%	-8.1%
Customer deposits	211,302	259,887	297,664	14.5%	40.9%
Shareholders' equity	75,574	73,397	91,198	24.3%	20.7%
<i>Capital adequacy ratio</i>	-	10.74%	14.18%	3.44%-pt	-
<i>CET1 ratio</i>	-	8.61%	13.46%	4.85%-pt	-

in HUF million	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013	M9 2013	M9 2014	M9 2014 / M9 2013
Main P/L items								
Net interest income	4,848	5,062	4,834	-4.5%	-0.3%	13,519	15,122	11.9%
<i>Net interest margin</i>	2.53%	2.77%	2.67%	-0.10%-pt	0.15%-pt	2.35%	2.70%	0.35%-pt
Net fees and commissions	1,139	1,048	1,283	22.4%	12.7%	3,004	3,611	20.2%
Total income (with net fees)	5,801	1,158	-1,577	-236.2%	-127.2%	12,419	6,478	-47.8%
Total income (with net fees; w/o provision)	5,801	5,853	11,623	98.6%	100.3%	12,419	24,373	96.3%
Provision for impairment on loan losses	-1,898	-1,115	-1,658	48.8%	-12.6%	-5,834	-4,247	-27.2%
Operating cost	-4,067	-4,400	-4,134	-6.1%	1.6%	-12,193	-12,375	1.5%
<i>Cost to income ratio (w/o provision)</i>	70.1%	75.2%	35.6%	-39.6%-pt	-34.5%-pt	98.2%	50.8%	-47.4%-pt
<i>Cost/income ratio w/o special banking tax and provision</i>	61.1%	67.1%	33.5%	-33.5%-pt	-27.6%-pt	81.4%	46.7%	-34.7%-pt
Profit before tax	-164	-4,357	-7,370	69.2%	-	-5,608	-10,145	80.9%
Profit after tax	-282	-3,554	-7,190	102.3%	-	-4,875	-9,599	96.9%
Profit after tax w/o special banking tax and other one-offs	744	1,952	-1,082	-	-	-1,858	2,751	-
<i>Basic EPS (HUF)</i>	<i>-16.95 Ft</i>	<i>-214.54 Ft</i>	<i>-433.85 Ft</i>	<i>-</i>	<i>-</i>	<i>-98.84 Ft</i>	<i>-195.01 Ft</i>	<i>-</i>
<i>Return on Assets</i>	<i>-0.15%</i>	<i>-1.95%</i>	<i>-3.98%</i>	<i>-2.0%</i>	<i>-3.8%</i>	<i>-0.85%</i>	<i>-1.71%</i>	<i>-0.9%</i>
<i>Return on Equity</i>	<i>-1.5%</i>	<i>-19.0%</i>	<i>-34.7%</i>	<i>-15.7%</i>	<i>-33.2%</i>	<i>-8.5%</i>	<i>-15.3%</i>	<i>-6.8%</i>
<i>ROAA w/o special banking tax and other one-offs</i>	<i>0.39%</i>	<i>1.07%</i>	<i>-0.60%</i>	<i>-1.7%</i>	<i>-1.0%</i>	<i>-0.32%</i>	<i>0.49%</i>	<i>0.8%</i>
<i>ROAE w/o special banking tax and other one-offs</i>	<i>3.9%</i>	<i>10.4%</i>	<i>-5.2%</i>	<i>-15.6%</i>	<i>-9.1%</i>	<i>-3.2%</i>	<i>4.4%</i>	<i>7.6%</i>

II. REPORT ON THE FIRST NINE MONTH AND THE THIRD QUARTER OF 2014 RESULTS OF FHB GROUP

This report of FHB Mortgage Bank Public Company Limited by Shares for first nine months 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 September 2013, 30 June 2014 and 30 September 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

Third quarter 2014 results of FHB Group was determined by several of one-off items. Consolidated after tax loss for the quarter was HUF 7.2 billion and HUF 9.6 billion for the first 9 months, due to generation of HUF 17.9 billion provisions recognized in other operating expenses in order to compensate expected losses of the implementation of the Supreme Court (Curia) act which was offset by positive consolidated impact of the sales of 49% of FHB Commercial Bank shares and one-off revenue realised as net income from associated companies.

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. According to preliminary estimations – considering also the uncertainties of the regulation – FHB Group generated provisions of HUF 4.7 billion at the end of the second quarter. After adoption of the Act XL of 2014 on the way of settlement, the Bank clarified its estimation for expected losses and set up further HUF 13.2 billion provisions at the end of September modifying the total amount of provision to HUF 17.9 billion.

In September 2014, FHB Mortgage Bank Co. Plc. and Magyar Posta (Hungarian Post) Ltd. contracted on the purchase of the „A” series ordinary shares representing 49% of the share capital of the FHB Commercial Bank Ltd. After obtaining permission from the Central Bank of Hungary – necessity to Magyar Posta to acquire ownership – closing of the share purchase transaction took place on 30 September 2014. Prior to the sale of shares, the General Meeting of FHB Commercial Bank decided on a capital increase amounted approximately to HUF 20 billion and entitled FHB Mortgage Bank to take over the new shares. The capital increase was registered on 1 October 2014 at the Registration Court.

FHB group realised further one-off revenue due to sales of previously purchased receivables in the third quarter, resulting HUF 3.2 billion profit after tax effect on consolidated level.

Adjusted by one-off items – such as HUF 17.9 billion of above mentioned provision; HUF 2.1 billion of special banking tax; further HUF 883 million due to financial institution levy related to exchange rate protection

scheme and non-shifted financial transaction levy and the result of the sales of Commercial Bank shares and one-off result from the sales of purchased receivables – **profit before tax of the Banking Group amounted to HUF 3.2 billion** in the first nine month of the year, representing HUF 641 million loss after tax the third quarter.

The adjusted profit after tax for the third quarter was determined by the followings:

- **Net interest income** decreased by HUF 229 million compared to the previous quarter due to the impact of re-pricing of loans in line with decreasing interest rates which could not be compensated by decrease in cost of funds to the extent as in the previous quarters. Net interest income in the third quarter exceeded HUF 4.8 billion. **Net interest margin** on average total assets was **2.67%**, by 10 basis point lower compared to the previous quarter and by 15 basis points higher than a year ago.
- **Net fees and commissions** increased by 22.4% compared to the previous quarter, which was resulted by increase of bank account related fee incomes and the more than doubled fund management fees.
- Amount of **operating costs** – without financial transaction levy and credit institution levy recorded under other expenses from 2014 – was **HUF 4.1 billion** in the third quarter, 6.1% lower than in the previous quarter.
- Compared to the previous quarter, cost of risk was nearly 50% higher, which is on one hand a consequence of increase in share of non-performing loans (NPL ratio) to 20.5% after the steady decline in the previous quarters (20.1% in Q2 2014), on the other hand coverage of non-performing portfolio increase further (to 54%). Decadence in payment discipline – mainly caused by the government's measures on FX loans – has played a role in decline in the quality of the portfolio.

Consolidated total assets of FHB Group amounted to HUF 759.9 billion on 30 September 2014, by 2.9% or approximately HUF 22.6 billion lower than a year before and by HUF 85.2 billion or 12.6% higher than at the end of previous quarter.

Increase in total assets has been driven on the asset side essentially by interbank placements which more than tripled, and by the increase of deposits and other liabilities on the liability side. Share of nearly HUF 298 billion deposits in interest bearing liabilities continued to raise and represented 47.2% at the end of the quarter, compared to 44.6% at the end of the previous quarter and 31.3% a year before. **Volume of deposits** increased by over HUF 86 billion in one year, of which more than two third related to corporate business.

Gross loans amounted to HUF 366.8 billion on 30 September 2014, which is 2.5% lower than a year before and representing 0.4% increase compared to 30 June 2014. Retail loan disbursements increased steadily during the first nine months and reached HUF 12 billion, which is 54% higher than in the previous year. The corporate loan portfolio increased to HUF 86.2 billion by 30 September, representing 23.5% of the total loan portfolio.

Capital adequacy ratio of FHB Group – based on regulation effective since 1 January 2014 (CRR) – including also additional supervisory capital requirements (SREP) is 14.18% as of 30 September 2014, compared to 10.74% in the previous quarter. CET1 ratio reached 13.46% at the end of September, while it was 8.61% as of 30 June 2014. As a result of increasing regulatory capital by more than HUF 15.6 billion, both CET1 and the total capital adequacy ratio show an improvement compared to the previous quarter. Changes in the amount of regulatory capital was determined by the results of the reporting period and by minority interest as a new equity instrument included in CET1 capital due to the sale of minority share in FHB Commercial Bank.

Performance of FHB shares

In terms of capitalisation, FHB is 5th in the rank of "Premium" category listed companies and contributes 1.28% to the aggregate capitalisation of the BSE based on 30 September 2014 data.

As of the end of the third quarter in 2014, FHB's weight in the BUX index was 1.02% (remains the 5th biggest weight in the basket), and was 2nd with a weight of 12.19% in BUMIX, the index of share prices of mid- and small-cap companies.

The price of FHB Mortgage Bank's shares closed the third quarter in 2014 at HUF 703 – that means a HUF 185 decrease compared to 30 June 2014 data.

2. Main activities and subsidiaries' performance

The housing market and retail mortgage lending

The housing construction has grown in 1-9M 2014. According to CSO statistics, 5,168 new homes were built in 1-9M 2014, 27% more than in M9 2013 while the number of new housing construction permits issued was 6,947, almost 30% higher compared to the 2013 data.

As of 30 September 2014, the volume of retail mortgage loans (HUF 5,464 billion) was down by 2.8% compared to 30 September 2013; the volume change adjusted by exchange rate volatility was -5.8%. Volume of HUF loans (HUF 2,111 billion) remained at the same level year-on-year; while the FX loan portfolio (HUF 3,353 billion) declined by 4.5% (-9.2% adjusted by the volatility of exchange rate).

Retail housing loans decreased by 0.1% in Q3, change adjusted by exchange rate volatility was -0.5%. At the end of September 2014, housing loans amounted to HUF 3,340 billion representing a decline of 1.9% year-on-year, and 4.5% adjusted by exchange rate volatility. Volume of housing loans denominated in HUF was HUF 1,588 billion, showing a 1.2% increase during the last quarter, while volume of FX loans decreased by 1.3% (adjusted by the volatility of exchange rate it was a 2.0% decline).

General-purpose mortgage loans amounted to HUF 2,123 billion as of 30 September 2014; after exchange rate adjustment the portfolio decreased by 7.8% and 1.9% year-on-year and quarter-on-quarter, respectively. HUF denominated general-purpose mortgage loans (HUF 522 billion) increased by HUF 2.6 billion quarter-on-quarter and by 0.1% year-on-year. The exchange rate adjusted change in FX denominated general-purpose mortgage loans was -2.3% in Q3 2014 and -10.2% year-on-year.

Own lending

Volume of gross loans of FHB Group amounted to HUF 366.8 billion as of 30 September 2014, and increased by 0.4% compared to the previous quarter's figure (HUF 365.2 billion) and year-on-year decrease was also 2.5%. Share of FX loans in total outstanding loan portfolio was 48.7% as of 30 September 2014, which is 65 bps lower than in the previous quarter. The share of FX loans of retail loans was 57.4% which is slightly lower than in Q2 2014.

Retail loans remained dominating within the loan portfolio with a contribution of 76.5% (76.7% on 30 June 2014). Retail loans increased by 0.2% (or HUF 642 million) and decreased by 2.9% (or HUF -8.2 billion) quarter-on-quarter and year-on-year, respectively.

in HUF million	30/09/2013	30/06/2014	30/09/2014	30/09/2014/ 30/06/2014	30/09/2014/ 30/09/2013
Retail loans	288,820	279,934	280,576	0.2%	-2.9%
Housing loans	144,673	138,906	137,918	-0.7%	-4.7%
Other mortgage loans	133,312	128,433	127,799	-0.5%	-4.1%
Consumer loans	6,097	8,409	10,387	23.5%	70.4%
Loans for employees	1,615	1,522	1,555	2.2%	-3.7%
Retail leasing	3,123	2,664	2,917	9.5%	-6.6%
Corporate loans	87,544	85,272	86,247	1.1%	-1.5%
Corporate loans	86,679	84,161	85,173	1.2%	-1.7%
Corporate leasing	865	1,111	1,074	-3.3%	24.2%
Total own lending, gross	376,364	365,206	366,823	0.4%	-2.5%
Impairment	-39,694	-39,293	-40,379	2.8%	1.7%
Loans, net	336,670	325,913	326,444	0.2%	-3.0%
Refinanced loans	141,161	125,053	120,047	-4.0%	-15.0%

In terms of structure of retail loans, housing loans as the largest volume contributed 49.2% and other mortgage loans contributed 45.5% to the retail loan portfolio. A year before proportion was 50.1% and 46.2%, respectively. Reverse mortgages achieved HUF 3.1 billion as of 30 September 2014, there was no significant change. The volume of consumer loans amounted to HUF 10.4 billion, which is 23.5% higher than in the previous quarter. Volume of corporate loans amounted to HUF 86.3 billion, representing 23.5% of the total portfolio. The amount increased by 1.1% compared to the previous quarter and showed a 1.5% decrease year-on-year.

In Q3 2014, HUF 4.9 billion of retail and HUF 5.2 billion of corporate loans have been disbursed; the first figure is more than 40% higher than in last year. The Bank placed HUF 1.0 billion loans to corporate customers within the framework of Funding for Growth Scheme. Retail loan disbursement was 19% higher than in Q2 2014, share of subsidized housing loans was approximately 10%.

During the quarter, number of clients contracted to the FX rate protection scheme grew by 147, as of 30 September 2014, the number of signed contracts was 9,436. FHB offered further 74 properties to the National Asset Management Company (NET) in Q3 2014 and 281 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 1,900 units.

FHB Commercial Bank Ltd.

According to Hungarian Accounting Standards, total assets of FHB Commercial Bank were HUF 540.8 billion as of 30 September 2014, showing a 2.4% increase compared to a year before (HUF 528.3 billion).

On 30 September 2014, volume of gross loans according to Hungarian Accounting Standards was HUF 241.1 billion increasing by 2.2% compared to Q3 2013. Gross loans represented 44.6% of total assets. Corporate loans of FHB Commercial Bank – excluding intra-group loans – amounted to HUF 73.6 billion having a share of 31.1% among total loan portfolio.

Interest bearing liabilities amounted to HUF 479.7 billion, representing 88.7% among liabilities, and showed a slight decrease year-on-year and 11.9% growth quarter-on-quarter. Deposits of HUF 297.4 billion represented 62% among interest bearing liabilities, while interbank liabilities represented the second highest ratio with the amount of HUF 158.6 billion, containing refinanced loans from FHB Mortgage Bank, and refinancing related to outstanding loans already drawn under the Funding for Growth Scheme.

Deposits increased by more than 39% compared to the previous year and increased by 14.7% during the third quarter, due to a significant increase in corporate deposits and the deposits held on postal accounts. Volume of corporate deposits was slightly above retail deposits' volume as of 30 September 2014; its share was 55.7%. Volume of sight deposits increased by HUF 46.6 billion year-on-year and decreased HUF 1.8 billion quarter-on-quarter. As a result, sight deposits represented 29.8% of total deposits.

At the end of the first 9 months of 2014, number of retail and corporate accounts managed by Commercial Bank was 176 thousand and 11 thousand, respectively, and 134 thousand retail and 6.8 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 for the first 9 months was HUF 9.046 million loss, which primarily was due to provisions of HUF 10.2 billion generated by the Bank for expected losses on the execution 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. Net interest income – in controlling approach – was 6.6% lower as a result of decreasing interest income (by 16.5%) and interest expenses (by 24.1%). Net fee and commission income was 2.9% lower than a year before, while it increased by 2.2% quarter-on-quarter. Operating costs declined by 1.6% compared to first 9 months of 2013 and by 1.4% compared to the previous quarter.

On 11 September 2014 the General Meeting of FHB Commercial Bank decided on approximately HUF 20 billion capital increase, which was fully implemented by FHB Mortgage Bank Co. Plc., but the Company Registry Court of Budapest-Capital Regional Court registered it only on 1 October, so the amount of the capital increase was reported among other liabilities on 30 September. Owing to the capital increase the capital adequacy ratio of the Bank increased to 15.02%. Shareholder's equity according to HAS was HUF 21.3 billion as of 30 September 2014 and the solvency capital was HUF 51.4 billion.

On 29 September 2014, FHB Mortgage Bank Co. Plc. as vendor and Magyar Posta Zrt. (Hungarian Post Ltd.) as buyer contracted on the purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd. The purchase price of the share package was HUF 28.5 billion and the closing of the transaction – after the National Bank of Hungary gave the necessary permission to Hungarian Post to get influence – took place on 30 September 2014. After the transaction, Commercial Bank is still a fully consolidated subsidiary of FHB Mortgage Bank under consolidated prudential supervision.

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 following the first of January, 2015. As of 30 September 2014, the number of contracts alive was 598 (of which 1 new contract were signed in Q3 2014), which represents HUF 10.2 billion real estate.

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 155 million revenue in 1-9M 2014, which is HUF 61 million more than a year before, while real estate brokerage reached HUF 75 million income in 1-9M 2014, which is lower by 36% compared to the same period in 2013 (HUF 117 million), caused by an income of the brokerage division related to a commission deriving from the sale of a high-value real estate.

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 September 2014, the consolidated loan volume of FHB Real Estate Lease Ltd. according to IFRS was HUF 7.6 billion. Lease financing disbursement amounted to HUF 1,026 million in 2014. Leasing portfolio reached almost HUF 4.0 billion as of 30 September 2014. The quarterly change was 1.6% increase (from HUF 3.8 billion as of 30 June 2014), while the year-on-year rise was 9.1% (from HUF 3.7 billion as of 30 September 2013). FHB Real Estate Lease Ltd. closed the first nine months of 2014 with HUF 460 million loss consolidated according to IFRS.

Diófa Asset Management Ltd.

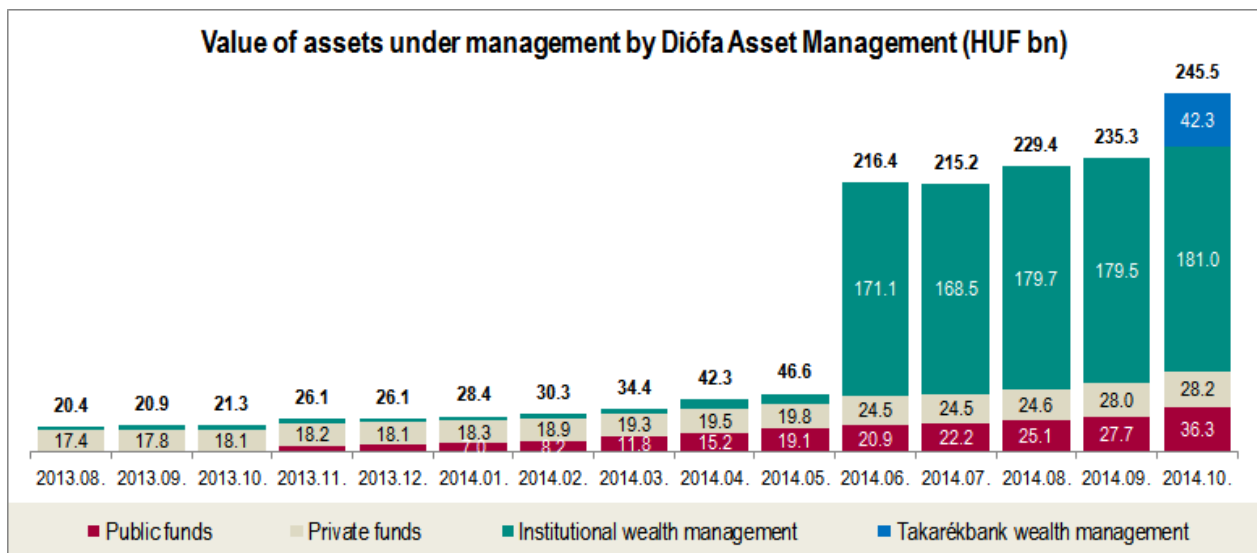
Diófa Asset Management Ltd. was acquired by FHB Mortgage Bank Plc in early September of 2013. Prior to joining the FHB Banking Group, Diófa Asset Management Ltd. was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients.

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 12.8 billion by the end of September 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 were distributed by Magyar Posta Investment Services Ltd. through the Hungarian Post Office's network at the beginning. Net assets value of Real Estate Fund exceeded HUF 12.6 billion by the end of September, while the market value of Hungarian Post Money Market Fund was over HUF 1.9 billion. The Magyar Posta Takarékszövetkezet Real Estate Fund is distributed in the network of FHB Bank from the beginning of this spring and also in the network of Takarékbank since 1 October 2014.

During the year, Asset Management Ltd. successfully participated in several asset management tenders. As a result, net asset value of managed portfolio of institutional asset management exceeded HUF 179.5 billion as of 30 September 2014, compared to HUF 3.1 billion at the end of Q3 2013.

In the last nine months, total net value of assets and other portfolios under management increased to HUF 253.3 billion from HUF 26.1 as of 31 December 2013. That means a nine fold expansion during the past period of this year and an eleven-time expansion during a year.



As a result of the negotiations between Takarékbank Ltd. and Diófa Asset Management Ltd. to discover possible business cooperation opportunities, Magyar Posta Takarék Real Estate Fund was launched to Takarékbank's network, as mentioned above.

Within the framework of the cooperation, Takarékbank contracted with Diófa Asset Management on outsourcing of HUF 42 billion asset for wealth management purposes, and Diófa took over the management of the five public investment fund of Takarék Fund Management Ltd on November 6, 2014, with a total net asset value of HUF 35 billion. As a result of these two agreements, volume of assets managed by Diófa grow by around 33% until mid-November on the basis of the volume at the end of September 2014.

Asset Management Ltd. closed the first nine months of 2014 with HUF 64.9 million profit after tax according to Hungarian Accounting Standards, subscribed capital – after HUF 60 million capital increase provided by Mortgage Bank in July – amounted to HUF 195.4 million and shareholders' equity to HUF 249.0 million as of 30 September 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 September 2014, shareholder's equity amounted to HUF 1.3 billion and profit after tax reached HUF -21.9 million (according to HAS) in M9 2014.

Associated companies

Dijbeszedő Faktorház Ltd. (DBF) realised HUF 190 million pre-tax profit related to purchased receivables before maturity in the third quarter of 2014 (the profit of the first nine month was HUF 652 million), while pre-tax profit from purchased expired receivables amounted to HUF 8,777 million (the profit of the first nine month of 2014 was HUF 10,368 million) according to IFRS. The Company's profit after tax amounted to HUF 8,726 million, while the value of the equity to HUF 16.4 billion at the end of third quarter 2014. Compared to the previous periods extremely high revenues and results of DBF was a consequence of the Company's third quarter large volume sales of earlier purchased receivables. Profit after tax of DBF was HUF 2.3 billion without the effect of sales of earlier purchased receivables portfolio.

The main activity of **DijNET Ltd.** is operation and development of an electronic bill presentment and payment system. In Q3 2014, profit after tax (according to HAS) was HUF 4.2 million. The cumulated profit after tax reached HUF 19.7 million at the end of September, 2014. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 115 million at 30 of September, 2014.

Díjbeszedő IT Llc. (DBIT), which provides services related to the IT activities of companies belonging to the Díjbeszedő Group, reached HUF 68 million losses in the second quarter of 2014 was (profit after tax in first 9 months in 2014 was HUF 111.8 million losses). Subscribed capital amounted to HUF 670 million, while shareholder's equity amounted to HUF 505.7 million at the end of September, 2014.

By the end of September 2014, **Magyar Posta Investment Services Ltd. (MPBSZ)** opened more than 14 thousand securities and long-term investment accounts; the securities portfolio managed on accounts was more than HUF 33 billion at the end of the first nine months of 2014, compared to approximately HUF 4.5 billion at the end of December 2013. MPBSZ closed 1-9M 2014 with HUF 459 million loss (according to HAS). The company's shareholder's equity was HUF 506 million and total assets amounted to HUF 1.4 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 owns 25,1% of shares in **Magyar TakaréK Asset Management (MATAK) Ltd.** The contribution of MATAK to the consolidated results was not significant yet.

Organisational changes and headcount

As of 30 September 2014, the consolidated full-time headcount was 811.5, 4.1 persons less than the headcount of 815.6 as of 30 June 2014 and 37.4 persons more than the headcount of 774.1 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:

	30/09/2013	30/06/2014	30/09/2014	30/09/2014/ 30/06/2014	30/09/2014/ 30/09/2013
FHB Mortgage Bank Plc.	173.3	184.6	183.2	-0.8%	5.7%
FHB Commercial Bank Ltd.	567.4	587.5	581.8	-1.0%	2.5%
FHB Life Annuity Ltd.	5.9	5.9	5.9	0.0%	0.0%
FHB Real Estate Ltd.	7.1	8.9	8.9	0.0%	24.6%
FHB Real Estate Leasing Ltd.	9.8	9.9	9.7	-1.3%	-0.3%
Diófa Asset Managemet Ltd.	10.6	15.9	17.9	12.6%	69.9%
Hungarian Card Ltd.	0.0	3.0	3.0	0.0%	-
Díjbeszedő Operational and Service Llc.	0.0	0.0	1.1	-	-
FHB Consolidated	774.1	815.6	811.5	-0.5%	4.8%

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 third quarter in the Bank's management and executive bodies.

Post-balance sheet date events

On 7 November 2014 National Bank of Hungary published its first order on calculation method of compensation to clients because of voidness of foreign-exchange-rate margins and unfair interest rate increases. This decree is to be applying for clients who don't have and have not had any delay during the maturity of the contract and were not involved in customer support programs or did not get any payment-reliever allowances. The decree defines 3 type of calculation method and financial institutions can choose one of them, but the same method is to be used for all of contacts which are subject of this order.

Beside the recently published order, NBH is expected to approve further three decrees in the second half of the month.

As the decree regulated the calculation methodology within the previously adopted law on settlement, it has no impact on previous estimations.

Based on the announcement of Ministry for National Economy (NGM) published on 9 November 2014, NGM signed an agreement with Hungarian Banking Association on several questions related to HUF conversion of FX mortgage loans. Main point of the agreement:

- mortgage loans and real estate leasing denominated in EUR, CHF or JPY concerned by settlements under the Act No. XL of 2014 must be converted to HUF;
- exchange rate to be used by the conversion is the lower from average NBH FX rate in the period from 16 June 2014 to 7 November 2014 or NBH FX rate as of 7 November 2014, namely 254 HUF/CHF, 309 HUF/EUR or 2.22 HUF/JPY;
- member institutions of Hungarian Banking Association will buy EUR to cover FX funding needs of the conversion from the National Bank of Hungary;
- the Government aims to ensure, that settlements based on the Act No. XL of 2014; the HUF conversion and entry into force of new regulation of consumer loans will be in the same time;
- HUF conversion will be not obligatory, clients can apply within 30 days in written form for keeping its loan in original FX denomination, but there will be strict condition of that in the regulation.

About the HUF conversion and the agreed conditions, Government will propose a separated law beside the act on fair banking. NBH will provide the whole amount of EUR to ensure smooth execution of conversion.

FHB Group – in line with the agreement contracted by National Bank of Hungary – bought FX volume necessary to conversion of FX loans at NBH tender on 10 November.

On 11 November 2014 the Government (Minister of Justice) introduced bill No. T/1997 on the regulation on fair banking to the Hungarian Parliament. Based on the proposal, as of 1 February 2015 significant changes are expected concerning the regulation on pricing and change of interest rates and other financial conditions of customer loans and financial leasing, which expected to impress not only the newly disbursed transactions but the total outstanding portfolio.

On 9 October 2014, FHB Mortgage Bank and the National Asset Management Company acting on behalf of the Hungarian State contracted on the purchase of ordinary shares representing 100% of share capital of FHB Life Annuity Ltd.

According to the amendment in the Act LX of 2003 on Insurance Companies and Insurance Activities, the Life Annuity will not be able to provide new life annuity services from 1 January 2015, such services could only be pursued by business associations operating as insurance companies, as a result the existing life annuity service providers – operating under official control – have to terminate their sales activities for the future, thus there will not be any chance to develop or keep their optimal size of business. In order to handle this situation – because the life-long annuity and at the same time the housing right of elderly people in a wide range is at stake – the legislator provides an available solution to this companies and their shareholders of the affected companies within the aforementioned legal frameworks, accordingly they may offer their companies for sale to the Hungarian State or the National Asset Management Company acting on behalf of the State under fixed conditions. This solution is available for any business associations with a registered seat in Hungary that conclude life annuity contracts for profit, and its activities is supervised by an authority of the Hungarian State supervising the financial intermediary system and is in compliance with other conditions set forth by the law.

In line with the agreement, purchase price of shares was appointed on 14 November 2014, based on a valuation concerning business and legal risks and made by an independent international advisory company and agreed in HUF 1 million. Depending on the fulfilment of numerous usual and standard requirements, transaction closing expected to be finalised still in 2014.

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

1. P&L structure

in HUF million	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013	M9 2013	M9 2014	M9 2014 / M9 2013
Interest income	16,722	13,998	12,981	-7.3%	-22.4%	50,019	41,819	-16.4%
Interest expense	-11,874	-8,935	-8,148	-8.8%	-31.4%	-36,500	-26,697	-26.9%
Net interest income	4,848	5,062	4,834	-4.5%	-0.3%	13,519	15,122	11.9%
Fees and commissions income	1,280	1,332	1,529	14.8%	19.5%	3,500	4,330	23.7%
Fees and commissions expense	-141	-284	-245	-13.6%	74.2%	-497	-719	44.8%
Net fees and commissions	1,139	1,048	1,283	22.4%	12.7%	3,004	3,611	20.2%
Foreign exchange gains, net	599	-497	78	-	-87.1%	1,096	772	-29.5%
Fair value adjustment	264	755	-748	-	-	-2,200	-469	-78.7%
Gain on securities, net	379	930	4,197	351.1%	1007.2%	956	5,521	477.4%
Net financial (trading) result	1,242	1,188	3,527	196.9%	184.0%	-149	5,824	-
Other operating income	147	92	3	-96.6%	-97.9%	764	723	-5.4%
Other operating expenses	-1,574	-6,488	-14,809	128.2%	840.9%	-4,719	-23,045	388.3%
o/w special banking tax & one-off PTI	-853	-707	-707	0.0%	-17.1%	-2,560	-2,121	-17.1%
Other results	-1,427	-6,397	-14,805	131.5%	937.4%	-3,956	-22,323	464.3%
Net income of associated companies	0	256	3,584	1297.5%	-	0	4,243	-
Total non-interest income (with net fees)	953	-3,904	-6,411	64.2%	-	-1,101	-8,644	685.5%
Net operating income	5,801	1,158	-1,577	-	-	12,419	6,478	-47.8%
Net operating income (w/o provision)	5,801	5,853	11,623	98.6%	100.3%	12,419	24,373	96.3%
Provision for impairment on loan losses	-1,898	-1,115	-1,658	48.8%	-12.6%	-5,834	-4,247	-27.2%
Personnel expenses	-1,565	-1,696	-1,698	0.1%	8.5%	-4,630	-4,963	7.2%
Banking operation cost	-1,670	-1,797	-1,620	-9.8%	-3.0%	-5,217	-4,957	-5.0%
Cost of business activity	-177	-254	-148	-41.8%	-16.5%	-417	-487	16.9%
Depreciation	-640	-645	-647	0.4%	1.2%	-1,891	-1,915	1.3%
Other tax payable	-15	-8	-21	151.5%	35.3%	-38	-52	36.2%
Operating costs	-4,067	-4,400	-4,134	-6.1%	1.6%	-12,193	-12,375	1.5%
Income before income taxes	-164	-4,357	-7,370	69.2%	4397.3%	-5,608	-10,145	80.9%
Income taxes	-118	803	180	-77.6%	-	733	546	-25.4%
Profit after tax	-282	-3,554	-7,190	102.3%	2451.8%	-4,875	-9,599	96.9%
After tax profit w/o special banking tax and other one-offs	744	1,952	-1,082	-	-	-1,858	2,751	-

The Bank's consolidated profit after tax according to IFRS amounted to HUF 7,190 million losses in Q3 2014 and HUF 9,599 million loss as of 9M 2014.

The negative result is mainly due to the provisions of HUF 17.9 billion generated for the expected losses to voidances of use of foreign-exchange-rate margins and interest rate increases deemed unfair under the law, from that HUF 13.2 billion was accounted in Q3. In addition to, the amount of HUF 2.1 billion of special banking tax, financial institution levy related to exchange rate protection scheme and non-shifted financial transaction levy had negative impact on the result as extraordinary (one-off) items. The extraordinary and losses resulting from legislation had been compensated by HUF 3.3 billion profit of a significant one-off sales package of factored receivables of Díjbeszedő Faktorház Ltd., and – summing a positive – result from selling

FHB Commercial Bank Ltd. shares. Ignoring all these items, the corrected consolidated profit before tax amounted to HUF 3.2 billion for 1-9M 2014 and HUF 641 million loss in Q3 2014.

Net interest income

Net interest income was HUF 4.8 billion in Q3 2014, 0.3% lower than a year before and 4.5% lower compared to the previous quarter. The net figure emerged as a balance of HUF 13.0 billion interest income (7.3% and 22.4% lower quarter-on-quarter and year-on-year, respectively) and HUF 8.1 billion interest expense (q/q: -8.8%, y/y: -31.4%).

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 what the stock decline also affected. The decrease in interest expenses was primarily due to the declining interest expense of interbank activities and SWAP.

Distribution of interest income and expenses shows the following table:

	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013	M9 2013	M9 2014	M9 2014/ M9 2013
Interest income								
Loans	37.7%	43.6%	46.2%	2.6%-pt	8.5%-pt	37.7%	43.5%	5.8%-pt
Refinancing	10.3%	9.0%	9.2%	0.2%-pt	-1.1%-pt	11.3%	9.2%	-2.1%-pt
Mortgage bond interest subsidy	14.1%	14.6%	14.3%	-0.3%-pt	0.3%-pt	14.1%	14.4%	0.3%-pt
Supplementary interest subsidy	1.3%	1.2%	1.2%	0.0%-pt	-0.1%-pt	1.4%	1.2%	-0.1%-pt
Securities and interbank activities	13.4%	11.1%	9.8%	-1.3%-pt	-3.5%-pt	12.6%	11.6%	-0.9%-pt
Swap transactions	23.3%	20.5%	19.2%	-1.3%-pt	-4.1%-pt	23.0%	20.0%	-3.0%-pt
Interest expenses								
Bonds issued	53.6%	57.9%	60.8%	2.9%-pt	7.2%-pt	53.3%	56.3%	2.9%-pt
Interbank activities	9.4%	1.9%	0.3%	-1.6%-pt	-9.1%-pt	11.5%	3.5%	-8.0%-pt
Customer deposits	14.5%	16.7%	17.3%	0.6%-pt	2.8%-pt	14.1%	17.3%	3.1%-pt
Derivatives	20.3%	20.5%	18.4%	-2.1%-pt	-1.9%-pt	18.9%	20.0%	1.1%-pt
Other interest expense	2.2%	3.0%	3.2%	0.2%-pt	1.0%-pt	2.1%	2.9%	0.8%-pt

The net interest margin to average total assets (NIM) was 2.67% in Q3 2014, 10bps lower compared to Q2 2014 (2.77%). As of 1-9M 2014, NIM was a bit higher, 2.7%, showing an increase of 35bps year-on-year (Q1-Q3 2013: 2.35%).

Net fee and commission income

In Q3 2014, the Bank achieved a positive balance of HUF 1,283 million from income and expenditures on commissions and fees; 12.7% higher than in Q2 2014 and 22.4% higher than a year before. Net fees and commissions adjusted by financial transaction levy performed a 30.8% and 11.2% increase quarter-on-quarter and year-on-year, respectively.

Compared to the previous quarter, commissions from bank accounts, fees related to bankcards and fund management fee income increased; but insurance agent fees decreased.

Income from fees and commissions in Q3 2014 amounted to HUF 1,529 million, of which 14.6% was contributed by charges related to loans (15.5% in Q2 2014) and 37.0% by accounts and card related banking charges without financial transaction levy (19.2% in Q2 2014). Commissions resulting from the strategic cooperation agreement signed with Allianz Insurance Company contributed 6.9% to income from fees and

commissions in the reported quarter (7.7% in Q2 2014). Volume of HUF 177 million of fund management fees contributed by close to 12% to quarterly fee incomes.

Card related fee expenses (HUF 96 million) increased by 9.5% quarter-on-quarter. Agent fees amounted to HUF 54 million, while payment fees reached HUF 45 million in Q3.

Net result of financial transactions

In 1-9M of 2014, the balance of financial transactions was HUF 5,825 million, HUF 5,973 million higher than a year before (2013 H1: HUF -149 million). In Q3 2014, this balance amounted to HUF 3,527 million, HUF 2,339 million higher compared to the previous quarter. The sale of FHB Commercial Bank's shares contributed HUF 3,470 to the quarterly profit (HUF 6.6 billion trading losses, HUF 10.1 billion positive impact of consolidation).

In Q3 2014, the volume of foreign exchange profit was HUF 77.5 million, more favourable than the previous quarter's figure (HUF 497 million losses).

In Q3 2014, the change in the value of financial instruments reported at fair value through P&L was HUF 747.6 million losses, which is worse than the HUF 754.6 million profits in Q2 2014 as well as a year before.

In Q3 2014, the securities transactions resulted in HUF 4,197 million profits as opposed to HUF 930.3 million in the last period, regarding to the fact that the above-described effect of commercial bank's shares selling was accounted in this lines.

Other operating income and expenditure

In the first three quarters of 2014, the balance of other operating income and expenditure was HUF 22.3 billion net expenditure; arising from HUF 723 million incomes and HUF 23.0 billion expenditures.

In Q3 2014, the balance of other operating income and expenditure was HUF 14.8 billion net expenditures, which is HUF 8.4 billion and HUF 13.9 billion higher quarter-on-quarter and year-on-year, respectively.

In Q3 2014, real estate related income contributed HUF 42.3 million to other operating income (real estate rent, revaluation).

Extraordinary increase in other expenses was due to provisions of HUF 13.2 billion (with Q2 provisions amounted to HUF 17.9 billion) 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. Special banking tax amounted to HUF 707 million in Q3 2014 (HUF 2,121 million in 1-9M 2014). Among other expenses the annuity payments were accounted for HUF 114.1 million.

Net income of associated companies contributed HUF 4,244 million to consolidated figures, which mainly resulted from the HUF 4,450 million (proportional) profit of DBF, which contains a significant one-off revenue from sales of factored receivables package.

Impairments and provisions for possible loan losses

HUF 4.2 billion of risk costs in 1-9M 2014 improved by 27.2% compared to the previous year's figure, while the amount of HUF 1.7 billion of Q3 2014 was 48.8% higher quarter-on-quarter, and 12.6% lower year-on-year. Demotion was due to higher volume of provisions for loan losses in line with increasing volume of non-performing loans compared to the end of the previous quarter. Among loan losses HUF 1.6 billion losses in 1-9M 2014 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 expenses¹

Operating costs amounted to HUF 4.1 billion in Q3 2014 which is 1.6% higher than in the same period of 2013. The increase is mainly due to the HUF 133 million growth of personnel expenses is significant. Operating expenses are 6.1% lower than in the previous quarter, which is caused by the reduction of administrative and business activity expenses.

Personnel expenses were higher than in the same period of 2013 (+8.5%) and also higher than in the second quarter of 2014 (+0.1%). 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 Q3 2014 (HUF 1,620 million) reveal a decrease than in the second quarter of 2014 (HUF 1,797 million), and are also lower than in the same period of 2013 (HUF 1,670 million).

Expenses of business activity (HUF 148.0 million) were significant lower than in the same period in 2013 (HUF 177.3 million), and also lower than in Q2 2014 (HUF 254.5 million).

Depreciation was HUF 647 million in Q3 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 20 million in Q3 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.

¹ Due to reclassification from 2014, amounts of financial transaction levy (PTI) 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	ACTUAL	ACTUAL	ACTUAL	30/09/2014/	30/09/2014/
	30/09/2013	30/06/2014	30/09/2014	30/06/2014	30/09/2013
Cash	2,079	1,865	2,071	11.1%	-0.4%
Due from banks & NBH	34,441	35,930	163,664	355.5%	375.2%
Financial assets available-for-sale and held for trading	221,505	133,856	89,903	-32.8%	-59.4%
Fair value of derivative financial assets	1,385	541	151	-72.0%	-89.1%
Investment in associates (jointly controlled companies)	0	6,484	10,068	55.3%	-
Refinanced mortgage loans	141,161	125,053	120,047	-4.0%	-15.0%
Loans and advances	376,362	365,206	366,823	0.4%	-2.5%
Impairment and provision	-39,694	-39,293	-40,379	2.8%	1.7%
Tangible assets	5,640	7,008	7,022	0.2%	24.5%
Goodwill and other intangible assets	11,640	10,600	10,239	-3.4%	-12.0%
Other assets	28,079	27,466	30,339	10.5%	8.0%
Total Assets	782,598	674,715	759,949	12.6%	-2.9%
Liabilities total	707,023	601,319	668,751	11.2%	-5.4%
Interbank borrowings	134,437	36,616	43,317	18.3%	-67.8%
Mortgage bonds	205,024	177,310	176,536	-0.4%	-13.9%
Bonds issued	115,347	99,533	105,979	6.5%	-8.1%
Deposits	211,302	259,887	297,664	14.5%	40.9%
Fair value of derivatives	21,274	6,087	10,263	68.6%	-51.8%
Leasing liability	9,700	8,736	7,777	-11.0%	-19.8%
Reserves for annuity	2,442	2,567	2,521	-1.8%	3.2%
Other liabilities	7,498	10,582	24,694	133.4%	229.3%
Shareholders' equity	75,574	73,397	91,198	24.3%	20.7%
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	-207	-207	0.0%	-
Subordinated Tier1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	80	293	252	-13.9%	212.9%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Minority interest	0	0	25,032	-	-
Balance sheet profit	-4,875	-2,409	-9,599	298.4%	96.9%
Total liabilities and shareholders' equity	782,598	674,715	759,949	12.6%	-2.9%

As of 30 September 2014, the Bank's consolidated balance sheet total by IFRS amounted to HUF 759.9 billion, moving 12.6% up from the end of previous quarter and HUF 22.6 billion, or 2.9% lower than the balance sheet total as of 30 September 2013.

On the asset side on an annual basis, the volume of financial assets available-for-sale and held for trading – primarily due to conversion of NBH 2 weeks instruments into deposit – dropped by HUF 131.6 billion, or 59.4%, and the refinanced loans fell by 21.1 billion and 15.0%, respectively. During the quarter, the interbank lending increased as a result of already mentioned changes in NBH facilities, while the fair value of derivative financial assets decreased significantly.

Liabilities decreased by 5.4% compared to the reference figures of 2013. Compared to the same period in 2013 interbank liabilities decreased by 67.8%, in addition to the portfolio of mortgage bonds issued decreased by 13.9%, the volume of bonds issued decreased by more than 8% respectively. In contrast, the deposits grew significantly by 40.9% over a year.

Shareholders' equity increased by HUF 15.6 billion or 20.7% year-on-year.

Interest earning assets

The Group's interest earning assets decreased from HUF 774.6 billion as of 30 September 2013 to HUF 741.7 billion as of 30 September 2014. Interest earning assets contributed 97.6% to the balance sheet total.

NBH and other interbank lending increased from HUF 34.4 billion as of 30 September 2013 to HUF 163.7 billion as of 30 September 2014. The ratio of this item in interest earning assets was 22.1% at the end of 2014 Q3.

The value of Bank's securities available-for-sale and held for trading decreased from HUF 221.5 billion as of 30 September 2013 to HUF 89.9 billion as of 30 September 2014, while its decreased by more than 32% compared to 30 June 2014 amounted to HUF 133.9 billion. At the end of 2014 Q3, securities available for sale and held for trading contributed 12.1% to interest earning assets. NBH bonds are no longer in the securities available-for-sale and held for trading, because the two weeks NBH bond ceased, central banking savings facility is available as two weeks deposit. Securities available for sale and held for trading include treasury bills amounting to HUF 44.1 billion and government bonds amounting to HUF 27.7 billion.

Loans

As of 30 September 2014, volume of loans was 2.5% down year-on-year (adjusted by FX changes it was 6.4% down), and increased quarterly by 0.4% (adjusted by FX changes it decreased by 0.5%). Impairment to cover loan losses amounted HUF 40.4 billion as of 30 September 2014, in the reported quarter showed 2.8% increase (from HUF 39.3 billion as of 30 June 2014).

Year-on-year decline in refinanced loans was 15.0% to HUF 120.0 billion, and there was also a 4.0% drop in this item over the last quarter. As of 30 September 2014, contribution of refinanced loans and gross own lending was 65.6% to interest earning assets; this rate was 66.8% a year before.

Portfolio quality

Volume of non-performing loans increased slightly by 2.2% quarter-on-quarter, while it has decreased by 0.7% year-on-year. NPL ratio increased to 20.5% by 30 September 2014 from 20.1% as of 30 June 2014. Coverage of non-performing loans is 53.8% which represents further growth in the quarter.

Other assets

Tangible assets amounted to HUF 7.0 billion as of 30 September 2014 and increased by HUF 1.4 billion year-on-year and by HUF 14 million quarter-on-quarter. As of 30 September 2014, intangibles amounted to HUF 10.2 billion, down by HUF 1.4 billion or 12% year-on-year and HUF 361 million (-3.4%) below the 30 June 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 10.1 billion as of 30 September 2014, including goodwill related to the acquisition of DÜSZ.

Other assets amounted to HUF 30.3 billion as of 30 September 2014, increasing by 8% (HUF 2.3 billion) year-on-year. Deferred tax assets reached HUF 8.7 billion while value of real estates reported as inventory was HUF 1.5 billion.

Investment properties amounted to HUF 10.8 billion.

Interest bearing liabilities

Interest bearing liabilities decreased from HUF 675.8 billion as of 30 September 2013 to HUF 631.3 billion as of 30 September 2014, representing approximately 83.1% to the balance sheet total. As a year before, issued securities gave major part of interest bearing liabilities with a share of 47.4%, for the end of first 9 months of 2014 their proportion decreased to 44.8%, while the share of client deposits within interest bearing liabilities grew from 31.3% to 47.2% year-on-year.

Interbank funds

As of 30 September 2014, interbank funds amounted to HUF 43.3 billion showing more than 18% increase compared to previous quarter, while volume was 67.8% down year-on-year. The volume of interbank funds at the end of the quarter includes the amount of refinancing within the framework of Funding for Growth Scheme (NHP). Contribution of interbank borrowings to interest bearing liabilities was 6.9% as of 30 September 2014.

CMBs issued

The Bank completed two bond issuances in the third quarter: one mortgage bond and one senior bond were issued; both of them took place through auctions. The new senior bond issuance amounted to HUF 5.9 billion; as the value of mortgage bond reissuance was HUF 1.2 billion.

HUF 176.5 billion book value of mortgage bonds as of 30 September 2014 decreased by 13.9% or HUF 28.5 billion from figures of 30 September 2013 (HUF 205.0 billion).

in HUF million	30/09/2013		30/09/2014	
	Book value	Nominal value	Book value	Nominal value
Non-listed mortgage bonds				
Fixed	45,978	45,828	29,349	29,226
Floating	298	298	0	0
Listed mortgage bonds				
Fixed	139,818	138,469	141,162	136,408
Floating	11,319	11,477	0	0
Total	197,414	196,071	170,512	165,634
Accrued interest	7,615		6,025	
Mortgage bonds Total	205,029	196,071	176,537	165,634
Non-listed bonds				
Fixed	54,535	54,375	33,084	33,087
Floating	6,763	6,693	4,134	4,716
Listed bonds				
Fixed	41,687	42,956	61,885	67,213
Floating	6,537	6,539	2,960	5,467
Total	109,521	110,563	102,063	110,482
Accrued interest	5,822		3,916	
Bonds Total	115,343	110,563	105,979	110,482

Mortgage bonds collateral²

The net collateral value of real estate covering mortgage bonds issued by FHB Mortgage Bank amounted to 408.9 billion HUF as of 30 September 2014 (HUF 284.7 billion of capital and HUF 124.1 billion of interests), 3.9% less than the HUF 425.6 billion as of 30 June 2014 and 11.8% below the figure of 31 December 2013 (HUF 463.4 billion).

The value of the group of assets involved as collateral:

in HUF million	30/09/2013	30/06/2014	30/09/2014
Outstanding mortgage bonds in circulation			
Face value	265,370	196,809	197,540
Interest	60,640	43,754	39,989
Total	326,010	240,562	237,529
Value of the regular collateral			
Principal	320,016	293,257	284,709
Interest	166,697	132,314	124,146
Total	486,713	425,571	408,854

As of 30 September 2014, the present value of ordinary collateral was HUF 322.7 billion and the present value of mortgage bonds were HUF 228.0 billion, thus the present value of collateral exceeded that of CMBs in circulation not yet repaid, ratio was 141.5%. As of 30 September 2014, net value of ordinary and supplementary collateral principal to unpaid face value of mortgage bonds in circulation was 144.1%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 310.5%.

The collateral value of real estate covering ordinary collaterals amounted to HUF 825.4 billion as of 30 September 2014, 1.98% below the 30 June 2014 value (HUF 842.1 billion) and 5.6% down compared to 31 December 2013 (HUF 874.6 billion). The LTV ratio applicable for ordinary collateral was 34.5% as of 30 September 2014, lower than the 35.1% LTV as of 31 December 2013.

Bonds issued

The book value of bonds was HUF 106.0 billion as of 30 September 2014, compared to 30 June 2014 (99.5 billion HUF) increasing by HUF 6.4 billion or 6.5%. The stock of bonds fell by HUF 9.4 billion (8.1%) in one year.

Deposits

As of 30 September 2014, deposits amounted to HUF 297.7 billion increasing by 40.9% year-on-year and 14.5% quarterly. In the last year, volume of corporate deposits significantly increased (by 47.5%), similarly to retail deposits (+31.6%).

The sight deposit ratio changed to 29.8% from 19.9% a year before and 34.8% at the end of previous quarter.

² Non-consolidated data of FHB Mortgage Bank Plc. only, according to HAS

Other liabilities

Other liabilities amounted to HUF 24.7 billion, within that liabilities related to early instalments of clients amounted to HUF 696.7 million. The Bank reported accounts payable HUF 262.2 million as of 30 September 2014, accruals HUF 1.3 billion and deferred tax liabilities HUF 393.9 million.

Shareholders' equity

Within one year, shareholders' equity increased by 20.7% to HUF 91.2 billion as of 30 September 2014. In line with IFRS, the Bank reported the EUR 112 million Tier 1 subordinated bond as part of shareholder's equity. Due to the selling of share package representing 49% of Commercial Bank, the Bank reported HUF 25 billion as minority interest as part of shareholder's equity. Balance sheet profit was HUF 9.6 billion loss at the end of September.

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 14.18% as of 30 September 2014, compared to 10.74% in the previous quarter. CET1 ratio reached 13.46% at the end of September, while it was 8.61% as of 30 June 2014.

As a result of increasing regulatory capital by more than HUF 15.6 billion, both CET1 and the total capital adequacy ratio show an improvement compared to the previous quarter. Changes in the amount of regulatory capital was determined by the results of the reporting period and by minority interest as a new equity instrument included in CET1 capital due to the sale of minority share in FHB Commercial Bank.

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, November 14, 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 Ltd.); and to "WODOMUS 54" Ingatlanfejlesztő Kft. (WODOMUS 54 Property Development Ltd.); Káry-Villa Ingatlanfejlesztő Kft (Káry-Villa Property Development Ltd.); FHB DWH Ltd.; Diófa Real Estate Management Llc. (formerly Hitelunió Kft.). 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 Takarékok Befektetési és Vagyonkezelő Zrt. (Magyar Takarékok 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 September 2013 and of 30 September 2014 according to IFRS)

in HUF million	M9 2013	M9 2014	M9 2014/ M9 2013
Interest income	50,019	41,819	-16.4%
Interest expense	-36,500	-26,697	-26.9%
Net interest income	13,519	15,122	11.9%
Fee and commission income	3,500	4,330	23.7%
Fee and commission expense	-497	-719	44.8%
Net fee and commission income	3,004	3,611	20.2%
Profit/(Loss) from FX transactions	1,096	772	-29.5%
Change in fair value of financial instruments	-2,200	-469	-78.7%
Gains from securities	956	5,521	477.4%
Net trading result	-149	5,824	-
Other operating income	764	723	-5.4%
Other operating expense	-4,719	-23,045	388.3%
Net other operating result	-3,956	-22,323	464.3%
Net income of associated companies	0	4,243	-
Operating income	12,419	6,478	-47.8%
Provision for impairment on loan losses	-5,834	-4,247	-27.2%
General and administrative expense	-12,193	-12,375	1.5%
Profit/(Loss) before tax	-5,608	-10,145	80.9%
Income tax benefit/(expense)	733	546	-25.4%
Profit/(Loss) for the period	-4,875	-9,599	96.9%

Basic EPS (yearly)	-98.8 Ft	-195.0 Ft	97.3%
Diluted EPS (yearly)	-98.8 Ft	-195.0 Ft	97.3%

Consolidated Comprehensive Income Statement	M9 2013	M9 2014	M9 2014/ M9 2013
Profit/(Loss) for the period	-4,875	-9,599	96.9%
Change in cash-flow hedge reserve	123	0	-
Change in fair value of financial assets available for sale	-122	-194	58.9%
FX translation reserve	1	-14	-
Deferred tax effect for other comprehensive income	68	39	-42.0%
Other comprehensive income/(loss) for the period net of taxes	70	-168	-
Total comprehensive income/(loss) for the period, net of income taxes	-4,805	-9,767	103.2%

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 September 2013, 30 June 2014 and of 30 September 2014 according to IFRS)

in HUF million	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
Interest income	16,722	13,998	12,981	-7.3%	-22.4%
Interest expense	-11,874	-8,935	-8,148	-8.8%	-31.4%
Net interest income	4,848	5,062	4,834	-4.5%	-0.3%
Fee and commission income	1,280	1,332	1,529	14.8%	19.5%
Fee and commission expense	-141	-284	-245	-13.6%	74.2%
Net fee and commission income	1,139	1,048	1,283	22.4%	12.7%
Profit/(Loss) from FX transactions	599	-497	78	-	-87.1%
Change in fair value of financial instruments	264	755	-748	-	-
Gains from securities	379	930	4,197	351.1%	-
Net trading result	1,242	1,188	3,527	196.9%	184.0%
Other operating income	147	92	3	-96.6%	-97.9%
Other operating expense	-1,574	-6,488	-14,809	128.2%	840.9%
Net other operating result	-1,427	-6,397	-14,805	131.5%	937.4%
Net income of associated companies	0	256	3,584	1297.5%	-
Operating income	5,801	1,158	-1,577	-	-
Provision for impairment on loan losses	-1,898	-1,115	-1,658	48.8%	-12.6%
General and administrative expense	-4,067	-4,400	-4,134	-6.1%	1.6%
Profit/(Loss) before tax	-164	-4,357	-7,370	69.2%	-
Income tax benefit/(expense)	-118	803	180	-77.6%	-
Profit/(Loss) for the period	-282	-3,554	-7,190	102.3%	-
Basic EPS (yearly)	-17.0 Ft	-214.5 Ft	-433.8 Ft	102.2%	-
Diluted EPS (yearly)	-17.0 Ft	-214.5 Ft	-433.8 Ft	102.2%	-

Consolidated Comprehensive Income Statement	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
Profit/(Loss) for the period	-282	-3,554	-7,190	102.3%	-
Change in cash-flow hedge reserve	123	0	0	-	-
Change in fair value of financial assets available for sale	-222	42	-68	-	-69.4%
FX translation reserve	2	-7	4	-	85.2%
Deferred tax effect for other comprehensive income	19	-7	12	-	-35.8%
Other comprehensive income/(loss) for the period net of taxes	-78	28	-52	-	-30.8%
Total comprehensive income/(loss) for the period, net of income taxes	-360	-3,526	-7,242	105.4%	-

Consolidated Income Statement 'B'

Table includes the special banking tax for the entire business year

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

in HUF million	M9 2013	M9 2014	M9 2014/ M9 2013
Interest income	50,019	41,819	-16.4%
Interest expense	-36,500	-26,697	-26.9%
Net interest income	13,519	15,122	11.9%
Fee and commission income	3,500	4,330	23.7%
Fee and commission expense	-497	-719	44.8%
Net fee and commission income	3,004	3,611	20.2%
Profit/(Loss) from FX transactions	1,096	772	-29.5%
Change in fair value of financial instruments	-2,200	-469	-78.7%
Gains from securities	956	5,521	477.4%
Net trading result	-149	5,824	-
Other operating income	764	723	-5.4%
Other operating expense	-4,129	-23,752	475.2%
Net other operating result	-3,365	-23,029	584.3%
Net income of associated companies	0	4,243	-
Operating income	13,009	5,771	-55.6%
Provision for impairment on loan losses	-5,834	-4,247	-27.2%
General and administrative expense	-13,636	-12,375	-9.2%
Profit/(Loss) before tax	-6,461	-10,851	67.9%
Income tax benefit/(expense)	895	680	-23.9%
Profit/(Loss) for the period	-5,566	-10,171	82.7%

Basic EPS (yearly)	-112.9 Ft	-206.6 Ft	83.1%
Diluted EPS (yearly)	-112.9 Ft	-206.6 Ft	83.1%

Consolidated Comprehensive Income Statement	M9 2013	M9 2014	M9 2014/ M9 2013
Profit/(Loss) for the period	-5,566	-10,171	82.7%
Change in cash-flow hedge reserve	123	0	-
Change in fair value of financial assets available for sale	-122	-194	58.9%
FX translation reserve	1	-14	-
Deferred tax effect for other comprehensive income	68	39	-42.0%
Other comprehensive income/(loss) for the period net of taxes	70	-168	-
Total comprehensive income/(loss) for the period, net of income taxes	-5,496	-10,339	88.1%

Consolidated Income Statement 'B' (quarterly)

Table includes the special banking tax for the entire business year

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

in HUF million	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
Interest income	16,722	13,998	12,981	-7.3%	-22.4%
Interest expense	-11,874	-8,935	-8,148	-8.8%	-31.4%
Net interest income	4,848	5,062	4,834	-4.5%	-0.3%
Fee and commission income	1,280	1,332	1,529	14.8%	19.5%
Fee and commission expense	-141	-284	-245	-13.6%	74.2%
Net fee and commission income	1,139	1,048	1,283	22.4%	12.7%
Profit/(Loss) from FX transactions	599	-497	78	-	-87.1%
Change in fair value of financial instruments	264	755	-748	-	-
Gains from securities	379	930	4,197	351.1%	1007.2%
Net trading result	1,242	1,188	3,527	196.9%	184.0%
Other operating income	147	92	3	-96.6%	-97.9%
Other operating expense	-180	-5,782	-14,102	143.9%	-
Net other operating result	-33	-5,690	-14,099	147.8%	-
Net income of associated companies	0	256	3,584	1297.5%	-
Operating income	7,195	1,864	-871	-	-
Provision for impairment on loan losses	-1,898	-1,115	-1,658	48.8%	-12.6%
General and administrative expense	-4,607	-4,400	-4,134	-6.1%	-10.3%
Profit/(Loss) before tax	689	-3,650	-6,663	82.5%	-
Income tax benefit/(expense)	-280	669	46	-93.1%	-
Profit/(Loss) for the period	409	-2,982	-6,617	121.9%	-

Basic EPS (yearly)	24.6 Ft	-177.4 Ft	-397.8 Ft	124.2%	-
Diluted EPS (yearly)	24.6 Ft	-177.4 Ft	-397.8 Ft	124.2%	-

Consolidated Comprehensive Income Statement	Q3 2013	Q2 2014	Q3 2014	Q3 2014 / Q2 2014	Q3 2014 / Q3 2013
Profit/(Loss) for the period	409	-2,982	-6,617	121.9%	-
Change in cash-flow hedge reserve	123	0	0	-	-
Change in fair value of financial assets available for sale	-222	42	-68	-	-69.4%
FX translation reserve	2	-7	4	-	85.2%
Deferred tax effect for other comprehensive income	19	-7	12	-	-35.8%
Other comprehensive income/(loss) for the period net of taxes	-78	28	-52	-	-30.8%
Total comprehensive income/(loss) for the period, net of income taxes	331	-2,954	-6,669	125.9%	-

Consolidated Financial Position 'A'

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

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

in HUF million	Sep 30, 2013	Jun 30, 2014	Sep 30, 2014	30/09/2014/ 30/06/2014	30/09/2014/ 30/09/2013
Cash on hand	2,079	1,865	2,071	11.1%	-0.4%
Due from banks & NBH	34,441	35,930	163,664	355.5%	375.2%
Securities held for trading	34,166	36,024	37,642	4.5%	10.2%
Financial assets available for sale	187,338	97,832	52,261	-46.6%	-72.1%
Investment in associates		6,484	10,068	55.3%	-
Derivate financial assets	1,385	541	151	-72.0%	-89.1%
Refinanced mortgage loans	141,161	125,053	120,047	-4.0%	-15.0%
Loans and advances to consumers	376,362	365,206	366,823	0.4%	-2.5%
Impairment and provision	-39,694	-39,293	-40,379	2.8%	1.7%
Investment property	11,379	10,944	10,797	-1.3%	-5.1%
Tangible assets	5,640	7,008	7,022	0.2%	24.5%
Goodwill and other intangible assets	11,640	10,600	10,239	-3.4%	-12.0%
Deferred tax asset	7,636	8,297	8,740	5.3%	14.5%
Other assets	9,065	8,226	10,802	31.3%	19.2%
Total assets	782,598	674,715	759,949	12.6%	-2.9%
Due to banks	116,444	36,616	43,317	18.3%	-62.8%
Issued securities	250,576	240,418	246,824	2.7%	-1.5%
Mortgage bonds	176,561	155,018	154,082	-0.6%	-12.7%
Bonds	74,015	85,399	92,742	8.6%	25.3%
Deposits from customers	211,302	259,887	297,664	14.5%	40.9%
Derivative financial liabilities	21,274	6,087	10,263	68.6%	-51.8%
Financial liabilities at fair value through profit or loss	87,787	36,426	35,691	-2.0%	-59.3%
Finance lease liabilities	9,700	8,736	7,777	-11.0%	-19.8%
Reserve for annuity payments	2,442	2,567	2,521	-1.8%	3.2%
Current tax liability	34	26	23	-11.9%	-34.5%
Deferred tax liability	539	430	394	-8.4%	-26.9%
Provisions	192	5,858	19,005	224.4%	-
Other liabilities	6,733	4,268	5,272	23.5%	-21.7%
Total liabilities	707,023	601,319	668,751	11.2%	-5.4%
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	-207	-207	0.0%	625.0%
Subordinated Tier 1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	80	293	252	-13.9%	212.9%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Minority interest	0	0	25,032	-	-
Balance sheet profit	-4,875	-2,409	-9,599	298.4%	96.9%
Total shareholders' equity	75,574	73,397	91,198	24.3%	20.7%
Total liabilities and shareholders' equity	782,598	674,715	759,949	12.6%	-2.9%

Consolidated Financial Position 'B'

Table includes the special banking tax for the entire business year

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

in HUF million	Sep 30, 2013	Jun 30, 2014	Sep 30, 2014	30/09/2014/ 30/06/2014	30/09/2014/ 30/09/2013
Cash on hand	2,079	1,865	2,071	11.1%	-0.4%
Due from banks & NBH	34,441	35,930	163,664	355.5%	375.2%
Securities held for trading	34,166	36,024	37,642	4.5%	-
Financial assets available for sale	187,338	97,832	52,261	-46.6%	-72.1%
Investment in associates	0	6,484	10,068	55.3%	-
Derivative financial assets	1,385	541	151	-72.0%	-89.1%
Refinanced mortgage loans	141,161	125,053	120,047	-4.0%	-15.0%
Loans and advances to consumers	376,362	365,206	366,823	0.4%	-2.5%
Impairment and provision	-39,694	-39,293	-40,379	2.8%	1.7%
Investment property	11,379	10,944	10,797	-1.3%	-5.1%
Tangible assets	5,640	7,008	7,022	0.2%	24.5%
Goodwill and other intangible assets	11,640	10,600	10,239	-3.4%	-12.0%
Deferred tax asset	7,798	8,565	8,875	3.6%	13.8%
Other assets	8,600	8,208	10,793	31.5%	25.5%
Total assets	782,295	674,966	760,075	12.6%	-2.8%
Due to banks	116,444	36,616	43,317	18.3%	-62.8%
Issued securities	250,576	240,418	246,824	2.7%	-1.5%
Mortgage bonds	176,561	155,018	154,082	-0.6%	-12.7%
Bonds	74,015	85,399	92,742	8.6%	25.3%
Deposits from customers	211,302	259,887	297,664	14.5%	40.9%
Derivative financial liabilities	21,274	6,087	10,263	68.6%	-51.8%
Financial liabilities at fair value through profit or loss	87,787	36,426	35,691	-2.0%	-59.3%
Finance lease liabilities	9,700	8,736	7,777	-11.0%	-19.8%
Reserve for annuity payments	2,442	2,567	2,521	-1.8%	3.2%
Current tax liability	34	26	23	-11.9%	-34.5%
Deferred tax liability	539	430	394	-8.4%	-26.9%
Provisions	192	5,858	19,005	224.4%	-
Other liabilities	7,122	5,664	5,969	5.4%	-16.2%
Total liabilities	707,412	602,714	669,449	11.1%	-5.4%
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	-207	-207	0.0%	-
Subordinated Tier 1 capital	31,749	31,749	31,749	0.0%	0.0%
Other reserves	80	293	252	-	212.9%
Retained earnings	40,340	35,663	35,663	0.0%	-11.6%
Minority interest	0	0	25,032	-	-
Balance sheet profit	-5,566	-3,553	-10,171	186.2%	82.7%
Total shareholders' equity	74,883	72,252	90,626	25.4%	21.0%
Total liabilities and shareholders' equity	782,295	674,966	760,075	12.6%	-2.8%

Name: FHB Mortgage Bank Plc.
Address: 1082 Budapest, Üllői út 48.
Sector: Financial services
Reporting period: 01.01.2014 – 30.09.2014

Telephone: (1) 452 - 9100
Fax: (1) 452 - 9200
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 September 2014 according to IFRS)

in HUF million	31 December 2013	30 September 2014
Cash flow from operating activities		
Profit/(loss) for the year	-4,664	-9,599
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	2,533	1,915
(Increase)/Decrease in fair value of Investment property	184	110
Recognition of investment property through income statement	57	247
Provision for losses	1,554	20,310
(Gain)/Loss on tangible assets derecognized	25	-7
(Gain)/Loss on intangible assets derecognized	-2	0
Share option reserve	0	40
Capitalized interest	-840	-1,107
Fair value of derivatives	-7,054	-1,674
Fair value adjustment on financial liabilities through profit and loss	-1,448	-1,187
Change in fair value of annuity reserve	361	330
Change in foreign currency translation reserve	-2	-11
Change in minority interest	0	25,032
Change of investments in associates	0	-3,910
Operating profit before change in operating assets	-9,296	30,490
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	-34,135	4,308
Financial assets available for sale	7,347	99,455
Refinanced mortgage loans	31,298	13,645
Loans and advances to customers	14,767	-7,712
Other assets	-1,380	-2,440
<i>Increase/(Decrease) in operating liabilities:</i>	0	0
Deposits	70,295	75,163
Due to banks	24,263	-91,052
Other liabilities	-1,088	2,168
Net cash flow from operating activities	102,071	124,025
Cash flow from investing activities		
Proceeds from sales of tangible assets	6	27
Purchase of tangible and intangible assets	-696	-2,198
Purchase of investment property	-409	-171
Sale of investment property	319	329
Paid from reserves on annuity business	-308	-272
Goodwill on subsidiaries	-1,054	0
Net cash flow from acquisition of subsidiary	-5,254	0
Net cash flow from investing activities	-7,396	-2,286
Cash flow from financing activities		
Proceed from issued securities	77,184	70,575
Principal repayment on issued securities	-174,488	-59,395
Treasury shares purchased	0	-178
Long term loans repayment	-510	-347
Long term loan borrowings	683	78
Finance lease liabilities repayment	-1,737	-1,515
Additional Tier 1 capital	2,826	0
Net cash flow from financing activity	-96,042	9,218
Net increase in cash and cash equivalents	-1,367	130,957
Opening balance of cash and cash equivalents	36,145	34,778
Closing balance of cash and cash equivalents	34,778	165,735
Breakdown of cash and cash equivalents:		
Cash	2,039	2,071
Balances with National Bank of Hungary	11,469	149,249
Dues from banks with a maturity of less than 90 days	21,270	14,415
Closing balance of cash and cash equivalents	34,778	165,735
<i>Supplementary data</i>		
Tax paid	-960	-751
Interest received	65,168	93,417
Interest paid	-52,281	-10,952

Name: FHB Mortgage Bank Plc.
Address: 1082 Budapest, Üllői út 48.
Sector: Financial services
Reporting period: 01.01.2014 – 30.09.2014

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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 September 2014 according to IFRS)

in HUF million	31 December 2013	30 September 2014
Cash flow from operating activities		
Profit/(loss) for the year	-4,664	-10,171
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	2,533	1,915
(Increase)/Decrease in fair value of Investment property	184	110
Recognition of investment property through income statement	57	247
Provision for losses	1,554	20,310
(Gain)/Loss on tangible assets derecognized	25	-7
(Gain)/Loss on intangible assets derecognized	-2	0
Share option reserve	0	40
Capitalized interest	-840	-1,107
Fair value of derivatives	-7,054	-1,674
Fair value adjustment on financial liabilities through profit and loss	-1,448	-1,187
Change in fair value of annuity reserve	361	330
Change in foreign currency translation reserve	-2	-11
Change in minority interest	0	25,032
Change of investments in associates	0	-3,910
Operating profit before change in operating assets	-9,296	29,918
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	-34,135	4,308
Financial assets available for sale	7,347	99,455
Refinanced mortgage loans	31,298	13,645
Loans and advances to customers	14,767	-7,712
Other assets	-1,380	-2,566
<i>Increase/(Decrease) in operating liabilities:</i>		0
Deposits	70,295	75,163
Due to banks	24,263	-91,052
Other liabilities	-1,088	2,866
Net cash flow from operating activities	102,071	124,025
Cash flow from investing activities		
Proceeds from sales of tangible assets	6	27
Purchase of tangible and intangible assets	-696	-2,198
Purchase of investment property	-409	-171
Sale of investment property	319	329
Paid from reserves on annuity business	-308	-272
Goodwill on subsidiaries	-1,054	0
Net cash flow from acquisition of subsidiary	-5,254	0
Net cash flow from investing activities	-7,396	-2,286
Cash flow from financing activities		
Proceed from issued securities	77,184	70,575
Principal repayment on issued securities	-174,488	-59,395
Treasury shares purchased	0	-178
Long term loans repayment	-510	-347
Long term loan borrowings	683	78
Finance lease liabilities repayment	-1,737	-1,515
Additional Tier 1 capital	2,826	0
Net cash flow from financing activity	-96,042	9,218
Net increase in cash and cash equivalents	-1,367	130,957
Opening balance of cash and cash equivalents	36,145	34,778
Closing balance of cash and cash equivalents	34,778	165,735
Breakdown of cash and cash equivalents:		
Cash	2,039	2,071
Balances with National Bank of Hungary	11,469	149,249
Dues from banks with a maturity of less than 90 days	21,270	14,415
Closing balance of cash and cash equivalents	34,778	165,735
<i>Supplementary data</i>		
Tax paid	-960	-751
Interest received	65,168	92,845
Interest paid	-52,281	-10,952

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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 September 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	Changes due to minority interest	Retained earnings (deficit)	Shareholders' Equity
1 January 2013	6,600	-29	1,709	181	0	28,923	-216	31	0	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	0	35,664	76,072
Transfer to general reserve											0
Profit/(Loss)										-9,599	-9,599
Other comprehensive income							-157	-11			-168
Purchase/(Sale) of treasury shares		-178									-178
Changes due to minority interest									25,032		25,032
Subordinated Tier 1 capital						0					0
Change in share option reserve					40						40
30 September 2014	6,600	-207	1,709	194	40	31,749	-1	18	25,032	26,065	91,198

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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 September 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	Changes due to minority interest	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)										-10,172	-10,172
Other comprehensive income							-157	-11			-168
Purchase/(Sale) of treasury shares		-178									-178
Changes due to minority interest									25,032		25,032
Subordinated Tier 1 capital						0					0
Change in share option reserve					40						40
30 September 2014	6,600	-207	1,709	194	40	31,749	-1	18	25,032	25,492	90,625

Off-balance Sheet items – Commitments

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

in HUF million	30 September 2013	30 June 2014	30 September 2014
Guarantees	6,769	14,896	14,078
Undrawn commitments	49,285	43,764	46,469
Total	56,054	58,660	60,547

Transactions with related parties

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

in HUF million	Transactions between FHB Mortgage Bank and owners with influential share	
	30 September 2013	30 September 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	3	0
Total liabilities	3	0
	30 September 2013	30 September 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	-112	-49
Profit for the year	-112	-49

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 September 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	% ²	% ³	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 September 2013		30 June 2014		30 September 2014	
FHB Mortgage Bank Plc.	53,601	0.08%	253,601	0.38%	253,601	0.38%

Owners with more than 5% ownership (as at 30 September 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 30/09/2013	End of last quarter 30/06/2014	Current period closing 30/09/2014
Bank	173	185	183
Consolidated	774	816	811

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