



FHB MORTGAGE BANK CO PLC

EXTRAORDINARY GENERAL MEETING OF THE
SHAREHOLDERS

BUDAPEST

28 DECEMBER 2015, 10 a.m.

**ANNOUNCEMENT
ON INVITATION TO EXTRAORDINARY GENERAL MEETING**

FHB Mortgage Bank Co Plc. (registered seat: H-1082 Budapest, Üllői út 82.; registration No.: 01-10-043638; registered by the Metropolitan Court as Court of Registration; hereinafter referred to as Company) hereby, in accordance with its legal obligation, informs the shareholders and the investors of the Company, that the Board of Directors of the Company passed the respective resolution of November 27, 2015 on calling the Extraordinary General Shareholder's Meeting (hereinafter referred to as General Meeting) of the Company.

The Board of Directors hereby calls the General Meeting as follows:

Date and time of the General Meeting:

28 December 2015 (Monday), 10.00 a.m. CET.

Registration for the General Meeting starts at at 8.30 a.m. CET. 28 December 2015 (Monday)

Venue of the General Meeting:

*Continental Hotel Budapest
1074 Budapest, Dohány utca 42-44.*

Agenda of the General Meeting:

1. *Authorization of the Board of Directors to increase the Company's registered capital (amendment of the resolution no. 10/2014 (28.04) of the general meeting)*
2. *Miscellaneous*

Method of holding the General Meeting

The General Meeting will be held with the direct attendance of the shareholders.

Requirements for participation in the General Meeting and exercising voting rights

- A Pursuant to Article 12.1 of the Statues of the Company, each share with a face value of HUF 100, i.e. One-hundred Hungarian Forints, entitles its shareholder to have one vote on the General Meeting.
- B Each shareholder can exercise his/her shareholder's rights attached to the respective shares on the General Meeting only in case he/she is the owner of the shares on the effective date of the identification procedure (in Hungarian: „tulajdonosi megfeleltetés”), as specified in Act V of 2013 on Civil Code (hereinafter referred to as Civil Code) and Act CXX of 2001 on Capital Markets (hereinafter referred to as Capital Markets Act) and in the Rules of the Central Clearing House and Depository (Budapest) Ltd. (hereinafter referred to as KELER Zrt.), and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.
- C The Company requests KELER Zrt. to conduct an identification procedure on the date of the General Meeting as a corporate event. The effective date of the identification procedure will be **15 December 2015**, while the closing time of the register of shareholders is **18.00 p.m.** on **22 December 2015 CET**. Rules of the identification procedure are set out in the up-to-date version of the internal general regulations of KELER Zrt.
- D The Company deletes all effective data being registered in the register of shareholders on the date of the identification procedure, and simultaneously it registers the data into the register of the shareholders according to the result of the identification procedure, then the Company closes the register of the shareholders on the 2nd day proceeding the General Meeting. After the closure of the register of the

shareholders, data affecting the ownership rights of a shareholder can be registered into the register of shareholders only on the successive working day of the closure of the General Meeting, at the earliest.

- E The closure of the register of shareholders does not limit the right of any shareholder being entered therein to transfer his/her shares after such closure. Alienation of shares before the day of opening of the General Meeting does not exclude the right of the respective shareholder registered in the register of the shareholders to participate at the General Meeting and to exercise his/her rights attached to his/her shares.
- F Each shareholder registered in the Company's register of shareholder on the effective day of the identification procedure may exercise the rights personally or by proxy (through a representative) or through a nominee under the Civil Code and the Capital Markets Act. Any member of the Board of Directors, any member of the Supervisory Board and any senior employee of the Company may be representative only in case he/she is instructed as representative by an unambiguous written instruction on voting on each proposal for resolution given by the respective shareholder. The Auditor and the Coverage Supervisor of the Company may not be authorized representatives. The authorization for representation shall be valid for one general meeting, or for a definite term not exceeding 12 (twelve) months. The authorization for representation will remain valid for the continued General Meeting in case of suspension and for a General Meeting called repeatedly due to a lack of quorum. The authorization shall be submitted to the Company in the form of notarial deed or private deed with full probative effect. In case of shareholders other than natural persons, powers of representation of the person(s) signing the power of attorney or representing the shareholder at the general meeting shall be certified by the presentation of appropriate original documents issued by a public register or authority (e.g. certificate of incorporation) and by an original version or by a copy certified by a public notary of an authentic statement of signature (certified by a notarial act of a public notary) or a signature specimen countersigned by an attorney-at-law. If the certification of the power of representation is prepared in any language other than Hungarian a certified Hungarian translation thereof shall be attached. The shareholder may also appoint a proxy to represent him/her at the General Meeting by returning the form as contained in Annex 1 or Annex 2 of the Statutes of the Company and sent – in case of expressed request of the shareholder - by the Company electronically or by mail. The form shall be returned to the Company as a private deed with full probative effect not later than the end of the working day preceding the day of the General Meeting. In case such authorization is made abroad, the form of the authorization is to be complied with legal regulations on certification or re-certification of documents made abroad.
- G Each shareholder has the right to participate in, request information and to make remarks on the General Meeting. Shareholders are entitled to attend the general meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If shareholders who hold at least one percent of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within eight days after publishing the announcement of calling the General Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda.
- H Provided that the requirements of attending the General Meeting and exercising of voting rights are met, the shareholder or his/her authorized representative may request the electronic or other device for casting votes on the venue of the General Meeting, after proving his/her identity and signing the attendance sheet.

Quorum;

Venue and Date of the Repeated General Meeting in case of being inquorate

Pursuant to article 11.8 of the Statutes, the General Meeting shall have a quorum if the attended shareholders represent more than half of the votes of the voting shares. If the General Meeting does not have a quorum, the Company will hold the repeated general meeting convened by the present Announcement on the venue of the original General Meeting on **11 January 2016 (Monday) at 10.00 a.m. CET**. The repeated general meeting shall have a quorum in respect of the items of the agenda of the original General Meeting, regardless of the number of attendees. Separate registration is required for the repeated general meeting, which starts at 11 January 2016 at 8.30 a.m. CET.

**Disclosure of written materials and proposals for resolutions
for the General Meeting**

In accordance with Section 11.2 of the Statutes of the Company, the Board of Directors of the Company will publish the material data of the reports and documents prepared according to the Accounting Law and written presentation relating to the respective items of the agenda of the General Meeting at least 21 (twenty-one) days prior to the date of the General Meeting. The disclosure will be made both in Hungarian and in English - in line with the provisions of the Statutes of the Company regarding the publication of announcements - on the official homepage of the Company (www.fhb.hu), on the web-based publication forum operated by the Hungarian Central Bank (www.kozzetetelek.hu), furthermore on the official home page of Budapest Stock Exchange (www.bse.hu). After the publication, the written materials relating to the items of the agenda of the General Meeting will be available at the head office of the Company, and at the central customer service office of KELER Zrt. (H-1074 Budapest, Rákóczi út 70-72., R-70 Irodaház).

FHB Mortgage Bank Co. Plc.

FHB MORTGAGE BANK CO. PLC
EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS

No. 1

Authorization of the Board of Directors to increase the Company's registered capital (amendment of the resolution no. 10/2014 (28.04) of the general meeting)

PROPOSAL

Authorization of the Board of Directors to increase the share capital of the Company (amendment of Resolution No. 10/2014. (28.04) of the General Meeting)

Resolution No. 10/2014 (28.04) of the FHB Mortgage Bank Co. Plc. (hereinafter: shall be referred to as the "Company" or "Mortgage bank") (the resolution number was mistyped as 10/2013 (28.04) in the announcement following the decision making of the General Meeting) is as follows:

"Based on Article 3:294 of the Civil Code and Article 7.3 of the Statutes of the Company, the General Meeting hereby authorizes the Board of Directors to increase the share capital of the Company subject to the following conditions:

- 1. Based on this authorization, the Board of Directors is allowed to increase the share capital of the Company by an amount equaling the maximum of 25% of the share capital of the Company, prevailing at the time the Board of Directors adopts its decision to increase the share capital, but in any case not more than by HUF 1,650,000,000 (in words: One Billion and Six hundred and Fifty Million Hungarian forints) at face value.*
- 2. This authorization is valid for the fixed term of two years from the date of issue of this resolution and can be renewed by the resolution of the General Meeting.*
- 3. This authorization includes all of the events and methods of share capital increase as per Book III Chapter XXXVI of the Civil Code.*
- 4. For any matters not regulated in this resolution, the provisions of the Statutes of the Company, the Civil Code and the other respective legislation shall be applied"*

In the context of the aforementioned resolution, pursuant to Articles 7.3, 7.7 and 12.3 m) of the Statutes of the Company, the General Meeting adopted the Resolution No. 9/2014 (28.04) that if the General Meeting authorizes the Board of Directors of the Company to increase the share capital, and if the Board of Directors increases the share capital of the Company based on this authorization, the shareholders of the Company and the holders of convertible bonds and bonds with subscription rights **shall not have the right to exercise their pre-emptive subscription right** (preferential subscription right) as per Article 3:297 of the Civil Code and Article 7.7 of the Statutes.

The Board of Directors of the Company makes the following proposal on the amendment of the Resolution No 10/2014. (28.04) of the General Meeting.

A. Antecedents

1. On 23 September 2015 the Company and the FHB Bank Ltd. became members of the Integration Organization of Cooperative Credit Institutions (hereinafter: "Cooperative Integration") according to Act CXXXV of 2013 on integration of savings cooperatives and amendments to economic related acts (Savings Cooperatives Act). The accession of the FHB Mortgage Bank Co. Plc. and the FHB Commercial Bank Ltd. to the Integration added new profile, know-how and professional potential to the existing scope of business and corporate governance potentials of the Integration. The Integration may not only make cooperation stronger or achieve the fundamental goals of the Integration by accession of new members, but also by direct acquisition. The business partner relationship as well as the participation as an owner can create commitment to the development of relationship in the Integration. Previously, a cooperation of owners was established to make the network of relationship stronger between the investment of the company supporting and serving the core activities of the FHB group and the sector. (MPT Security Ltd., MATAK-EL Llc., DOM-P Ltd., MPO Llc.)

2. Due to the changes in the regulatory environment, new business opportunities are available for the classic core activity of the Mortgage Bank, namely the refinancing. Because the business demand increased, as a result of the introduction of Mortgage Financing Adequacy Ratio ("Mortgage Financing Adequacy Ratio ("JMM")") accepted in June 2015 the FHB also provides refinancing to other players in the credit institution market in addition to the companies in the Integration.
3. By Resolution No. 43/2015 (15.10) issued by the National Bank of Hungary (MNB) on 15 October 2015, the National Bank of Hungary suddenly amended the MNB Decree No. 10/2014 "on own funds requirements, on unrealized gains and losses measured at fair value, on deductions related to unrealized gains and losses and on grandfathering of capital instruments" one year after its issue, and prescribed more stringent calculation methods on the calculation of capital requirements from 1 January 2016.

According to MNB "Prescribing higher capital requirements will help the Hungarian financial sector comply with European Union requirements sooner while also improving the sector's stability and assessment". According to MNB the decree outlines the requirements for the application of European Union capital resources for credit institutions and investment companies from January 2016 - following a provisional period of almost two years. In contrast the Regulation (EU) No. 575/2013/EU (CRR) allows 3 to 8 years for the introduction of these rules, in particular rules it allows a transitional period up to 2021, and leaves the national authorities the choice to specifically determine them. With its Decree No. 10/2014. (IV.3.), MNB enabled for the Hungarian credit institutions the maximum time for preparation in point of almost every transitional rules, accordingly the modification of this regulation published in October, 2015, essentially cut down the remaining 3 year preparation period to 2.5 Months.

4. In Resolution No. H-EN-I-654/2015 of the National Bank of Hungary (MNB) dated 16 October 2015, on basis of its right set forth in the CRR, also prescribed capital adequacy on sub-consolidated basis for the group led by the FHB Mortgage Bank Co. Plc. It means that two FHB companies that joined the Integration shall have individual capital adequacy unlike the other cooperative credit institutions, which shall be performed on sub-consolidated basis as it was prescribed by the National Bank of Hungary (MNB).
5. As a result of the SREP audit started on 19 October 2015, the National Bank of Hungary (MNB) can determine even a higher SREP rate than the SREP rate valid at the end of September 2015. The National Bank of Hungary (MNB) annually reviews the value of the SREP rate to be applied, its future value is uncertain due to the currently ongoing audit, the one for 2015 and in the next years, it may vary between 100 to 250% as prescribed by law.
6. In compliance with the provisions of CRR, according to Section 86 of the Credit Institutions Act the credit institutions are required to maintain a capital conservation buffer, and its level in the period between 1 January 2016 and 31 December 2016, 0.625 per cent of the total risk exposure amount provided for in Paragraph 3 of Article 92 of Regulation 575/2013/EU according to Section 298 of the Credit Institutions Act.

B. Rules on the scope of competence

According to Article 12.3. c) of the Statutes of the Mortgage Bank, the increase and reduction of the registered capital, including authorization of the Board of Directors to increase the registered capital, as contained in Articles 7.3 and 7.4 shall fall within the exclusive competence of the General Meeting.

C. As a result of the amendment of the MNB Decree No. 10/2014 (03.04) on "own funds requirements, on unrealized gains and losses measured at fair value, on deductions related to unrealized gains and losses and on grandfathering of capital instruments", the effects of the termination of transitional measures on the FHB Group

According to the final regulations, all deductions from funds shall be made from the Common Equity Tier 1 (CET1) capital from 1 January 2016. The transitional measures made it possible that institutions, which had additional Tier 1 capital (AT1), could gradually reach this level annually, while items above the deductions determined

in the transitional measures may be deducted from the AT1 capital with lower ability to absorb losses, the core loan capital.

In case of the FHB Group the major items for deduction are related to the followings:

- deferred tax
- minority shareholdings
- intangible assets
- absence of impairment in IRB portfolios
- loss in the subject year
- investments in financial sector

By calculating on basis of the data as of 30 September 2015 and taking into account the effects of the aforementioned amendments in the regulation, only because of them from 1 January 2016 the sum of consolidated Common Equity Tier 1 (CET1) capital elements of the FHB Group decreases by nearly HUF 19 billion, while the capital adequacy ratio of the Group decreases from 11.53% to 9.66% as there was no sign of any unfavorable or significant risk increasing change in the activities of the Banking group.

It was possible to take advantage of the transitional measure in case of the FHB Group, because it has such Additional Tier 1 instrument that makes it possible to fulfill the majority of capital requirements uncovered by the CET1 capital. The core loan capital bond issued in the total amount of EUR 112 million by the FHB Mortgage Bank in December 2012 intend to cover the items to be deducted from the CET1 as long as the aforementioned measures have not been revoked.

D. Future business opportunities and expected profit-making of the FHB group

As the Mortgage Financing Adequacy Ratio ("Mortgage Financing Adequacy Ratio ("JMM") ") is introduced from 2016, which does not only mean new business opportunity within the integration of cooperative credit institutions, but also towards other market players.

The Bank concluded refinancing agreements with 91 cooperative credit institutions from the members of the Integration, so with majority of the sector, the terms and conditions of refinancing are being incorporated in the new retail mortgage loan agreements, respectively the terms and conditions of refinancing are being examined in case of the existing portfolio. Based on the current retail mortgage loan portfolio of the sector, and the earlier mid-term financial forecasting, in 2016 the refinancing demand will be early HUF 50 billion and then more than HUF 100 to 120 billion in the Integration (excluding the FHB Bank Ltd.).

Several larger banking players announced their intention of establishing mortgage banks, however according to our expectations the newly established mortgage credit institutions will focus on refinancing their own group and will not provide refinancing to external partners.

On basis of the aforementioned – by considering the size of the retail mortgage loan market and new disbursement forecasted for year 2016 that will exceed year 2015 by nearly 29% – the FHB may serve new refinancing needs in the approximate amount of HUF 60 to 100 billion to market players outside the Integration, and it is a realistic mid-term goal to keep the market share of around 10%, even if new players enter the market.

E. Determination of the maximum possible increase of share capital

Based on the antecedents, risks and possibilities presented in this proposal it can be said that it may also be required to strengthen the capital position of the Mortgage Bank, respectively the Banking group, also in the short term. It is partly required to raise new capital because of the business possibilities presented in Section D. From this aspect it is not only required to strengthen the capital position because direct capital requirement arises due to exploiting opportunities of new growth, loan placement and refinancing, but also because the Bank shall be present on the market as stable and well-capitalized player. On the other hand measures affecting the regulatory environment of the National Bank of Hungary (MNB) according to Section C above also require the settlement of

capital position, because such SREP ratio may be determined by the National Bank of Hungary (MNB), which would justify an immediate capital settlement.

1) Change of the capital requirement related to the growth of business volumes

As the introduction of the Mortgage Financing Adequacy Ratio ("JMM") revives the refinancing market, in case the targeted 10% of market share has been achieved and maintained, the refinancing loan portfolio of the Mortgage Bank may increase by an average growth of 26 to 27% yearly in 5 years or even higher in 2016 and 2017.

When determining the expected capital requirement, the capital requirement of the FHB Bank shall also be taken into account on the consolidated level, where the Bank also calculate with a significant increase in the amount in respect of both retail loans and corporate placements. According to the financial forecast of the Bank, the retail loans are expected to increase by an average of 5% yearly in the next 5 years, at the same time we expect an average growth of more than 30% yearly in case of current account and personal loans that have significantly higher risk exposure. In case of corporate loans the strategic goal of the Banking group is to strengthen its market position, increase its market share, accordingly the forecast shows an average growth in the portfolio by 20% yearly.

By considering the provisions of the CRR, the current SREP rate determined by the National Bank of Hungary (MNB) to the FHB Bank group and the capital buffers possibly to be prescribed between 2016 and 2020 in accordance with the Credit Institutions Act, the expansion of refinanced and own loans can even generate a capital requirement in the approximate amount of HUF 30 to 42 billion by the end of 2015 depending on the SREP rate.

2) Mid-term additional own funds requirements related to regulatory measures on capital position and risks

Section C in this proposal presents the *effect of the termination of transitional measures* in detail from the regulatory measures.

In addition, according to Section 86 and 289 of the Credit Institutions Act from 1 January 2016 it is *required to maintain a capital conservation buffer*, and based on data as of 30 September 2015 it amounts to nearly HUF 2.7 to 2.8 billion on a consolidated level, which must be provided by CET1 capital. The level of capital conservation buffer increases with the same rate *up to 2.5% by 2019*, which is more than HUF 10 billion even under the current exposures.

We shall count with the introduction of *other capital buffer* for systematically important credit institutions from 2017, and *its starting level is expected to be 0.5% of the total risk exposure amount, and it shall not exceed 2% of the exposure value*.

According to the CRR the capital buffers shall not be included in the value of capital adequacy ratios, but in case an institution fails to have the amount of additional own funds determined for a buffer, it shall be subject to the restrictions on distributions in connection with Common Equity Tier 1 capital (e.g. payment of cash dividend, bonus shares, redemption of its own shares) in compliance with Section 94 (1) of the Credit Institutions Act.

The uncertainty of SREP rate means risk with greater impact to the capital position than the latter. In case of the most unfavorable version the additional own funds requirement prescribed for the Banking group on a sub-consolidated level could increase up to the maximum level prescribed by law, 250%, depending on the decision of the National Bank of Hungary (MNB), which may result in additional capital requirement of HUF 30 to 35 billion on the level of second pillar capital requirement. Such increase of the SREP rate resulted in that the Banking group would not have a sufficiently well-founded background for future growth, and by being aggravated by the effect of the termination of transitional measures, the compliance with the capital adequacy ratio prescribed by law could even be jeopardized on a sub-consolidated basis, despite that other cooperative credit institutions do not have to meet such requirements.

F. Reasons for the amendment of the mandate of the Board of Directors to increase the share capital

The General Meeting of the Company – by constantly renewing this decision – regularly authorized the Board of Directors of the FHB Mortgage Bank to increase the share capital of the Company in compliance with the respective resolution. When these decisions – from which Resolution No. 10/2014 (04.28.) is currently valid and effective – were adopted, it was taken into consideration that in order to continue the development of the Company, adapt to the already existing and potential requirements and exploit new business opportunities, the Banking group shall have a flexible and fast decision-making ability.

The changes that incurred in the market and regulatory environment in the period since the decision-making have proved the earlier decision of the General Meeting to be significantly correct, moreover, the range of this step – that can also be used as a current capital policy measure which also extends the leeway to achieve strategic goals – should be widened. The business – that is able to handle the regulatory challenges and exploit business opportunities at the same time – requires fast and efficient response capacity from the Company respective from the Banking group under its control; its important instrument is the broadening of mandate to increase the share capital by the Board of Directors.

The mandate to increase share capital by the Board of Directors – which also includes share capital increase by the issue of ordinary or preference shares in accordance with the earlier decision of the General Meeting – only requires to be amended in respect of the possible amount of the increase of share capital. The proposed amount was determined on basis of this proposal by taking into account that the increase of share capital by the Resolution of the Board of Directors could ensure stabilizing effect guaranteeing safe and also profitable operation for sure within its framework.

To summarize the aforementioned, we propose the amendment of Article 1 of Resolution No. 10/2014. (28.04.) of the General Meeting as follows:

Based on the amended authorization proposed by the Board of Directors to the General Meeting, the Board of Directors is allowed to increase the share capital of the Company by an amount equaling the maximum of 67.5% of the share capital of the Company, prevailing at the time the Board of Directors adopts its decision to increase the share capital, but in any case not more than by HUF 4,450,000,000 (in words: Four Billion and Four hundred and Fifty Million Hungarian forints) at face value.

It is important to note in connection with a possible increase of share capital that increase of share capital in accordance with the proposal has a significant dilution effect and could have a large impact on the shareholders' structure in the Mortgage Bank.

**PROPOSED RESOLUTION NO. 1.
to Item No. 1 of the Agenda**

1. *The general meeting (hereinafter referred to as the "General Meeting") of the FHB Mortgage Bank Co. Plc. (hereinafter shall be referred to as the "Company") amends Article 1. of Resolution No. 10/2014 (28.04) adopted earlier by the ordinary general meeting of the Company in 2014 (hereinafter shall be referred to as "Resolution") – without affecting the validity and effect of the other Articles in the Resolution or other resolutions of the general meeting related to the agenda item of the general meeting affected by the Resolution – so Board of Directors shall be allowed to increase the share capital of the Company by an amount equaling the maximum of 67.5% of the share capital of the Company, prevailing at the time the Board of Directors adopts its decision to increase the share capital, but in any case not more than by HUF 4,450,000,000 (in words: Four Billion and Four hundred and Fifty Million Hungarian forints) at face value.*
2. *The General Meeting adopts the text of the Resolution in consolidated structure with the amendments in accordance with Article 1 of this resolution as follows:*

"Based on Article 3:294 of the Civil Code and Article 7.3 of the Statutes of the Company, the General Meeting hereby authorizes the Board of Directors to increase the share capital of the Company subject to the following conditions:

1. Based on this authorization, the Board of Directors is allowed to increase the share capital of the Company by an amount equaling the maximum of 67.5% of the share capital of the Company, prevailing at the time the Board of Directors adopts its decision to increase the share capital, but in any case not more than by HUF 4,450,000,000 (in words: Four Billion and Four hundred and Fifty Million Hungarian forints) at face value.
 2. This authorization is valid for the fixed term of two years from the date of issue of this resolution and can be renewed by the resolution of the General Meeting.
 3. This authorization includes all of the events and methods of share capital increase as per Book III Chapter XXXVI of the Civil Code.
 4. For any matters not regulated in this resolution, the provisions of the Statutes of the Company, the Civil Code and the other respective legislation shall be applied."
3. *The General Meeting calls upon and authorizes the Board of Directors to publish the Resolution in consolidated structure with the amendments as prescribed by the Statues, furthermore file the decision of the General Meeting with the Court of Registration.*