FHB MORTGAGE BANK PLC

Business report for year 2011

FHB Mortgage Bank Co Plc

Annual Report

31 December 2011

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(translation)

Budapest, 19 March 2012

FHB BANK

1	2	3	2	1	9	4	2	6	4	9	2	1	1	4	0	1

Statistical code

Cg 01-10-043638

FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság

BALANCE SHEET (CREDIT INSTITUTIONS AND FINANCIAL VENTURES) Assets

Data in million HUF

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
01.	**1. Liquid assets**	**397**		**213**
02.	**2. Government securities**	**64 130**		**80 857**
03.	a) for trading	64 130		80 857
04.	b) for investment			
05.	**3. Receivables from credit institutions**	**486 644**		**463 871**
06.	a) sight	670		1 054
07.	b) other receivables from financial services	485 974		462 817
08.	ba) ones becoming due within one year	104 152		121 635
09.	of which: - from associated enterprises	26 498		46 226
10.	- from enterprises with participating interest			
11.	- from NBH			
12.	bb) ones becoming due after the elapse of one year	381 822		341 182
13.	of which: - from associated enterprises	136 609		129 076
14.	- from enterprises with participating interest			
15.	- from NBH			
16.	c) from investment services			
17.	of which: - from associated enterprises			
18.	- from enterprises with participating interest			
19.	**4. Receivables from customers**	**213 764**		**183 773**
20.	a) from financial services	213 764		183 773
21.	aa) becoming due within one year	22 710		28 561
22.	of which: - from associated enterprises			6 712
23.	- from enterprises with participating interest			
24.	ab) becoming due after the elapse of one year	191 054		155 212
25.	of which: - from associated enterprises	11 124		
26.	- from enterprises with participating interest			
27.	b) from investment services			
28.	of which: - from associated enterprises			
29.	- from enterprises with participating interest			
30.	ba) receivables from stock market investment services			
31.	bb) receivables from investment services out of the Stock Exchange			
32.	bc) receivables from customers deriving from investment services			
33.	bd) receivables from clearing houses			
34.	be) receivables from other investment services			
35.	**5. Debt securities, including fixed interest securities**	**6 392**		**308**
36.	a) securities issued by local governments and other agencies of state administration (excluding state securities)			
37.	aa) for trading			
38.	ab) for investment			
39.	b) securities issued by other issuers	6 392		308
40.	ba) for trading	6 392		308
41.	of which: - from associated enterprises			
42.	- from enterprises with participating interest			
43.	- own shares repurchased			
44.	bb) held for investment			
45.	of which: - from associated enterprises			
46.	- from enterprises with participating interest			

Data in million HUF

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
47.	**6. Shares and other securities with variable yield**			
48.	a) shares and participations for trading			
49.	of which: - from associated enterprises			
50.	- from enterprises with participating interest			
51.	b) securities with variable yield			
52.	ba) for trading			
53.	bb) for investment			
54.	**7. Shares and participations for investment**			
55.	a) shares and participations for investment			
56.	of which: - participations in credit institutions			
57.	b) adjustment of the value of shares and participations for investment			
58.	of which: - participations in credit institutions			
59.	**8. Shares and participations in associated enterprises**	**38 504**		**33 970**
60.	a) shares and participations for investment	38 504		33 970
61.	of which: - participations in credit institutions	34 453		32 923
62.	b) adjustment of the value of shares and participations for investment			
63.	of which: - participation in credit institutions			
64.	**9. Intangible assets**	**326**		**359**
65.	a) intangible assets	326		359
66.	b) adjustment of the value of intangible assets			
67.	**10. Tangible assets**			**742**
68.	a) tangible assets for financial and investment services			734
69.	aa) real estate			314
70.	ab) technological equipment, machines, appliances and vehicles			419
71.	ac) investments			
72.	ad) advance payments made towards investments			
73.	b) tangible assets not directly held for financial and investment services			8
74.	ba) real estate			
75.	bb) technological equipment, machines, appliances and vehicles			8
76.	bc) investments			
77.	bd) advances given to investments			
78.	c) adjustment of the value of tangible assets			
79.	**11. Own shares**	**123**		**29**
80.	**12. Other assets**	**6 915**		**6 662**
81.	a) inventories	18		200
82.	b) other receivables	6 897		6 462
83.	of which: - from affiliated enterprises	82		833
84.	- from enterprises with participating interest			
85.	**13. Accrued income and deferred expenditures**	**28 010**		**33 691**
86.	a) accrued income	26 081		29 481
87.	b) deferred costs and expenditures	1 929		4 210
88.	c) deferred expenditures			
89.	**TOTAL ASSETS**	**845 205**		**804 475**
	of which: CURRENT ASSETS (1+2a+3a+3ba+3c+4aa+4b+5aa+5ba+6a+6ba+11+12)	205 489		239 319
	INVESTED ASSETS (2b+3bb+4ab+5ab+5bb+6bb+7+8+9+10)	611 706		531 465

Budapest, 19th March, 2012

László Harmati
CEO

Gyula Köbli
CEO

FHB BANK

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FHB Földhitel- és Jelzálogbank Részvénytársaság

BALANCE SHEER Liabilities

Data in million HUF

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
90.	**1. Liabilities towards credit institutions**	**56 756**		**93 741**
91.	a) on sight			
92.	b) from financial services and fixed for a predetermined term	56 756		93 741
93.	ba) falling due within one year	56 756		93 741
94.	of which: - liabilities to associated enterprises	53 527		93 260
95.	- liabilities to enterprises with participating interest			
96.	- liabilities to NHB			
97.	bb) falling due after the elapse of one year			
98.	of which: - liabilities to associated enterprises			
99.	- liabilities to enterprises with participating interest			
100.	- liabilities to NHB			
101.	c) from investment services			
102.	of which: - liabilities to associated enterprises			
103.	- liabilities to enterprises with participating interest			
104.	**2. Liabilities to customers**	**114 134**		**66 658**
105.	a) savings deposits			
106.	aa) sight			
107.	ab) liabilities falling due within one year			
108.	ac) liabilities falling due after the elapse of one year			
109.	b) other liabilities from financial services	114 134		66 658
110.	ba) sight liabilities	1 317		1 872
111.	of which: - liabilities to associated enterprises			
112.	- liabilities to enterprises with participating interest			
113.	bb) falling due within one year	1 317		64 786
114.	of which: - liabilities to associated enterprises			
115.	- liabilities to enterprises with participating interest			
116.	bc) falling due after the elapse of one year	111 500		
117.	of which: - liabilities to associated enterprises			
118.	- liabilities to enterprises with participating interest			
119.	c) from investment services			
120.	of which: - liabilities to associated enterprises			
121.	- liabilities to enterprises with participating interest			
122.	ca) liabilities from stock market investment services			
123.	cb) liabilities from OTC market investment services			
124.	cc) liabilities deriving from investment services			
125.	cd) liabilities to clearing houses			
126.	ce) liabilities from other investment services			
127.	**3. Liabilities from securities issued**	**516 692**		**491 645**
128.	a) bonds issued	516 692		491 645
129.	aa) falling due within one year	94 629		90 249
130.	of which: - liabilities to associated enterprises	1 696		1 131
131.	- liabilities to enterprises with participating interest			
132.	ab) falling due after the elapse of one year	422 063		401 396
133.	of which: - liabilities to associated enterprises	42 849		71 277
134.	- liabilities to enterprises with participating interest			
135.	b) other debt securities issued			
136.	ba) falling due within one year			
137.	of which: - liabilities to associated enterprises			
138.	- liabilities to enterprises with participating interest			

FHB BANK

Data in million HUF

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
139.	bb) falling due after the elapse of one year			
140.	of which: - liabilities to associated enterprises			
141.	- liabilities to enterprises with participating interest			
142.	c) debt instruments treated as securities from the accounting aspect but not classified as securities under the Securities Act			
143.	ca) falling due within one year			
144.	of which: - liabilities to associated enterprises			
145.	- liabilities to enterprises with participating interest			
146.	cb) falling due after the elapse of one year			
147.	of which: - liabilities to associated enterprises			
148.	- liabilities to enterprises with participating interest			
149.	**4. Other liabilities**	**923**		**1 444**
150.	a) falling due within one year	923		1 444
151.	of which: - liabilities to associated enterprises	325		303
152.	- liabilities to enterprises with participating interest			
153.	- in case of credit institutions operating as cooperatives: other contributions in kind by their members			
154.	b) falling due after the elapse of one year			
155.	of which: - liabilities to associated enterprises			
156.	- liabilities to enterprises with participating interest			
157.	**5. Accrued expenditure and deferred income**	**101 421**		**97 596**
158.	a) passive accrual of income	76 495		78 082
159.	b) accrued costs and expenditures	18 999		19 514
160.	c) deferred income	5 927		
161.	**6. Provisions**	**2 753**		**2 717**
162.	a) provision for pensions and severance payments			
163.	b) risk reserve for pending and certain future liabilities	97		61
164.	c) general risk reserve	2 656		2 656
165.	d) other reserves			
166.	**7. Subordinated obligations**			
167.	a) subordinated loan capital			
168.	of which: - liabilities to associated enterprises			
169.	- liabilities to enterprises with participating interest			
170.	b) for credit institutions operating as cooperatives, other property contribution of members			
171.	c) other subordinated liabilities			
172.	of which: - liabilities to associated enterprises			
173.	- liabilities to enterprises with participating interest			
174.	**8. Subscribed capital**	**6 600**		**6 600**
175.	of which: - own shares repurchased at face value	14		5
176.	**9. Subscribed and not yet paid-up capital (-)**			
177.	**10. Capital reserve**	**26 530**		**26 530**
178.	a) the outstanding balance between the face value of the participation and its placement value (premium)	26 530		26 530
179.	b) other			
180.	**11. General reserve**			
181.	**12. Profit reserve (±)**	**34 162**		**19 367**
182.	**13. Fixed reserve**	**123**		**29**
183.	**14. Valuation reserve**			
184.	**15. Profits as per balance sheet (±)**	**-14 889**		**-1 852**
185.	**TOTAL LIABILITIES**	**845 205**		**804 475**
186.	of which: - SHORT TERM LIABILITIES (1.a.+1.ba+1.c.+2.aa+2.ab+2.ba+2.bb+2.c+3.aa+3.ba+3.ca+4.a)	154 942		252 092
187.	-LONG TERM LIABILITIES (1.bb+2.ac+2.bc+3.ab+3.bb+3.cb+4.b+7)	533 563		401 396
188.	-SHAREHOLDER'S EQUITY (8-9+10+11±12+13+14±15)	52 526		50 674

OFF BALANCE SHEET ITEMS

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
300.	Pending liabilities	2 220		1 671
301.	Future liabilities	365 968		416 536
302.	Control number (items 300+301)	368 188		418 207

Budapest, 19th March, 2012

László Harmati
CEO

Gyula Köbli
CEO

FHB BANK

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FHB Földhitel- és Jelzálogbank Részvénytársaság

PROFIT & LOSS ACCOUNT (the form used by credit institutions and financial enterprises)

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
1.	**1. Interests and interest type revenues received**	**68 732**		**65 807**
2.	a) interest received due on fixed interest debenture securities	5 328		4 979
3.	of which: - from associated enterprises	5		10
4.	- from enterprises with participating interest			
5.	b) other interests and interest-type revenues received	63 404		60 828
6.	of which: - from associated enterprises	6 123		3 569
7.	- from enterprises with participating interest			
8.	**2. Interests paid and interest type payments**	**53 450**		**58 937**
9.	of which: - to associated enterprises	6 015		9 246
10.	- to enterprises with participating interest			
11.	**INTEREST DIFFERENCE (1-2)**	**15 282**		**6 870**
12.	**3. Revenues from securities**			
13.	a) revenues from shares and participations for trading (dividends, profit sharing)			
14.	b) revenues from participations in associated enterprises (dividends, profit sharing)			
15.	c) revenues from other participations (dividend, profit sharing)			
16.	**4. Commissions and fees received (due)**	**1 241**		**1 389**
17.	a) revenues from other financial services	1 241		1 389
18.	of which: - from associated enterprises	188		281
19.	- from enterprises with participating interest			
20.	b) from revenues of investment services (not including revenues from trading activities)			
21.	of which: - from associated enterprises			
22.	- from enterprises with participating interest			
23.	**5. Commission and fees paid payable**	**2 736**		**2 289**
24.	a) to the debit of other financial services	2 497		2 248
25.	of which: - to associated enterprises	2 477		1 746
26.	- to enterprises with participating interest			
27.	b) to the debit of investment services (not including the expenditure of trading activities)	239		41
28.	of which: - to associated enterprises	78		25
29.	- to enterprises with participating interest			

FHB BANK

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
30.	**6. Net profits on financial transactions (items 6.a - 6.b + 6.c - 6.d)**	**989**		**1 001**
31.	a) originating from revenues of other financial services	3 602		6 454
32.	of which: - from associated enterprises	5		61
33.	- from enterprises with participating interest			
34.	b) originating from expenditure of other financial services	2 613		5 453
35.	of which: - to associated enterprises			26
36.	- to enterprises with participating interest			
37.	c) from the revenues of investment services (revenue of trading activities)			
38.	of which: - from associated enterprises			
39.	- from enterprises with participating interest			
40.	- reversal of impairment on securities for trading			
41.	d) originating from the expenditure of investment services (expenditure of commercial activities)			
42.	of which: - to associated enterprises			
43.	- to enterprises with participating interest			
44.	- loss of value of securities held for trading			
45.	**7. Other revenues from business activities**	**435**		**7 285**
46.	a) revenues from non-financial and investment services	40		167
47.	of which: - from associated enterprises			
48.	- from enterprises with participating interest			
49.	b) other revenues	395		7 118
50.	of which: - from associated enterprises	32		228
51.	- from enterprises with participating interest			
52.	- reversal of the loss of value of inventories			
53.	**8. General administrative costs**	**4 795**		**4 466**
54.	a) personnel expenses	1 225		1 273
55.	aa) wages costs	820		775
56.	ab) other disbursements for the staff	153		221
57.	of which: - social security costs	25		8
58.	- costs associated with pension	11		4
59.	ac) contributions payable on wages	252		277
60.	of which: - social security costs	222		240
61.	- costs associated with pension	205		221
62.	b) other administrative costs (material type costs)	3 570		3 193
63.	**9. Depreciation and amortization**	**30**		**53**

No.	Description of the item	31 December 2010	Adjustments for the previous year(s)	31 December 2011
a	b	c	d	e
64.	**10. Other expenditure of business activities**	**3 131**		**4 868**
65.	a) expenditure on non-financial and investment services	39		45
66.	of which: - to associated enterprises			
67.	- to enterprises with participating interest			
68.	b) other expenditure	3 092		4 823
69.	of which: - to associated enterprises	18		82
70.	- to enterprises with participating interest			
71.	- loss of value of inventories			
72.	**11. Loss of value of receivables and provision for**	**3 234**		**8 512**
	pending and certain (future) liabilities			
	a) value loss on receivables	3 033		8 350
74.	b) provision for pending and certain (future) liabilities	201		162
75.	**12. Reversal of the loss of value of receivables and**	**2 103**		**3 590**
	the use of risk provision for pending and certain (future) liabilities			
76.	a) reversal of the loss of value of receivables	1 121		3 377
77.	b) use of risk reserve for pending and certain (future) liabilities	982		213
78.	**13. Loss of value of debt securities held as investments**	**58**		**106**
	and of shares and participations			
	in affiliated and other associated enterprises			
79.	**14. Reversal of the loss of value of debt securities**			**5**
	held as investments and of shares and participations			
	in affiliated and other associated enterprises			
80.	**15. ORDINARY PROFITS ON OPERATING (BUSINESS) ACTIVITIES**	**6 066**		**-154**
81.	Of which: - PROFIT ON FINANCIAL AND INVESTMENT SERVICES	6 065		-276
	(1-2+3+4-5±6+7.b-8-9-10.b-11+12-13+14)			
82.	- PROFIT ON NON-FINANCIAL AND INVESTMENT SERVICES	1		122
	(7.a-10.a)			
83.	16. Extraordinary revenues	**4 615**		**7 956**
84.	17. Extraordinary expenditure	**30 040**		**9 654**
85.	**18. Extraordinary profit (16 - 17)**	**-25 425**		**-1 698**
86.	**19. Pre-tax profit (± 15± 18)**	**-19 359**		**-1 852**
87.	20. Tax payable			
88.	**21. Profit after taxes (± 19 - 20)**	**-19 359**		**-1 852**
89.	22. Setting up of general provisions and the use thereof (±)	-4 470		
90.	23. Use of profit reserves for daying dividends and profitsharing			
91.	24. Approved dividends and profit sharing			
92.	of which: - to associated enterprises			
93.	- to enterprises with participating interest			
94.	**25. Profits as per Balance Sheet (± 21 ± 22 + 23 - 24)**	**-14 889**		**-1 852**

Budapest, 19th March, 2012

László Harmati
CEO

Gyula Köbli
CEO

FHB Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2011

(translation)

Budapest, 19 March 2012

FHB BANK

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2011

I. GENERAL NOTES

I/1. Description of FHB Land Credit and Mortgage Bank Public Limited Company

FHB Mortgage Bank Public Limited Company was established on 21 October 1997 under the name of FHB Land Credit and Mortgage Bank Company.

The Bank's share capital is **HUF 6,600,001,000 Ft**, the total amount of which was contributed in cash.

The Bank's share capital is comprised of **66,000,010** registered shares of **HUF 100** par value each.

The share capital includes the following types of shares:

- 66,000,010 ordinary Class A registered shares at a total par value of HUF 6,600,001,000;

FHB Plc.'s ownership structure

Shareholders	Number of shares (pcs)		Ownership share in the share capital (%)	
	31.12.2010	31.12.2011	31.12.2010	31.12.2011
Series "A" ordinary shares listed on the BSE				
Domestic institutional investors / companies	46,939,736	48,585,278	71.12	73.62
Foreign institutional investors / companies	13,672,542	12,216,058	20.72	18.51
Domestic private individuals	2,509,562	2,397,304	3.80	3.63
Foreign private individuals	25,469	33,469	0.04	0.05
FHB Plc.	138,401	53,601	0.21	0.08
MNV Zrt.	2,714,300	2,714,300	4.11	4.11
Total	**66,000,010**	**66,000,010**	**58.85**	**100.00**

The Bank's operations are provided for by Act CXII of 1996 on Credit Institutions and Financial Enterprises, as well as Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

The licence of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.

The Bank's core business as a specialised credit institution includes provision of long-term loans secured by mortgaged properties as a collateral, and issue of special long-term securities (mortgage bonds).

In 2011 the FHB Mortgage Bank Plc. 2011 significantly revamped its investments to be able to be up to the challenges of the market. On one hand the Allianz Bank Limited, which was acquired in the course of 2010, was merged by acquisition into the FHB Commercial Bank in H1 of 2011. In the second half of the year the FHB Service Limited – after its assets and liabilities were reviewed and restructured – was sold outside the Group, and along with it the majority of the previously outsourced activities were insourced to the banks. The revamp was completed in December 2011. Accordingly, as of 31 December 2011 the members of the FHB Group under consolidated supervision are as follows:

- FHB Mortgage Bank Plc.,
- FHB Commercial Bank Ltd.,
- FHB Annuity and Real Estate Investment Ltd.,
- FHB Real Estate Trading and Valuation Ltd.,
- FHB Real Estate Leasing Ltd

In the course of 2011 the business relations between the FHB Group members further broadened in line with the strategic concept of the Group. The FHB Commercial Bank, as the agent of the Mortgage Bank, entirely does direct lending furthermore complete loan aftercare and qualified loan management, and at the same time the FHB Commercial Bank, in order to have favorable funding costs, has majority of its loans refinanced by the FHB Mortgage Bank.

The FHB Mortgage Bank Plc, as a revamp of the operation of the group, provides the resources required for the general operation of the Group members by means regulated by the contracts taken over and the individual contracts on providing services to each Group member within the Service Limited, the so called Service Level Contracts, and the individual property and other lease agreements and operational agreements.

The scope of services provided as follows:

- Full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision;
- Provision of full-fledged material conditions in the context of lease and operation agreements – except the branch offices of the Commercial Bank;

Partial operation of the IT infrastructure required for the operation.

FHB Annuity and Real Estate Investment Ltd. is involved in the sales of reverse mortgage products as the Mortgage Bank's agent.

The FHB Real Estate especially helps to carry out the tasks specified in the FHB Mortgage Bank Plc's strategic concept with the FHB Group's activities including cover valuation, real estate investment and sales, furthermore real estate management and real estate valuation.

The FHB Real Estate Leasing Limited provides mortgage based financing to retail and corporate customers, furthermore sells leasing products.

FHB Mortgage Bank's operation for the past period is characterised by the following key data and indicators:

Major financial indicators	FHB data	
	31 Dec 2010	31 Dec 2011
Balance sheet total (million HUF)	845,205	804.475
Mortgage loans (million HUF)	567,617	514.511
Mortgage bonds outstanding (million HUF)	415,224	386.418
Bonds outstanding (million HUF)	101,468	105.226
Own equity (million HUF)	52,526	50.674
Adjusted capital (million HUF)	15,839	18.404
Capital adequacy ratio (%)	9.9	13,5
After-tax profit (million HUF)	-19,359	-1.852
CIR (operating costs / gross operating profit) (%)	39.8	48,1
EPS (HUF)	-	-
ROAA (return on average assets) (%)	-2.3	-0,2
ROAE (return on average equity) (%)	-29.9	-3,6

I/2. Key elements of the accounting policy

The aim of the accounting policy is to set up the accounting of economic and financial events and establish the technicalities of accounting; to synchronise financial activities and their accounting; to determine the key operating principles and conditions of accounting in order to help the Bank's various investors understand and follow the company's actual financial position and profitability through the Bank's financial reports.

The accounting policy is based on the provisions of **Act C of 2000**. It applies **Government Decree No. 250/2000** on the Special Provisions regarding the Annual Reporting and Book-Keeping Obligations of Credit Institutions and Financial Enterprises, and also observes the provisions of **Act CXII of 1996** on Credit Institutions and Financial Enterprises, **Act XXX of 1997** on Mortgage Loan Companies and Mortgage Bonds, **Act CXX of 2001** on the Capital Market, as well as relevant provisions of the **Hungarian National Bank**, the **Hungarian Financial Supervisory Authority** and the **Ministry of Finance** in order to assist the Bank in realising its primary objectives.

The Bank's accounting policy determines the rules for the valuation of assets and liabilities, as well as the contents of the balance sheet, the profit and loss statement and the notes to the consolidated financial statement.
In accordance with the provisions of the Accounting Act, the Bank applies double-entry book keeping and issues annual reports.
The balance sheet is prepared in accordance with Annex 1 of Government Decree No. 250/2000 and the profit and loss statement is made in a vertical format, as required by Annex 2 of the same Decree.

The Bank's accounting systems

The Bank uses BANKMASTER for **client** registration, accounting and basic transactions, which transfers data by controlled posting into the Bank's **general ledger**, SAP integrated company management system.

Margins of error distorting true and fair view

Errors identified in the course of audits performed by external bodies or the internal audit department shall be considered to be errors distorting true and fair view for the purposes of the Bank if the shareholders' equity in the balance sheet of the business year before the year in which the error was disclosed changes by at least 20%.

Margins of material and minor errors

Errors identified in the course of various audits shall always be considered to be material for the purposes of the Bank, if the aggregate impact of such errors, in the year in which the errors were disclosed, result in any changes (increases or decreases) in the shareholders' equity, financials or income in excess of **2%** of the audited business year's balance sheet total. When the 2% of balance sheet total is in excess of HUF 500 million, the margin for the above errors is **HUF 500 million.**

Balance sheet

Within the scope of the accounting principles the Bank set forth the balance sheet date to be **31st December of the year of reporting**. The balance sheet is prepared on **10 workdays after the balance sheet date**.

Tangible Assets under the purchase value of **HUF 50,000** shall be accounted in a lump sum by the Company as costs at the time of the purchase.

In accordance with the Bank's accounting policy, individual market value shall only be calculated for Tangible Assets with a net book value of over HUF 150 million.
Balance sheet and off balance sheet foreign exchange liabilities and receivables shall be recorded by the Bank at the NBH's (National Bank of Hungary) exchange rate valid as of the balance sheet date.

Within accruals, apart from general terms, the Bank's special terms include the following: **accrual of interest earned and owed,** as well as **accrual (for the time of maturity)** of negative or positive **variances** (exchange rate variances) **between the proceeds from the issue of interest-bearing securities and their par value.** Accruals and deferrals shall be registered at contract value.

Liabilities to customers include credit related interest and capital repayments paid in by customers but not yet due as well as cash received as surety from customers based on customer contracts. The utilization of surety for credit repayment takes place in circumstances stipulated in the contract.

Profit and Loss Statement

In accordance with Annex 2 of the relevant Government Decree, the Bank prepares a Profit & Loss Statement in a vertical format.
The Profit & Loss Statement calculates the retained profit of the year, while observing the provisions for the accumulation and accounting of credit institution reserves and losses.
Depreciation on tangible and intangible assets is reported monthly *pro rata temporis*, by including changes that occur during the year.
The Bank when accounting foreign currency swaps aiming liquidity, which usually mature within one year, regardless that they are so-called interest rate or foreign currency swaps, examining the swaps not closed before balance sheet date, realizes the profit or loss proportionate to the current year in interest income or interest expense, then determines the foreign currency difference originating from the revaluation of swap related currency amount. Depending on the nature of profit or loss, profit is accounted to deferred income, loss is accounted to accrued expense, which is released when the swap deal is closed.

Notes to the Consolidated Financial Statements

The notes to the consolidated financial statements contain the numerical data and narrative explanations, which help shareholders, investors and creditors to have a better understanding and analysis of certain lines in the balance sheet and the P/L statement. These notes **provide additional information on the Bank's activities**, as well as details on certain balance sheet and P/L data. Depending on their contents, data are grouped by the Bank in the Notes to the consolidated financial statement in the following sections:

- General notes,
- Specific notes,
- Information.

Business Report

Apart from the events of the accounting period, the Bank discusses issues and plans with significant present and future reference in its Business Report.
The Business Report contains information on:

- the analysis of the Bank's activities and course of business with regards to the accounting period, as well as their future impact;
- significant events occurring after the balance sheet date;
- changes with an impact on the ownership structure;
- the human resources policy; and

any additional information considered important by the Bank.

I/3. Information

1. Information on shareholders with significant or majority interest

None of the Bank's shareholders has a **majority interest** under Act CXLIV of 1997 on Business Associations.

2. Information on the Bank's risks in excess

Section 79 of Act CXII of 1996 on Credit Institutions and Financial Enterprises provides that risks are considered in excess when the total risks provided for a customer or group of customers exceeds 10% of the credit institution's solvency margin. As of 31 December 2011 the Bank had one clients with **risks in excess** as described above. The receivable from these clients amounts to HUF 5,289 million.

3. Compliance with mortgage lending provisions

- Within the total balance of **mortgage loans, 97.66%** have a **maturity of over five years** compared with the minimum requirement of 80.0% as stipulated by Subsection (1) Section 5 of Act XXX of 1997.
- Total **outstanding** mortgage **loan balance** does not exceed **70% of the collateral value of real estate** as provided for by subsection (3), Section 5 of Act XXX of 1997. The rate was **44.87%** as of 31 December 2011**.**

4. Compliance with the provisions on investment

Up to 31 December 2011 the Bank made the following investment:

FHB Commercial Bank Ltd.,
FHB Annuity and Real Estate Investment Ltd., and
FHB Real Estate Trading and Valuation Ltd.

All of the Bank's investment is in conformity with Section 9(1) of Act XXX of 1997 providing for the limitations of direct and indirect ownership. The aggregate value of investment by the Bank does not exceed 10% of the adjusted capital, as set forth by Section 9(2) of the Act.

In 2011 the FHB Mortgage Bank Plc. amended the securities lending agreements concluded in 2010 – on the shares of the FHB Commercial Bank. As of 31 December 2011 8.96% of each share in the share capital of the FHB Commercial Bank Limited, are owned by FHB Life Annuity Limited and FHB Real Estate Limited. In the course of the year 9.47% of each share in the share capital was sold by the Mortgage Bank to the FHB Commercial Bank Limited, which purchased it to its portfolio.

5. Compliance with the provisions on the issue of mortgage bonds

- **As of 31 December 2011**, **surpassing the provisions** of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – **HUF 386,418 million –** of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to **HUF 438,811 million** considered as ordinary collateral.

- **As of 31 December 2011, surpassing the provisions** of Paragraphs (1, 2b) Section 14 of Act XXX of 1997, the Bank's interest on net ordinary collateral exceeded the interest on the nominal value of mortgage bonds outstanding, **HUF 83,595 million**. At the end of the period of reporting the interest on ordinary collateral net of impairment was **HUF 246,940 million.**

- No **supplementary collateral** according to Article 14 (11) of Act XXX of 1997 on Mortgage Banks and Mortgage Bonds was involved by 31 December 2010.

- Pursuant to Section 14(1) of the Act on Mortgage Banks and Mortgage Bonds mortgage banks must at all times have sufficient cover assets of a value higher than the sum of the face value of and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(43) of Act XLVIII of 2004, as of 1 January 2006 mortgage banks must also at all times ensure cover for mortgage bonds at present value.
  The rules of calculating the present value of assets used as cover for mortgage bonds are set forth by Decree 40 of 2005 (9 December) by the Minister of Finance. The Decree provides for the present value of mortgage bonds and cover assets to be assessed for each banking day. In cases where the present value of cover assets does not exceed the present value of outstanding mortgage bonds in circulation the mortgage bank must proceed to supplement the missing cover as stipulated in the rules of collateral registration.

  Since the statutory provisions described above entered into effect FHB has established, on a daily basis, the present value of mortgage bonds as well as collateral relying on the zero coupon yield curve determined from the actual yield curve at any time, and ensures their adequacy.

  As of 31 December 2011 the **present value of ordinary collateral was HUF 471,879 million and that of mortgage bonds was HUF 413,272 million**, which means the present value of cover assets exceeded the present value of outstanding mortgage bonds in circulation.

  Pursuant to the provisions of the Decree by the Minister of Finance cited above the Bank has applied a quarterly sensitivity test since 2006 to check the availability, at present value, of collateral exceeding the nominal value and interest in HUF in the case of changes in interest rates and/or exchange rates. The effect of changes in the interest rate on present value is examined statically, by parallel shifting of the zero coupon yield curve 250 base points upwards and downwards. The static method of analysis is also used in the assessment of exchange rate risk as provided for by the Decree of the Minister of Finance.
  The sensitivity analysis conducted on 31 December 2011 showed the surplus cover of the mortgage bonds in circulation and the present value of their coverage as required by the relevant statutory provisions.

6. **Information on mortgage bonds issued**

- **As of 31 December 2011** the aggregate **mortgage lending value of real estate** serving as ordinary collateral was **HUF 1,130,278 million.**
- Liabilities from mortgage bonds issued by the Bank with a **maturity exceeding five years** amounted to **HUF 24,736 million as of 31 December 2011.**
- The Bank organised repurchase of its listed and non-listed mortgage bonds and bonds four times in 2011. The face value of **repurchased** mortgage bonds amounted to **EUR 30 million** and **HUF 20, 900 million**, of repurchased bonds to **HUF 790 million**.The Bank, part of the **active assets-liabilities management,** managed to improve its maturity match, moderated the repayment peaks of 2012, 2013 and 2014, and by the more and more preferable yield spreads and commission structures it reduced its funding expenses.

7. **Information on the rating of banking activities, accounting of impairment and provisions**

The Bank has carried out the rating of receivables and liabilities. On 31 December 2011, the portfolio of **receivables and liabilities**, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments, was **HUF 690,192 million** in total. As a result of the rating, based on the Government decree 250/2000 and internal regulations, **92.25%** of the total portfolio is **problem-free prime, 3.18% is on the watch list, 3.06% is classified as sub-prime, 1.18% is rated as doubtful**, and 0.34% as bad debt.
As of 31 December 2011, the Bank recorded **HUF 11,219 million impairment** from receivables, and a risk provision of **HUF 61 million** for contingencies**.**

On basis of the qualification of strategic investments as of the value date of 31 December 2011, the Bank generated impairment in the amount of HUF 158 million to its subsidiary, the FHB Real Estate Limited.

8. **Information on the general risk provision**

As of 1 January 2008 the Bank discontinued the system of general risk provision. In 2011 the provision recognized in earlier years did not increase, there was no need to release from the general risk provision in the reported year.
As of 31 December 2011, the general risk provision was **HUF 2,655 million**.

9. **Information on the general reserve**

In 2011 no general reserves were generated due to the negative after tax profit

10. **Impairment of other receivables**

As of **31 December 2011** no such losses were recorded by the Bank.

11. **Information on the Bank's shares**

- The Bank assigned KELER Ltd. to maintain the Register of Shares in accordance with the relevant legal provisions.

- Payment of dividends for the years 2003 through 2006 is also carried out by KELER Ltd. **Unpaid dividends** on the balance sheet date are as follows:

2003:	HUF 28.9 million
2004:	HUF 107.0 million
2005:	HUF 65.4 million
2006:	HUF 0.5 million

12. Futures

- **As of 31 December 2011** the following OTC hedging futures are recorded by the Bank:
  - HUF interest swap transactions, in which cases the value of future liabilities undertaken was HUF 8,578 million, and the value of related future receivables was HUF 7,662 million.
  - Foreign exchange swaps with future receivables of **EUR 385 million** (HUF 119,785 million) and **HUF 133,791 million**, and related future liabilities of **CHF 1,159 million** (HUF 296,608 million) and **HUF 6,267 million.**

- In relation to the OTC hedging futures existing on 31 December 2011, the P/L statement already recorded HUF 1,390 million (EUR 4.5 million), HUF 5,012 million accrued interest, as well as HUF 2,742 million (CHF 10.7 million) and HUF 914 million interest expenditure.

- Swaps for hedging purposes are based on mortgage bonds denominated in EUR, HUF-denominated bonds and EUR-denominated long-term interbank loans. The swap parameters (amount and type of foreign exchange, interest, maturity etc.) are identical with the parameters of the mortgage bond and FEX loan.

- Liquidity swaps involve HUF 17,345 million (CHF 67.8 million), HUF 41,262 million (EUR 132.6 million) and HUF 43,690 million future receivables and HUF 13,811 million (CHF 54 million), HUF 55,832 million (EUR 179 million), HUF 35,199 million and HUF 241 million (USD 1 million) future liabilities.
- HUF 9 million deferred interest expense and HUF 394 million accrued interest income related to liquidity swaps not closed on balance sheet date were accounted.

13. Other banking information

- In accordance with the relevant government Decree, the **value of pending interest –** which is **11,46%** of interest on receivables from customers, reported in 2011 – was **HUF 1,364 million as of 31 December 2011** and the value of pending interest type commission was **HUF 231 million**. During the reported year the Bank received HUF 117 million from interest that was pending before the year of reporting, of which HUF 39 million was accrued in the 2010 financial statement.

- The amount of **absolute guaranty** from customers backing the receivables from customers (private persons), was **HUF 38,026 million** and the amount of government guaranty was **HUF 5,979million**. Receivables covered by life insurance taken out by debtors amounted to **HUF 21,896 million**.

- The portfolio of loan transactions with partner banks and savings cooperatives within **syndicated** lending was **HUF 5,696 million HUF** as of 31 December 2011. The cooperation agreement with the credit institutions includes a **deficiency guaranty and loss sharing in favour of the Bank.** Within the deficiency guaranty, the partner bank takes over a certain amount of liabilities, which the Bank recorded as non-recurring losses/provision on loans and advances. The partner bank undertakes deficiency guarantee to the extent of lending losses suffered by the Bank that cannot be recovered by any other means. According to the loss-sharing agreement, the syndicated partner undertakes 40-60% of losses/provision on loans and advances.

- Within the amounts of the liabilities from clients the contractual value of restructured liabilities was HUF 16,107 million as of 31 December 2011; its value according to the registration was HUF 13,810.

- **Foreclosure procedure** is in progress with regard to **140 terminated deals on 31 December 2011**. The Bank initiated new auction procedures in case of **41** terminated deals in 2011. **Every deal that is terminated** in 2011 **and affected by the foreclosure procedure initiated by the Bank is still in the portfolio.** Regarding the auctions that ended in 2011 (8 auctions, 12 affected deals), **the value difference** of the result of the auction and the existing mortgage loan is **HUF 16,3 million**.

In order to reduce and avoid loss related to mortgage lending, the data of **properties received** as a result of execution are as follows:

Number	13 pieces
Legal characteristics	
Taken into possession	5 pieces
Taken into ownership, but accession not yet realized	7 pieces
Sold from the properties received	1 pieces

- **As of 31 December 2011,** the amount of **principal repayment from mortgages** for the reported year was **HUF 104.436 million,** of which HUF 35,074 million was mortgage repayment from customers and 69,362 was repayment from credit institution refinancing**.**

- As set forth by the provisions of the relevant Government Decree, during the preparation of the balance sheet the Bank has to move the **amount** of receivables and liabilities that is **due in the year following the reported year** from long term to short term receivables and liabilities. Accordingly, the Bank restructured **HUF 28,161 million** from long-term **receivables** from customers and **HUF 19,210 million** from long-term receivables from credit institutions into short-term receivables. From long-term **liabilities** due to issued mortgage bonds **HUF 78,405 million,** due to issued bonds **HUF 11,844 million** were moved to short-term liabilities.

- Of the **HUF 80,857** reported by the Bank in the **31 December 2011** balance sheet as **government securities HUF 7,057** are listed securities.

- In inventory the Bank accounts for **purchased inventory** amounted to **HUF 7 million** and repossessed real estate amounted to **HUF 265 million on 31 December 2011**, based on which there is impairment of **HUF 72 million**.

- The **“Expenditures on investment services”** line item of the profit and loss statement recorded **HUF 41 million** sales expenditures related to the sales of mortgage bonds

- As a result of sales of services within the Group companies, **as of 31 December 2011** the Bank had receivables from **subsidiaries** amounting to **HUF 254 million** in the following breakdown:

  FHB Commercial Bank Ltd. HUF 246 million
  FHB Real Estate Ltd. HUF 6 million
  FHB Annuity Ltd. HUF 2 million

  The Bank recorded **HUF 303 million liabilities** for services extended by its **subsidiaries** in the following breakdown:

FHB Commercial Bank Ltd.	HUF 164 million
FHB Annuity Ltd.	HUF 2 million
FHB Real Estate Ltd.	HUF 137 million

  The Bank’s assets also include CHF 5,8 million (HUF 1,484 million), EUR 126 million (HUF 39,202 million), USD 3 million (HUF 722 million) and HUF 330 million current, CHF 70.6 million (HUF 18,067 million), EUR 10 million (HUF 3,111 million) and HUF 8.145 million long term **interbank deposit with** FHB Commercial Bank Ltd., and HUF 93,260 million **interbank deposit from** FHB Commercial Bank Ltd.

- The majority of the members of FHB Group are subject to group taxation headed by FHB Mortgage Bank Plc. No VAT is incurred by services extended within the tax group.

14. “Negative” information

- The Bank has no pension payment obligations to its previous senior management members.
- The Bank did not provide long-term loans for its associated enterprise. The Bank did not maintain or use provisions for its subsidiary.
- The Bank did not record any export sales to countries within or outside of the European Union. The Bank did not receive any export subsidies.
- The Bank did not receive any disbursement without return from subsidy programmes. Subsidy programmes include subsidies and allocations disbursed from central government, local government and/or international funds, as well as other business enterprises for the upkeep and development of activities.
- The Bank did not engage in research and development activities in 2011.
- The Bank does not own any tangible assets intended for direct environmental protection purposes, nor any hazardous waste and pollutants. The Bank does not have any present or future environmental obligations or environmental protection costs.
- In 2011 the Bank was not a member of the National Deposit Insurance Fund nor of any voluntary deposit insurance fund, institution protection fund or investor protection fund.
- As of 31 December 2011 the Bank had no subordinated assets or liabilities.
- The Bank’s assets are not encumbered with mortgage or any other similar rights.
- The Bank did not carry out any reverse transactions in 2011.

15. Other information

- **Report on the effect of full early repayment of foreign currency denominated mortgages on the Bank**

The Bank complied with the provisions of Article 200/B of Act CXII of 1996 on Credit Institutions and Financial Enterprises, accordingly, in case of full early repayment made on basis of any mortgage taken out on a residential property in Hungary or on basis of a foreign currency denominated loan agreement concluded with the consumer under the joint and several guarantee of the State undertaken pursuant to Article 44 of Act CXXXV of 2004, the financial institution having the liabilities from the loan agreements, - insofar as the prescribed requirements are met – when the HUF equivalence of the early repayment of foreign currency denominated mortgages is determined, shall apply an exchange rate of 180 HUF/CHF in case of CHF and 250 HUF/EUR in case of EUR denominated mortgages.
The key legal requirements of the full early repayment were as follows:

a) the FX rate applied at the time of the disbursement of the foreign currency denominated loan was not higher than the FX rate determined above,

b) the loan agreement was not terminated by the Bank till the date specified by the Act,

c) the borrower submitted his/her written application on the full early repayment to the Bank till 30 December 2011,

d) the borrower undertook the payment of the bridge loan or the buffer account loan related to the full early repayment of foreign currency denominated mortgage loan, furthermore

e) the full early repayment was made within 60 days at the latest from the date of the application submitted.

The Act also prescribed that in case the full early repayment is not paid till 31 December 2011, but the client, till 30 January 2012, to the Bank

1. transferred the entire amount in HUF required for the full early repayment, or
2. attached to his/her submitted application within 60 days from the date of application presented at the latest a binding promissory note issued by another credit institution and sufficient to cover for the sum of the early repayment or the sum that was not transferred

then the full early repayment could be made till 28 February 2012 at the latest.

The Bank received and executed the clients' applications on full early repayment, insofar as they met the prescribed requirements.

In respect of transactions fully repaid in connection with the early repayment till 31 December 2011 it was presented as actually accounted released/irrecoverable lending loss, while in respect of transactions fully repaid in connection with the early repayment in 2012 it is presented in the financial statements as impairment generated in 2011 in the amount of the actual loss, as follows (data in millions):

	Debts fully repaid by early repayment 2011	Debts fully repaid by early repayment 2012	Number of loan agreements affected by full early repayment number/ year 2011	Number of loan agreements affected by full early repayment number/ year 2012	Lending loss accounted on full early repayment 2011	Lending loss accounted on full early repayment 2012
CHF	36.2	44.7	1,911	1,949	2,491.6	2,908.5
EUR	0.9	0.3	35	20	38.6	12.5
Total HUF	9,327.2	11,142.7	1,946	1,969	**2,530.2**	**2,921.0**

- As a result of the revamp of the Group the FHB Mortgage Bank Plc. has been keeping its books and accounts since December 2011 despite of the previous practice.
  Public data on record:
  Gyula Köbli Registration number: 005394 Residence: 1192 Budapest, Szent Imre u. 4.

- In the 2011 business year the Company employed Ernst & Young Könyvvizsgáló Kft. (seated: 1132 Budapest, Váci út 20., corporate registration number: 01-09-267553; auditors' chamber id: 001165; Hungarian Financial Supervisory Authority id: T-001165/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Ms. Gabriella Virágh (mother's name: Erzsébet Kiss; address: 1032 Budapest, Kiscelli u. 74.; auditors' chamber id: 004245; Hungarian Financial Supervisory Authority id: Ept. 004245/04; hereinafter referred to as: „personally assigned auditor").

  In addition to the performance of the annual audit in 2011 the Ernst & Young Könyvvizsgáló Kft., (in 2011 the amount paid was HUF 16 million with VAT), also inspected the data of the issuance prospectus concerning the issue of mortgage bonds of the Company (in 2011 the amount paid was HUF 25,63 million with VAT).). Based on a separate contract half-year audit was also performed (gross HUF 12,5 million was paid).

  The Auditor performed these assignments in conformity with the contracts, which was duly certified by the Company. The Auditor did not get any other assignments from the Company in 2011

- Concurrently with the merger of the Allianz Bank Limited by acquisition to the FHB Commercial Bank Limited the Bank requested and received a conditional tax assessment from the Ministry of National Economy and in 2011 accounted the deferred income of negative goodwill determined in 2010, and by this a total revenue of HUF 5,874 million was generated in 2011.

- The following persons are **authorised to** represent FHB Mortgage Bank Public Limited Company and **sign the Company's annual report:**

  László Harmati Business Chief Executive Officer
  1052 Budapest, Csopaki u. 5.
  Gyula Köbli, Strategic and finance Chief Executive Officer
  1192 Budapest, Szent Imre u. 4.Registration number: 5394

- The Bank's Annual Report can be inspected at the Company's registered office and on its website www.fhb.hu.
  The Company's registered office: 1082 Budapest, Üllői út 48.

FHB BANK

I /4. Changes in own equity
31 December 2011

Data in million HUF

	Subscibed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve	Balance Sheet profit	Total own equty
31 December 2010	**6 600**	**26 530**	**0**	**34 162**	**123**	**-14 889**	**52 526**
Decrease of subscibed capital							
Use of general reserve							
2009 profit				-14 889		14 889	
Creation of fixed reserve				-26	26		
Remove from fixed reserve				120	-120		
2010 profit						-1 852	-1 852
31 December 2011	**6 600**	**26 530**	**0**	**19 367**	**29**	**-1 852**	**50 674**

II. SPECIFIC PART

II / 1. Changes in gross values of intangible and tangible assets

31 December 2011

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		22		16	18	20
b/ Intellectual products		982		49		1 031
c/ Value of formation / reorganization						
Total intangible assets :	**9.**	**1 004**		**65**	**18**	**1 051**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)			318		318
b/ Plant, machinery installations, vehicles	10. ab)			443		443
c/ Investments	10. ac)					
d/ Advances on investments	10. ad)					
Total tangible assets of financial services:	**10. a)**			**761**		**761**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)					
b/ Plant, machinery installations, vehicles	10. bb)			10		10
c/ Investments	10. bc)					
d/ Advances on investments	10. bd)					
Total tangible assets of non-direct financial services:	**10. b)**			**10**		**10**

FHB BANK

II / 2. Changes in accumulated depreciation of intangible and tangible assets

31 December 2011

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		13		1	10	4
b/ Intellectual products		665		23		688
c/ Value of formation / reorganization						
Total intangible assets :	**9.**	**678**		**24**	**10**	**692**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)			3		3
b/ Plant, machinery installations, vehicles	10. ab)			24		24
c/ Investments	10. ac)					
d/ Advances on investments	10. ad)					
Total tangible assets of financial services:	**10. a)**			**27**		**27**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)					
b/ Plant, machinery installations, vehicles	10. bb)			2		2
c/ Investments	10. bc)					
d/ Advances on investments	10. bd)					
Total tangible assets of non-direct financial services:	**10. b)**			**2**		**2**

FHB BANK

II / 3. Changes in net values of intangible and tangible assets

31 December 2011

Data in million HUF

Description	Balance sheet line	Changes in net values	
		Opening balance	Closing balance
I. Intangible assets :			
a/ Valuable rigths		9	16
b/ Intellectual products		317	343
c/ Value of formation / reorganization			
Total intangible assets :	**9.**	**326**	**359**
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)		315
b/ Plant, machinery installations, vehicles	10. ab)		419
c/ Investments	10. ac)		
d/ Advances on investments	10. ad)		
Total tangible assets of financial services:	**10. a)**		**734**
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)		
b/ Plant, machinery installations, vehicles	10. bb)		8
c/ Investments	10. bc)		
d/ Advances on investments	10. bd)		
Total tangible assets of non-direct financial services:	**10. b)**		**8**

II / 4. Changes in depreciation of intangible and tangible assets in the subject year

31 December 2011

Data in million HUF

Description	Planned depreciations	Over-plan depreciations, refuse
I. Intangible assets		
1/ Valuable rights	1	
2/ Intellectual products	23	
3/ Value of formation / reorganization		
Total intangible assets	**24**	
II.1. Tangible assets of financial services:		
1/ Land and buildings	3	
2/ Plant, machinery installations, vehicles	24	
3/ Investments		
Total tangible assets of financial services:	**27**	
II.2. Tangible assets of non-direct financial services		
1/ Land and buildings		
2/ Plant, machinery installations, vehicles	2	
Total tangible assets of non-direct financial services:	**2**	
III. Depreciation of tangible and intangible assets of a value below HUF 50,000 each accounted in a sum		
T o t a l :	**53**	

II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2011

Data in million HUF

Description	Balance sheet line	Portfolio as on 31 December 2011	Portfolio of 31 December 2011 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	121 635	107 352	14 283				
- Long term	3.bb)	341 182			101 848	103 360	89 672	46 302
Accounts receivable from customers :								
- Short term	4. aa)	28 561	11 319	17 242				
- Long term	4. ab)	166 431			47 341	57 108	42 061	19 921
- Accounted value loss	from 4. ab)	-11 219						
Total:		**646 590**	**118 671**	**31 525**	**149 189**	**160 468**	**131 733**	**66 223**

FHB BANK

II / 6 . Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)

31 December 2011

Data in million HUF

Description	Balance sheet line	Portfolio as on 31 December 2011	Portfolio of 31 December 2011 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years
		1 = 2+...+7	2	3	4	5	6	7
Accounts payable to credit institutions :								
- Short term	1. ba)	93 741	93 741					
- Long term	1. bb)							
Accounts payable to customers :								
- Short term	2. ab)+ 2. bb)	2 560	2 560					
- Long term	2. ac)+ 2. bc)	62 226	15 556	46 670				
Accounts payable due to issued securities :								
- Short term	3.aa)	90 249	29 767	60 482				
- Long term	3.ab)	401 396			376 659	18 514	6 223	
Subordinated accounts payable	7.							
Total:		**650 172**	**141 624**	**107 152**	**376 659**	**18 514**	**6 223**	

FHB BANK

II / 7 . Items to modify corporate tax base

31 December 2011

Data in million HUF

Items to decrease pre-tax profit	Amount	Items to increase pre-tax profit	Amount
1. Planned and over-plan depreciation applicable according to provisions of Corporate Tax Act.	61	1. Planned and over-plan depreciation accounted as cost according to Accounting Act.	61
		2. No cost to the company's cost	34
Total:	**61**	**Total:**	**95**

Pre-tax profit (19 of P&L statement):	**-1 852**
Items to increase / decrease tax base:	**34**
Corporate tax base:	**-1 818**
Tax payable	**0**

II / 8 / a. Changes in provisions

31 December 2011

Data in million HUF

Description	Opening balance	Writing off of credit losses	Creation of privision	Writing back of provision	FX differences	Closing balance
1. Provision for securities						
2. Provision for accounts receivable						
3. Provision for inventories						
4. Provision for financial investments						
5. Provision for off-balance-sheet items	97		163	212	14	62
6. Provision for possible future obligation	0		685	685		
7. Provision for general risks	2 655					2 655
8. Other provisions						
Total provisions : (1. - 8.)	**2 752**		**848**	**897**	**14**	**2 717**

II / 8 / b. Changes in value losses

Description	Opening balance	Writing back of value losses of previous year	Writing back of value losses in subject year	Value losses accounted in subject year	FX differences	Closing balance
1. Value loss of accounts receivable from credit institutions						
2. Value loss of accounts receivable from customers	5 770	3 377	1 035	9 385	476	11 219
3. Value loss of shares for investment purposes	58	5	150	255		158
4. Value loss of accounts receivable				72		72
Total value losses: (1. - 4.)	**5 828**	**3 382**	**1 185**	**9 712**	**476**	**11 449**

II / 9. CASH-FLOW

Data in million HUF

No.	Description	31 December 2010	31 December 2011
01.	Interest received	68 732	65 807
02.	+ Incomes from other financial services	4 843	7 843
03.	+ Other incomes (without use of provision and writing back of surplus provision, value loss of inventories and over-plan depreciation	395	7 118
04.	+ Incomes from investment services (except for writing back of value loss of securities)		
05.	+ Incomes from services other than financial or investment	40	167
06.	+ Dividend received		
07.	+ Extraordinary income	4 615	7 956
08.	- Interest paid	-53 450	-58 937
09.	- Expenses on other financial services (without value loss of securities)	-5 110	-7 701
10.	- Other expenses (except for creation of provision and value loss, over-plan depreciation)	-3 085	-4 809
11.	- Expenses on investment services (without value loss of securities)	-239	-41
12.	- Expenses on services other than financial and investment ones	-39	-45
13.	- General administration costs	-4 795	-4 466
14.	- Extraordinary expenses (without taxation in subject year)	-30 040	-9 654
15.	- Corporate tax payable in subject year		
16.	- Dividend paid		
17.	**Operating cash flow (lines 01.-16.)**	**-18 133**	**3 238**
18.	± Changes in accounts payable	9 997	-35 016
19.	± Changes in accounts receivable	-68 480	48 225
20.	± Changes in inventories	3	-182
21.	± Changes in portfolio of securities indicated as current assets	42 207	-10 548
22.	± Changes in financial investments	1 570	4 434
23.	± Changes in portfolio of investments (including advances)		
24.	± Changes in portfolio of intangible assets	-74	-57
25.	± Changes in portfolio of tangible assets (without investments)		-771
26.	± Changes in accruals	2 681	-5 681
27.	± Changes in deferrals	34 980	-3 826
28.	+ Issue of shares at selling price	-4 615	
29.	+ Funds received without compensation according to relevant rules of law		
30.	+ Funds handed over without compensation according to relevant rules of law		
31.	- Nominal value of withdrawn own shares, property bonds		
32.	**NET CASH FLOW (lines 17.-29.)**	**136**	-184
	Out of which: - changes in cash		
	- changes in bank money (accounting and other sight deposit with NBH)	136	-184

II / 10. Maturities of major items of accrued interests and deferred costs and expenses

31 December 2011

Data in million HUF

Description	Balance sheet line	Items of 31 December 2011 broken down by maturities				31 December 2011
		within 3 months	Between 3 months and one year	more then 1 year but, less then 2	more then 2 years	
		1	2	3	4	= 1+2+3+4
Accrued interest	From 13. a)					
- Accrued interests on redeemed own securities		140	14			**154**
- Accrued interests from accounts receivable from customers		1 590				**1 590**
- Accrued interests from credit institutions from refinancing loans		515				**515**
- Accrued interests of interbank deposits		258	350			**608**
- Accrued interest of hedge transactions		3 026	3 770			**6 796**
- Commission for arrangement of state subsidies		17				**17**
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		4 358	10 561			**14 919**
- Deferred interest on hedge transactions		1 564	2 101			**3 665**
- Deferred interest on state loan		445				**445**
- Deferred interest on interbank loans		97				**97**

FHB BANK

II / 11. Assets and liabilities in foreign currencies
31 December 2011

Data in million HUF

	ASSETS	Amount in balance sheet	Of which in foreign currency, value in HUF		LIABILITIES	Amount in balance sheet	Of which in foreign currency, value in HUF
1.	Cash	213	2	1.b.	Liabilities towards credit institutions from financial services and fixed for a predetermined term	93 741	481
2.a.	Government securities	80 857	0	2.b.	Other liabilities to customers from financial services	66 658	62 456
3.a.	Receivables from credit institutions - sight	1 054	1 054	3.	Liabilities from securities issued	491 645	132 417
3.b.	Other receivables from financial services	462 817	330 355	4.	Other liabilities	1 444	313
4.a.	Receivables from customers from financial services	183 773	70 770	5.a.	Passive accrual of income	78 082	187
5.ba.	Debt securities, including fixed interest securities issued by other issuer	308	308	5.b.	Accrued costs and expenditures	19 514	4 795
12.b.	Other receivables	6 462	1 324	6.b.	risk reserve for pending and certain future liabilities	61	26
13.a.	Accrued income	29 481	2 358				
13.b.	Deferred costs and expenditures	4 210	25				

III. INFORMATIVE PART

III / 1. Informative data on participations of the bank

31 December 2011

Data in million HUF

		Registered value	Enterprise's							
Name of the enterprice\ Registered office	Share in property	of the investmen	Own equity	Subscribed capital	Subscribed and not yet paid	Profit reserve	Restricted reserve	Capital reserve	Valuation reserve	2010 profit
FHB Ingatlan Zrt.	100%	370	110	65		-358		400		3
1082 Budapest Üllői út 48.										
FHB Kereskedelmi Bank Zrt.	72,6%	32 923	28 033	4 328		27 183	4 428			-7 906
1082 Budapest Üllői út 48.										
FHB Életjáradék Zrt.	100%	677	2 930	160		-2 310		439	5 249	-608
1082 Budapest Üllői út 48.										
Total		33 970	31 073	4 553		24 515	4 428	839	5 249	-8 511

III/2.Investments
31 December 2011

Data in million HUF

	Allianz Bank Plc.	FHB Commercial Bank Ltd.	FHB Services Ltd.	FHB Real Estate Ltd	FHB Annuity Ltd	Total
30 September 2010	**0**	**24 995**	**3 002**	**303**	**578**	**28 878**
Share purchase 568 000 piece	3 800					**3 800**
Subsequent purchase price	-527					**-527**
Badwill	6 186					**6 186**
Derecognition of the carrying value of the investment at the merge	-9 459					**-9 459**
Allianz's merge into the Commercial Bank according to financial position (31.03.2011)		7 956				**7 956**
Sale of the Commercial Bank's 4100 shares to Commercial Bank		-4 440				**-4 440**
Termination of the lending of the Commercial Bank's share to Service Ltd		3 708				**3 708**
Partial termination of the lending of the Commercial Bank's share		704				**704**
Capital increase			3 000	95	99	**3 194**
Sales of shares			-6 002			**-6 002**
Impairment of investments				-28		**-28**
2011. december 31.		**32 923**		**370**	**677**	**33 970**

III / 3. Total emoluments payable to members of Board of Directors and Supervisory Board on business year

31 December 2011

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Board of Directors	7	64
Supervisory Board	9	29
Total :	16	93

Total emoluments payable to Management

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Management	3	186

FHB BANK

III / 4. Loans granted to members of Board of Directors, Management and Supervisory Board

31 December 2011

Data in million HUF

Description	Paid	Re - paid	Principal to be re-pad	Essential conditions, interests-bearing
1. Internal loans				
- Board of Directors				
- Management	15	4	11	Structure as set out in announcement under preferential conditions
- Supervisory Boars	8	0	8	Structure as set out in announcement under preferential conditions
1. Total:	**23**	**4**	**19**	

III / 5 Average statistical personnel staff broken down by staff groups

31 December 2011

PERIOD	Average statistical personnel staff		
	Blue collar	White collar	**Total**
2010.		91	**91**
2011.		94	**94**

FHB BANK

III / 6. Book value and nominal value of own securities
31 December 2011

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	514	518
b) Treasury Bills	6 543	6 652
c) MNB bonds	73 799	74 000
c) Bonds issued by credit institutions	308	311
e) Re-deemed own shares (repurchased by the Bank)	29	5
Total current assets	**81 193**	**81 486**
II. Financial investments, interests in other enterprises		
a) participations in credit institutions	32 923	3 142
b) participations in other enterprises	1 205	225
Total financial investments:	**34 128**	**3 367**
TOTAL (I. + II.)	**115 321**	**84 853**

FHB BANK

III / 7. Off-balance sheet items

31 December 2011

Data in million HUF

Descriptions	31 December 2010.	31 December 2011.
Pending obligations		
- Available credit facility on credits extended	54	43
- Loans committed in contract but not yet extended	2 166	1 628
Future obligations	365 968	416 536
Total :	**368 188**	**418 207**

Budapest, 19 March 2012

László Harmati
CEO

Gyula Köbli
CEO

FHB Mortgage Bank Plc.

Annual Report for 2011

Table of contents

1 Macroeconomic environment in 2011

1.1 The Hungarian economy in 2011

	2009	2010	2011*
GDP growth (%)	-6.7	1.2	1.7
Industrial production growth (%)	-17.8	10.6	5.4
Export growth rate (%)	-9.6	14.1	9.0
Consumer prices (%)	4.2	4.9	3.9
Unemployment rare (period end, %)	10.1	11.2	10.9
Budget deficit (HUF billion)	-920	-1,003	-1,734
Current account balance (EUR million)	-429	1,225	2,100
Base rate (%, year-end)	6.25	5.75	7.00
EURHUF rate (year-end)	270.84	278.75	311.13

Source: NSA, NBH, * 2011 forecast

The Hungarian economy slightly increased in 2011, the preliminary data of GDP increased to 1.7 %. The unemployment rate is a little bit lower than 2010. Although unemployment rate dropped below 11% during 2011, small reduction is due to special regulation (public work and 90 working days per year required to cost-of-living allowance) that can't contribute to generating demand for financial products. The size of the working population was 3,812,000 representing a growth of 31,000compared to 2010.

On the production side, the engine of growth was industry, while on the usage side, the pull factor was export: industrial production expanded by 5.4%, and export was up by 9.0%. The performance of the building industry continued to decline, falling 7.8% short of the reference year; services presented a mixed picture with stagnating overall performance. Similarly to export, import also rose steadily, by approximately 6.6%; conversely, domestic consumption and investment was 1.5% below 2010 levels. Households' consumption dropped by 0.1%.

The gross average wage of workers was on the average 5.2% above that of 2010, and net average wages across the national economy rose by 6.4% year-on-year.

Balance of government budget weakened, general government deficit increased to 4.2% as a % of GDP by the end of 2011. Owing to dynamically expanding exports (export in euro increased by 11.7%, import by 10.5%) the foreign trade balance was 1,949 billion forints, 433 billion forints above the previous year's figure. Rising exports and considerable lag in imports resulted in a positive balance.

Consumer price index improved by 3.9% in comparison to 2010 being 1%-point below the value of 2010. In the first half of the year food prices' increase generated higher inflation, but during the last months of the year inflation followed the path of fuel prices.

About 12,660 new residence have been built in 2011, by 39% less than a year before. Number of private builders dropped by a quarter, but at business level the same rate is 60%. 12.490 residentialbuilding permits were issued in 2011, 28% less than 2010.

NBH raised the base rate several times in 2011. The 2010 closing base rate of 5.75% increased to 7.00%, as a result of increase by a 25 basis points in January, than 50-50 basis points in November and December. Interbank rates followed a curve similar to the base rate during the year. The exchange rate of the forint continuously sank, especially in the last third of the year, from HUF/EUR 278.75 level of the beginning of 2011 to HUF/EUR 311.13 for the year-end. In terms of domestic lending more important Swiss franc remained above HUF 200 in the whole year and from the HUF/CHF 222.68 forints at the end of 2010 climbed to HUF/CHF 255.91 forints till the end of 2011, so it was more than 30 forints higher than a year before.

1.2 The banking sector in 2011

After 13 years, in 2011 the banking sector made loss, the sector's cumulated after-tax profit takes 92.6 billion forints loss according to the preliminary figures in contrast with the 12.3 billion forints gain in 2010.

The banking sector's loss before taxation was 46.5 billion forints in 2011 in comparison toearnings of 34.4 billion forints reached in 2010. Net interest income slightly decreased, by 0.5% to 861.6 billion forints from865.7 billion forints in 2010.On the other hand,non-interest income showed a dynamic growth of 54% from 179.4 billion forints to 276.5 billion in 2011. Impairment and provisions achieved 528.3 billion forints compared to 377.1 billion in 2010 (40% growth).

The balance sheet total in banking industry was up by 2.8%or 781 billion forints in 2011 and amounted to 28.906 billion forints. Banks' portfolio quality – continuing the trend during the year – in the last quarter deteriorated significantly, however,fixed-rate final repayments had significant impact on that, considering only loans not expired were allowed for repayment and as a result of that, volume and share of performing loans decreased in the portfolio. In 2011, proportion of qualified – especially NPL – loans increased considering total loans and retail loans, as well.

In December 2011, household's deposits grew by 1.4%, despite of HUF 129 billion final repayments granted without applying for redemption loan.Considering whole year of 2011, households deposit increased by 6% and corporate deposits by 6% in balance sheet of banks.

1.3 Retail mortgage lending in 2011

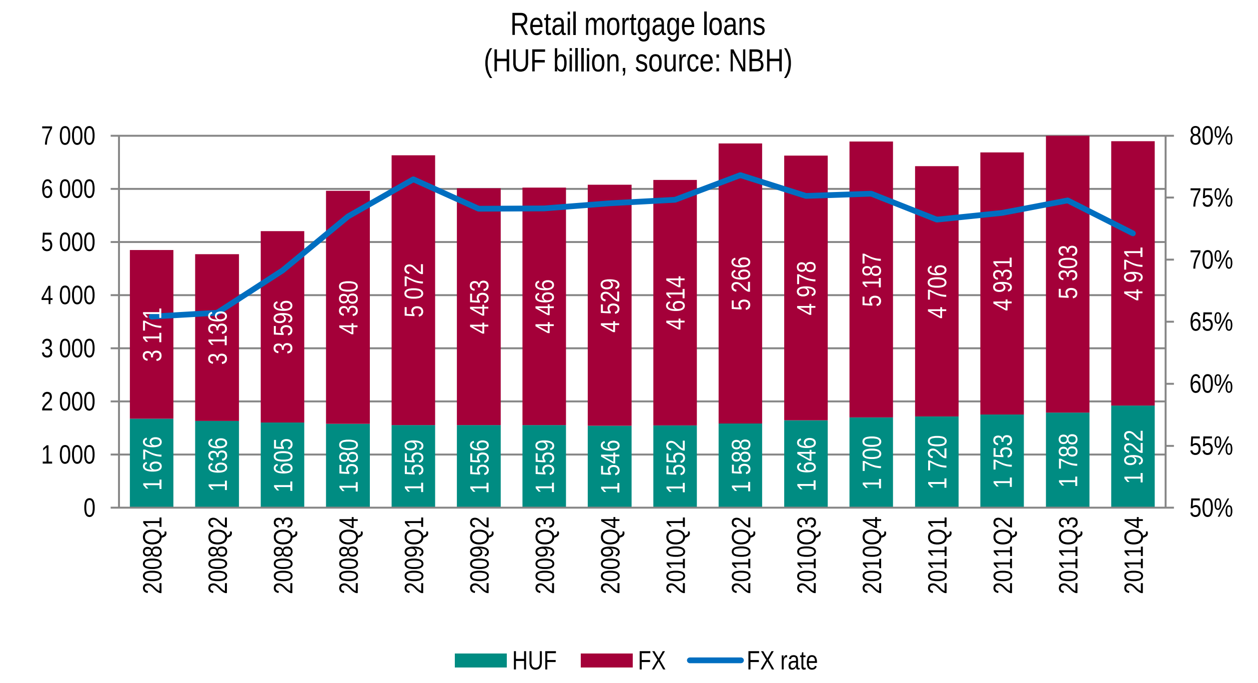
Retail customers' demand for loans continued to be severely reduced throughout 2011; at the same time, the supply side was weakened by unfavourable changes in the regulatory environment and in the market. In the absence of demand FX loans stagnated (not considering exchange rate changes), as did HUF lending, growth in demand hasn't been realised.

During 2011, some important legal changes were implemented, having significant impact on retail lending market. The most important elements of Act LXXV of 2011 were as follows:

<u>Exchange rate protection:</u> foreign currency mortgage holders have the option of limiting their monthly debt servicing by fixing the exchange rate on euro, Swiss franc and yen denominated mortgages until 31 December 2014 (CHF/HUF: 180, EUR/HUF: 250, JPY/HUF: 200). The difference between the market exchange rates and the fixed rate is accumulated on an overflow account and borrowers must repay the outstanding amount on the overflow account at market interest rate. In accordance with the agreement between the Government and the Hungarian Banking Association the overflow account loan scheme will be renewed in 2012 and will offer more favourable terms to debtors with problem-free underlying FX loans than currently.

<u>Quarterly foreclosure quotas:</u> The blanket moratorium on eviction and foreclosure was lifted as of 1 July 2011; however, banks are imposed specific terms, as well as a limit to foreclose mortgage collateral properties that is eased gradually. The limit was 2% in 2011, is 3% in 2012, 4% in 2013 and 5% in 2014, then from 1 January 2015 the limitation on the foreclosure system will be removed. The above mentioned agreement concluded in December between the Government and the Banking Association introduced another change: the Government shall create the right conditions whereby the National Asset Management Company will be able to buy 25,000 residential properties by the end of 2014 according to the following schedule: 8,000 by the end of 2012; 15,000 by the end of 2013; 25,000 by the end of 2014. Properties purchased by the National Asset Management Company shall not count towards the foreclosure limit.

<u>Fixed-rate early repayment:</u> The Act granted debtors the possibility of full repayment of their outstanding FEX denominated debts at discount rates for a limited period and also provided exemption from tax and duty fee subject to specific terms. The exchange rate for debtors who fully repaid EUR-denominated loans was HUF 250, of CHF loans HUF 180, and of JPY loans HUF 2. Applications for reduced rate full repayment must be submitted until 31 December 2011 and debtors have 60 days to pay up. According to the statistics of the Hungarian Financial Supervisory Authority (HFSA) by the end of February 2012 approximately 170 thousand debtors took the opportunity of the full repayment option; filtering out the effect of exchange rate volatility 23.3% of total FX debts have been repaid at fixed rates.



According to National Bank of Hungary figures, retail loan portfolio amounted to 6,893 billion forints as of 31 December 2011, achieving a 17.5 billion forints growth compared to the reference year's figure (6.887 billion forints).

Volume of housing loans amounted to 4,243 billion forint as of 31 December 2011, representing yearly decrease of 110 million forints. HUF loans (including redemption loans) decreased by 75.9 billion forints, while FX housing loans fell down by 186.2 billion forints as a result of final repayments.

General-purpose mortgage loans amounted to 2,650 billion forints as of 31 December 2011 with a 117 billion forints year-on-year growth. Growth of HUF-denominated general-purpose loans was over 146 billion forints; at the same timeFX-based general-purpose loans were down by 29.3 billion forints.

As a combined effect of revaluation of FX loans and fixed-rate final repayments, proportion of FX mortgage loans decreased from 74.6% at the end of 2010 to 72.1% as of 31 December 2011.

2 Description of the Bank

FHB Mortgage Bank Public Limited Company was established by the Hungarian State on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank provided mortgage banking services through its Head Office and regional representative offices located in Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

The Bank receives its licence to operate as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises and Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds on 6 March 1998. The Bank commenced operation as of 16 March 1998.

On 31 October 2003 the Hungarian Financial Supervisory Authority (HFSA) granted permission for Land Credit and Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange. Following a public and private placement of the Bank's shares, a total of 2,500,000 ordinary shares were sold in the context of public offering along with an additional 1,324,899 ordinary shares sold to institutional investors in the context of private placement. A total of further 588,570 voting preference shares were sold to the Bank's priority strategic partners in the context of private placements. The ordinary shares were listed on the Budapest Stock Exchange on 24 November 2003.

The Bank introduced its new Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries besides the already existing FHB Services Ltd., specifically FHB Commercial Bank Ltd., FHB Real Estate Trading and Valuation Ltd., and FHB Annuity and Real Estate Investment Ltd. At the same time the Bank changed its name to FHB Mortgage Bank Plc. Mortgage Bank is the parent company of the group. (The Bank and its subsidiaries are jointly referred to as the Group or Banking Group.)

The third quarter of 2007 brought a major change in the Bank's ownership structure. On 29 August 2007 the Hungarian Privatization and State Holding Company (ÁPV Zrt.) formerly holding a 54.11% majority share in the Bank sold its packet of Series "A" ordinary shares of 50% + 1 vote in the Hungarian and international capital market in the contest of accelerated book building. As a result of the sale ÁPV's share in the Bank dropped to 4.11% held exclusively in the form of Series "B" preference shares. The Series "B" preference shares were converted into ordinary shares in 2009.

In 2009 the Group companies continued he Group's expanding activities in accordance with the Strategic Plan and built their respective operating environments and clientele. The Commercial Bank Ltd. stepped up its activity in selling retail and corporate loan products, and also started raising funds by offering a variety of account and card services and thereby gradually expanding its product range on the liability side. The Commercial Bank's activities were extended with investment services business.

On 31 March 2009 – because of the severe liquidity problems on capital markets – the Bank was granted a state loan of EUR 400 million with the aim to ensure the availability of mortgage loans for retail customers.

In April and June 2009 the Bank increased the Group by the acquisition of Central European Credit Ltd. (CEC, named to FHB Ingatlanlízing effective from 31 December 2010) and the three companies of POMO group.

The expanding of FHB Group continued in 2010 by acquiring the Allianz Bank Ltd. as a part of entering a long-term strategic and cooperation agreement with Allianz Hungária Insurance Ltd. On 1 April 2011 Allianz Bank merged into FHB Commercial Bank and leaved off as separated legal entity.The tangible and intangible assets, previously owned by Allianz Bank and the employees were taken over by FHB Commercial Bank. During 2011 the workforce in parallel roles were laid off, and the underperforming brancheswere closed.

On 30 November 2011 the Bank sold the SLA service provider FHB Services Ltd. to a buyer outside the group. Before the transaction, the activities and non-IT assets of the company were transferred to FHB Mortgage Bank or Commercial Bank, depending on whether it is a business related or back-office activity. (Branches and related tangible assets were transferred to Commercial Bank, as well as loan back-office functions, collection and data processing, while head office, non-branch tangible assets, cars, operation, accounting and reporting functions as well as IT development were transferred to Mortgage Bank.) After realignment the Bank's activity expanded and since December 2011 provide SLA services to other Group members.

3 Ownership structure of FHB Mortgage Bank

In 2011 FHB Mortgage Bank Plc. had solely series "A" ordinary shares listed on Budapest Stock Exchange. Besides trading shares on stock exchange no other event modified ownership structure in 2011.

Majority (73.61%) of FHB shares is owned by domestic institutional investors. FHB Group's shareholder structure as at 31 December 2011:

Ownership structure	Number of shares		Ownership share	
	31/21/2010	31/12/2011	31/21/2010	31/12/2011
Domestic institution/company	46,939,736	48,585,278	71.12%	73.61%
Foreign institution/company	13,672,542	12,216,058	20.72%	18.51%
Domestic and foreign individual	2,535,031	2,182,461	3.84%	3.31%
MNV Ltd.	2,714,300	2,714,300	4.11%	4.11%
FHB Mortgage Bank Plc.	138,401	53,601	0.21%	0.08%
Employees, senior officers	0	248,312	0.00%	0.38%
Total	66,000,010	66,000,010	100%	100%

Owners with more than 5% ownership (as at 31 December 2011)

Name	Number of shares	Stake (%)
VCP Finanz Holding Kft.	15,970,000	24.20%
A64 VagyonkezelőKft.	10,746,468	16.28%
Allianz HungáriaBiztosító Zrt.	8,176,798	12.39%
Silvermist Estate SA	6,303,545	9.55%

4 Overview of FHB Group

FHB Group expanded by two project companies established to finish / conserve and sell properties acquired as collateral. As the finalisation of the acquisition process, on 31 March 2011, Allianz Bank Ltd.,merged into FHB Commercial Bank Ltd. On 30 September 2011, FHB sold Portfolio Money FBK Ltd. to a company outside of the Group.

FHB Service Ltd. was sold to a buyer outside of the Group on 30 November 2011, as a result of the transaction FHB Services Ltd. and its intangibles left FHB Group.The company – on new name EXO-BIT Ltd. – continues to provide IT services to the members of FHB Group.

Ownership structure of FHB Group members as at 31 December 2011:

Subsidiaries	Shareholders					
	FHB Mortgage Bank Plc	FHB Life Annuity Ltd.	FHB Real Estate Ltd.	FHB Real Estate Leasing Ltd.	Portfolio Money Ltd.	Total
FHB Commercial Bank Ltd.	72.60%	8.96%	8.96%	-	-	90.53%*
FHB Life Annuity Ltd.	100.00%	-	-	-	-	100.00%
FHB Real Estate Ltd.	100.00%	-	-	-	-	100.00%
Káry-Villa Ltd.	-	-	100.00%	-	-	100.00%
Wodomus 54 Ltd.	-	-	100.00%	-	-	100.00%
FHB Real Estate Lease Ltd.	-	100.00%	-	-	-	100.00%
Portfolio Money Ltd.	-	-	-	100.00%	-	100.00%
Hitelunió Ltd.	-	-	-	-	100.00%	100.00%
FHB Real Estate Lease Ltd. Croatian subsidiaries	-	-	-	100.00%	-	100.00%

* FHB Commercial Bank owned 9.47% treasury shares on 31 December 2011

As parent company of FHB Group, the Mortgage Bank exercises proprietary supervision over the Group companies. Major Group members are the follows:

FHB Commercial Bank Ltd.

FHB Commercial Bank Ltd. was established from 5,996 million forints equity including 3,996 million forints capital reserve and 2,000 million forints registered capital. In the years 2008 to 2010, shareholders increased the Commercial Bank's registered capital several times, so for the end of 2011 registered capital of Commercial Bank amounted to 4,328 million forints, while shareholders equity reached HUF 28 billion.

Allianz Bank merged into FHB Commercial Bank as of 31 March 2011. The merger boosted the number of employees, number of branches and financial assets, as well.

Before selling FHB Service Ltd. on 30 November 2011, FHB Commercial Bank has bought notable amount of its assets (most of all implemented at branches)and FHB Service's business related activities – such as loan administration, collection and data processing – and employees have been moved to FHB Commercial Bank Ltd. Commercial Bank also provide this kind of services to FHB Mortgage Bank in a framework of agency agreement.

At the end of 2011 FHB Commercial Bank owned 50 branches. The number of retail accounts managed by the Commercial Bank was over 156 thousand and number of corporate accounts was around 6,000.

Allianz Bank Ltd.

In Q1 2011 Allianz Bank Ltd. operated as a separate member in the Group, on 1 April 2011 merged into FHB Commercial Bank Ltd. and ceased with succession.

FHB Services Ltd.

FHB Services Ltd. was entirely owned by FHB Mortgage Bank Plc. and provided infrastructure and back office services to FHB Group members until November 2011. After the sales transaction Services Ltd. operates under the name of EXO-BIT Ltd. with lower headcount and activity and provides IT services exclusively to FHB Group.

FHB Real Estate Ltd.

FHB Real Estate Ltd. was established for the purpose of promoting the implementation of the tasks laid down in FHB Mortgage Bank Plc.'s strategy, specifically to undertake real estate collateral valuation, real estate investment, sales and management services, and as a real estate valuation agent for FHB Group. In addition to Group companies, FHB Real Estate Ltd. provides real estate related services to external customers. FHB Real Estate Ltd. registered capital was 65 million forints on 31 December 2011, shareholders equity amounted to 109.3 million forints.

FHB Real Estate Ltd. owns 100% share of Wodomus 54 Property Development Ltd. established on 11 February 2011 with a share capital of 500,000 forints as a project company to finalize and sale 54 flats of real estate located in Csepel (Rákóczi Ferenc str. 144). Real Estate Ltd. set up also Káry-Villa Property Development Ltd. on 11 February 2011 with a share capital of 500,000 forints aiming utilization of the property located in Budapest, Dózsa György str. 74.

FHB Annuity Ltd.

FHB Annuity Real Estate Investment Ltd. was founded on 9 June 2006 with a registered capital of 100 million forints. Upon foundation, 95% of the company's shares were held by FHB Mortgage Bank Plc., and 5% by FHB Services Ltd. Actual operation of FHB Annuity Ltd. started on 6 November 2006. In 2007 the shareholders increased the company's capital by 350 million forints. Next time the shareholders increased registered capital by 10 million forints and capital reserves by 89 million forints on 23 December 2011, related to share purchase agreement of FHB Real Estate Leasing Ltd.

FHB Services Ltd sold its share in FHB Real Estate Leasing Ltd. to FHB Life Annuity Ltd. on 17 November 2011. After the sales transaction, Life Annuity Ltd. increased the registered capital of Real Estate Leasing Ltd. by 360 million forints.

FHB Annuity Ltd. sells two products: an annuity product that is sold directly to senior citizens, and a reverse mortgage product. The reverse mortgage product is offered through FHB Annuity Ltd. as an agent of the Mortgage Bank. The reverse mortgage scheme is a product of FHB Mortgage Bank Plc.; consequently, the contracts concluded through FHB Annuity are reported in the balance sheet of FHB Mortgage Bank Plc.

As of 31 December 2011 the company's registered capital was 160 million forints with an additional 439 million forints capital reserve.

FHB Real Estate Leasing Ltd.

The private limited company FHB Real Estate Lease Ltd. (formerly Central European Credit Ltd.; the new name is effective as of 31 December 2010) was established on 15 December 2004. The company started business on 28 August 2005 with an initial capital of 50 million forints consisting solely of cash contributions. The company's share capital is comprised of 1,000 registered ordinary shares of 50,000 forints face value each. The company is a financial enterprise. Its HFSA license number is E-I-737/2005.

According to the HFSA license, the company is authorized to undertake two types of business activities: mortgage lending and real estate leasing. As had been the case in previous years, FHB Real Estate Lease Ltd. offered mortgage products solely on a real estate collateral basis to retail and corporate customers in 2010. The legislative changes enacted in 2010 led to the cessation of the collateral based mortgage loans business. Since the fourth quarter of 2010 the company shifted its focus on selling lease products.

The company joined FHB Group in 2009; its sole shareholder was FHB Services Ltd. On 17 November 2011 FHB Services Ltd sold its share in FHB Real Estate Leasing Ltd. to FHB Life Annuity Ltd. Pursuant to the HFSA's order dated 29 June 2009 following the application filed by FHB Mortgage Bank Plc., FHB Real Estate Lease Ltd. is subject to supervision on a consolidated basis.

FHB Mortgage Bank – as parent company exercising ownership rights on investments of FHB Services and FHB Life Annuity Ltd. – in 2011 decided three times to increase company's capital. Total capital increase amounted to 850 million forints, including 30 million forints increase of registered capital 820 million forints capital reserves.

As of 31 December 2010 FHB Real Estate Lease Ltd. held 100% of the shares of two companies active in financial mediation (Portfolio Money PénzügyiKözvetítő Zrt. and Portfolio Money FBK Kft.), as well as of two Croatian subsidiaries (CEC d.d. and CEL d.d.). On 30 September 2011 Real Estate Leasing Ltd. sold Portfolio Money FBK Ltd. One of the Croatian subsidiaries (CEL d.d.) is under liquidation.

Portfolio Money Ltd. continues its operation since 1 February 2012 under the name of FHB DWH Services Ltd. with modified activity providing data processing and web hosting services.

5 Report on the business activities in 2010

5.1 Major financial indicators

The balance sheet total calculated on the basis of the Hungarian Accounting Rules was 4.8% or 40.7 billion forints lower than the previous year's figure. The balance sheet total has exceeded 804 billion forints at the end of 2011.

Earnings before taxation was -1.9 billion forints loss, while profit before tax was -19.4 billion forint in 2010. Share capital decreased by 1.9 billion forints or 3.5% year-on-year. The merge of Allianz Bank and the fixed rate final repayments available from September 29th 2011 had the major impact on net income.

The Mortgage Bank after the merge of Allianz Bank accounted the previously activated bad will of purchase price in one sum as income for 2011, with the permission of APEH in July 2011.

According to the fixed rate repayments, the Mortgage Bank suffered about HUF 5.5 billion losses. This total sum of losses covers also the losses from repayments finished in January-February 2012 through provision.

Major financial indicators	31 December, 2010	31 December, 2011	Change (%) 2011/2010
Balance sheet total (HUF million)	845,205	804,475	-4.8%
Book value of mortgage loans (HUF million)	567,617	514,511	-9.4%
Book value of mortgage bonds (HUF million)	415,224	386,418	-6.9%
Book value of bonds issued (HUF million)	101,468	105,226	3.7%
Shareholders' equity (HUF million)	52,526	50,674	-3.5%
Regulatory capital (HUF million)	15,839	18,404	16.2%
Capital adequacy ratio	9.9%	13.5%	36.1%
Profit before tax (HUF million)	-19,359	-1,852	90.4%
After tax profit (HUF million)	-19,359	-1,852	90.4%
CIR (operating costs / gross operating income)	39.8%	48.1%	21.0%
ROAA (return on average assets)	-2.30%	-0.20%	91.3%
ROAE (return on average equity)	-29.9%	-3.6%	88.0%

5.2 Retail and corporate lending

FHB Mortgage Bank's core business is to refinance loans extended by FHB Commercial Bank Ltd. and other partner commercial banks, and to raise funds in capital markets, primarily through mortgage bond and senior unsecured bond issues. The Commercial Bank operates as a Type A agent of FHB Mortgage Bank Plc., i.e. it provides mortgage loans to individual and corporate customers for the benefit and on behalf of the Mortgage Bank, and thus the mortgage loans are reported in the balance sheet of the Mortgage Bank.

In accordance with the strategic goals, the Mortgage Bank's retail lending has been concentrated to a limited range of retail products, including subsidized housing loans, land development loans and reverse mortgages.

The gross amount for loans is 184 billion HUF as of 31 December 2011, which is 21 billion HUF or 10.2% lower than the amount as of 31 December 2010. The reasons for decreasing are fix-rated repayments and poor disbursing performance as lowering effect and at the end of 2011 the much weaker forint exchange rates compared to end of 2010 as increasing effect. The 91.6% of loan portfolio, 173.1 billion HUF are retail loans, which is 18.6 billion HUF lower than the 191.7 billion HUF amount as of 31 December2010.

The corporate loans amount is 15.9 billion HUF at the end of 2011, which is 2.9 billion HUF lower than the end data of 2010 (18.8 billion HUF). The 58.5% (103.6 billion) of the loan portfolio is denominated if HUF, the sum of loans denominated in foreign currencies is 73.5 billion HUF as of 31 December 2011. The total amount of disbursed loans is 2.7 billion HUF for 2011, which is only the half (53%) of the disbursed amount of 2010 (5.1 billion HUF). From the 2.7 billion HUF disbursing in 2011 the brand new transactions give 1.4 billion HUF, almost the half of the total sum is additional disbursing. The 68.8% of the total disbursed loans (1.8 billion HUF) is retail portfolio.

Housing loans continued to be the most popular loan product sold by the Mortgage Bank, totalling 126 billion forints at the end of 2011 and contributing 73.0% to retail loans. General-purpose mortgage loans decreased by 4.9% year-on-year and contributed 22.4% to the 2011 year-end retail loan portfolio and amounted to 38.8 billion forints (2010: 21.3%)

The land development portfolio amounted to 4 billion forints at the end of 2011, 12.0% less than the previous year's figure. Reversed mortgages amounted to 3.1 billion forints at the end of 2011, 10.7% above the previous year's figure.

Corporate loans were down by 15.2% year-on-year due to a 2.2 billion forints, or 53.1% decline of housing project loans on the one hand and a 0.7 billion forints or 4.6% drop in commercial real estate financing loans on the other hand.

The Mortgage Bank's portfolio-based share of retail mortgage loans was 2.3% at the end of 2011 as opposed to 3.1% in 2010.

5.3 Refinancing

As of 31 December 2011 the portfolio of refinanced loans decreased by 8.9% or 32.2 billion forints year-on-year and amounted to 330.7 billion forints. This volume includes 226.5 billion forints receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to 104 billion forints. HUF loans contributed 33.9% to the 2011 year-end refinanced loan portfolio as opposed to 34.7% at the end of 2010. Refinanced loan disbursements amounted to 5.4 billion forints in 2011 including 4.7 billion forints contributed by the Commercial Bank.

5.4 Portfolio quality, provisioning

As of 31 December 2011 the Bank's rated assets amounted to 688.5 billion forints, pending commitments amounted to 1.7 billion forints (690.2 billion HUF total) and future commitments (from swap transactions) to 416.5 billion forints

Breakdown of portfolio by classification, loss in value and provisions						
CLASSIFICATION	31December 2010			31December 2011		
	Total receivables	Impairment and provisions	Distribution	Total receivables	Impairment and provisions	Distribution
Performing	1,069,226	-	-	1,053,228	-	-
To be monitored	17,776	648	3.7%	21,928	820	3.7%
Below average	11,282	1,745	15.5%	21,122	4,735	22.4%
Doubtful	3,315	1,329	40.1%	8,138	3,917	48.1%
Bad	2,267	2,203	97.2%	2,312	1,968	85.1%
Total	1,103,866	5,925	0.5%	1,106,727	11,439	1.0%

Receivables from customers amounted to 190.5 billion forints (27.6% of the portfolio excluding swaps) in addition to 1.7 billion forints disbursement commitment based on valid loan agreements (0.2%). Of these receivables 52.4 billion forints attached to 10,963 contracts and 0.6 billion forints commitments were classified in the categories "to be monitored" to "bad", with 11.3 billion forints total impairment and provisions. The refinancing loan portfolio amounted to 330.7 billion forints (47.9%) classified as performing.

The Bank holds stakes in three companies: FHB Commercial Bank Ltd., FHB Real Estate Ltd, and FHB Life Annuity Ltd. The total nominal amount of investments is 34.1 billion forints (4.9%), 0.5 billion forints classified as problematic, 33.6 billion forints classified as performing. The Bank has booked impairments of 159 million forints for investments.

Future commitments amounting to 416.5 billion forints at the balance sheet date are classified as performing

The ratio of performing receivables both in total and loan portfolio (by customer related accounts receivable and liabilities) are lower than at the end of 2011.

As of 31 December 2011, 92.3% of the classified portfolio (excluding swaps) was performing (compared to 95.3% as of 31 December 2010). The combined rate of below average, doubtful and bad receivables was 4.6% (2.3% as of 31 December 2010), and the rate of transactions on the to be monitored list was 3.2% (as opposed to 2.4% as of 31 December 2010).

In the loan portfolio, the problem-free rate was 72.4% (as of 31 December 2010 84.0%), the combined rate of below average, doubtful and bad loans was 16.2% (7.7% as of 31 December 2010), and those on the to be monitored list was 11.4% (8.4% as of 31 December 2010).

Average impairment increased in the entire portfolio excluding swaps (1.7%) and slightly increased since the previous year (5.9%) also in the loan portfolio.

5.5 Security issues and mortgage bond coverage

5.5.1 Mortgage and Senior bond issues

The HFSA approved the Bank's 2011 Covered Mortgage Bond and Senior Unsecured Bond issues Programme in Q1 of 2011 and issues commenced accordingly. In 2011 FHB Bank issued 11 distinct series (8 new bonds and 3 new mortgage bonds) by 27 transactions, furthermore FHB Mortgage Bank Plc. repurchased several series.

In Q1 of 2011 face value of issued bonds amounted to 7.4 billion forints and 6.2 billion forints as of mortgage bonds. In Q2 funds involvement totalled in 17.9 billion forints (16.1 billion forints of mortgage bonds). In the first half of the year Bank paid redemption of 59.1 billion forints for mortgage and senior bonds, in Q1 30.1 billion forints of mortgage bonds, in Q2 18 billion forints of mortgage bonds and 11 billion forints for senior bonds. Repurchase did not occurred in this period.

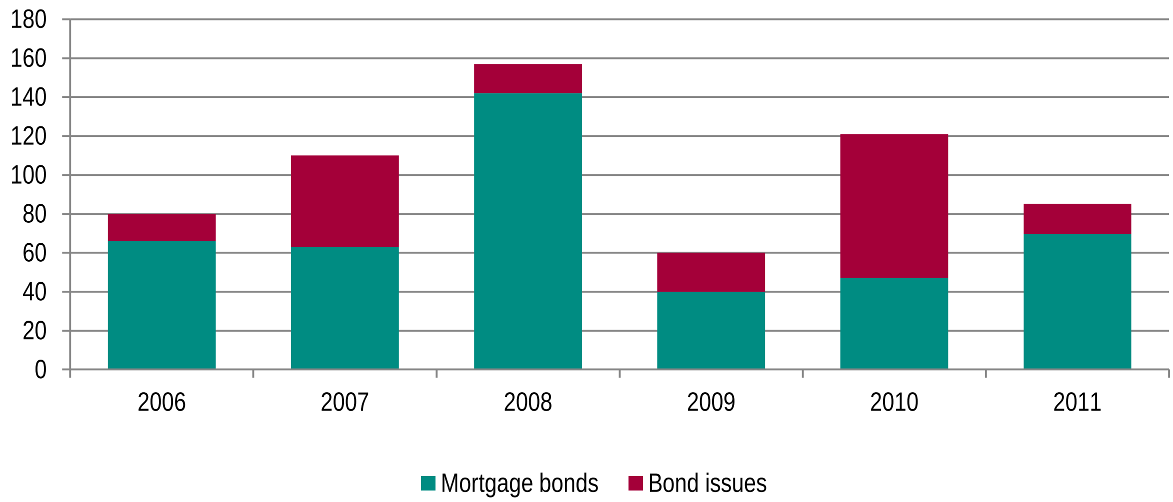
In Q3 of 2011 funds involvement amounted to approximately 46.3 billion forints and included approximately 45.8 billion forints CMB and 0.5 billion forints senior unsecured bonds sold. In this quarter repurchase of 2.3 billion forints occurred for mortgage bonds. Involved funds' amount has been decreasing, because of redemption of mortgage bonds totalled 31.5 billion forints.

In the last quarter Bank issued new bonds of 7.5 billion forints, of that 5.7 billion forints were senior bonds and 1.8 billion forints of mortgage bonds. Redemption of mortgage bonds amounted to 2.2 billion forints, repurchase totalled in 27.7 billion forints of mortgage bonds and 790 million forints of senior bonds.

In 2011 the Mortgage Bank's gross funds involvement was approximately 85.2 billion forints, 70% of CMBs (121 billion forints) issued in 2010. In 2011 92.8 billion forints of securities had been matured total face value of repurchase amounted of 30.8 billion forints.

The three national mortgage banks' cumulative mortgage bonds amounted to 1.610 billion forints, share of FHB Plc. climbed to 24.0% by the end of the year compared to proportion of 23.6% a year before.

Face value of Mortgage bonds and Senior bonds issues
(HUF billion)



5.5.2 Mortgage bond coverage

In accordance with the relevant statutory provisions the Bank has undertaken to keep a stricter mortgage bond coverage ratio, i.e. to ensure a principal-to-principal adequacy at all times. Accordingly, the aggregate amount of ordinary collateral (net of loss in value) plus supplementary collateral principal exceeded each day the aggregate nominal value of outstanding mortgage bonds in circulation. The same adequacy rule prevailed with respect to interest-to-interest.

In accordance with the provisions of the Act on Mortgage Loan Companies and Mortgage Bonds and in keeping with its Rules on Collateral Registration, the Bank monitored the loan cover situation and the compliance with the requirement of proportionality. In order to ensure appropriate mortgage bond cover the Bank verified, upon disbursement of the loan, whether the conditions for ordinary collateral were met.

The value of assets used as ordinary collateral for the mortgage bonds issued by the Bank was 685.8 billion forints as of 31 December 2011, 15.1% less than the figure as of 31 December 2010 (807.4 billion forints).

Value of mortgage bonds and assets involved as collateral as of 31 December 2011 (HUF millions)

Outstanding mortgage bonds in circulation (million HUF)	
Face value	386,418
Interest	83,595
Total	470,013
Value of the regular collateral	
Principal	438,811
Interest	246,940
Total	685,751
Value of assets involved as supplementary collateral	
Balance of the separate blocked account at the NBH - principal	0
Total	0

The present value of mortgage bonds amounted to 448.9 billion forints, and the present value of collateral was 557.2 billion forints as of 31 December 2010, thus the rate of coverage was 124.1%. As of 31 December 2011, the present value of mortgage bonds amounted to 413.3 billion forints, and the present value of collateral was 471.9 billion forints, thus the rate of coverage was 114.2%.

As of 31 December 2011 net ordinary and supplementary collateral principle to the face value of mortgage bonds in circulation not yet repaid was 113.6%. Net interest on ordinary and supplementary collateral to interest on mortgage bonds in circulation not yet repaid was 295.4%.

5.6 Liquidity management

In accordance with the Group's strategy the Mortgage Bank ensures the entire Group's liquidity through regular business relations with other Group companies. Liquidity of the Group was stable throughout 2011. The Mortgage Bank always made funds available to Group members as needed. The Bank supported the management in making quantitative and scheduling decisions related to short-term and long-term financing with continuous liquidity planning during the entire period.

As of 31 December 2010 the Bank had a 26.8 billion forints net interbank borrowing position, as well as 43.4 billion forints NBH bonds. The nostro accounts closed with 0.4 billion forints. Margin deposits amounted to 0.9 billion forints. Among interbank borrowings the long term interbank deposit by FHB Commercial Bank was 15.5 billion HUF, which are the funds for the Commercial Bank lending to FHB Life Annuity Ltd. and FHB Service Ltd.The Bank had a 69.2 billion forints net interbank EUR lending position, with margin deposits amounting to 201.5 million euros (56.2 billion forints).

As of 31 December 2011 the Group had a 74.7 billion forints net interbank borrowing position, and on the other hand 73.9 billion forints NBH bonds. The nostro accounts closed with 0.18 billion forints. FHB didn't keep margin deposits in

HUF. Among interbank borrowings the long term interbank deposit by FHB Commercial Bank was 20.8 billion HUF, which are the funds for the Commercial Bank lending to FHB Life Annuity Ltd. and FHB Real Estate Lease Ltd. The Bank had a 91.5 billion forints net interbank EUR lending position, with margin deposits amounting to 157.6 million euros (49.0 billion forints).

As of 31 December 2011 the Bank's managed securities portfolio (serving liquidity and risk management purposes) contained government bonds, discounted treasury bills, mortgage bonds, mortgage debentures and other securities involving state guarantee in addition to two-week NBH bonds. The securities portfolio totalled 81.2 billion forints of which 80.9 billion forints HUF denominated and 0.3 billion forints denominated in EUR.

5.7 Risk management principles

5.7.1 Risk management policy

The risks inherent in the Group's business are managed by the Group. The primary purpose of risk management is to protect the Group's financial strength and goodwill, and to support the deployment of capital in competitive business activities, which contribute to the increase of shareholder value. The Group applies uniform risk management principles for the parent bank and the subsidiary bank as well as the subsidiary companies.

Risk management identifies, evaluates and analyses the exposure of the Group and its members. It processes the information gained and develops risk guidelines and acceptable exposure limits, and operates risk management systems.

Retail and special corporate exposure, credit rating systems of projects have been modified during 2011 by review and validation of client- and counterpart-rating systems.

In compliance with the provisions of Government Decree 361/2009 on the Conditions of Prudent Retail Lending and Customer Rating, the methodology of means testing in order to determine the payment-to-income cap was revamped as of 11 June 2010 in the case of both secured and unsecured loans. In this context other lending terms and conditions were also refined and differentiated.

The monitoring and management of the existing portfolio, including the entire process of collection of claims, was given priority. Besides intensifying the early stage of collection, the Group continued with, and further developed, its Retail Customer Support Program. Participation in the Program was offered to clients who wanted to avoid their loans becoming problematic or whose loans had already become problematic. Tools of the Program varied from renewal through tolerance periods to offering bridging loans.

Application for Retail Customer Support Program decreased owing promised governmental measures in the second half of 2011. Opportunity of fixed-rate redemption (buffer account scheme introduced in August 2011) had been used weakly, but the full repayment possibility introduced at the end of the year. Good-ranked, low-risk clients had applied for fixed-rate early repayment that played an important role in portfolio quality's deterioration.

Owing liquidity management several indicators have been modified improving risk-sensitivity of indicators.

As of HFSA's request FHB takes part in indicators' monitoring defined by Basel III. Semi-annual Practices had been coordinated by Risk Management Department and implemented by Controlling, Data Service, Liquidity and Risk Management Departments.

Consultations with Ministry for National Economy and HFSA have been continued in terms of Basel III. Standards described in EU Directives and Regulations. Furthermore FHB took part in stress test organized by HFSA and NBH like other major Hungarian banks. Results were satisfactory being reported cumulative.

5.7.2 Credit risk

Integration of Allianz Bank in the first half of 2011 and new regulation for lending in Q4 meant extra tasks for Risk Management.

During Allianz integration debtor- and counterpart-rating regulation of FHB had to be modified concerning Allianz Bank's products because of being introduced new scoring system in terms of loans covered by savings (life insurance, voluntary pension savings). After acquisition calculation for loan allowance had been improved in terms of products of FHB Commercial Bank and product regulation occurred. Monitoring modification of unsecured credit products has been started in the spirit of acquisition. As a first step report about monitoring of overdraft has been redefined by contribution of Risk Management in Q2.

Similarly in case of FHB Real Estate Lease Ltd. played an important role in defining risk criteria of retail and corporate lease products. From 1 July 2011 FHB Real Estate Lease Ltd. has been applying scoring system used by Group for evaluating lease transactions.

Based on ICAAP validation calculation of regulatory capital for operational risk had been reformulated estimation of LGD of project loans and stress tests became more sensitive.

Introductory schedule concerning integration of Allianz and internal qualification methods for regulatory capital calculation in terms of credit risk had to be reviewed. Schedule had been accepted by Supervisory Authoritytaking resolution.

In Q3 risk management' examination of annual regular qualification occurred for project loans, qualifications had been approved.

Defining evaluation aspects to score full repayment applications and consequently major growth of transactions expected serious extra resources of the sector.

5.7.3 Market risk

Due to the nature of its business as a mortgage bank and to the special legal regulation relating to it, FHB Plc. has a distinctive asset and liabilities structure within the Hungarian banking system as its assets and liabilities are essentially long-term and raise most of its funds on the capital markets. In terms of liquidity and market risk, as leading member of the Group, it is the Bank's duty to provide the necessary funds and manage risks for the Group as a whole and for each Group company. Exposure of asset/liability and off-balance sheet items to maturity, interest rate and exchange rate risks is kept at a low level.

As of asset/liability management Bank continues to apply natural hedge, minimizes level of open FX positions, enters hedging transactions and intensively manages asset-liability ratio to control risks.

5.7.4 Liquidity and maturity risk

Maintaining liquidity is an essential element of banking. The Bank maintains its liquidity by coordinating the maturity of its receivables and payables. At the same time, it applies maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times. The Bank regularly reviews prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

5.7.5 Exchange rate risk

The Mortgage Bank is a specialized credit institution, which narrows the scope of business where exchange rate-related risks may arise. Moreover, the Bank's business policy is to keep exchange rate risk at a low level. The Bank strives to immediately hedge the exchange risks related to its core business, i.e. mortgage lending, refinancing and financing though mortgage bonds, as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals in currencies in which the Bank keeps a nostro account.

Open FX position derived from fixed-rate early repayment had been secured by facility provided by HNB, therefore weakening and volatility of HUF at the end of the year had no impact for factors mentioned above.

5.7.6 Interest rate risk, exchange rate risk

Interest rate risk stems from interest rate changes, which affect the value of financial instruments. The Bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assesses interest rate risk on a continuous basis with the help of Gap analysis, VaR calculations and sensitivity analysis. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as repurchase of mortgage bonds, swap transactions as well as mortgage bond maturities and interest rates suited to assets are also involved in order to ensure the harmony between assets and liabilities. The Bank manages interest rate and exchange rate risks through derivative transactions.

5.7.7 Operating risk

The Bank manages risks related to its operations by developing and improving internal rules and regulations, by providing appropriate training to the staff involved in the work flows and by creating built-in control mechanisms. The management devotes extremely important role to feedback, verifying the efficiency of the measures to eliminate risks.

In Q3 FHB Bank commenced defining frameworks of application for permission of Advanced Measurement Methodology (AMA). In Q4 FHB Grout submitted mentioned application and therefore regulation of operational risk had been modified. Supervisory Authority pursued local examination to evaluate permission, and FHB Group received permission of AMA since 31 December 2011.

5.8 Headcounts

The number of full time employees for FHB Mortgage Bank was 178.1 person as of 31 December 2011 in opposite of 65.1 person as of 31 December 2010. The growth mainly comes from the overtaken services and related workforce from FHB Service Ltd. The statistical average headcount was 71.6 person in 2011, in opposite of 68.2 person figure in 2010.

6 Financial analysis[1]

6.1 Balance sheet structure

As of 31 December 2011 the balance sheet total of the Bank was 804.5 billion forints, 4.8% lower than in 2010. The bulk of the annual decrease in total assets was generated by 10.2% decrease in own loan portfolio, 8.9%shrank of refinanced loans, 11.8% lowering on investments and 7.6%decreasing of other assets. The Bank's net own loan portfolio shrank year-on-year by a total of 21.0 billion forints, while the securities portfolio raised by 10.6 billion forints compared to 2010 year-end. On the liabilities side, the decrease was dominated by mortgage bonds (6.9%) and government loan (44.2%) reduction. Changes in the mortgage bonds portfolio reduced liabilities by 28.8 billion forints, while government loans part-repayment reduced the total liabilities by 49.3 billion forints.Shareholders' equity decreased by 2 billion forints.

Data in HUF million	2010	2011	Change (%) 2011/2010
Assets			
Interest earning assets	761,864	728,500	-4.4%
Loans (net)	204,698	183,773	-10.2%
Refinanced loans	362,920	330,738	-8.9%
Securities	70,522	81,164	15.1%
Interbank placements	123,724	132,825	7.4%
Cash	397	213	-46.3%
Investments	38,504	33,970	-11.8%
Tangible assets, inventory	18	742	-
Intangible assets	326	345	5.8%
Other assets	44,096	40,705	-7.6%
Total assets	845,205	804,475	-4.8%
Liabilities			
Interest bearing liabilities	686,265	650,172	-5.3%
Mortgage bonds	415,224	386,418	-6.9%
Bonds issued	101,468	105,226	3.7%
Interbank funds	56,756	95,741	68.7%
State loan	111,500	62,226	-44.2%
Other interest bearing liabilities	1,317	560	-57.5%
Other liabilities	103,661	100,912	-2.7%
Provisions and reserves	2,753	2,717	-1.3%
Shareholders' equity	52,526	50,674	-3.5%
Total liabilities and equity	845,205	804,475	-4.8%

6.1.1 Interest earning assets

The Bank's interest earning assets decreased from 761.9 billion forints as of 31 December 2010 by 4.4% to 728.5 billion forints by the end of 2011. The portfolio of refinanced loans decreased by 8.9% year-on-year; net loans to customers sold by the Mortgage Bank through the Commercial Bank and its network of agents was 10.2%, or 21 billion forints less than in the reference year and amounted to 183.7 billion forints. Loans to customers contributed 25.2% to interest earning assets at the end of the year as opposed to 26.9% at the end of 2010.

The aggregate portfolio of mortgage loans (net of provisions) amounted to 514.5 billion forints as of 31 December 2011, 9.3% (53.1 billion forints) lower than the base period figure.

[1]This financial analysis contains data and tables calculated from controlling point of view, therefore due to reclassification some figures can differ from data reported in other parts of financial statements.

The collateral value of real estate covering mortgage loan principal receivable amounted to 1,130 billion forints as of 31 December 2011, 11.0% short of the reference period's figure (1,270 billion forints). Thus the average loan principle-to-value of coverage (LTV) ratio was 38.6% as of 31 December 2011, somewhat lower than the 2010 LTV of 40.0%.

6.1.2 Intangible assets and investments

The value of invested assets (net of provisions) was 34 billion forints as of 31 December 2011, decreased due to the selling of FHB Service Ltd. As of 31 December 2011 FHB Mortgage Bank's net holdings in the affiliated companies were as follows: 32.9 billion forints in FHB Commercial Bank, 677.1 million forints in FHB Life Annuity, and 528.1 million forints in FHB Real Estate.

The net value of intangible assets as of 31 December 2011 was 345 million forints.

6.1.3 Other assets

The Bank's other assets amounted to 40.8 billion forints, by 7.6% decreasing compared to the previous year. The bulk of other assets were contributed by interest and handling fee accruals amounting to 10.5 billion forints and exchange rate accruals related to swap transactions amounting to 19.7 billion forints. As of 31 December 2011 the Bank had repurchased Treasury shares amounting to 28.6million forints as opposed to 123million forints in the reference year.

6.1.4 Interest bearing liabilities

Mortgage bonds

As of 31 December 2011, 59.4% of interest bearing liabilities was contributed by the Bank's mortgage bond portfolio that ensures long-term funding for mortgage loans.As of 31 December 2011, mortgage bonds issued by the Bank amounted to 386.4 billion forints, 6.9% lower than the previous year's figure, and emerged as the balance of 69.9 billion forints new mortgage bonds issued, 81.8 billion forints repayment, and 30.1 billion forints repurchased as well as the effect of exchange rate changes and consolidationcausing a decrease of 62.1 billion forints.

Bonds issued

Bonds issued to complement the securities activity of mortgage bond issues resulted in bonds with a book value of 105.2 billion forints as of the 31 December 2011 balance sheet date, increasing by 3.7% compared to the previous year-end figure.

Interbank funds

Interbank borrowings amounted to 95.7 billion forints as of 31 December 2011. The contribution of bank group interbank deposits was 97.5% or93.3 billion forints (received from FHB Commercial Bank). As part of the group level liquidity management FHB Commercial Bank and Allianz Bank deposits their liquid assets by the Mortgage Bank. The Mortgage Bank ensures the profitable placement of the group level liquid assets.

Other interest bearing liabilities

The aggregate value of deposits from clients on collateral accounts related to project loan transactions was 0.56 billion forints as of 31 December 2011, 57.5% lower than the 1.3 billion forints in the previous year.

State loan

As a result of negotiations that started in January of 2009 between the Ministry of Finance, the NBH, the HFSA and FHB Mortgage Bank Plc., the Ministry of Finance and FHB Plc. signed an agreement on 25 March 2009 on the extension of a State loan amounting to 400 million euros. The state loan can be repaid in more, equal steps. As of 31 December 2011 the book value of state loan was 62.2 billion HUF (200 million EUR).

6.1.5 Other liabilities

Other liabilities amounted to 100.9 billion forints with a 2.7% year-on-year decrease. This line item includes predominantly passive accruals amounting to 97.6 billion forints at the end of 2011. The two dominant components of passive accruals are accrued interest expenses (15.6 billion forints) and accruals related to swap transactions (71 billion forints).

6.1.6 Shareholders' equity

As of 31 December 2011 the Bank's own equity amounted to 50.7 billion forints, which means a slightly decreasing to the 2010 end year figure (3.5%)

6.1.7 Off-balance sheet items

Within the Bank's off-balance sheet items, available but uninvolved loans amount was 43.5 million forints. Future liabilities increased from previous year's 366 billion forints to 416.5 billion forints, including 302.9 billion forints hedge transactions related to mortgage and unsecured bonds issued and 105.1 billion forints FX swaps liabilities as of 31 December 2011. Demands from currency swaps amounted to 355.9 billion forints, including an amount of 302.9 billion forints hedge swap transactions.

6.2 P&L structure

Data in HUF million	2010	2011	Change (%) 2011/2010
Net interest income	15,282	6,870	-55.0%
Net fees and commission income	-1,533	-900	41.3%
Net result of financial operations	989	1,001	1.2%
Other income and expenditure	-2,697	2,417	189.6%
Gross operating income	12,041	9,388	-22.0%
Operating expenses	-4,787	-4,519	-5.6%
Net provisions and losses	-1,189	-5,023	-322.5%
Extraordinary income and expenses	-25,425	-1,697	93.3%
Profit/loss before tax	-19,359	-1,852	90.4%
Taxation expense	0	0	-
Profit/loss after tax	-19,359	-1,852	90.4%
General reserve	4,470	0	-
Profit / loss per balance sheet	-14,889	-1,852	87.6%

The Bank's gross operating income was 9.4 billion forints in 2011, 22% below the result in 2010. As a key component of gross operating income, net interest incomedecreased by 55% year/year. Operations throughout the year generated a total of 4.5 billion forints costs, which means 5.6% cost reducing against the 2010 figure.

6.2.1 Net interest income

The 6.9 billion forints net interest income generated in 2011 emerged as the balance of 65.8 billion forints interest income (4.3% lower than in 2010) and 58.9 billion forints interest expense (10.3% increase)

In 2011 interest and interest-type income from customers contributed 21.8% to interest income, slightly increasing compared to 21.6% in the previous year. Interest subsidy on loans to customers amounted to 6.3 billion forints, thus interest income on loans to customers amounted to 20.6 billion forints. Interest income on securities and interbank loans were up from 8.0 billion forints in 2010 to 8.8 billion forints in 2011; similarly, its contribution to interest income increased to reach 13.3% from 11.6%. Interest Income on swaps contributed 27.9% to total interest income as opposed to 21.4% in 2010. Refinancing generated 10.3 billion forints interest income, and combined with the related interest subsidy it was 18.1 billion forints.

A substantial portion of the interest expenditure (47.3% in the reported year and 51.2% in the reference year) was generated by interest paid on mortgage bonds. Interest on swaps was also considerable and contributed 19.7% of total interest expenditure (2010 20.7%). Interest expenditure on bonds issued amounted to 9.0 billion forints and contributed 15.3% to the item. Interest paid on the state loan amounted to 3.7 billion forints in 2011 and contributed 6.2% to total interest expenditure. According to the previous state capital a one-off item amounted 1.7 billion forints, interest expenditure showed up, which payment is based on the agreement between FHB Mortgage Bank and Hungarian State signed in December 15th 2011, after an inspection started by the European Union Committee.

The average net interest margin (NIM) was 1.83% as of 31 December 2010 and 0.83% as of 31 December 2011. Decrease of the average NIM is due mainly to the interest expenditure in accordance with the state capital. Excluding this unique item, the net interest margin would be 1.04%.

6.2.2 Net fees and commissions

In 2011 the net fees and commission income amounted to 900 million forints loss, while net fee income in 2010 has been 1.5 billion forints loss. In the course of 2011 the Bank achieved 1.4 billion forints fees and commission income (11.8% less than in the reference period) against 17.5% or 2.3 billion forints lower fees and commissions expenditure.

Collateral valuation fees, which amounted to 123.1 million forints, contributed 8.9% to fees and commission income compared to 10.7% in the reference year. The contribution of handling commissions decreased from 20.0% to 15.3% as a result of a decline in state subsidies, and amounted to 212 million forints in the reported year. In 2011, contribution of fee income received from financial institutions increased from 49.2% to 62.8% (0.9 billion forints in 2011 and 0.6 billion forints fee income from financial institutions in 2010) due primarily to an increase in early repayment of refinanced loans and the modification of contracts.

Fee expenditures decreased by 485 million forints, 17.5% compared to 2010. Most significant item of fees and commissions paid is the agent commission related to the agency agreement concluded between the Mortgage Bank and the Commercial Bank whereby the Commercial Bank Ltd. sells FHB Mortgage Bank Plc.'s products through its branches and also undertakes management of existing loans. The fees paid for these services amounted to 1.7 billion forints in 2011, 13% less than the 2.0 billion forints paid in 2010. For handling the classified loan portfolio and the management of loans the Mortgage Bank paid 451.2 million forints in 2011 to the FHB Service Ltd., in opposite of 500.5 million forints in 2010. Fees related to mortgage bonds sales amounted to 30 million forints, and fees related to bonds issues were 11 million forints. Fees paid to credit institutions; NBH and other institutions amounted to 19.5 million forints in 2011similar to 20 million forints paid in 2010.

6.2.3 Net profit from financial transactions

The net result of financial transactions amounted to 1.0 billion forints profit in 2011, exceeding the previous year's figure by 1.2%. The contribution of net exchange rate gains from mortgage bonds and bonds issued were 161.4 million forints as opposed to the reference year's losses of 574.1 million forints. The exchange rate gains from FX transactions amounted to 2 billion forints, significantly above the 0.3 billion losses recorded in 2010. Profit from FX transactions was mainly influenced by the result from short term FX swap transactions. The loss on FHB Service Ltd. share investment selling was 4.5 billion forints exchange rate loss.

6.2.4 Other income and expenditure

Under the item of other earnings the Bank recorded 2.4 billion forints profit in 2011, 189.6% up from the 2010 figure. From the 7.3 billion forints total amount of other income 5.9 billion forint was given by the bad will accounting according to Allianz Bank and 1.1 billion forints by sale of receivables. The total amount of other expenditures was 4.8 billion forints consisted by 2.5 billion losses on fix rated repayments, 1.0 billion forints sale of receivables, 0.7 billion forints banking contribution and 0.3 billion forints local business tax.

6.2.5 Operating expenses

Data in HUF million	2010	2011	Change (%) 2011/2010
General administrative costs	4,756	4,466	-6.1%
Personnel expenses	1,225	1,273	3.9%
- wages and salaries	820	773	-5.7%
- other personnel expenses	153	223	45.8%
- social security contributions	252	277	9.9%
Other administrative costs	1,198	896	-25.2%
Direct costs of banking activity	763	729	-4.5%
Costs of internal services	1,571	1,569	-0.1%
Depreciation	30	53	76.7%
TOTAL OPERATING EXPENSES	4,787	4,519	-5.6%

The Bank's operating costs amounted to 4.5 billion forints in 2011 5.6% down to the 2010 figure. Decrease in operating expenses was solely caused by administrative costs. Costincome ratio (CIR) increased from 39.8% in 2010 to 48.1% as of 31 December 2011 as a result of gross operating income decreasing

As breakdown of costs, the personnel expenses contributed 28.2% in 2011, increasing to the 25.6% of 2010. The total amount for personnel expenses including contribution as well was 1.3 billion forints, including a 773 million amount of wages and salaries, decreasing 5.8% to the reference year. The 223 million forints amount of other personnel expenses is 46.2% higher than the 2010 figure. Contributions are 9.8% lower than in 2010 (277 million forints).

Other administrative costs contribution to total costs is lower, than in 2010. (19.8% in 2011 and 25% in 2010) The main reason for decreasing is the lowering in consulting costs, according to the Allianz Bank merge finishing. The item of costs of internal services includes rent and operating charges paid for equipment used in day-to-day operation as well as business administration and back office service fees paid to FHB Services Ltd. The item amounted to 1.6 billion forints and contributed 34.7% to the 2011 operating costs. The contribution of this item was 34.7% in 2010.

The contribution of direct banking activity costs to the total operating expenses has increased slightly during the year, from 15.9% in 2010 to 16.1% in 2011, amounting to 729 million forints. The 34 million forints decreasing is caused by mortgage bonds related costs lowering.

Depreciation was 76.2% above the 2010 figure, similarly to the contribution to total costs increasing (from 0.6% to 1.2%). The increasing is due to the overtaken assets from FHB Service Ltd.

6.2.6 Impairment and loan losses

In 2011 the Bank recorded 5 billion forints net reserve for impairment and provisions, 3.8 billion forints higher than the 2010 figure. The net sum is resulted from 8,3billion forints provisions created, and 3,4billion forints provisions and reserves used.

6.2.7 Extraordinary income and expenses

As extraordinary expenses in 2011 1.7 billion forints was accounted, related to the merge of Allianz Bank.

6.2.8 Creation / usage of general reserve

During 2011 no creation or usage of general reserve took place by Mortgage Bank.

7 Post-balance sheet date events

In early March 2012 the Government and the Hungarian Banking Association reached an agreement on the detailed terms regarding overflow accounts loan scheme; on the basis of the agreement the Government will submit the relevant bill to Parliament. As agreed in December, debtors with FX loans in arrears of no more than 90 days are eligible to participate in the new scheme offering repayment at reduced rates. The rates will stay at the current level set for the scheme, however, the reduced repayment period is available for five years, within the ranges of CHF/HUF 180-270, EUR/HUF 250-340 and JPY/HUF2.5-3.3 debtors shall pay their instalments calculated according to the lowest values of the ranges on the following condition: when actual exchange rates exceed the cap, the principal repayment of the monthly instalment shall be borne by the client in compliance with the effective buffer account regulations; in turn, 50% of the interest payments above the cap shall be borne by financial institutions and 50% by the State. In the event of exchange rate levels exceeding CHF/HUF 270, EUR/HUF 340 and JPY/HUF 3.3, exchange rate risks are entirely borne by the State.

Under the specified terms, one of the conditions for eligibility is that the loan should not be higher than 20 million forints. Application for the overflow account loan scheme is expected to open on 1 April 2012; initially, preference will be granted to civil servants and public employees.

Also under the December agreement between the Government and the Banking Association, FX-mortgage loans of debtors who on 30 September 2011 had been delinquent for more than 90 days with arrears that reached the sum of the minimum wage, will be converted to a HUF mortgage loan and release 25% of such clients' debts if the total market value of real estate serving as collateral did not exceeded HUF 20 million. Negotiations on the further terms of the conversion are still in progress.

At the beginning of 2012 FHB started preparation for the introduction of transparent pricing; the relevant regulations will enter into effect also on 1 April 2012.

Budapest, 26 March 2012

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