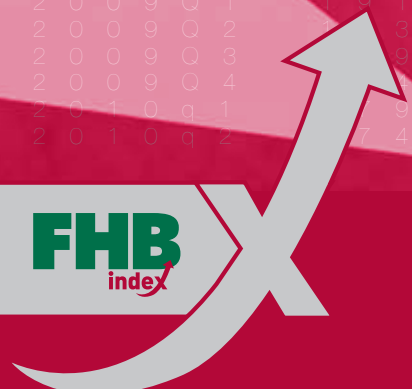


FHB House Price Index 2010 Q2

FHB House Price Prognosis 2010



FHB
index



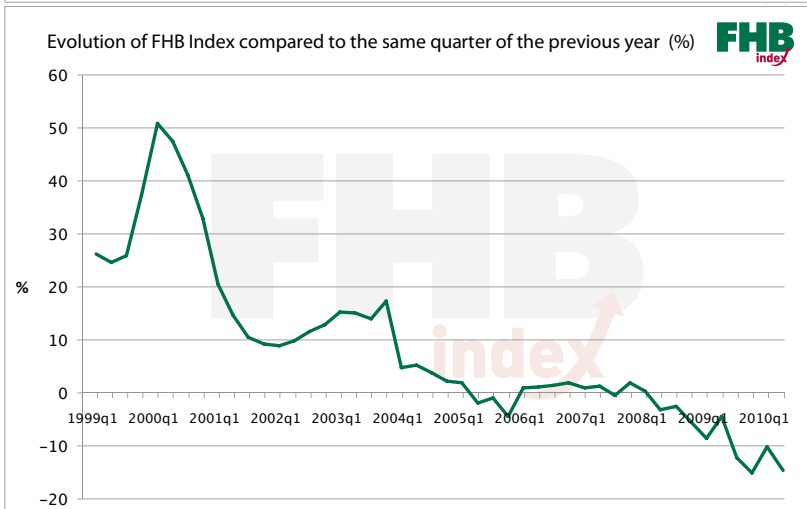
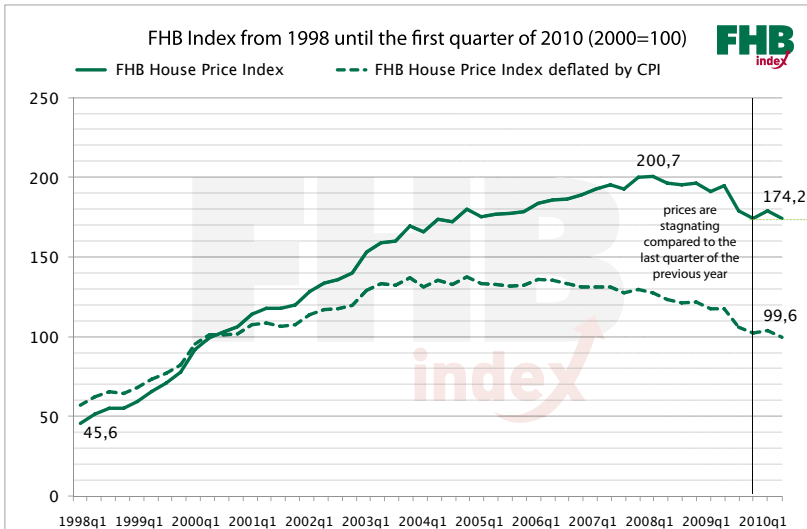
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1. FHB House Price Index

House prices are stagnating

The decline of FHB House Price Index has come to a halt on the basis of data obtained in Q1 and Q2 of 2010. Most of the effects of the crisis materialised in the third quarter of 2009, therefore, in the first half of 2010, we have recorded an average drop of 8.5% (13.6% in real terms) compared to the same period of the previous year, while compared to the fourth quarter of 2009, property prices are stagnating – at the level observed at the beginning of 2005. In producing the latest index, we relied on FHB's market information and observations, as well as all data processed by Stamp Duty Offices until September, 2010.

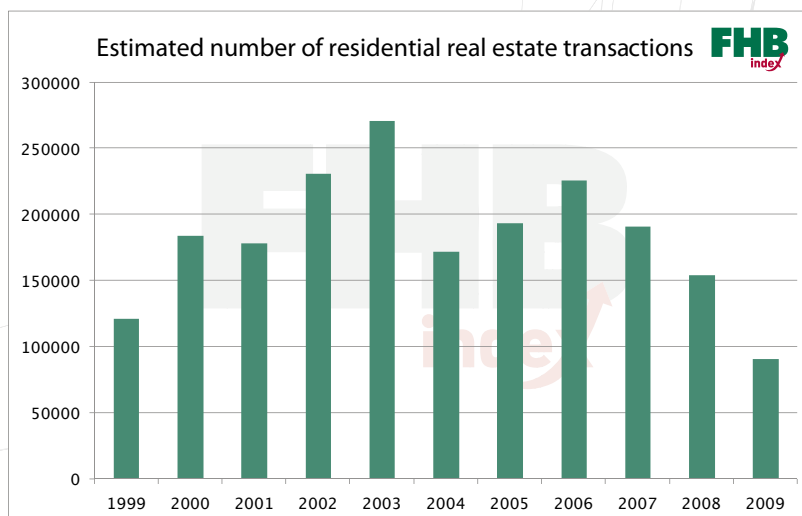
The rate of the fall of the housing prices remains slightly below our previous expectations. In the meantime, if we examine the so called 'Set-back' phase (which started at the beginning of 2008 on the housing market), a nominal rate of 13%, and a real rate of 23% drop can be recorded. **The value of FHB House Price Index in Q1 2010 is: 179.1; in Q2 2010: 174.2.**



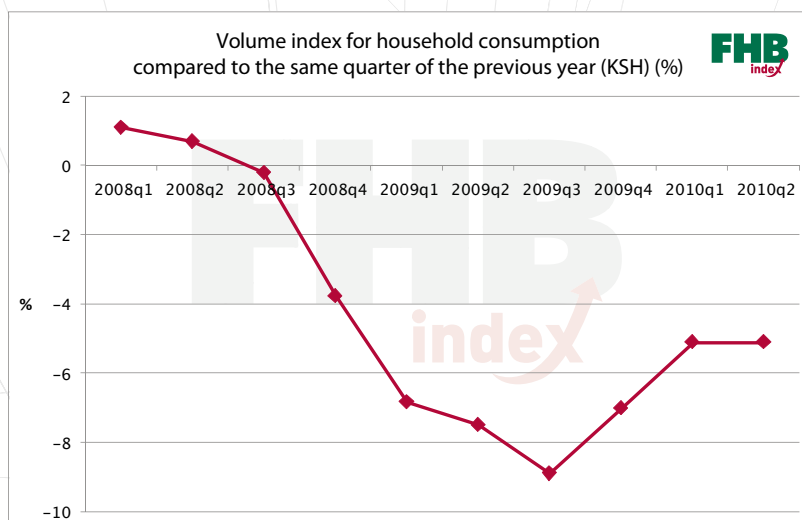
2. Evaluation of the housing market

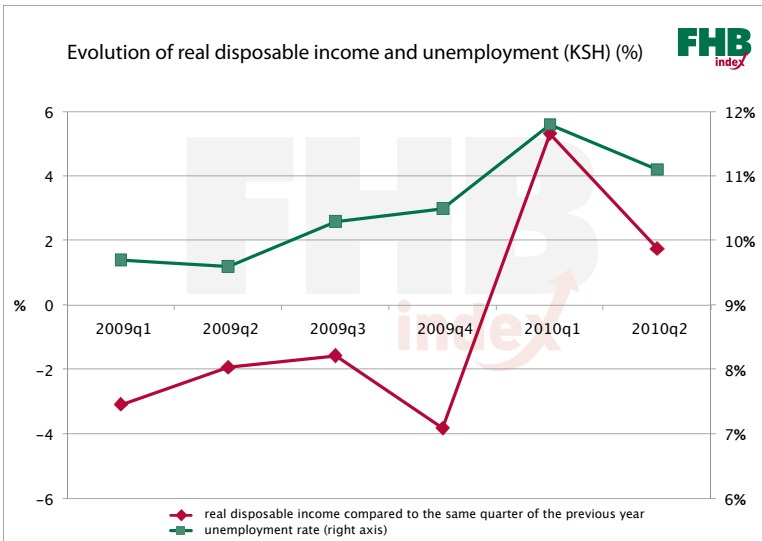
Low levels of transactions, drop of constructions

In line with our previous expectations, the decline of property prices has slowed down. Newly obtained data show a slightly more favourable picture of the evolution of prices than we have thought in our earlier prognosis, number of transactions, however, shows the lowest level in the last decade.

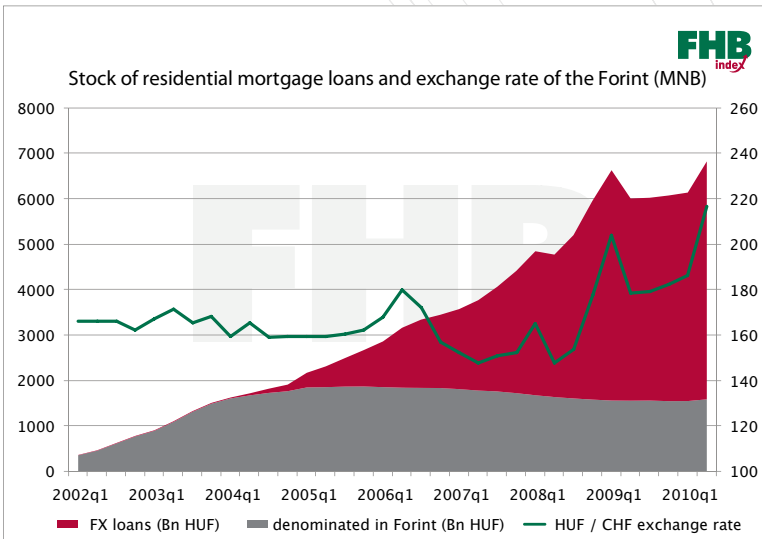


Global economy is slowly stabilizing, but its condition is yet fragile, and analysts have different views on the effectiveness of the fiscal stimulus. The Hungarian economy is overcoming the worst primarily as a result of the export performance; domestic demand is still characterised by corrections due to the crisis. The growth of real income of households at the beginning of the year can most likely be attributed only to one-time effects (salary adjustment in the public sector in the first quarter of the year and changes in the tax rules), and the rise seems yet to be temporary according to data of the second quarter as well. This is also demonstrated by the fact that while households' savings are stagnating, consumption is still decreasing.



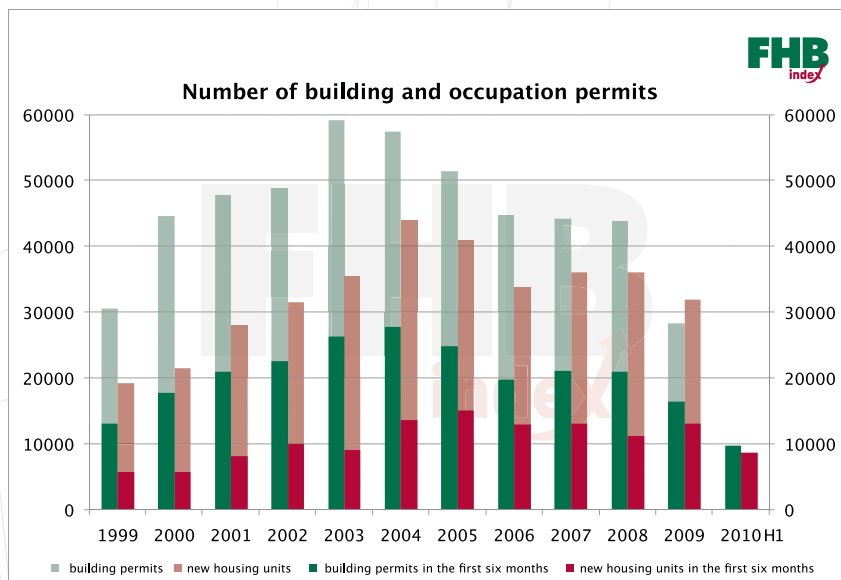


Figures for lending still show a similar level as a decade ago regardless of the National Bank of Hungary measures setting the base rate at the lowest level ever seen. In spite of the increased banking activity in offering loans in 2010 it seems that the changes of regulations (stricter creditworthiness examinations, furthermore suspending mortgage loans without creditworthiness check and mortgage loans denominated in foreign currency) have had negative impact on credit supply. Lending data reveal no clear sign of improvement either

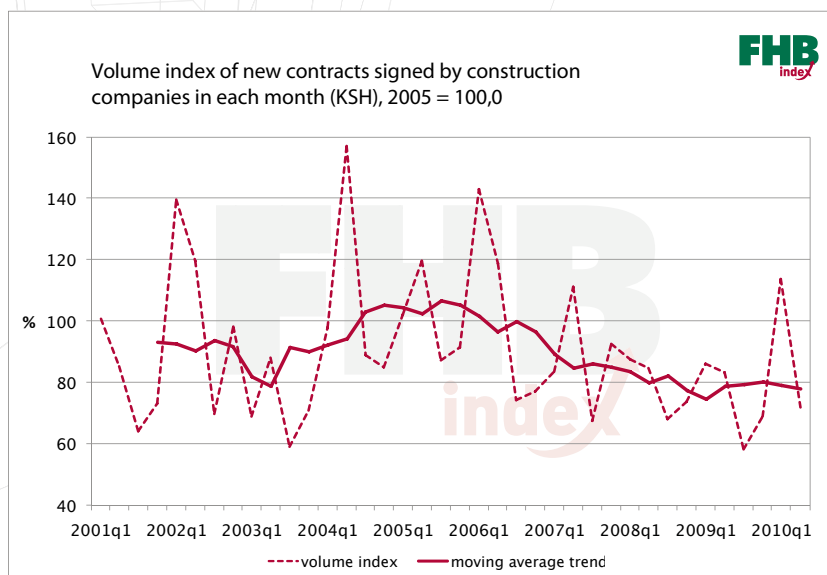


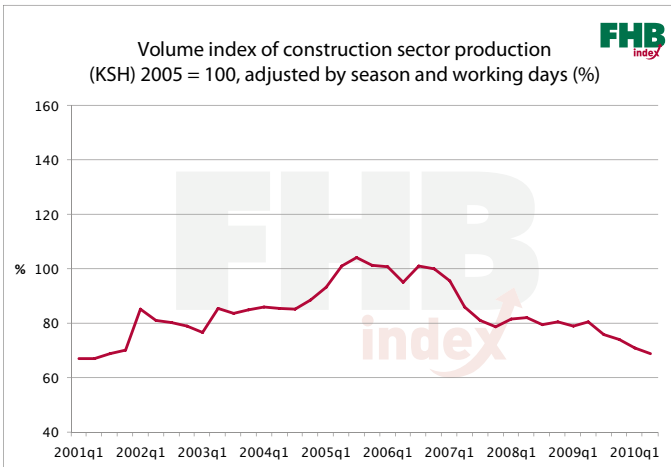
Although buyers' interest has not taken real form in the first half of the year, it might be a sign of buyers' eagerness and increased need for information that after last year's fading, interest for real estate advertisements has risen significantly since the beginning of 2010, both at FHB Real Estate Agency and major advertising spaces.

Developers undergo a persistent depression: in 2009, construction of new residential buildings fell by 11% compared to 2008, and unsold new housing units still pose problems for developers. The drop in the number of building permits was even more significant: 35%. As a result, the number of new constructions envisaged for this year is even less than a year before, which is also supported by the figures of the first half year..



Production of the construction sector has reached its lowest level; number of new orders, however, is not suggesting a turn yet.





3. FHB House Price Prognosis

Prolonged price adaptation

FHB House Price Index updates housing price forecasts for the current year – the FHB House Price Prognosis – every six months. In our last forecast published in February, 2010, we predicted the decline of prices to slow down, with an average decrease of 9.3% for the entire year. Q1 and Q2 2010 issues of FHB Index as well as sectoral and financial data of the housing market suggest that the scenario recognised as a risk in February for an upward turn is unfolding. **Therefore we modify our forecast upwards, for 2010, we prognosticate** a lower decline than expected before, **an average price fall of 7%**. We consider the halt of the price depression as a potential sign for the bottom of the housing market decline, but the turn for the whole market is still indefinite. The prohibition of foreclosures and the setback of demand make supply more rigid, and downward surge of prices could materialize only to a limited grade. Even if the situation becomes stable, the **squeezed market envisages prolonged price adaptation**. In case people who haven't appeared on the supply side yet are forced to sell their properties because of the persistence of the crisis, increased volume may come with a price fall, as it is now to be seen on the British housing market.

The methodology of the forecast's model is based on three pillars:

I. On the basis of international and domestic experience, we have identified correlations between selected Hungarian macroeconomic indicators, money-market and credit market environment indices, transactional data of the housing market and housing prices. (Our expectations of the evolution of the macroeconomic and financial environment are primarily based on the forecasts published by the National Bank of Hungary.)

II. FHB Banking Group has been one of the major actors on the Hungarian housing finance market for over a decade. Our operations cover the entire country, and we have access to information from the most significant real estate appraisers, which is complemented by FHB Real Estate Ltd.'s own professional experience. Our forecasts therefore include processed and verified local assessments as well.

III. With respect to the economic crisis, we shall not disregard empirical facts gained from analyses of similar crises having affected real estate prices so far. We have therefore included the international experience obtained from similar crises in our model.

Consequently, the model does not simply provide an overview of the changes in housing prices, but also the dynamics of that change, taking account of the modifying effects of the economic crisis.

A more detailed explanation of the forecast, the extent and dynamics of the evolution of prices, and an analysis of the risks surrounding the realization of the forecast are available in our Basis Package, as well as in customized special offers

Dear Reader!

We appreciate your interest in **FHB Index**.

FHB Index is a new market gauge and reference tool, distinctive in terms of the measured time intervals and the quality of the underlying data, combining international practice with FHB's own housing market experience.

The **FHB Index Basis package** is a standard product, which has been developed to provide useful and practical information to the players of the real estate market within and outside of Budapest. The Basis package includes:

- Publicly available nationwide index plus Budapest price index
- Housing price index for 12-15 larger cities
- Indices for types of real estate (flats, single-family homes, by above locations)
- Forecast for the development of the nationwide index for 2010 and the presentation of the forecast methodology
- Analysis of actual market processes, as well as analysis by county
- International comparisons and analysis of market outlook

The Basis package can be ordered for 300,000 HUF/quarter + VAT (15% discount available for annual subscription, 1,020,000 HUF/year + VAT)

Due to the complexity of the package, the content described above is spread out over an entire year, thus the complete material of various analyses mentioned above is included in our issues of 2010. Based on the needs of our current subscribers our schedule is the following:

- 1st quarter: Forecast and territorial indices (10-12 larger cities)
- 2nd quarter: Full territorial and type indices + assessment of real estate market for the full year of 2009
- 3rd quarter: Revision of forecast and international outlook
- 4th quarter: Territorial analyses (presenting "value-map")

Please note that the last issue of 2010 is scheduled for the beginning of December.

FHB House Price Index

Quarter	Index value*
1998q1	45,6
1998q2	51,2
1998q3	54,8
1998q4	55,0
1999q1	59,3
1999q2	65,8
1999q3	71,0
1999q4	77,5
2000q1	91,7
2000q2	99,5
2000q3	102,9
2000q4	106,0
2001q1	114,0
2001q2	117,7
2001q3	117,6
2001q4	119,8
2002q1	128,5
2002q2	133,8
2002q3	135,8
2002q4	139,9
2003q1	153,0
2003q2	159,1
2003q3	160,0
2003q4	169,5
2004q1	166,1
2004q2	173,7
2004q3	172,3
2004q4	179,9
2005q1	175,6
2005q2	177,0
2005q3	177,4
2005q4	178,7
2006q1	183,9
2006q2	185,7
2006q3	186,6
2006q4	189,1
2007q1	192,8
2007q2	195,2
2007q3	192,8
2007q4	200,0
2008q1	200,7
2008q2	196,4
2008q3	195,4
2008q4	196,6
2009q1	191,1
2009q2	195,1
2009q3	179,1
2009q4	174,3
2010q1	179,1
2010q2	174,2

We are pleased to respond to any inquiries.

Zsolt Molnár

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*The value of the index was normalised with the average for the year 2000: in 2000, the average index value is 100