



**FHB Mortgage Bank Plc.**

**Report on the first quarter results of 2017**

Budapest, 18 May, 2017

**I. SUMMARY CONSOLIDATED FIGURES AND TREND OF KEY PERFORMANCE INDICATORS**

in HUF million	31/03/2016	31/12/2016	31/03/2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
<b>Main balance sheet items</b>					
Total assets	738,741	593,404	575,145	-3.1%	-22.1%
Refinanced loans	78,116	31,423	43,708	39.1%	-44.0%
Loans (gross)	310,231	318,326	320,509	0.7%	3.3%
Mortgage bonds	196,643	143,131	158,501	10.7%	-19.4%
Senior unsecured bonds	52,972	39,143	20,756	-47.0%	-60.8%
Customer deposits	331,740	297,072	289,548	-2.5%	-12.7%
Shareholders' equity	107,448	57,602	58,137	0.9%	-45.9%

in HUF million	Q1 2016	Q4 2016	Q1 2017	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
<b>Main P/L items</b>					
Net interest income	3,474	2,546	3,448	35.4%	-0.8%
<i>Net interest margin</i>	<i>1.90%</i>	<i>1.75%</i>	<i>2.39%</i>	<i>0.64%-pt</i>	<i>0.49%-pt</i>
Net fees and commissions	1,704	1,522	1,948	28.0%	14.3%
Net operating income	5,366	2,202	5,601	154.3%	4.4%
Provision for impairment on loan losses	-1,586	-5,640	-598	-89.4%	-62.3%
Operating cost	-4,604	-5,297	-4,666	-11.9%	1.4%
<i>Cost to income ratio</i>	<i>85.8%</i>	<i>240.5%</i>	<i>83.3%</i>	<i>-157.2%-pt</i>	<i>-2.5%-pt</i>
<i>Cost/income ratio w/o special banking tax</i>	<i>81.3%</i>	<i>201.2%</i>	<i>79.5%</i>	<i>-121.7%-pt</i>	<i>-1.7%-pt</i>
<b>Profit before tax</b>	<b>-824</b>	<b>-8,735</b>	<b>336</b>	-	-
<b>Profit after tax</b>	<b>-1,277</b>	<b>-13,733</b>	<b>279</b>	-	-
<b>Profit after tax w/o special banking tax and other one-offs</b>	<b>-710</b>	<b>-1,310</b>	<b>724</b>	-	-
<i>Basic EPS (HUF)</i>	<i>-14.68 Ft</i>	<i>-376.40 Ft</i>	<i>11.01 Ft</i>	-	-
<i>Return on Assets</i>	<i>-0.70%</i>	<i>-9.44%</i>	<i>0.19%</i>	-	-
<i>Return on Equity</i>	<i>-4.8%</i>	<i>-84.6%</i>	<i>2.0%</i>	-	-
<i>ROAA w/o special banking tax and other one-offs</i>	<i>-0.39%</i>	<i>-0.90%</i>	<i>0.50%</i>	-	-
<i>ROAE w/o special banking tax and other one-offs</i>	<i>-2.7%</i>	<i>-8.1%</i>	<i>5.1%</i>	-	-

## II. REPORT ON THE FORTH QUARTER AND THE YEARLY RESULTS FHB GROUP IN 2016

This report of FHB Mortgage Bank Public Co Plc. for the first quarter of 2017 is based on the data of the consolidated balance sheet and profit and loss account prepared according to the International Financial Reporting Standards (IFRS). The narratives compare the consolidated, audited figures as of 31 December 2016, non-audited figures as of 31 March 2016, 31 March 2017.

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

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

### 1. Summary of the achievements of the past period

FHB Banking group closed the first quarter of 2017 with **HUF 366 million profit before tax**. The improvement of the result was contributed by decrease in provision for impairment on loan losses and net loss of other results, increasing volume of net fees and positive interim result of associated companies.

#### *Lending*

The lending volume of the first quarter of 2017 has fallen compared to its level in 2016, especially to the outstanding level of last year's fourth quarter. Even so the volume of loans exceeded its volume from a year before by over HUF 10 million. New retail lending volume of HUF 5.2 billion was almost the same as a year before and shows a 15.3% decrease compared to the previous quarter, of which the **close to HUF 4 billion disbursement of retail mortgage loans decreased** by HUF 713.5 million compared to the last quarter of 2016 and exceeded **by 75.3% the volume a year before**. **The volume of disbursed corporate loans of HUF 9.3 billion** reflects a **4.7% gross year-on-year**.

**Gross loans** amounted to HUF 320.5 billion as of March 31, 2017, showing HUF 2.2 billion increase compared to the previous quarter.

Due to the increasing new loan disbursement the quality of the loan portfolio improved further. Rate of non-performing loans (**NPL ratio**) **dropped to 9.8%** by the end of March 2017 from 10.6% as of the end of 2016, representing 0.8%-points decrease compared to last quarter and 3.7%-points improvement from the 13.5% level on March 31, 2016. Coverage of non-performing portfolio was 71.8% at the end of the first quarter.

#### *Savings*

Within savings managed by members of the Bank Group, the volume of government bonds and other securities increased significantly in the first quarter, retail deposits grew slightly, as well, while corporate deposits decreased.

Consolidated IFRS deposit volume amounted to HUF 289.5 billion at the end of March, showing a decrease of HUF 7.5 billion compared to the end of the previous quarter. Volume of corporate deposits decreased by 4.2% to HUF 160.8 billion by the end of first quarter, while volume of retail deposits barely moved and finished with HUF 128.7 billion by the of the quarter. The volume of Postal deposits still represents a notable share in retail

deposits with its volume of HUF 42.4 billion, showing quarterly growth of 1.6% and 14.8% compared to the same period of previous year. The **number of current accounts opened in the Hungarian Post's network increased to 70.3 thousand** by the end of the quarter.

Volume of – **non-consolidated – total savings managed** by the members of FHB Group was close to **HUF 867 billion** as of March 31, 2017, of which assets under management by **Magyar Posta Investment Ltd. (MPBSZ) reached HUF 180.6 billion** by the end of the quarter growing by 5.5% quarter-to-quarter and by 37.7% **on annual basis**. The number of securities and investment accounts managed by the company was close to 57.5 thousand at end of March, 2017.

The net asset value of **investment funds** under management of **Diófa Asset Management Ltd.** remained the same compared to the previous quarter (increased by 1.5%) because the decrease of value of money market funds was compensated by an increase of nearly HUF 24.6 billion in net asset value of real estate funds. Net asset value of Magyar Posta Takarékszövetkezet Real Estate Fund reached HUF 152 billion at the end of March representing close to 36% of the value of total net assets managed by Diófa Asset Management. The total net assets value of funds and other portfolios amounted to HUF 421.7 billion by the end of the first quarter.

FHB Group's consolidated total assets amounted to HUF 575.1 billion on March 31, 2017 that is lower by 3.1% compared to the previous quarter and by 22.1% or HUF 163.6 billion compared to the balance sheet total as of 31 March 2016.

### **Main P&L items**

The Banking Group's **net interest income** amounted to HUF 3.5 billion in the first quarter, by 0.8% lower than a year before and 35% higher (HUF 900 million) than in the fourth quarter of 2016. **Net interest margin to average total assets** increased from 1.90% at the first quarter of 2016 to 2.39% by the end of the first three months of 2017 thanks to the fall in the volume of earlier issued bonds and mortgage bonds with higher interest rate.

**Net fees and commissions** reached HUF 2.0 billion, which is higher by 28.0% than in last quarter and by 14.3% than a year before. This is mostly due to the raise in fee incomes from bankaccounts, cardservices and from mortgage loans.

**Operating costs** amounted to HUF 4.7 billion in the first quarter of 2017, the amount of which decreased by 11.9% compared to the fourth quarter of 2016, however it was still higher by 1.4% than the volume by March 31, 2016.

**The risk cost** was considerably influenced by the costs of portfolio cleaning. In the first quarter of 2017 its volume dropped to HUF 598.2 million, which is significantly lower than in the first and fourth quarter of 2016. The volume of impairments – besides improving coverage by more than 15.7%-points on yearly basis, from 56.0% to 71.8% – decreased by 5.3% compared to the previous quarter, by 4.0% or close to HUF 935.6 million compared to the same period of the previous year in line with the improving NPL ratio and decreasing NPL volume.

The **net income of associated companies** contributed to the total revenue by HUF 368.9 million during the first quarter. Among the companies in the scope of consolidation the result of **Diófa Asset Management Plc.** is still noteworthy, which closed the first quarter with a profit after tax of HUF 133.4 million based on Hungarian Accounting Standards.

The Group's IFRS consolidated profit before tax without the special banking tax and other one-off items was HUF 724.1 million gain in the first three months of the year.

### **Capital position**

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

The individual capita adequacy ratio of the FHB Mortgage Bank was 48.66% (46.21% on December 31, 2016).

The consolidated **regulatory capital of the Integrational Organization of Cooperative Credit Institutions was over HUF 273 billion** at the end of the quarter and the **capital adequacy ratio of the Integration was 26.14%**.

### *Performance of FHB shares*

In terms of capitalisation, FHB has moved up one place to 5th in the rank of "Premium" category listed companies since last quarter and contributes 0.55% to the aggregate capitalisation of the BSE based on 31 March 2017 data.

As of the end of March in 2017, FHB's weight in the BUX index was 0.40% which meant that it stands at the ninth place, while it was the 5th biggest member with a weight of 9.32% (in the fourth quarter of 2016 9.23%) in BUMIX, the index of share prices of mid- and small-cap companies.

The price of FHB Mortgage Bank's shares showed significant increase in the first quarter of 2017. The price of the share by the end of December 2016 was HUF 495 increased by HUF 50 to HUF 545 by March 31, 2017.

## **2. Trend of market environment**

### *The housing market and retail mortgage lending*

The housing construction increased during the first quarter of 2017. According to CSO statistics, 2,061 new homes were built in the first three months of 2017, 46.7% more than a year before. The total number of new housing construction permits issued and simple declarations concerning the construction of new residential buildings was 9,525, 88.7% higher than in the first quarter of 2016 out of which the biggest increase was in Budapest (220.1%) regarding territorial units.

As of 31 March 2017, the volume of retail mortgage loans (HUF 4,275 billion) was down by 7.6% compared to 31 March 2016 despite of the dynamically increasing new disbursements. Volume of HUF loans (HUF 4,258 billion) decreased by 7.6% year-on-year; while the FX loan portfolio (HUF 18 billion) declined by 16.6%.

The amount of retail housing loans increased in Q1 by 0.2%. At the end of March 2017, housing loans amounted to HUF 2,935 billion. This meant 1.2% decrease compared to 31 March 2016. Volume of housing loans denominated in HUF was HUF 2,929 billion, showing a 0.1% growth during the last quarter, while volume of FX loans increased by 6.9%.

General-purpose mortgage loans amounted to HUF 1,340 billion as of 31 March 2017; the portfolio decreased by 19.2% and 5.5% year-on-year and quarter-on-quarter, respectively. Portfolio cleaning activities played main role in the decreasing volume of general purpose mortgage loans.

### Corporate loans

Due to the active corporate loan demand, the volume of loans disbursed to non-financial corporates was HUF 6,035 billion as of 31 March 2017, which increased by 0.7% compared to 31 March 2016 and by 1.8% compared to the end of December 2016.

### Savings

As of 31 March 2017 the volume of retail and corporate deposits in the banking sector was HUF 15,836 billion of which retail deposits amounted to HUF 7,390 billion, while the volume of corporate deposits (deposits of non-financial and other financial companies) were HUF 8,446 billion. The total volume of retail and corporate deposits increased by 10.2% year-on-year, in case of retail deposits the growth was 6.6%, while corporate deposits grew by 13.5%.

## 3. Main activities and subsidiaries' performance

### Own lending

Volume of gross loans of FHB Group amounted to HUF 320.5 billion as of 31 March 2017 increased by 0.7% compared to the previous quarter's figure (HUF 318.3 billion) and year-on-year the increase was 3.3%. Share of FX based loans in total outstanding loan portfolio was 10.6%, in the contrary of the percentage in previous quarter and a year before, which was 10.4% and 7.9%, respectively. The share of FX loans of retail loans is remaining stable around 1.0% since the beginning of 2016.

Retail loans remained dominating within the loan portfolio with a contribution of 63.0% (65.0% on 31 December 2016). Retail loans decreased by 2.5% (or by HUF 5.2 billion) and by 7.2% (or by HUF 15.6 billion) quarter-on-quarter and year-on-year, respectively.

in HUF million	31/03/2016	31/12/2016	31/03/2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
<b>Retail loans</b>	<b>217,391</b>	<b>207,009</b>	<b>201,840</b>	<b>-2.5%</b>	<b>-7.2%</b>
Housing loans	114,588	112,930	111,871	-0.9%	-2.4%
Other mortgage loans	90,051	78,852	76,211	-3.3%	-15.4%
Consumer loans	8,729	11,190	9,832	-12.1%	12.6%
Loans for employees	1,322	1,299	1,249	-3.8%	-5.5%
Retail real estate leasing	2,701	2,738	2,677	-2.2%	-0.9%
<b>Corporate loans</b>	<b>92,839</b>	<b>111,317</b>	<b>118,669</b>	<b>6.6%</b>	<b>27.8%</b>
Corporate loans	89,289	104,076	107,570	3.4%	20.5%
Corporate real estate leasing	1,384	2,120	2,113	-0.3%	52.7%
Equipment leasing	2,166	5,121	8,986	75.5%	-
<b>Total own lending, gross</b>	<b>310,230</b>	<b>318,326</b>	<b>320,509</b>	<b>0.7%</b>	<b>3.3%</b>
Impairment	-23,531	-23,853	-22,595	-5.3%	-4.0%
<b>Loans, net</b>	<b>286,700</b>	<b>294,473</b>	<b>297,914</b>	<b>1.2%</b>	<b>3.9%</b>
Refinanced loans	78,116	31,423	43,708	39.1%	-44.0%

In the first quarter of 2017 HUF 5.2 billion of retail and HUF 9.3 billion of corporate loans have been disbursed; the latter figure is 4.7% higher than in the same period of 2016. During the first three months of 2017 the Bank placed HUF 0.8 billion loans out to corporate customers within the framework of Funding for Growth Scheme. Among corporate loans the disbursement of fixed purpose loans and of leasings was outstanding (HUF 4.0

billion and HUF 4.3 billion in Q1 2017), previous shows 11.4% decrease compared to the same period of the previous year, while latter increased significantly, by HUF 3.8 billion. The most significant retail products were housing loans and personal loans, the disbursement during the quarter was HUF 4.0 billion in case of first product, while in case of latter HUF 0.5 billion. The disbursement of housing loans during the first quarter exceeded the volume of Q1 2016 by 75.3%.

In case of Non-Refundable Family Home Creating Benefit ('CSOK'), from the launch in June 2015 until the end of March 2017 more than 2,700 loan applications had been approved, from which the number of disbursed loans was higher than 2,000 with the total volume amounting to HUF 5.9 billion. In case of more than 50% of 'CSOK' applications clients submitted loan applications as well.

### *Refinancing*

Due to the MFAR (Mortgage funding adequacy ratio) indicator coming into force on 1 April 2017, in the first quarter of 2017 the refinancing activity (cooperation) gained momentum through the purchase of independent mortgage lien with partners contracted in 2016 and in the first three months of this year. During the period, more than HUF 14.6 billion purchase took part, as a result the refinanced loan portfolio increased by 39% to HUF 43.7 billion from HUF 31.4 billion as of 31 December 2016.

### *FHB Commercial Bank Ltd.*

According to Hungarian Accounting Standards (HAS), total assets of FHB Commercial Bank were HUF 443.2 billion as of 31 March 2017, showing a 5.8% decrease compared to a year before (HUF 470.4 billion) and 4.4% decrease compared to the end of Q4 2016.

On 31 March 2017, volume of gross loans according to HAS stood at HUF 231.6 billion increasing by 9.6% compared to 31 March 2016. Gross loans represented 52.3% of total assets. Corporate loans of FHB Commercial Bank according to HAS – excluding intra-group loans – amounted to HUF 99.7 billion at the end of the period (showing a 3.9% increase compared to 31 December 2016), having a share of 43.0% in the total loan portfolio.

Interest bearing liabilities amounted to HUF 404.4 billion; representing 91.2% of liabilities, showing 5.0% decrease year-on-year and 4.2% decline quarter-on-quarter. According to HAS deposits of HUF 291.3 billion represented 72.0% of interest bearing liabilities, while interbank liabilities represented 25.5% with the amount of HUF 103.1 billion, containing refinanced loans from FHB Mortgage Bank, and refinancing related to outstanding loans drawn under the Funding for Growth Scheme.

Deposits decreased by 12.9% compared to the same period of the previous year and decreased by 2.6% during the first quarter. The volume of retail deposits increased by 4.8% compared to the end of the previous quarter. Volume of sight deposits amounted to HUF 114.5 billion, representing 39.3% of total deposits.

At the end of March 2017, the number of retail and corporate accounts managed by Commercial Bank was more than 210.0 thousand and more than 12 thousand, respectively, and 173.2 thousand retail and 6.7 thousand corporate banking cards related to these accounts. Both number of retail accounts and retail cards represented growth on annual basis. The sale of postal account packages, largely contributed to the growth of number of accounts (through the quarter 6.0 thousand new bank accounts), at the end of March 2017 the number of post accounts was 70.3 thousand.

According to HAS profit after tax of Commercial Bank of 2017 Q1 was HUF 274 million loss. Net results were influenced by the non-shifted part of financial transaction levy (HUF 178 million) and by the special banking tax (HUF 172 million). Adjusted by above mentioned other one-off items, profit after tax of FHB Commercial Bank was HUF 77 million gain in the first quarter of 2017.

Net interest income in the first three months of 2017 – in controlling approach – was 30.8% lower than a year before as a result of decreasing interest income (by 28.4%) and decreasing interest expenses (by 22.4%). Net fee and commission income was 15.4% higher than a year before, while it decreased by 16.4% quarter-on-quarter. Operating costs increased by 2.5% compared to Q1 2016, while they decreased by 8.3% compared to the previous quarter.

The capital adequacy ratio of the Bank on 31 March 2017 was 13.79% that shows growth compared to the end of December (13.16%) and a decline compared to 31 March 2016 (17.89%). Shareholder's equity according to HAS was HUF 30.3 billion as of 31 March 2017 and the solvency capital was HUF 36.9 billion.

#### *FHB Real Estate Ltd.*

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

The real estate collateral valuation business generated HUF 147.1 million revenue in 2017 Q1, which is HUF 111.5 million more than a year before, while real estate brokerage reached HUF 33.9 million income in 2017 Q1, which is significantly more than the same period in 2016 (HUF 2.8 million).

FHB Real Estate closed in the first three months of 2017 with HUF 14.9 million profit. Share capital of company was HUF 70 million in 31 March 2017, shareholder's equity amounted to HUF 229.7 million.

#### *FHB Lease Ltd.*

As of 31 March 2017, the consolidated loan volume of FHB Lease Ltd. according to IFRS was HUF 15.6 billion. Lease financing disbursement amounted to HUF 4.4 billion in Q1 2017, of which HUF 4.1 billion is from the equipment leasing. Leasing portfolio reached HUF 13.2 billion as of 31 March 2017. FHB Lease Ltd. closed the first three months of 2017 with HUF 2.6 million loss consolidated according to IFRS

Consolidated net interest income according to IFRS in the first quarter of the year was HUF 92.5 million (it is 80.4% higher than in Q1 2016, and 14.1% higher than Q4 2016), net fee and commission income was close to HUF 7.9 million. Loan losses were HUF –11.1 million, decreased significantly, by 88.6% compared to the previous quarter (HUF 97.1 million). Operating cost reached HUF 84.6 million in the first quarter, increased by 3.8% compared to the last quarter of 2016 (HUF 81.5 million), while decreased by 14.6% compared to the first quarter of the previous year (HUF 99.1 million).

Volume of non-performing loans in FHB Lease Ltd. according to IFRS was HUF 303.3 million as of 31 March 2017, which is HUF 104.2 million less than in the previous quarter.

#### *Diófa Asset Management Ltd.*

In the first quarter of 2017 Diófa Asset Management Ltd. continued to increase its total managed assets. Retail investment funds were in demand during this quarter, whose net asset value rose by HUF 21 billion over three months. As in the previous quarters, the focus of sales was on the Magyar Posta Takarékszövetkezet Real Estate Fund, the Magyar Posta Takarékszövetkezet Harmónia Mixed Fund and the Takarékszövetkezet FHB Apollo Equity Fund. The MPT Real Estate Fund alone was able to show a growth of HUF 24 billion, but the MPT Harmónia Mixed Fund increased its assets by HUF 1 billion, which was in percentage the largest increase among the investment funds. The low yield environment still does not favor the low risk, money market and bond funds, so investors are more likely to turn to higher-yield funds. The MPT Real Estate Fund closed a real estate transaction this quarter, which



resulted the expansion of the Fund's portfolio with a city logistics property, the South Pest Business Park. In spite of the transaction, due to intensive wealth fluctuations, the Fund's real estate coverage fell in this quarter.

At the end of the first quarter of 2017 the total net value of assets and other portfolios under management increased to HUF 421.7 billion from HUF 412.6 billion (31 March 2016). That means 2.2% expansion during 12 months thanks to the growth of net asset value of investment funds. Magyar Posta Takarékok Real Estate Fund with volume of HUF 151.6 billion at the end of March 2017 contributed mainly to the growth of investment funds. In case of investment funds, market share of Diófa Alapkezelő increased from 3.2% as of the first quarter of 2016 to 3.7% by the end of March 2017, while its market share from wealth management of pension funds reached 14.1%.

Asset Management Ltd. closed the first quarter of 2017 with HUF 133.4 million profit after tax according to HAS, subscribed capital amounted to HUF 196.2 million and shareholders' equity to HUF 1,183.3 million as of 31 March 2017.

#### *FHB INVEST Investment and Real Estate Management Llc.*

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

Share capital of the Company was HUF 636.4 million in 31 March 2017, shareholder's equity amounted to HUF 3.2 billion and profit after tax reached 132.4 million gain (according to HAS) during the first quarter of 2017.

#### *Jointly controlled and associated companies*

Profit after tax according to IFRS of the **Díjbeszedő Faktorház Ltd. (DBF)** was HUF 73.5 million in 2017 Q1. Pre-tax profit related to the purchased receivables before maturity as of 31 March 2017 was HUF 266.1 million, while pre-tax profit from purchased expired receivables amounted to HUF 8.0 million loss according to IFRS. Shareholder's equity of the Company according to IFRS amounted to HUF 5.3 billion in the first quarter of 2017.

The main activity of **DíjNET Ltd.** is operation and development of an electronic bill presentment and payment system. In the first three months of 2017, profit after tax (according to HAS) was HUF 13.3 million gain. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 275.9 million as of 31 March 2017.

**Díjbeszedő IT Llc. (DBIT)**, which provides services related to the IT activities of companies belonging to the Díjbeszedő Group, reached HUF 11.6 million profit after tax in 2017 Q1. Subscribed capital amounted to HUF 672 million, while shareholder's equity amounted to HUF 718.0 million.

By the end of March 2017, **Magyar Posta Investment Services Ltd. (MPBSZ)** opened about 58 thousand securities and long-term investment accounts; the securities portfolio managed on accounts was HUF 187.4 billion at the end of March 2017, compared to HUF 138.5 billion at the end of March 2016. MPBSZ closed the first three month of 2017 with HUF 41.1 million loss (according to HAS). The company's shareholder's equity was HUF 316.9 million and total assets amounted to HUF 4.2 billion.

**Magyar Takarékok Asset Management (MATAK) Ltd.'s result** - including net result of Bank of Hungarian Savings Cooperatives Co. Ltd. (Takarékbank) and its consolidated subsidiaries - contributed by HUF 358 million to the consolidated result of the first three months of 2017 of FHB Group.

### *Organisational changes and headcount*

As of 31 March 2017, the consolidated full-time headcount was 1036.5, which meant an increase by 40.9 persons compared to the previous quarter (995.6). This number of employees also means a rise of 131.0 compared to last year's same period, which summed to 905.6. The significant change in the consolidated headcount (14.5%) was due to the increase of employees at FHB Commercial Bank (by 26 person), at Diófa Asset Management (by 5.5 person) and Diófa Real Estate Management (by 4.3 person).

Headcounts of the Group members were as follows:

	31/03/2016	31/12/2016	31/03/2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
FHB Mortgage Bank Plc.	129.5	132.8	133.4	0.5%	3.0%
FHB Commercial Bank Ltd.	696.4	761.8	787.8	3.4%	13.1%
FHB Real Estate Ltd.	6.0	12.5	15.5	24.0%	158.3%
FHBLeasing Ltd.	14.8	17.2	18.6	8.2%	25.5%
Diófa Asset Managemet Ltd.	36.2	41.2	46.6	13.2%	28.9%
Diófa Real Estate Management Llc	9.4	15.8	20.0	27.0%	113.3%
FHB Invest Ltd.	1.1	1.1	1.1	0.0%	0.0%
Hungarian Card Ltd.	12.3	13.4	13.5	0.9%	-
<b>FHB Consolidated</b>	<b>905.6</b>	<b>995.6</b>	<b>1036.5</b>	<b>4.1%</b>	<b>14.5%</b>

### *Changes in key position*

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

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

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

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

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

### *Post-balance sheet date events*

On 8 May 2017 Moody's Investor Service announced that it has upgraded to B2 from B3 the long-term local and foreign-currency deposit ratings of FHB Mortgage Bank Co. Plc. (FHB). Concurrently, the bank's baseline credit assessment (BCA) was upgraded to caa1 from caa2, its adjusted BCA was upgraded to b3 from caa1 and its long-term Counterparty Risk Assessment (CRA) was upgraded to Ba3(cr) from B1(cr). The bank's long-term ratings and rating inputs are placed on review for further upgrade. FHB's short-term Not Prime deposit

ratings and Not Prime(cr) CRA are unaffected.

According to Moody's, the upgrade of FHB's ratings primarily reflects the closer integration of the bank into Hungary's savings cooperatives sector which has reduced previous corporate governance risks and has also led the rating agency to increase its assumptions for sector support to high from moderate previously.

Following this, on 11 May 2017 Moody's Investor Service has upgraded by one notch to Baa1 from Baa2 the covered bond issued by FHB Co. Plc. (FHB Plc, CR assessment Ba3 (cr) on review for upgrade).

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

#### 1. P&L structure

in HUF million	Q1 2016	Q4 2016	Q1 2017	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
Interest income	8,523	6,256	5,932	-5.2%	-30.4%
Interest expense	-5,049	-3,710	-2,484	-33.0%	-50.8%
<b>Net interest income</b>	<b>3,474</b>	<b>2,546</b>	<b>3,448</b>	<b>35.4%</b>	<b>-0.8%</b>
Fees and commissions income	2,007	2,648	2,331	-12.0%	16.1%
Fees and commissions expense	-303	-1,126	-383	-66.0%	26.4%
<b>Net fees and commissions</b>	<b>1,704</b>	<b>1,522</b>	<b>1,948</b>	<b>28.0%</b>	<b>14.3%</b>
Foreign exchange gains, net	-81	55	140	153.8%	-
Fair value adjustment	110	603	117	-80.6%	6.5%
Gain on securities, net	1,112	1,314	410	-68.8%	-63.1%
Net result of investment services	132	220	15	-93.4%	-88.9%
<b>Net financial (trading) result</b>	<b>1,273</b>	<b>2,192</b>	<b>681</b>	<b>-68.9%</b>	<b>-46.4%</b>
Other operating income	723	-491	515	-	-28.8%
Other operating expenses	-2,005	-3,373	-1,361	-59.7%	-32.1%
o/w special banking tax & one-off PTI	-299	-430	-267	-38.0%	-10.7%
<b>Other results</b>	<b>-1,282</b>	<b>-3,865</b>	<b>-846</b>	<b>-78.1%</b>	<b>-34.0%</b>
<b>Net income of associated companies</b>	<b>197</b>	<b>-194</b>	<b>369</b>	<b>-</b>	<b>87.0%</b>
<b>Total non-interest income (with net fees)</b>	<b>1,892</b>	<b>-344</b>	<b>2,153</b>	<b>-</b>	<b>13.8%</b>
<b>Net operating income</b>	<b>5,366</b>	<b>2,202</b>	<b>5,601</b>	<b>154.3%</b>	<b>4.4%</b>
<b>Net operating income w/o provisions</b>	<b>5,366</b>	<b>2,202</b>	<b>5,601</b>	<b>154.3%</b>	<b>4.4%</b>
<b>Provision for impairment on loan losses</b>	<b>-1,586</b>	<b>-5,640</b>	<b>-598</b>	<b>-89.4%</b>	<b>-62.3%</b>
<b>Operating costs</b>	<b>-4,604</b>	<b>-5,297</b>	<b>-4,666</b>	<b>-11.9%</b>	<b>1.4%</b>
<b>Income before income taxes</b>	<b>-824</b>	<b>-8,735</b>	<b>336</b>	<b>-</b>	<b>-</b>
Income taxes	-453	-4,999	-57	-98.9%	-87.3%
<b>Profit after tax</b>	<b>-1,277</b>	<b>-13,733</b>	<b>279</b>	<b>-</b>	<b>-</b>
<b>Profit after tax w/o special banking tax</b>	<b>-978</b>	<b>-13,303</b>	<b>546</b>	<b>-</b>	<b>-</b>
<b>After tax profit w/o special banking tax and other one-offs</b>	<b>-710</b>	<b>-1,310</b>	<b>724</b>	<b>-</b>	<b>-</b>

The Bank's consolidated profit after tax according to IFRS amounted to HUF 279 million gain in the first three months of 2017, while the consolidated total comprehensive income of the Bank amounted to HUF 535 million gain.

In the first quarter of 2017 the profit before tax of the Bank Group was HUF 336 million gain. In the first three months of 2017 amount of HUF 267 million of special banking tax and the non-shifted financial transaction levy had negative impact on the result as a significant one-off items. The Bank Group's IFRS consolidated profit after tax – ignoring the special banking tax and one-off items – was HUF 724 million gain in the first quarter of 2017, which is significantly more favourable than HUF 710 million loss in Q1 2016 and HUF 1,310 million loss in the fourth quarter of 2016.

#### *Net interest income*

Net interest income was HUF 3.4 billion in the first three months of 2017, 0.8% lower than a year before; and it showed 35.4% increase compared to the previous quarter (HUF 2.5 billion).

The main reason was the decrease of interest income by 5.2%, while on the other hand the interest expenses (mostly the bonds issued) fell by 33.0%.

Distribution of interest income and expenses shows the following table:

	Q1 2016	Q4 2016	Q1 2017	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
<b>Interest income</b>					
Loans	56.8%	69.8%	72.8%	3.0%-pt	16.1%-pt
Refinancing	8.1%	6.0%	4.5%	-1.5%-pt	-3.6%-pt
Mortgage bond interest subsidy	16.8%	13.6%	11.1%	-2.5%-pt	-5.6%-pt
Supplementary interest subsidy	1.4%	1.7%	1.8%	0.1%-pt	0.4%-pt
Securities and interbank activities	14.1%	8.8%	8.1%	-0.7%-pt	-5.9%-pt
Swap transactions	2.9%	0.1%	1.6%	1.5%-pt	-1.3%-pt
<b>Interest expenses</b>					
Bonds issued	80.9%	76.1%	84.3%	8.2%-pt	3.5%-pt
Interbank activities	0.4%	1.3%	1.3%	0.1%-pt	1.0%-pt
Customer deposits	15.2%	13.0%	14.5%	1.5%-pt	-0.7%-pt
Derivatives	3.5%	9.7%	-0.4%	-10.1%-pt	-3.9%-pt
Other interest expense	0.0%	0.0%	0.2%	0.2%-pt	0.2%-pt

The net interest margin to average total assets (NIM) was 2.39% in Q1 2017 which is 49 bps higher than in the same period of the previous year.

#### *Net fee and commission income*

In the first three months of 2017, the Bank achieved a positive balance of HUF 1,948 million from income and expenditures on commissions and fees; 14.3% higher than a year before. Net fee and commission income increased by 28.0% in the first quarter compared to Q4 2016. The income on net fees and commissions adjusted by financial transaction levy income performed a 37.3% and 13.5% increase quarter-on-quarter and year-on-year, respectively.

Compared to the previous quarter, incomes related to mortgage loans and fund management fees decreased, while commissions on insurance sales and guarantee fees increased. Income from fees and commissions – with related incomes from investment services - in Q1 2017 amounted to HUF 2,414 million, of which 12.0% was contributed by charges related to loans (11.7% in Q4 2016) and 36.8% by accounts and card related banking charges without financial transaction levy (32.9% in previous quarter). Volume of HUF 337 million of fund management fees contributed by 14.0% to quarterly fee income.

Card related fee expenses (HUF 164 million) decreased by 8.9% quarter-on-quarter, while payment fees reached HUF 30 million in Q1 2017.

#### *Net result of financial transactions*

In the first three months of 2017, the balance of financial transactions was HUF 681 million profits, which is significantly lower (-46.4%) than the profit in the same period of the previous year (HUF 1,273 million). The result of the first quarter also decreased significantly (-68.9%) compared to HUF 2,192 million of the previous quarter.

In Q1 2017, the result of foreign exchange operations was HUF 140 million gain, that is more favourable (by 153.8%) than the result of the previous quarter (HUF 55 million gain), and higher by HUF 221 million compared to the figure of the same period of the previous year (HUF 81 million loss).

In Q1 2017, the change in the value of financial instruments reported at fair value through P&L was HUF 117 million gain, which is significantly lower than the HUF 603 million result in Q4 2016.

In the first quarter of 2017, the securities transactions resulted in HUF 410 million profit as opposed to HUF 1,314 million in the previous quarter.

#### *Other operating income and expenditure*

In the first quarter of 2017, the balance of other operating income and expenditure was HUF 845.7 million net expenditure; arising from HUF 515.0 million incomes and HUF 1,360.7 million expenditures.

In the first three months of 2017, real estate rent and real estate management related income contributed to other operating income by HUF 53 million. The Bank Group also had HUF 58 million income from card service fees of Hungarian Card Service Plc.

Special banking tax amounted to HUF 267 million in the first three months of 2017, the fees of deposit protection funds, other statutory and voluntary funds, and membership fees of SzHISz amounted to HUF 203 million, while paid financial transaction levy was HUF 615 million.

Net income of associated companies contributed HUF 368.9 million to consolidated figures in first three months of 2017, which mainly resulted from three important influencing items: HUF 358 million profit of Magyar Takarékszövetkezet Asset Management (MATAK) Ltd. and its investments (profit of the first quarter, consolidated), DB Factoring House proportional, HUF 37 million profit and the HUF 21 million loss realised by Magyar Posta Investment Services.

#### *Impairments for loan losses*

Risk costs amounted to HUF 598.2 million in the first three months of 2017. During the third quarter loan losses were primarily burdened by the provisioning/releasing impairment in relation to the change of the portfolio. The volume of impairments decreased by 5.3%, by HUF 1.3 billion compared to the end of previous quarter.

#### *Operating costs*

Operating costs amounted to HUF 4.7 billion in Q1 2017, which is only 1.4% greater than in the same period of the previous year, while 11.9% lower than in the previous quarter. In this period nearly all costs declined. The greatest decline was in the cost of business activity that nearly dropped to fourfold in last quarter.

Personnel expenses were higher than in the same period of 2016 by 12.1%, due to the raise in the sum headcount by 14.5% since March of 2016. The noteworthy growth of headcount continued in the first quarter of 2017, its volume raised by 4% in the first three months of 2017.

Administrative expenses (HUF 2,334 million) decreased by 5.7% in Q1 2017 compared to the same period of last year, and it decreased by 9.6% compared to the previous quarter.

Expenses of business activity (HUF 108 million) show a decreasing level compared to the same period in 2016 (HUF 133 million) primarily because of a decrease in marketing-, general administrative costs and insurance fees. As a result of this fall of costs, expenses of business activity decreased by 72.9% compared to the last quarter of 2016.

Depreciation was HUF 115 million in Q1 2017, which meant a reduction of HUF 10 million compared to the previous quarter (HUF 125 million). The sum of depreciation increased from last year's same period HUF 107 million by 8.1%.

Other taxes paid reported among operating costs (for example real estate tax, vehicle tax, etc.) amounted up to HUF 38 million in Q1 of 2017, which decreased by 6.7% compared to the same quarter of the previous year and also remarkably higher than Q4 of 2016 (252%). This movement of the amount is in accordance with the trend that is concluded from previous years. Accordingly the expenses in the first and third quarter are the highest, which are followed by great setbacks in the following quarters.

## 2. Balance Sheet

in HUF million	31/03/2016	31/12/2016	31/03/2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
Cash	2,801	4,327	4,235	-2.1%	51.2%
Due from banks & NBH	153,341	130,924	76,786	-41.4%	-49.9%
Financial assets available-for-sale and held for trading	186,334	107,029	126,760	18.4%	-32.0%
Fair value of derivative financial assets	1,672	933	707	-24.3%	-57.7%
Investment in associates and jointly controlled companies	4,382	4,816	5,185	7.7%	18.3%
Refinanced mortgage loans	78,116	31,423	43,708	39.1%	-44.0%
Loans and advances	310,231	318,326	320,509	0.7%	3.3%
Impairment and provision	-23,531	-23,853	-22,595	-5.3%	-4.0%
Tangible assets	6,110	4,942	4,840	-2.1%	-20.8%
Goodwill and other intangible assets	1,920	2,042	2,106	3.2%	9.7%
Other assets	17,365	12,495	12,904	3.3%	-25.7%
<b>Total Assets</b>	<b>738,741</b>	<b>593,404</b>	<b>575,145</b>	<b>-3.1%</b>	<b>-22.1%</b>
<b>Liabilities total</b>	<b>631,293</b>	<b>535,802</b>	<b>517,008</b>	<b>-3.5%</b>	<b>-18.1%</b>
Interbank borrowings	40,181	47,229	39,398	-16.6%	-1.9%
Mortgage bonds	196,643	143,131	158,501	10.7%	-19.4%
Bonds issued	52,972	39,143	20,756	-47.0%	-60.8%
Deposits	331,740	297,072	289,548	-2.5%	-12.7%
Fair value of derivative financial liabilities	2,971	1,579	1,313	-16.8%	-55.8%
Leasing liability	12	3	3	0.0%	-75.2%
Other liabilities	6,776	7,645	7,489	-2.0%	10.5%
<b>Shareholders' equity</b>	<b>107,448</b>	<b>57,602</b>	<b>58,137</b>	<b>0.9%</b>	<b>-45.9%</b>
Subscribed capital	10,849	10,849	10,849	0.0%	0.0%
Capital reserve	27,926	27,926	27,926	0.0%	0.0%
Treasury shares	-207	-207	-207	0.0%	0.0%
Cash-flow hedge reserve	0	0	1	-	-
Subordinated Tier1 capital	31,1749	0	0	-	-100.0%
Other reserves	751	609	864	41.8%	15.0%
Retained earnings	16,137	12,661	1,613	-87.3%	-90.0%
Non-controlling interest	20,635	16,812	16,797	-0.1%	-18.6%
Balance sheet profit	-392	-11,048	294	-	-
<b>Total liabilities and shareholders' equity</b>	<b>738,741</b>	<b>593,404</b>	<b>575,145</b>	<b>-3.1%</b>	<b>-22.1%</b>

As of 31 March 2017, the Bank's consolidated balance sheet total by IFRS amounted to HUF 575.1 billion, moving 3.1% (HUF 18.3 billion) down from the end of previous quarter; and 22.1% lower than the same period of previous year.

On the asset side on an annual basis, the volume of financial assets available-for-sale and held for trading increased by HUF 19.7 billion or 18.4% year-on-year, the refinanced loans by HUF 12.3 billion and 39.1% compared to the same period of previous year. During the first quarter of 2017, the due from banks and NBH decreased by HUF 54.1 billion, the fair value of derivative financial assets by HUF 226 million, while cash increased by 51.2% year-on-year.

Liabilities decreased by 18.1% compared to the reference figures of previous year. Compared to the same period in 2016 interbank liabilities decreased by 1.9%, the portfolio of mortgage bonds issued decreased by 19.4%, the volume of bonds issued decreased by 60.8% respectively. Besides, the deposits decreased by HUF 42.2 billion over a year and HUF 7.5 billion (2.5%) in the last three months. In the first quarter the volume of the issued bonds decreased by nearly HUF 3.0 billion, which is the result of the mortgage bonds increase by 15.4 billion and the volume of bonds decrease by 18.4 billion; respectively the fair value of derivative financial liabilities declined by HUF 265.8 million.



Shareholders' equity decreased by HUF 49.3 billion or 45.9% year-on-year, while during the first quarter it increased by HUF 535 million (0.9%). Compared to the same period of last year, shareholder's equity decreased due to the repurchase of subordinated capital bonds (around HUF 35 billion) and losses realised in 2016. During the first quarter of 2017, the net result of the period (HUF 294 million) and fair value adjustment of AFS securities of HUF 256 million reported as other comprehensive income resulted in increase of shareholders' equity.

#### *Interest earning assets*

The Group's interest earning assets decreased from HUF 591.2 billion as of 31 December 2016 to HUF 571.2 billion as of 31 March 2017. Interest earning assets contributed 99.3% to the balance sheet total.

NBH and other interbank lending decreased from HUF 130.9 billion as of the end of December 2016 to HUF 76.8 billion as of 31 March 2017, which is greatly lower (nearly by 50%) than the volume of HUF 153.3 billion in the same period in 2016. The ratio of this item in interest earning assets dropped from 22.3% at the end of 2016 to 13.5% by the end of first quarter of 2017. During the quarter the volume of interbank lending decreased by HUF 54.1 billion.

The value of Bank's securities available-for-sale and held for trading increased from HUF 107.0 billion as of 31 December 2016 to HUF 126.8 billion by 31 March 2017, while it has decreased by 32.0% from HUF 186.3 billion at the end of the first quarter of 2016. At the end of Q1 2017, securities available for sale and held for trading contributed 22.3% to interest earning assets.

#### *Loans*

As of 31 March 2017, volume of loans was 3.3% higher year-on-year, and increased on quarterly basis by 0.7%. In the first quarter of 2016 the volume of impairment to cover loan losses amounted HUF 22.6 billion, in the reported quarter showed 5.3% decrease, while compared to 31 March 2016 it was lower by 4.0 % in connection with the drop of volume of non-performing loans.

The climb in refinancing loans was 39.1% to HUF 43.7 billion in the last quarter, while there was a 44.0% drop in this item over the last year. As of 31 March 2017, contribution of refinanced loans and gross own lending was 64.1% of interest earning assets; this rate was 53.3% a year before.

#### *Portfolio quality*

In the first quarter the volume of non-performing loans decreased by 7%, HUF 2,381.2 million quarter-on-quarter, while it decreased by 25.0% year-on-year basis mainly because of the settlement of FX loans and the steps in portfolio cleaning. NPL ratio declined from 10.6% of previous quarter to 9.8% by 31 March 2017. NPL ratio was 13.5% on 31 March 2017. The coverage of non-performing loans is 71.8% according to IFRS, and 56.0% a year before.

#### *Other assets*

Tangible assets amounted to HUF 4.8 billion as of 31 March 2017 and decreased by HUF 1.3 billion year-on-year and decreased by HUF 102 million quarter-on-quarter. By the end of March in 2017, intangibles amounted to HUF 2.1 billion, which is higher by HUF 186 million or 9.7% year-on-year and HUF 64.0 million (3.2%) quarter-on-quarter due to the investments of Magyar Kártya Ltd.

Value of investment in associated and jointly controlled companies consolidated by equity method amounted to HUF 5.2 billion as of 31 March 2017.

Other assets amounted to HUF 12.9 billion as of 31 March 2017, decreasing by 25.7% (HUF 4.4 billion) year-on-year. Deferred tax assets reached HUF 3.0 billion, and value of real estates reported as inventory was HUF 780.2 million.

### *Interest bearing liabilities*

Interest bearing liabilities decreased from HUF 526.6 billion as of 31 December 2016 to HUF 508.2 billion as of 31 March 2017, representing approximately 88.4% to the balance sheet total. As a year before, client deposits gave the major part of interest bearing liabilities with a share of 53.4%. For the end of March 2017 their proportion increased to 57.0%, while share of securities issued within interest bearing liabilities decreased from 40.2% to 35.3% year-on-year, but shows an increase compared to the previous quarter's 34.6%.

### *Interbank funds*

By the end of March 2017, interbank funds amounted to HUF 39.4 billion, showing a 16.6% decrease compared to previous quarter and a 1.9% fall compared to the previous year. Contribution of interbank borrowings to interest bearing liabilities was 7.8% at the end of first quarter of 2017.

### *CMBs issued*

The Bank completed three issuance in the first quarter in the course of which the first tap of 3- and 5-year mortgage bonds series were issued in total nominal value of HUF 24 billion by involving consortium members and upon public auction procedure.

HUF 158.5 billion book value of mortgage bonds as of 31 March 2017 decreased by 19.4% or HUF 38.1 billion from figures of 31 March 2016 (HUF 196.6 billion), while compared to the previous quarter it increased by 10.7% (HUF 15.4 billion).

in HUF million	31/12/2016		31/03/2016	
	Book value	Nominal value	Book value	Nominal value
<b>Non-listed mortgage bonds</b>				
Fixed	16,667	16,449	16,643	16,449
Floating	0	0	0	0
<b>Listed mortgage bonds</b>				
Fixed	81,448	74,139	76,869	70,133
Floating	40,850	40,958	60,183	60,272
<b>Total</b>	<b>138,965</b>	<b>131,547</b>	<b>153,695</b>	<b>146,854</b>
<b>Accrued interest</b>	4,167		4,805	
<b>Mortgage bonds Total</b>	<b>143,132</b>	<b>131,547</b>	<b>158,500</b>	<b>146,854</b>
<b>Non-listed bonds</b>				
Fixed	19,586	19,564	4,220	4,202
Floating	0	0	0	0
<b>Listed bonds</b>				
Fixed	14,911	14,955	13,630	13,440
Floating	1,883	1,885	1,864	1,865
<b>Total</b>	<b>36,381</b>	<b>36,404</b>	<b>19,713</b>	<b>19,508</b>
<b>Accrued interest</b>	2,762		1,043	
<b>Bonds Total</b>	<b>39,143</b>	<b>36,404</b>	<b>20,756</b>	<b>19,508</b>

### *Mortgage bonds collateral<sup>1</sup>*

The net value of ordinary collateral of mortgage bonds issued by FHB Mortgage Bank amounted to HUF 230.5 billion as of 31 March 2017 (HUF 177.4 billion of capital and HUF 53.1 billion of interests), 1.3% more than the HUF 227.6 billion as of 31 December 2016 and 16.8% below the figure of 31 March 2016 (HUF 277.0 billion).

in HUF million	31/03/2016	31/12/2016	31/03/2017
<b>Outstanding mortgage bonds in circulation</b>			
Face value	196,414	153,385	165,670
Interest	39,749	28,328	27,663
<b>Total</b>	<b>236,163</b>	<b>181,713</b>	<b>193,333</b>
<b>Value of the regular collateral</b>			
Principal	197,520	170,890	177,427
Interest	79,459	56,718	53,083
<b>Total</b>	<b>276,978</b>	<b>227,608</b>	<b>230,510</b>
<b>Value of assets involved as supplementary collateral</b>			
Government and Hungarian Development Bank bonds	29,059	8001	15,438
<b>Total</b>	<b>29,059</b>	<b>8,001</b>	<b>15,438</b>

As of 31 March 2017, the net present value of ordinary collateral was HUF 215.4 billion and the present value of mortgage bonds were HUF 189.1 billion, thus the present value of collateral exceeded that of CMBs in circulation not yet repaid, ratio was 113.9%. By the end of the first quarter in 2017, net value of ordinary and supplementary collateral principal to unpaid face value of mortgage bonds in circulation was 116.4%, and the interest on net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 192.0%.

The collateral value of real estate covering ordinary collaterals amounted to HUF 640.9 billion as of 31 March 2017, 2.9% above the 31 December 2016 value (HUF 622.8 billion). The LTV ratio applicable for ordinary collateral was 27.4% by the end of March in 2017.

### *Bonds issued*

The book value of bonds was HUF 20.8 billion as of 31 March 2017, compared to 31 December 2016 (HUF 39.1 billion) decreasing by HUF 18.4 billion or 47.0%. The stock of bonds decreased by HUF 32.2 billion (60.8%) on annual basis.

### *Deposits*

As of 31 March 2017, deposits amounted to HUF 289.5 billion decreasing by 12.7% year-on-year and by 2.5% quarterly. Volume of corporate deposits decreased by 21.8% compared to the previous year, but volume of retail deposits increased by 2.0% in one year. The volume of deposits decreased by HUF 7.5 billion compared to data of the end of last year, the major outflow of which was affected by principally corporate deposits (by HUF 7.0 billion). The sight deposit ratio changed to 48.2% by 31 March 2017 from 37.1% a year before and 47.1% at the end of previous quarter.

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

*Other liabilities*

The Bank reported among the HUF 7.5 billion of other liabilities the generated provisions related to contingent and future liabilities, amounting HUF 1.5 billion. At the end of March 2017 prepayments of clients reached HUF 682.2 million. The Bank reported accounts payable of HUF 665.3 million as of the first quarter of 2017, accruals HUF 1,031.1 million and liabilities connected to investment services of HUF 841.6 million.

*Shareholders' equity*

Shareholders' equity decreased from HUF 107.4 billion as of 31 March 2016 to HUF 58.1 billion by 31 March 2017, but in quarterly comparison there was increase of HUF 534.7 million. The Bank reported HUF 16.8 billion as non-controlling interest as part of shareholder's equity. Balance sheet profit relating to the Bank was HUF 294 million gain at the end of the first quarter in 2017.

*Capital position*

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

The individually calculated ratio of the FHB Mortgage Bank was 48.66% at the end of the quarter, while it was 46.21% on 31 December 2016. The total own funds of the Integrational Organization of Cooperative Credit Institutions amounted over HUF 273 billion at the end of March 2017, while its capital adequacy ratio was 26.14%.

## DECLARATION

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

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

Budapest, 18 May 2017

Dr. Gyula Nagy  
Chief Executive Officer

Edit Erika Tóth  
Deputy-CEO

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

The consolidation fully applies also to FHB Kereskedelmi Bank Zrt. (FHB Commercial Bank Ltd.), Diófa Alapkezelő Zrt. (Diofa Fund Management Ltd.), FHB Ingatlan Zrt. (FHB Real Estate Ltd.), to FHB Lízing Zrt. (FHB Leasing Ltd.) and its Croatian affiliate (Central European Credit d.d.), FHB Invest Lc., Magyar Kártya Szolgáltató Zrt. (Hungarian Card Service Ltd.); Káry-Villa Ingatlanfejlesztő Kft (Káry-Villa Property Development Ltd.); FHB DWH Ltd.; Diófa Ingatlankezelő Kft. (Diófa Real Estate Management Llc.) 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 31 March 2016, and 31 March 2017 and audited data as of 31 December 2016 according to IFRS)

in HUF million	Q1 2016	Q4 2016	Q1 2017	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
Interest income	8 523	6 256	5 932	-5,2%	-30,4%
Interest expense	-5 049	-3 710	-2 484	-33,0%	-50,8%
<b>Net interest income</b>	<b>3 474</b>	<b>2 546</b>	<b>3 448</b>	<b>35,4%</b>	<b>-0,8%</b>
Fee and commission income	2 007	2 648	2 331	-12,0%	16,1%
Fee and commission expense	-303	-1 126	-383	-66,0%	26,4%
<b>Net fee and commission income</b>	<b>1 704</b>	<b>1 522</b>	<b>1 948</b>	<b>28,0%</b>	<b>14,3%</b>
Profit/(Loss) from FX transactions	-81	55	140	153,8%	-
Change in fair value of financial instruments	110	603	117	-80,6%	6,5%
Gains from securities	1 112	1 314	410	-68,8%	-63,1%
Gains from investment services	132	220	15	-93,4%	-88,9%
<b>Net trading result</b>	<b>1 273</b>	<b>2 192</b>	<b>681</b>	<b>-68,9%</b>	<b>-46,4%</b>
Other operating income	723	-491	515	-	-28,8%
Other operating expense	-2 005	-3 373	-1 361	-59,7%	-32,1%
<b>Net other operating result</b>	<b>-1 282</b>	<b>-3 865</b>	<b>-846</b>	<b>-78,1%</b>	<b>-34,0%</b>
<b>Net income of associated companies</b>	<b>197</b>	<b>-194</b>	<b>369</b>	<b>-</b>	<b>87,0%</b>
<b>Operating income</b>	<b>5 366</b>	<b>2 202</b>	<b>5 601</b>	<b>154,3%</b>	<b>4,4%</b>
Provision for impairment on loan losses	-1 586	-5 640	-598	-89,4%	-62,3%
General and administrative expense	-4 604	-5 297	-4 666	-11,9%	1,4%
<b>Profit/(Loss) before tax</b>	<b>-824</b>	<b>-8 735</b>	<b>336</b>	<b>-</b>	<b>-</b>
Income tax benefit/(expense)	-453	-4 999	-57	-98,9%	-87,3%
<b>Profit/(Loss) for the period</b>	<b>-1 277</b>	<b>-13 733</b>	<b>279</b>	<b>-</b>	<b>-</b>
Basic EPS (yearly)	-14,7 Ft	-376,4 Ft	11,0 Ft	-	-
Diluted EPS (yearly)	-14,7 Ft	-376,4 Ft	11,0 Ft	-	-

Consolidated Comprehensive Income Statement	2016 Q1	2016 Q4	2017 Q1	2017 Q1 / 2016 Q4	2017 Q1 / 2016 Q1
Profit/(Loss) for the period	-1 277	-13 733	279	-	-
Change in cash-flow hedge reserve	0	0	1	-	-
Change in fair value of financial assets available for sale	199	89	285	220,0%	43,2%
FX translation reserve	-10	-15	-4	-70,9%	-55,5%
Deferred tax effect for other comprehensive income	-38	-12	-25	105,2%	-32,9%
Other comprehensive income/(loss) for the period net of taxes	151	61	256	316,7%	69,5%
<b>Total comprehensive income/(loss) for the period, net of income taxes</b>	<b>-1 126</b>	<b>-13 672</b>	<b>535</b>	<b>-</b>	<b>-</b>

## Consolidated Income Statement 'B'

### Table includes the special banking tax for the entire business year

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

in HUF million	Q1 2016	Q4 2016	Q1 2017	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
Interest income	8 523	6 256	5 932	-5,2%	-30,4%
Interest expense	-5 049	-3 710	-2 484	-33,0%	-50,8%
<b>Net interest income</b>	<b>3 474</b>	<b>2 546</b>	<b>3 448</b>	<b>35,4%</b>	<b>-0,8%</b>
Fee and commission income	2 007	2 648	2 331	-12,0%	16,1%
Fee and commission expense	-303	-1 126	-383	-66,0%	26,4%
<b>Net fee and commission income</b>	<b>1 704</b>	<b>1 522</b>	<b>1 948</b>	<b>28,0%</b>	<b>14,3%</b>
Profit/(Loss) from FX transactions	-81	55	140	153,8%	-
Change in fair value of financial instruments	110	603	117	-80,6%	6,5%
Gains from securities	1 112	540	410	-24,1%	-63,1%
Gains from investment services	132	220	15	-93,4%	-88,9%
<b>Net trading result</b>	<b>1 273</b>	<b>1 419</b>	<b>681</b>	<b>-52,0%</b>	<b>-46,4%</b>
Other operating income	723	537	515	-4,0%	-28,8%
Other operating expense	-2 903	-2 973	-2 162	-27,3%	-25,5%
<b>Net other operating result</b>	<b>-2 179</b>	<b>-2 436</b>	<b>-1 647</b>	<b>-32,4%</b>	<b>-24,4%</b>
<b>Net income of associated companies</b>	<b>197</b>	<b>-448</b>	<b>226</b>	<b>-</b>	<b>14,7%</b>
<b>Operating income</b>	<b>4 468</b>	<b>2 603</b>	<b>4 657</b>	<b>78,9%</b>	<b>4,2%</b>
Provision for impairment on loan losses	-1 586	-5 640	-598	-89,4%	-62,3%
General and administrative expense	-4 604	-5 297	-4 666	-11,9%	1,4%
<b>Profit/(Loss) before tax</b>	<b>-1 721</b>	<b>-8 334</b>	<b>-608</b>	<b>-92,7%</b>	<b>-64,7%</b>
Income tax benefit/(expense)	-283	-5 075	15	-	-
<b>Profit/(Loss) for the period</b>	<b>-2 004</b>	<b>-13 409</b>	<b>-593</b>	<b>-95,6%</b>	<b>-70,4%</b>
Basic EPS (yearly)	-41,9 Ft	-364,5 Ft	-13,0 Ft	-96,4%	-68,9%
Diluted EPS (yearly)	-41,9 Ft	-364,5 Ft	-13,0 Ft	-96,4%	-68,9%

Consolidated Comprehensive Income Statement	2016 Q1	2016 Q4	2017 Q1	Q1 2017 / Q4 2016	Q1 2017 / Q1 2016
Profit/(Loss) for the period	-2 004	-13 409	-593	-95,6%	-70,4%
Change in cash-flow hedge reserve	0	0	1	-	-
Change in fair value of financial assets available for sale	199	89	285	220,0%	43,2%
FX translation reserve	-10	-15	-4	-70,9%	-55,5%
Deferred tax effect for other comprehensive income	-38	-12	-25	105,2%	-32,9%
Other comprehensive income/(loss) for the period net of taxes	151	61	256	316,7%	69,5%
<b>Total comprehensive income/(loss) for the period, net of income taxes</b>	<b>-1 853</b>	<b>-13 347</b>	<b>-337</b>	<b>-97,5%</b>	<b>-81,8%</b>

## Consolidated Financial Position 'A'

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

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

in HUF million	Mar 31, 2016	Dec 31, 2016	Mar 31, 2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
Cash on hand	2 801	4 327	4 235	-2,1%	51,2%
Due from banks & NBH	153 341	130 924	76 786	-41,4%	-49,9%
Securities held for trading	72 319	40 734	54 868	34,7%	-24,1%
Financial assets available for sale	114 016	66 295	71 892	8,4%	-36,9%
Investment in associates	4 382	4 816	5 185	7,7%	18,3%
Derivate financial assets	1 672	933	707	-24,3%	-57,7%
Refinanced mortgage loans	78 116	31 423	43 708	39,1%	-44,0%
Loans and advances to consumers	310 231	318 326	320 509	0,7%	3,3%
Impairment and provision	-23 531	-23 853	-22 595	-5,3%	-4,0%
Tangible assets	6 110	4 942	4 840	-2,1%	-20,8%
Goodwill and other intangible assets	1 920	2 042	2 106	3,2%	9,7%
Deferred tax asset	8 018	3 030	2 986	-1,5%	-62,8%
Other assets	9 347	9 465	9 917	4,8%	6,1%
<b>Total assets</b>	<b>738 741</b>	<b>593 404</b>	<b>575 145</b>	<b>-3,1%</b>	<b>-22,1%</b>
Due to banks	40 181	47 229	39 398	-16,6%	-1,9%
Issued securities	230 501	170 283	172 120	1,1%	-25,3%
Mortgage bonds	177 529	131 140	151 364	15,4%	-14,7%
Bonds	52 972	39 143	20 756	-47,0%	-60,8%
Deposits from customers	331 740	297 072	289 548	-2,5%	-12,7%
Derivative financial liabilities	2 971	1 579	1 313	-16,8%	-55,8%
Financial liabilities at fair value through profit or loss	19 113	11 991	7 137	-40,5%	-62,7%
Finance lease liabilities	12	3	3	0,0%	-75,2%
Current tax liability	1	0	0	-	-62,1%
Deferred tax liability	1	0	0	26,3%	-56,1%
Provisions	815	1 546	1 545	-0,1%	89,6%
Other liabilities	5 959	6 099	5 943	-2,6%	-0,3%
<b>Total liabilities</b>	<b>631 293</b>	<b>535 802</b>	<b>517 008</b>	<b>-3,5%</b>	<b>-18,1%</b>
Share capital	10 849	10 849	10 849	0,0%	0,0%
Share premium	27 926	27 926	27 926	0,0%	0,0%
Treasury shares	-207	-207	-207	0,0%	0,0%
Subordinated Tier 1 capital	31 749	0	0	-	-100,0%
Cash-flow hedge reserve	0	0	1	-	-
Other reserves	751	609	864	41,8%	15,0%
Retained earnings	16 137	12 661	1 613	-87,3%	-90,0%
Minority interest	20 635	16 812	16 797	-0,1%	-18,6%
Balance sheet profit	-392	-11 048	294	-	-
<b>Total shareholders' equity</b>	<b>107 448</b>	<b>57 602</b>	<b>58 137</b>	<b>0,9%</b>	<b>-45,9%</b>
<b>Total liabilities and shareholders' equity</b>	<b>738 741</b>	<b>593 404</b>	<b>575 145</b>	<b>-3,1%</b>	<b>-22,1%</b>



## Consolidated Financial Position 'B'

### Table includes the special banking tax for the entire business year

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

in HUF million	Mar 31, 2016	Dec 31, 2016	Mar 31, 2017	31/03/2017/ 31/12/2016	31/03/2017/ 31/03/2016
Cash on hand	2,801	4,327	4,235	-2.1%	51.2%
Due from banks & NBH	153,341	130,924	76,786	-41.4%	-49.9%
Securities held for trading	72,319	40,734	54,868	34.7%	-24.1%
Financial assets available for sale	114,016	66,295	71,892	8.4%	-36.9%
Investment in associates	4,382	4,816	5,042	4.7%	15.1%
Derivative financial assets	1,672	933	707	-24.3%	-57.7%
Refinanced mortgage loans	78,116	31,423	43,708	39.1%	-44.0%
Loans and advances to consumers	310,231	318,326	320,509	0.7%	3.3%
Impairment and provision	-23,531	-23,853	-22,595	-5.3%	-4.0%
Tangible assets	6,110	4,942	4,840	-2.1%	-20.8%
Goodwill and other intangible assets	1,920	2,042	2,106	3.2%	9.7%
Deferred tax asset	8,188	3,030	3,058	0.9%	-62.7%
Other assets	9,321	9,465	9,905	4.6%	6.3%
<b>Total assets</b>	<b>738,886</b>	<b>593,404</b>	<b>575,062</b>	<b>-3.1%</b>	<b>-22.2%</b>
Due to banks	40,181	47,229	39,398	-16.6%	-1.9%
Issued securities	230,501	170,283	172,120	1.1%	-25.3%
Mortgage bonds	177,529	131,140	151,364	15.4%	-14.7%
Bonds	52,972	39,143	20,756	-47.0%	-60.8%
Deposits from customers	331,740	297,072	289,548	-2.5%	-12.7%
Derivative financial liabilities	2,971	1,579	1,313	-16.8%	-55.8%
Financial liabilities at fair value through profit or loss	19,113	11,991	7,137	-40.5%	-62.7%
Finance lease liabilities	12	3	3	0.0%	-75.2%
Current tax liability	1	0	0	-	-62.1%
Deferred tax liability	1	0	0	26.3%	-56.1%
Provisions	815	1,546	1,545	-0.1%	89.6%
Other liabilities	6,830	6,099	6,732	10.4%	-1.4%
<b>Total liabilities</b>	<b>632,165</b>	<b>535,802</b>	<b>517,797</b>	<b>-3.4%</b>	<b>-18.1%</b>
Share capital	10,849	10,849	10,849	0.0%	0.0%
Share premium	27,926	27,926	27,926	0.0%	0.0%
Treasury shares	-207	-207	-207	0.0%	0.0%
Subordinated Tier 1 capital	31,749	0	0	-	-100.0%
Cash-flow hedge reserve	0	0	1	-	-
Other reserves	751	609	864	41.8%	15.0%
Retained earnings	16,137	12,661	1,613	-87.3%	-90.0%
Minority interest	20,635	16,812	16,567	-1.5%	-19.7%
Balance sheet profit	-1,119	-11,048	-347	-96.9%	-68.9%
<b>Total shareholders' equity</b>	<b>106,721</b>	<b>57,602</b>	<b>57,265</b>	<b>-0.6%</b>	<b>-46.3%</b>
<b>Total liabilities and shareholders' equity</b>	<b>738,886</b>	<b>593,404</b>	<b>575,062</b>	<b>-3.1%</b>	<b>-22.2%</b>

## Cash Flow Statement 'A'

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

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

in HUF million	31 December 2016	31 March 2017
<b>Cash flow from operating activities</b>		
<b>Profit/(loss) for the year</b>	<b>-15 502</b>	<b>278</b>
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	475	125
Amortization of tangible assets	1 100	0
Provision for losses	-569	1 117
(Gain)/Loss on tangible assets derecognized	-7	82
(Gain)/Loss on intangible assets derecognized	45	13
Capitalized interest	317	106
Fair value of derivatives	-778	-39
Fair value adjustment on financial liabilities through profit and loss	-987	-969
Change in foreign currency translation reserve	-16	-4
Change of investments in associates	2 939	-369
Change in leasing liabilities	-9	0
<b>Operating profit before change in operating assets</b>	<b>-12 992</b>	<b>341</b>
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	11 179	-14 134
Financial assets available for sale	7 773	-5 338
Refinanced mortgage loans	51 367	-12 285
Loans and advances to customers	-5 376	-4 665
Other assets	4 586	-407
Deposits	-31 976	-7 524
Due to banks	-85 290	-52 314
Other liabilities	-3 053	-157
<b>Net cash flow from operating activities</b>	<b>-63 782</b>	<b>-96 483</b>
<b>Cash flow from investing activities</b>		
Proceeds from sales of tangible assets	35	3
Purchase of tangible and intangible assets	-549	-185
Purchase of investment property	0	0
<b>Net cash flow from investing activities</b>	<b>-514</b>	<b>-182</b>
<b>Cash flow from financing activities</b>		
Proceed from issued securities	39 248	29 451
Principal repayment on issued securities	-110 981	-31 499
Long term loans repayment	92 745	44 483
Finance lease liabilities repayment	0	0
Cash income from capital raise	0	0
Change in the minority interest	-214	0
Tier 1 Subordinated loan capital	-35 225	0
<b>Net cash flow from financing activity</b>	<b>-14 427</b>	<b>42 435</b>
Net increase in cash and cash equivalents	-78 723	-54 230
Opening balance of cash and cash equivalents	213 974	135 251
<b>Closing balance of cash and cash equivalents</b>	<b>135 251</b>	<b>81 022</b>
<b>Breakdown of cash and cash equivalents:</b>		
Cash	4 327	4 235
Balances with National Bank of Hungary	60 635	39 766
Dues from banks with a maturity of less than 90 days	70 289	37 020
<b>Closing balance of cash and cash equivalents</b>	<b>135 251</b>	<b>81 021</b>
<i>Supplementary data</i>		
Tax paid	-1 478	-672
Interest received	29 276	5 724
Interest paid	-19 384	-4 656

## Cash Flow Statement 'B'

### Table includes the special banking tax for the entire business year

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

in HUF million	31 December 2016	31 March 2017
<b>Cash flow from operating activities</b>		
<b>Profit/(loss) for the year</b>	<b>-15 502</b>	<b>-593</b>
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	475	125
Amortization of tangible assets	1 100	0
Provision for losses	-569	1 117
(Gain)/Loss on tangible assets derecognized	-7	82
(Gain)/Loss on intangible assets derecognized	45	13
Capitalized interest	317	106
Fair value of derivatives	-778	-39
Fair value adjustment on financial liabilities through profit and loss	-987	-969
Change in foreign currency translation reserve	-16	-4
Change of investments in associates	2 939	-226
Leasing liabilities	-9	0
<b>Operating profit before change in operating assets</b>	<b>-12 992</b>	<b>-387</b>
<i>Decrease/(Increase) in operating assets:</i>		
Financial assets held for trading	11 179	-14 134
Financial assets available for sale	7 773	-5 338
Refinanced mortgage loans	51 367	-12 285
Loans and advances to customers	-5 376	-4 665
Other assets	4 586	-467
Deposits	-31 976	-7 524
Due to banks	-85 290	-52 314
Other liabilities	-3 053	630
<b>Net cash flow from operating activities</b>	<b>-63 782</b>	<b>-96 484</b>
<b>Cash flow from investing activities</b>		
Proceeds from sales of tangible assets	35	3
Purchase of tangible and intangible assets	-549	-185
Purchase of investment property	0	0
<b>Net cash flow from investing activities</b>	<b>-514</b>	<b>-182</b>
<b>Cash flow from financing activities</b>		
Proceed from issued securities	39 248	29 451
Principal repayment on issued securities	-110 981	-31 499
Long term loans repayment	92 745	44 483
Finance lease liabilities repayment	0	0
Cash income from capital raise	0	0
Change in the minority interest	-214	0
Subordinated Tier 1 capital	-35 225	0
<b>Net cash flow from financing activity</b>	<b>-14 427</b>	<b>42 435</b>
Net increase in cash and cash equivalents	-78 723	-54 231
Opening balance of cash and cash equivalents	213 974	135 251
<b>Closing balance of cash and cash equivalents</b>	<b>135 251</b>	<b>81 021</b>
<b>Breakdown of cash and cash equivalents:</b>		
Cash	4 327	4 235
Balances with National Bank of Hungary	60 635	39 766
Dues from banks with a maturity of less than 90 days	70 289	37 020
<b>Closing balance of cash and cash equivalents</b>	<b>135 251</b>	<b>81 021</b>
<i>Supplementary data</i>		
Tax paid	-1 478	-672
Interest received	29 276	5 724
Interest paid	-19 384	-4 656

Name: FHB Mortgage Bank Plc.  
Address: 1082 Budapest, Üllői út 48.  
Sector: Financial services  
Reporting period: 01.01.2017 – 31.03.2017

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E-mail: Bozzai.Rita@fhb.hu  
Investor relations: Rita Bozzai

## Statement of Shareholders' Equity 'A'

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

(consolidated non-audited data as of 31 March 2017 and audited data as of 1 January 2016 and 1 January 2017 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	Cash-flow hedge reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Changes due to minority interest	Retained earnings (deficit)	Shareholders' Equity
<b>1 January 2016</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>		<b>31 749</b>	<b>584</b>	<b>14</b>	<b>21 480</b>	<b>16 137</b>	<b>108 531</b>
Profit/(Loss)								-4 454	-11 048	-15 502
Other comprehensive income						27	-16			11
Subordinated Tier 1 capital					-31 749				-3 477	-35 226
Dividend in 2016								-214		-214
<b>1 January 2017</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>	<b>0</b>	<b>0</b>	<b>611</b>	<b>-2</b>	<b>16 812</b>	<b>1 612</b>	<b>57 601</b>
Profit/(Loss)								-15	294	279
Other comprehensive income				1		259	-4			256
<b>31 March 2017</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>	<b>1</b>	<b>0</b>	<b>870</b>	<b>-6</b>	<b>16 797</b>	<b>1 907</b>	<b>58 137</b>

Name: FHB Mortgage Bank Plc.  
Address: 1082 Budapest, Üllői út 48.  
Sector: Financial services  
Reporting period: 01.01.2017 – 31.03.2017

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Investor relations: Rita Bozzai

## Statement of Shareholders' Equity 'B'

### Table includes the special banking tax for the entire business year

(consolidated non-audited data as of 31 March 2017 and audited data as of 1 January 2016 and 1 January 2017 according to IFRS)

in HUF million	Share Capital	Treasury Shares	Share Premium	Cash-flow hedge reserve	Subordinated Tier 1 capital	Change in fair value (financial assets AFS)	Foreign currency transaction reserve	Changes due to minority interest	Retained earnings (deficit)	Shareholders' Equity
<b>1 January 2016</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>		<b>31 749</b>	<b>584</b>	<b>14</b>	<b>21 480</b>	<b>16 137</b>	<b>108 531</b>
Profit/(Loss)								-4 454	-11 048	-15 502
Other comprehensive income						27	-16			11
Subordinated Tier 1 capital					-31 749				-3 477	-35 226
Dividend in 2016								-214		-214
<b>1 January 2017</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>	<b>0</b>	<b>0</b>	<b>611</b>	<b>-2</b>	<b>16 812</b>	<b>1 612</b>	<b>57 601</b>
Profit/(Loss)								-245	-344	-589
Other comprehensive income				1		259	-4			256
<b>31 March 2017</b>	<b>10 849</b>	<b>-207</b>	<b>27 926</b>	<b>1</b>	<b>0</b>	<b>870</b>	<b>-6</b>	<b>16 567</b>	<b>1 268</b>	<b>57 268</b>

## Off-balance Sheet items – Commitments

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

in HUF million	31 March 2016	31 December 2016	31 March 2017
<b>Commitments</b>			
Guarantees	12 473	11 350	11 653
Undrawn commitments	50 007	38 503	47 031
<b>Total</b>	<b>62 480</b>	<b>49 853</b>	<b>58 684</b>

## Transactions with related parties

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

in HUF million	Transactions between FHB Mortgage Bank and owners with influential share	
	31 March 2016	31 March 2017
Due from banks	30 349	28 106
Refinanced mortgage loans	0	0
Fair value of derivatives	0	0
Other assets	2	16
<b>Total assets</b>	<b>30 351</b>	<b>28 123</b>
Due to banks	0	4 000
Issued securities	0	0
Financial liabilities at fair value through profit and loss	0	0
Other liabilities	4	0
<b>Total liabilities</b>	<b>4</b>	<b>4 000</b>
	<b>2016. március 31.</b>	<b>2017. március 31.</b>
Interest income	96	30
Interest expense	0	0
<b>Net interest income</b>	<b>96</b>	<b>30</b>
Fees and commission income	2	26
Fees and commission expense	0	-4
<b>Net fees and commissions</b>	<b>2</b>	<b>22</b>
Gains from securities	0	0
<b>Net trading result</b>	<b>0</b>	<b>0</b>
Other operating income	0	11
Other operating expense	0	0
<b>Operating profit</b>	<b>98</b>	<b>64</b>
Credit loss expense	0	0
General and administrative expense	-24	-13
<b>Profit for the year</b>	<b>74</b>	<b>51</b>

For the purpose of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with associated parties under market conditions.

Name: FHB Mortgage Bank Plc.  
Address: 1082 Budapest, Üllői út 48.  
Sector: Financial services  
Reporting period: 01.01.2017 – 31.03.2017

Telephone: (1) 452 - 9100  
Fax: (1) 452 - 9200  
E-mail: Bozzai.Rita@fhb.hu  
Investor relations: Rita Bozzai

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

### Ownership structure, participation and voting rates (as at 31 March 2017)

Description of owner	Total equity <sup>1</sup>						Listed series <sup>1</sup>					
	At the beginning of actual year		End of actual period		At the beginning of actual year		End of actual period					
	% <sup>2</sup>	% <sup>3</sup>	Qty	%	%	Qty	%	%	Qty	%	%	Qty
<b>Series "A" shares listed on BSE</b>												
Domestic institution/company	38,6%	44,6%	41 911 917	39,0%	45,0%	42 345 991	38,6%	44,6%	41 911 917	39,0%	45,0%	42 345 991
Foreign institution/company	10,7%	12,4%	11 642 388	10,7%	12,3%	11 597 658	10,7%	12,4%	11 642 388	10,7%	12,3%	11 597 658
Domestic individual	6,1%	7,1%	6 669 193	5,9%	6,8%	6 435 206	6,1%	7,1%	6 669 193	5,9%	6,8%	6 435 206
Foreign individual	0,0%	0,0%	16 326	0,0%	0,0%	22 330	0,0%	0,0%	16 326	0,0%	0,0%	22 330
Employees, senior officers	0,1%	0,1%	77 808	0,1%	0,1%	87 963	0,1%	0,1%	77 808	0,1%	0,1%	87 963
Treasury shares	0,2%	0,0%	253 601	0,2%	0,0%	253 601	0,2%	0,0%	253 601	0,2%	0,0%	253 601
Government held owner <sup>4</sup>	4,5%	5,1%	4 832 225	4,5%	5,1%	4 832 225	4,5%	5,1%	4 832 225	4,5%	5,1%	4 832 225
Other	0,5%	0,6%	596 552	0,4%	0,5%	425 036	0,5%	0,6%	596 552	0,4%	0,5%	425 036
<b>Series total</b>	<b>60,8%</b>	<b>69,9%</b>	<b>66 000 010</b>	<b>60,8%</b>	<b>69,9%</b>	<b>66 000 010</b>	<b>60,8%</b>	<b>69,9%</b>	<b>66 000 010</b>	<b>60,8%</b>	<b>69,9%</b>	<b>66 000 010</b>
<b>Series "B" shares non-listed on BSE</b>												
Domestic institution/company	13,1%	0,0%	14 163 430	13,1%	0,0%	14 163 430						
<b>Series total</b>	<b>13,1%</b>	<b>0,0%</b>	<b>14 163 430</b>	<b>13,1%</b>	<b>0,0%</b>	<b>14 163 430</b>						
<b>Series "C" shares non-listed on BSE</b>												
Domestic institution/company	26,1%	30,1%	2 832 686	26,1%	30,1%	2 832 686						
<b>Series total</b>	<b>26,1%</b>	<b>30,1%</b>	<b>2 832 686</b>	<b>26,1%</b>	<b>30,1%</b>	<b>2 832 686</b>						
<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>82 996 126</b>	<b>100,0%</b>	<b>100,0%</b>	<b>82 996 126</b>						

<sup>1</sup>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.

<sup>2</sup> Ownership share

<sup>3</sup> 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!

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

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

	31 March 2016		31 December 2016		31 March 2017	
FHB Mortgage Bank Plc.	253 601	0,38%	253 601	0,23%	253 601	0,23%

### Owners with more than 5% ownership relating to listed series (as at 31 March 2017)

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
Takarékbank Zrt.	no	15,970,000	24.20%
Fókusz Takarékszövetkezet	no	8,620,534	13.06%
B3 TAKARÉK Szövetkezet	no	6,952,134	10.53%
Allianz Hungária Biztosító Zrt.	no	6,856,662	10.39%
Clearstream Banking SA (Silvermist Estate SA)	yes	6,328,880	9.59%
Magyar Nemzeti Vagyonkezelő Zrt.	no	4,832,225	7.32%
<b>Total</b>		<b>49,560,435</b>	<b>75.09%</b>

### Owners with more than 5% ownership relating to total equity (as at 31 March 2017)

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
Takarékbank Zrt.	no	15,970,000	14.72%
Fókusz Takarékszövetkezet	no	8,620,534	7.95%
B3 TAKARÉK Szövetkezet	no	6,952,134	6.41%
Allianz Hungária Biztosító Zrt.	no	6,856,662	6.32%
Clearstream Banking SA (Silvermist Estate SA)	yes	6,328,880	5.84%
Magyar Nemzeti Vagyonkezelő Zrt.	no	4,832,225	4.45%
<b>Total</b>		<b>49,560,435</b>	<b>45.69%</b>

Allianz Hungária Biztosító Ltd. had sold 6,462,005 pieces, „A” series equity shares through a transaction carried out on 19 April 2017, thus its voting right in the Company had decreased to 0,02%.

KZF Vagyonkezelő Llc. notified the Company that it had entered into a share purchase contract on 5 April 2017 with Allianz Hungária Biztosító Ltd. on the purchase of 6,462,005 pieces „A” series dematerialized equity shares of the Company with par value of HUF 100 representing 5.96% of the share capital. According to the notification, the contract had been executed till the date of the notification. After the transaction KZF Vagyonkezelő Llc. has 6,462,005 pieces of shares directly and indirectly, the direct and indirect number of its voting rights is 6,462,005 pieces, the direct and indirect percentage of its voting rights is 6.85%.



## Data forms related to the organisation and operation of the issuer

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

	End of reference period 31/03/2016	End of last quarter 31/12/2016	Current period closing 31/03/2017
Bank	130	133	133
Consolidated	906	996	1 037

### Persons in senior positions and (strategic) employees having an influence on the operations of the Issuer (as at 31 March 2017)

Type <sup>1</sup>	Name	Position	Beginning of mandate	End/ termination of mandate	No. of shares held
BoD	Vida József	Chairman	30.11.2016	30.11.2021	0
BoD	dr. Landgraf Erik	Member, Deputy CEO	30.11.2016	30.11.2021	7 000
BoD	Soltész Gábor Gergő	Member	30.11.2016	30.11.2021	0
BoD	Mészáros Attila	Member	30.11.2016	30.11.2021	0
BoD	Oláh Márton	Member, CEO	30.11.2016	30.11.2021	4 000
SB/AB	dr. Harmath Zsolt	Chairman	02.01.2017	02.01.2022	0
SB/AB	dr. Antal Kadosa	Member	02.01.2017	02.01.2022	0
SB	dr. Kovács Mónika	Member	02.01.2017	02.01.2022	0
SB/AB	Pórfy György	Member	02.01.2017	02.01.2022	0
SB	dr. Reiniger Balázs	Member	02.01.2017	02.01.2022	0
<b>TOTAL No. of shares held by management:</b>					<b>11 000</b>

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

## Information and disclosures in 2017

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

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

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

[www.bet.hu](http://www.bet.hu)  
[www.kozzetetelek.hu](http://www.kozzetetelek.hu)  
[www.fhb.hu](http://www.fhb.hu)