Annual Report of
FHB Land Credit and Mortgage Bank for 2005

Budapest, 27 April 2006

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1 Brief history of FHB

FHB Land Credit and Mortgage Bank Company, a specialized credit institution, was established in October of 1997 by three commercial banks, the Hungarian Development Bank (MFB), and the Hungarian State. By establishing the Bank, the goal of the founders was to establish long-term financing, to create opportunities for long-term investment, and to promote the development of the real estate market. The Bank was granted a licence of operation by the Hungarian Financial and Capital Market Supervisory Agency in March 1998.

In its first year of operation the Bank developed its strategy, clientele and products responding demands and in keeping with regulatory provisions and capital market requirements. FHB played a prominent part in the Government's new housing financing concept launched in 1999. As a result the State's involvement at the level of ownership increased gradually and in April 2002, the Hungarian Privatization and State Holding Company (ÁPV Rt.) became sole proprietor of the Bank.

According to the modified strategy, the Bank focused on the housing loan sector, particularly the households. At the end of 2001, the Bank became a significant player of the Hungarian housing loan market with its own lending, and with the consortial cooperation in household lending with commercial banks and saving cooperatives.

The 2001 amendment of the Act on Credit Institutions and the Mortgage Bond provided for the refinancing of commercial banks' mortgage loans by purchasing independent liens. Since the promulgation of the amended Act, the Bank has signed a framework agreement for refinancing with nine commercial banks, and by the end of 2005 refinancing loans contributed almost 60% of the total mortgage loan portfolio.

The bank's own loans and refinanced loans are funded from the mortgage bonds issued by FHB. Since the spring of 2001 mortgage bonds issued by the Bank have been introduced to the Budapest Stock Exchange. Due to the limitations of domestic capital market demands and conditions the Bank registered an international mortgage bond programme in Luxembourg with 1 billion euros.

The Moody's credit rating has a significant role in the effective funding of the Bank. At the end of 2005, the rating of the issued mortgage bonds denominated in Hungarian forint is "Aa2", exceeding the rating of the long term debts of the Hungarian Republic, while the mortgage bonds issued in FX is in the same level with the state bonds, and the uncovered bonds are only one level below (A2). It was for the first time that an independent legal entity had better rating than the Hungarian State.

FHB was partially privatized in 2003. As a result, the share of ÁPV Rt. in the Bank shrank to 53.2%. The Bank's ordinary shares of Series "A" were put on the trading list of the Budapest Stock Exchange Category "A" Shares.

After the inspection in March, 2004, the FHB share became a member of the BUX index since April 1, 2004. Since then, additional inspections made every six months resulted in FHB's continuous membership in BUX.

In November 2001 the Bank joined the European Mortgage Federation as an associate member. Upon its initiative the Hungarian Association of Mortgage Banks, the professional and advocacy organization of the three Hungarian mortgage loan institutions was established in the fall of 2002.

The Bank – as first of the Hungarian financial institutions – joined the „voluntary code of behaviour (Code of Conduct) about pre-contract information serving for customers in case of housing loans" at May 1, 2005.

The Board of Directors accepted the new business strategy of the Bank in 2006 February. According to the new strategy, the Bank will be transformed to a Group in order to be able to serve the entire segment of mortgage lending and property financing.

2 Macroeconomic and monetary environment in 2005

2.1 The economic environment

In 2005 growth in the world economy was around 4.3%, in keeping with the trend envisioned, though somewhat slower than in previous years. About thirty percent of the global growth was contributed by China and ten percent, by India. Emerging countries jointly contributed two-thirds to the total growth.

It is a particularly important feature that there has been no sign of inflationary pressure despite the worldwide upswing of the past years. All of the important economic powers of the world responded to the mini-recession at the turn of the 21st century by relaxing the tight budget and central bank control. However, this did not drive up inflation as due to the cheap and ongoing technology transfer emerging economies, capable of mobilizing increasingly efficient workforce, have taken over the earlier leading role of the developed countries in many industries, and prevented any serious price increase forced upon customers. Price level had a ceiling despite the fact that the price of oil and the most important industrial metals serving as input for production has doubled.

The dynamics of the Hungarian economy continued in 2005, however, the rate of growth was a bit lower, than in the prior year. The **Hungarian GDP growth was 4.1 percent** in 2005, while it was 4.6 percent in 2004. The progress of the Hungarian economy was in line with the dynamism of the global economy: the decline of economy growth was a usual tendency in the advanced regions of the world. The United States achieved 3.5% growth in 2005, which is under the dynamism of 2004 (4,2%). The growth in the European Union was more modest, than in the US, since the GDP was increased by 1.6% in 2005. This rate is 0,8% lower, than in 2004. The growth of the euro zone was continuously under the dynamism of the EU average.

The main driving force behind a still dynamic Hungarian economic growth is industry, the construction industry and export-oriented services. Agricultural performance shows a drastic decline because of the base effect.

Industrial production – in parallel of the declining employment, and increasing productivity in the sector - was **7.3%** higher in 2005 than in 2004. The 2005 year-on-year growth in industrial exports was 11% and in domestic sales, 4.4%. The volume of production in the processing industry rose by eight percent. In the **construction industry,** the growth of the gross output was 16.6% in 2005, while the dynamism was 5.8% in 2004. The level of the construction contracts signed by the enterprises surpassed the high level of prior year, which refers to the continuing of the prosperity.

There was a moderate slow down in foreign trade on both the export and the import side, in parallel with the global trends. The volume of the export raised by 11% (18% in 2004), and the import increased by 5% (15% in 2004). Exports in 2005 amounted to 49.7 billion euros while imports were 52.6 billion euros. The year-on-year increase in exports was 11% and in imports, 8%. The growth in exports in euro reached 11%, and in exports 8%. Foreign trade deficit amounted to 2,839 million euros, 1,076 million euros less than in 2004. Improvement in the foreign trade balance was partly attributed to the base effect: imports soared before the accession to the European Union in May 2004 whereas there was only a two percent increase in imports in the first half of 2005.

Macroeconomic indicators	2004	2005
GDP[1]	4.6%	4.1%
Inflation (year-on-year)[1]	6.8%	3.6%
Public finances deficit (HUF bn)[2]	1,284	984
Building industrial output[1]	5.8%	16.6%
Gross average wages (HUF)[1]	145,675	158,315

Source: [1] CSO, [2] NBH

The deficit of the balance of current accounts was 6.4 billion euros at the end of 2005, as opposed to 7.0 billion euros in the same period of the previous year. The joint deficit of current accounts and of capital amounted 5.7 billion euros at year end. The gross foreign debts of the public finances and the National Bank of Hungary was 26.9 billion euros at 31 December 2005, net foreign debts amounted to 10.4 billion euros (the same figures at the end of 2004 were 24 billion and 11.7 billion euros respectively). The gross debts of the private sector grew from 33 billion euros at the end of 2004 to 41.1 billion, the net figure increased from 14.7 billion to 19.9 billion euros.

As of 31 December 2005 the **foreign exchange reserves** of the National Bank of Hungary was **15.7 billion euros**, 4.1 billion euros higher than at the end of the previous year.

In terms of **FDI,** 2005 proved to be an outstanding year: by the information of the National Bank of Hungary, 5.4 billion euro of capital investment came into Hungary, which is the highest influx ever. The 3,4 billion euros of share investments is more than three times higher than the average data of the last years, while the reinvested profit amounted 1,7 billion euros, which is lower by 0.5 billion euros than in prior year, caused by the higher dividend paid by the foreign-owned companies. Other capital movements resulted 0.2 billion euros of influx in 2005.

In 2005 the deficit of the central budget was below one thousand billion forints (984.4 billion forints) as opposed to the ESA limit of 7.4% of the GDP, which is a negative balance of about 1,600-1,700 billion forints. Meeting the 1,023 billion forints general government deficit envisioned by the 2005 Budget Act seemed uncertain throughout the whole of last year.

After Fitch Rating last December followed by Standard & Poor's in late January, Moody's, the third major rating agency also **downgraded Hungary's country risk rating** in February, 2006.

According to the data of Central Statistics Office, there was a slight decline in the **housing market** in 2005: a total of 41 thousand licenses of usage were issued on newly build homes and 51.5 thousand building permits for new homes. The number of licenses of usage was 6% less and the number of new building permits was 10% less than in 2004.

The total amount of loans extended to households increased by approximately 1,000 billion forints in 2005. Consumer credits rose by 72% compared to the previous year. The contribution of foreign exchange denominated loans to both housing loans and consumer credits has been increasing. This is particularly conspicuous in the consumer loan segment, where no more than 60 billion forints was contributed to the total of 477 billion forints increase last year, the remaining portion was denominated mainly in Swiss francs.

In 2005 the net financial assets of households increased by 1,425 billion forints, which was 6.5% of the GDP, and amounted to a total of 13,375 billion forints.

According to Central Statistics Office reports the year-on-year increase in **consumer prices** in December 2005 was 3.3%, the same as in November. The average annual inflation rate in 2005 was **3.6%** compared to 6.8% in 2004. With the exception of January, the year-on-year increase in consumer prices stayed below 4% every month.

The 2005 gross average wages (158,315 forints per month) were 8.8% higher, net average wages (103,134 forints per month) were 10.1% up from 6% and 5.6% respectively in the previous year. While 2004 brought a 6.8% inflation rate and somewhat deteriorating real wages in 2005 there was a 6.3% improvement, taking a 3.6% consumer price increase into consideration.

The size of the working population in 2005 was 3.9 million, the number of unemployed amounted to 304 thousand, which corresponds to 7.2% unemployment rate according to the Central Statistics Office. The increase in the size of the unemployed population was over 43 thousand within a year. The average rate of unemployment within the European Union as published by Eurostat, the statistics office of the EU was 8.4%, 0.6 percentage points less than a year earlier.

The base rate was 6.0% at the end of 2005.

2.2 The banking sector in 2005

In terms of profitability, the Hungarian banking sector outperformed its Western European counterpart: in 2005 the aggregate pre-tax profit amounted to **387.6 billion**, 20.4% up from the base period. The balance sheet total of financial institutions showed a somewhat lower, 18% increase over the 2004 figure. The increase in after-tax profit was less compared to earnings before tax, though still considerable, falling only a few hundred million forints short of 320 billion.

Despite a decreasing trend in interest rates the banking sector managed to retain its profitability, excellent by international standards: return on average assets (ROAA) was two percent and return on average equity (ROAE) was also very high at 22.7%, though somewhat below the previous year's figure. Financial institutions managed to retain their interest margin despite a substantial drop in the base rate. Parallel with the downward interest rate trend there was an almost identical drop in income from, and expenditure on interest to assets compared the previous year: 1.64 and 1.60 percentage points respectively, thus the interest margin, i.e. the difference between the two changed from 3.94% in 2004 to only 3.89% in 2005.

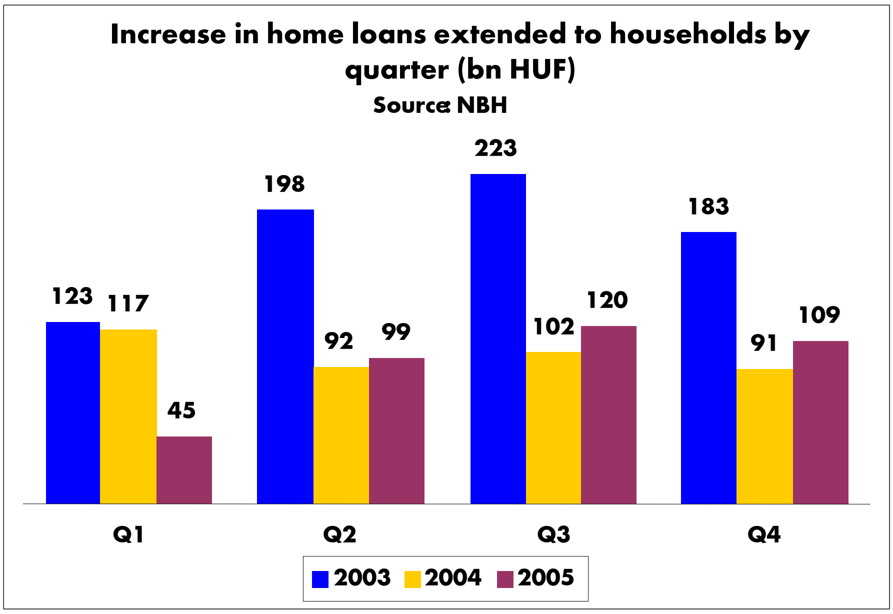
As a result of a keen growth in foreign exchange denominated loans by the end of 2005 almost one-third of bank loans to households and almost half of loans extended to businesses were FX loans. An increasing portion of assets of the banking sector, almost 40% by the end of 2005 was booked in foreign exchange. The amount of substandard or poorer loans increased by 10% and the amount of loans to be watched almost doubled, approaching nine percent of the balance sheet items. The level of capitalisation in the sector is high: the average capital adequacy ratio was 11.8% at the end of 2005.

In the first year of the first home owners' scheme titled **Fészekrakó** (Nest Building), banks signed contracts with a total of 22 thousand clients to the tune of more than 60 billion forints. Since the scheme was launched in February 2004, 14 thousand clients requested the 50% reduced non-refundable grant extended for the purchase of existing homes amounting to 17 billion forints in total. The other component of the Nest Building facility, the loan extended with state guarantee was requested by 8,200 clients to the amount of 43.7 billion forints.

Launched in 2001, the **Prefab Remodelling Facility** provided loans for the remodelling of 36 thousand housing estate homes over a four-year period. In addition, 90 thousand homes in prefabricated buildings were remodelled with a view to energy savings in 2005, to which the parties concerned borrowed a total of 15 billion forints.

2.3 Housing loans in 2005

Compared to the same period of 2004, by 31 December 2005 housing loans to retail customers increased by 373.2 billion forints to reach 2,283.3 billion forints. This is a 19.5% increase. However, new loans extended were tens of billion forints higher as outstanding loans, amounting to 1,910 billion forints as of 31 December 2004, were substantially reduced by repayments and prepayments made throughout the year. Over the course of 2005 banks extended more than 400 billion forints in housing loans to retail customers. Consequently, the increase in housing loans, though still outstanding, fell short of the 2002-2003 figures. The effect of repayments was felt almost exclusively in the segment of older loans denominated in forint and much less in terms of FX denominated loans, which started to rise spectacularly in 2004. The aggregate amount of newly extended HUF loans far exceeded a hundred billion in contrast to a tripling of the aggregate amount of FX loans that started its ascent in 2004. FX loans amounting to 144.6 billion forints at the end of 2004 grew to reach 472.5 billion by the end of December 2005, which is a 327.9 billion forints increase. Repayment was very small as the portfolio itself had been very small in the previous year consisting mainly of credits. Added to this is the fact that initially most of the repayment consists of interest thus the loan principal decreases only slowly.



The monthly growth rate of **forint denominated housing loans** also reflects this significant slow down: in **2004** the **23 billion forints average increase**, already slower than in previous years, dropped to **four billion forints in 2005**.

There was a significant increase in the level of the **home equity loans provided to households in 2005.** The amount of this type of loan has almost reached 388 billion forints, which is more than twice, than the level of the prior year.

The quality of the portfolio is indicated by the fact that about five thousand loan agreements had to be foreclosed in Hungary. Reckoning with an average housing loan size, this amounts to about 15 billion bad debts.

3 Ownership structure of FHB

Pursuant to Resolution No. 12 of 2005 (22 April) by the General Meeting, following entry in the Register of Companies all shares with a face value of 1,000 forints issued by the Company were converted to ten shares of 100 forints face value each on 14 June 2005. The change had no impact on the Company's registered capital.

Compared to the end of 2004 there has been a slight change in the ownership structure of the Company. The ownership share of foreign institutional investors dropped from 33.1% to 25.4% and the share of domestic institutional investors increased (from 3.3% to 8.8%). The ownership shares of private individuals and employees have likewise changed: their joint share increased from 1.5% at the end of 2004 to over 3.4% by 31 December 2005.

Shareholders	Number of shares (pcs)		Ownership share in the share capital	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Series "A" ordinary shares listed on the BSE				
State holding agency	3,300,001	33,000,010	50.00%	50.00%
Domestic institutional investors / companies	217,437	5,819,162	3.29%	8.82%
Foreign institutional investors / companies	2,184,092	16,790,459	33.09%	25.44%
Private individuals	89,121	2,276,387	1.36%	3.45%
FHB employees	9,350	111,932	0.14%	0.17%
FHB	0	2,060	0.00%	0.00%
Series "A" total	**5,800,001**	**58,000,010**	**87.88%**	**87.88%**
Series "B" voting preference shares				
State holding agency	211,430	2,114,300	3.20%	3.20%
Institutional investors	588,570	5,885,700	8.92%	8.92%
Series "B" total	**800,000**	**8,000,000**	**12.12%**	**12.12%**
Shares total	**6,600,001**	**66,000,010**	**100.00%**	**100.00%**

4 Report on the 2005 business activity

4.1 Major financial indicators

Compared to the base period the major financial indicators for 2005 were favourable despite a volatile market and increasingly keen competition in retail lending. The **consolidated balance sheet total** calculated by the International Financial Reporting Standards (IFRS) was 16.1% higher than the previous year's figure. The increase in the balance sheet total was mainly due to an upsurge in own lending, which led to a considerable increase in receivables from clients and refinanced banks and jointly generated 57.4 billion forints in annual growth.

The consolidation applies also to FHB Szolgáltató Rt. (FHB Service Company), a 100%-owned subsidiary of FHB, which operated as an acquiring agent in 2005. As the balance sheet and the profit and loss statement of FHB Service Ltd. have no significant bearing on the Bank's data, the Report contains consolidated figures throughout.

FHB managed to achieve a 1,164 million forints increase in **after-tax profit** over the course of 2005 on top of the 2004 result, which had been significantly higher than in the previous year. The 2005 after-tax profit is outstanding despite increasing competition in the marketplace, narrowing net average interest margin, rising operating costs coupled with the additional burden of the surtax to be paid by banks.

Shareholders' equity (based on earnings in the actual period) increased by 6.2 billion forints, or 35.7%, over a year.

Major consolidated financial indicators	Consolidated figures by IFRS		
	31 Dec 2004	31 Dec 2005	Change 2005 / 2004
Balance sheet total (million HUF)	415,071	481,875	16.1%
Book value of mortgage loans (million HUF)	373,761	431,176	15.4%
Book value of mortgage bonds (million HUF)	384,420	421,113	9.5%
Shareholders' equity (million HUF)	17,497	23,741	35.7%
Earnings before tax (million HUF)	8,511	10,701	25.7%
After tax profit (million HUF)	7,302	8,466	16.0%
CIR (operating costs / gross operating profit)	39.7%	40.7%	2.5%
EPS (HUF) [1]	111	128	15.3%
Tier 1 [2]	18,079	24,743	36.9%
Tier 1 capital adequacy	13.8%	15.6%	13.0%
ROAA (return on average assets)	1.9%	1.9%	0.0%
ROAE (return on average equity)	46.7%	42.8%	-8.4%

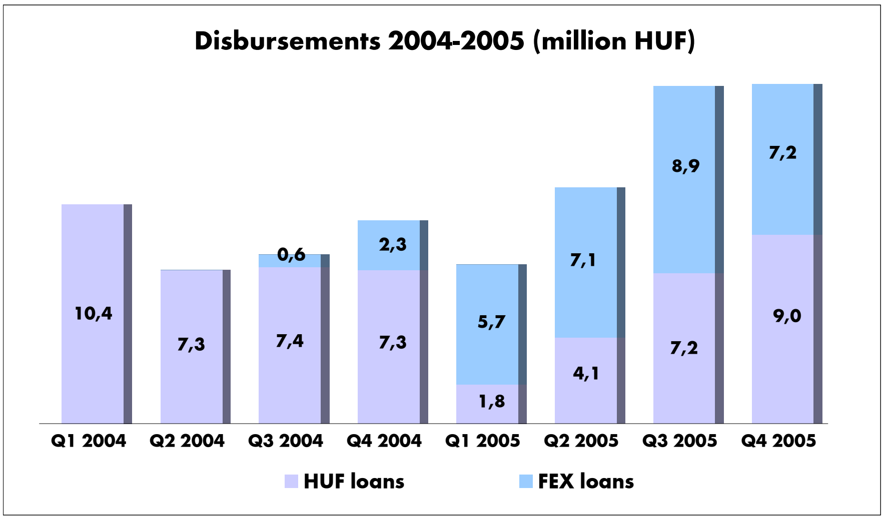
[1] Excluding the impact of share swap
[2] Excluding cash flow hedge reserve and taking the profit for the year into consideration

4.2 Products

FHB has two business lines, own lending and refinancing. Own lending is described among the products, while the refinancing is presented as a distribution channel in this report.

Over the past year the Bank substantially expanded its lending business, which resulted in a total of 51.0 billion forints direct disbursement to clients, 43.9% more than in 2004. **The breakdown of loans extended by the Bank has changed:** the leading product remains purchase loans, contributing 45.3% to the loans portfolio, although its weight has been steadily diminishing. **Home equity loans contributed** 30.2% by the end of the period reported and have become increasingly significant within the Bank's own lending.

Launched in the second half of 2004, foreign exchange-based loans have gained more and more ground, similarly to the general Hungarian market trend. As a result, disbursement in currencies other than forints amounted to 43.3% by 31 December 2005.



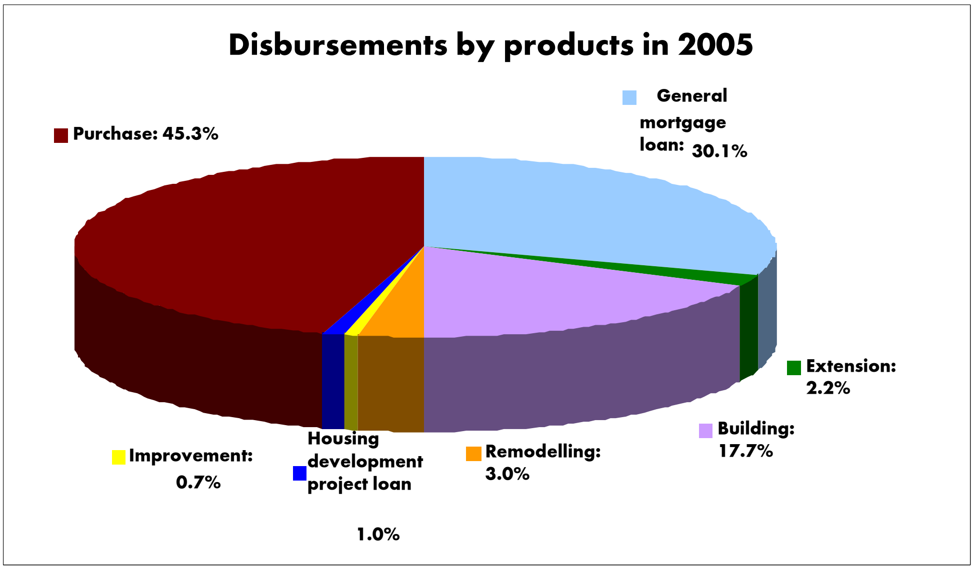
There was a steady increase in the disbursement of **Home purchase loans** until the third quarter of 2005, when the Bank disbursed 7.0 billion forints. The fourth quarter showed a slight drop due to seasonal effects and a general lag in real estate sales.

Because of it seasonal nature, **building loan** disbursements peaked in the summer and early autumn months. The seasonality of **loans for other housing related purposes** was even stronger as works to be covered from such loans – such as extension, improvement and remodelling – can be implemented within a shorter period. These disbursements topped in August and September.

Home equity loans showed a steady ascent with a particularly keen demand for FEX loans.

The Bank launched its project financing product in 2005. Project lending contributed 1.4% to own disbursements in the third quarter and 1.8% in the fourth.

In December 2005 the Bank launched its **land development loans**, a product subsidized by the State.



4.3 Distribution channels

In 2005 the contribution of refinanced loans to total disbursements continued to decline, from 64.9% in 2004 to 46.8% in 2005. This was due mainly to the ascent of low-interest foreign exchange based loans.

Own lending achieved a spectacular rise compared to the previous year. The gross amount of loans sold by the Bank increased by 39.0 billion forints, or 29.5%, reaching 171.3 billion forints. Annual disbursement amounted to 51.0 billion forints. **The growth of own lending was considerably more dynamic than projected and the contribution of own lending to total lending likewise increased substantially.**

In 2005 the Bank was faced with a strong push for repayment by clients. Prepayments amounted to 14.4 billion forints by the end of the year including 10.4 billion forints prepaid refinanced loans.

Direct FHB distribution network

In keeping with its original concept, the Bank has not developed a large network of branches with large staff. Besides the Budapest head office clients are seen in ten coordination offices (in Kecskemét, Székesfehérvár, Győr, Kaposvár, Miskolc, Debrecen, Szeged, Nyíregyháza, Zalaegerszeg and Pécs).

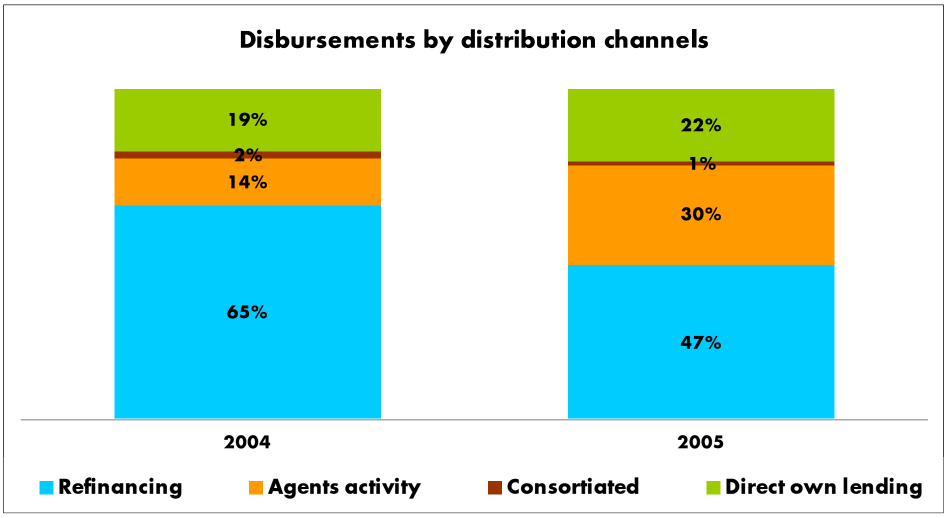
The year-on-year increase in loans distributed directly by the Bank **was 11.7%**.

In terms of acceptance of loan applications, the previously existing balance between the Budapest head office and the coordination offices shifted towards the coordination offices in 2005, due partly to the performance of the two new offices, and partly to a considerably more active network of agents throughout the country.

The Bank continues to consider the **operation and efficiency of the coordination offices** as an important task and offices are upgraded on a continuous basis. Besides the remodelling of existing offices, two new offices were added to the network in the course of the year, in Zalaegerszeg and Nyíregyháza.

The **average loan size** slightly decreased from 4.1 million forints in 2004, as of 31 December 2005 the aggregate average value of the Bank's own loans and refinanced portfolio was 3.9 million forints.

The Bank's distribution network continued to play a key role in **own disbursements,** contributing **41.3%**, although this contribution falls substantially short of the previous year's figure (54.7%) due to increasing activity on the part of agents.



Agency activities

In order to reduce the impact of competition and the market, at the end of 2004 the Bank embarked upon a dynamic development of its network of agents with a view of promoting agents' activity and improving the efficiency of cooperation. As a result individual entrepreneurs and small size agencies appeared in addition to long-standing major partners. Besides expanding its network of agents the Bank also paid special attention to developing services extended to its agents.

Due to these developments **55.7% of own disbursements took place through the network of agents in 2005**, and the amount of loans disbursed through the Bank's sales channels was **28.3 billion forints**.

The number of contracted partners as of 31 December 2004 was 208, and the number of agents selling the Bank's products was 1,835. This network development targeting essentially the small enterprise sector was continued in 2005. In addition, contracts were signed with brokerage firms with nationwide networks, and new agents of the existing insurance and home savings partners acquired authorisation to sell FHB loan products. As a result, the number of contracted partners as of 31 December 2005 was 594, with more than four thousand registered agents.

Consortial loans

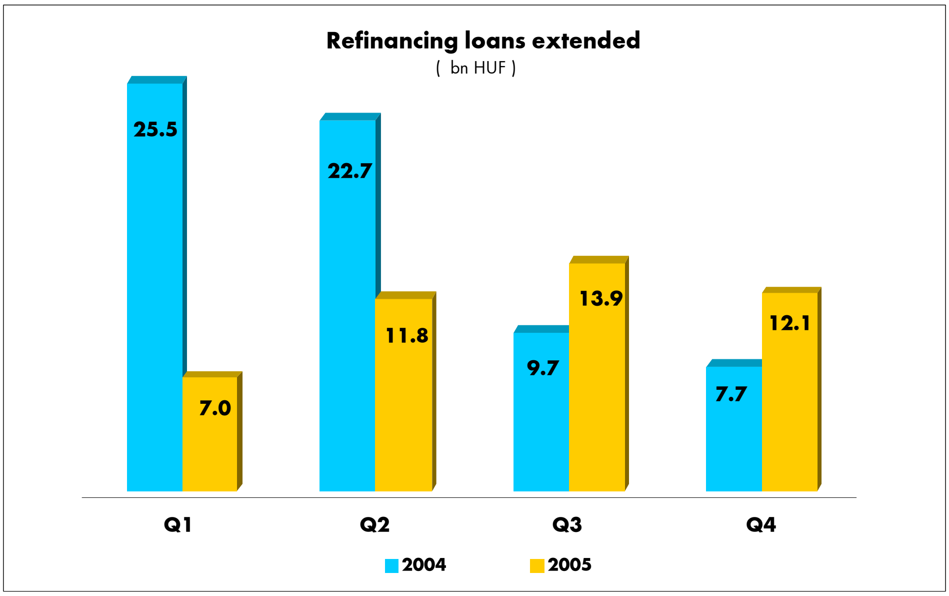
In 2005 the Bank disbursed 1.0 billion forints to its partners, 33.9% less than in 2004. The decline is rooted in the fact that in 2005 the Bank's major consortial partner chose to refinance the subsidized loans it had extended instead of opting for consortial loans. Consequently, the contribution of **consortial loans** to own lending dropped from 4.4% in 2004 to **2.0%** in 2005.

Conversely, a Framework Agreement for Consortial Cooperation was concluded by 31 December 2005 with a total of 27 savings cooperatives as the basis of **lending for the purpose of land development**.

Refinancing

The effect of a considerable drop in demand in the housing loans market and the advent of FX loans was most keenly felt in refinancing. In 2005 new refinancing transactions amounted to 44.8 billion forints, only 68.4% of the 2004 figure of 65.6 billion forints.

In keeping with the trend started in the second half of 2004, **refinancing** continued to decline in the first quarter of 2005, then picked up in the second quarter, so that the majority of refinancing (58.1%) occurred in the second half.



The increase was due to a large extent to the fact that the Bank started refinancing FX loans in December 2004. The new FX loans facilities rapidly gained ground within the refinancing portfolio: in the fourth quarter of 2005 the contribution of newly disbursed FX refinancing was 70.6% and its contribution to annual disbursements was 55.2%. At the end of 2005 the refinanced FX loan portfolio amounted to 24.2 billion forints, which was 9.3% of the total refinanced portfolio.

FHB had effective cooperation agreements with eight partners at December 31, 2005 in the business of refinancing through purchasing independent mortgage liens.

4.4 Portfolio analysis and provisions

As of 31 December 2005 the Bank's classified assets amounted to 442.2 billion forints, pending commitments amounted to 7.8 billion forints and future commitments to 89.2 billion forints.

Figures in million HUF

Breakdown of portfolio by classification, loss in value and provisions						
CLASSIFICATION	31 December 2005			31 December 2004		
	Total accounts receivable	Loss in value and provisions	Ratio	Total accounts receivable	Loss in value and provisions	Ratio
Problem-free	533,247	-	0.0%	393,995	-	0.0%
Watch	3,788	2	0.1%	2,188	-	0.0%
Substandard	535	58	10.8%	305	32	10.5%
Doubtful	1,617	491	30.4%	1,061	329	31.0%
Bad	1	1	100.0%	16	16	100.0%
TOTAL	***539,188***	***552***	***0.1%***	***397,565***	***377***	***0.1%***

Receivables from customers amounted to 171.1 billion forints (31.7% of the portfolio) in addition to 7.8 billion forints disbursement commitment based on valid loan agreements (1.5%). Of these receivables 5.6 billion forints attached to 1.513 contracts and 0.3 billion forints commitments were classified in the categories watch to bad, with 0.6 billion forints total loss in value and provisions.

The refinancing loans portfolio amounted to 259.7 billion forints (48.2%) from eight commercial banks, all classified as problem-free. The Bank had term or at-sight deposits with ten commercial banks amounting to 11.3 billion forints (2.1%). As regards holdings in other companies, the Bank continues to own a 100% stake in FHB Service Company. The nominal value of investment is 65 million forints, classified as problem-free. Future commitments amounting to 89.2 billion forints as at the balance date constitute 16.5% of the entire portfolio.

The quality of the portfolio continues to be good. Compared to 2004 there was a slight decrease in the rate of problem-free disbursements in the portfolio as a whole and also in the loan portfolio (specifically, the items receivables from clients and commitments).

As of 31 December 2005 98.9% of the classified portfolio was problem-free (compared to 99.2% as of 31 December 2004). The aggregate rate of substandard, doubtful and bad debts was 0.4% (as opposed to 0.3% as of 31 December 2004), the rate of transactions on the watch list was 0.7% (as opposed to 0.5% on 31 December 2004).

The proportion of problem-free loans in the loan portfolio was 96.7% (as opposed to 97.4% as of 31 December 2004), the combined rate of substandard, doubtful and bad debts was 1.2% (as opposed to1.0% on 31 December 2004), and the rate of loans on the watch list was 2.1% (as opposed to1.6% 31 December 2004).

There were 80 foreclosures in process as at 31 December 2005, from which 8 were being processed via auctions. The number of foreclosures completed in the period were 89, from which one was an auction, 26 were simple foreclosures, and 62 receivables were sold on tenders.

There has been virtually no change in the average loss in value (0.1% in the entire portfolio and 0.3% in the loan portfolio).

4.5 Property valuation

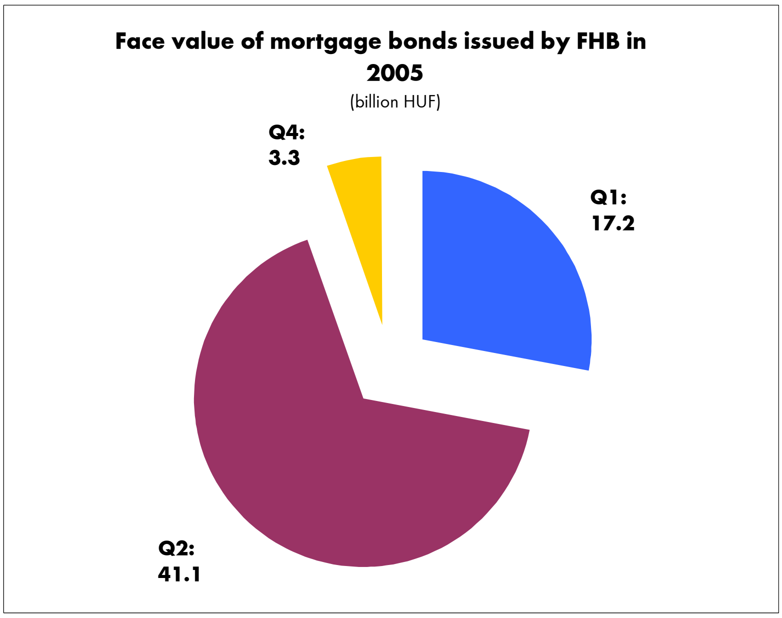
In 2005 the **number of valuations increased** substantially along with the expansion of own lending: in 2004 the Bank valued 28 thousand collaterals while this number was 33 thousand in 2005. The number of valuations in conjunction with the Bank's own lending was 17 thousand and the number of valuations by partner banks was 16 thousand. Valuation of collaterals was most intensive in the second and third quarters: 55.2% of all valuations took place in this period.

The Bank generated 632 million forints income from valuation fees in 2005 as opposed to 732 million forints paid to subcontractors. The income was 14.4% higher than the previous year's figure while costs increased by 66.3% due to toughening competition and the consequent rise in valuation fees.

4.6 Mortgage bond issue, mortgage bond coverage

Mortgage bond issue

In 2005 the Bank issued new bonds amounting to 61.6 billion forints. Issues were strongest in the second quarter, when the Bank appeared in the capital market with mortgage bonds of a total face value of 41.1 billion forints as opposed to 17.2 billion forints in the first quarter and only 3.3 billion forints in the fourth quarter, and no issues took place in the third quarter. Throughout the year scheduled principal repayment by the Bank amounted to 7.9 billion forints in addition to mortgage bonds repurchased at Stock Exchange auctions in the amount of almost 18.2 billion forints.



Due to the volatility of interest rates and higher yields expected by domestic investors the Bank **raised most of the funds required in foreign capital markets**. FHB's ongoing international bonds scheme and the Bank's credit rating provided a good framework to these efforts. Similarly to the auction practice of the previous year, relatively few bonds were issued domestically in 2005.

The Bank started the first quarter of 2005 with a repurchase followed by two new series issued: a closed issue took place in the international market in February, then a domestic public issue in March. In February the Bank sold mortgage bonds amounting to a total face value of 50 million euros in the context of the international EMTN scheme. In March the Bank reappeared in the Hungarian capital market with a public offering after over a year's absence. The Hungarian Financial Supervision Authority (PSZÁF) approved the Bank's new 220 billion forints mortgage bond issue programme for 2005-2006 at the end of February and the new series was issued in the context of the programme.

In the second quarter of 2005 the Bank issued four new series of mortgage bonds including three closed issues outside Hungary and one public domestic issue. In addition, the March public issue was topped up in June. Two repurchase transactions were concluded, in April and May respectively, and the Bank repaid the one-year series with maturity in mid-June. The total nominal value of new foreign issues in the second quarter was 125 million euros, or approximately 31 billion forints, and that of the series issued in Hungary was 10 billion forints.

In the third quarter of 2005 the Bank offered no new series in the domestic or foreign markets, nor did it initiate repurchase. This was due, on the one hand, to the fact that three new series had been issued in June, the last month of the previous quarter, on the other hand, it was deemed expedient and opportune to involve long-term resources other than mortgage bonds.

Accordingly, the Bank **drew a syndicated loan of 150 million Swiss francs with a maturity of five years** in the third quarter. The relevant contract was signed in September 2005, which was followed by the first drawdown. The involvement of a syndicated loan instrument proved extremely successful as the interest premium, hence the cost of funds, was no higher than the costs of mortgage bonds with similar conditions.

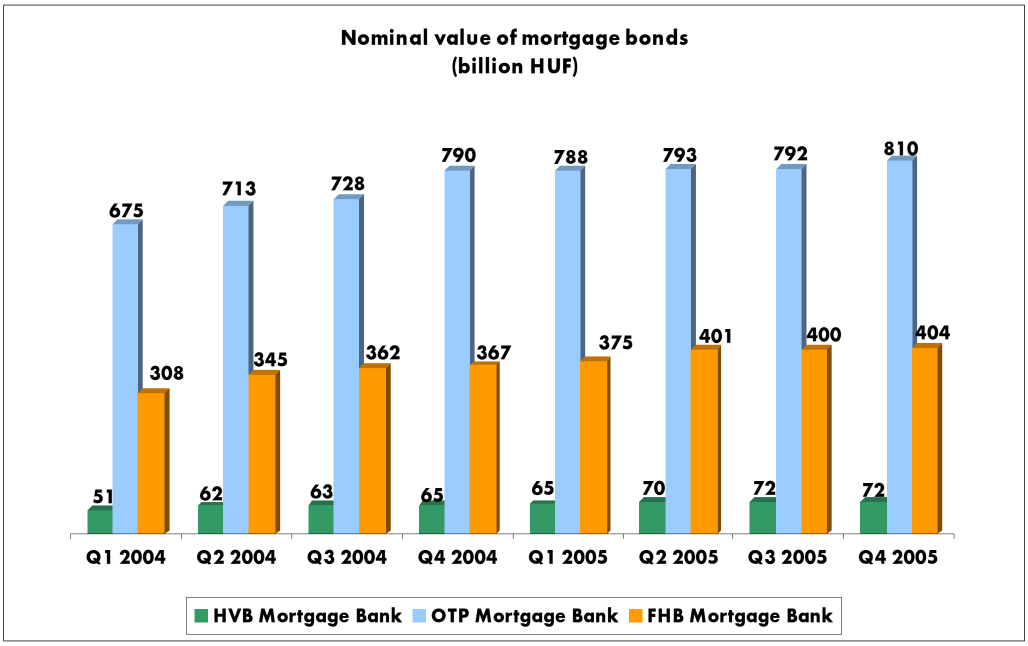
In the fourth quarter of 2005 FHB issued a new mortgage bond in the Hungarian capital market with a total nominal value of approximately three billion forints. In the fourth quarter the full amount was drawn down from the syndicated loan available since September 2005.

The total nominal value of the series issued in the context of the Bank's international mortgage bond programme (EMTN) registered in Luxembourg but not yet repaid was 690 million euros at issue price. The outstanding amount is 310 million euros from the original one billion. The renewal of the scheme according to the provisions of the new EU Prospectus Directive had been completed and the programme was approved by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) with effect from 21 December.

On the whole, by the end of 2005 the Bank raised new long-term funds amounting to 85.8 billion forints including new mortgage bonds issued with a total nominal value of 61.6 billion forints at issue and a syndicated loan amounting to 24.2 billion forints.

The mortgage bond market

The aggregate amount of outstanding mortgage bonds issued by the three Hungarian mortgage banks was 1,286 billion forints as of 31 December 2005, 5.3% higher than the previous year's figure. **The Bank's share of the mortgage bond market was 31.4%,** essentially the same as at the end of the previous year.



Investors' trust in mortgage bonds issued by FHB is marked by the fact that **the Bank was awarded the Budapest Stock Exchange's title of "loan securities issuer of the year" for the fifth time** in a row. On 20 December 2005 **Moody's,** the international rating agency **upgraded FHB's HUF mortgage bonds from A1 to Aa2.** The rating of foreign exchange mortgage bonds stayed A1, the only reason being the rating of Hungary's sovereign risk.

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

By the end of 2005 of reporting **the ordinary collateral portfolio included 46,511 items** with **123,170** real estate properties involved as coverage.

In the refinancing segment a total of 177 independent lien contracts were repurchased in the course of 2005 involving 10,817 real estate properties covering 9,917 loan contracts.

As of 31 December 2005 the net value of ordinary collateral was **757,556 million forints**, **6.2% higher than the amount of ordinary collateral** as of 31 December 2004 (713,112 million forints).

Net value of assets involved as collateral as of 31 December 2005 (HUF million)

Outstanding mortgage bonds in circulation	
Face value:	403,839
Interest:	182,703
Total:	**586,542**
Ordinary collateral value	
Principal:	424,064
Interest:	333,493
Total:	**757,556**

Value of assets involved as supplementary collateral (government paper)	
Principal:	0
Interest:	0
Total:	**0**

The Bank met the coverage requirements set forth by the Act on Mortgage Loan Companies on an ongoing basis.

4.7 Liquidity management

The Bank's liquidity was stable throughout 2005. It had a 21.5 billion forints lending position based on its opening portfolio with a 8.6 billion forints net lending position based on its closing portfolio. As regards foreign exchange liquidity, the Bank was in a borrowing position on the first day of the year while at year-end the forint value of the short-term interbank position was –0.9 billion borrowing with an additional net foreign exchange margin deposit equivalent to 1.3 billion forints. Based on the above, the lending position adjusted by foreign exchange and margin deposits was 30.0 billion forints at the end of 2005.

In terms of the forint, the first half of 2005 was characterised by a lending position. The Bank kept a close watch on market trends and expectations related to decreasing interest rates and increased its 1-3-month lending accordingly, in order to achieve higher income from interest.

The third quarter as well as the preceding period of 2005 was characterised by lending liquidity in terms of both the forint and the combined net position. The Bank managed to keep its position within the limits on a continuous basis. With a view of expanding the choice of financing forms a long-term syndicated loan contract was signed in September for 150 million CHF. This framework provides a greater scope of movement for financing non-subsidized FX loans and supports the accumulation of capital required for mortgage bond issues. The fourth quarter was characterised by lending liquidity in terms of both the forint and the combined net position. The Bank adjusted the drawdowns from the syndicated line to its business during the availability period and used up the entire loan by the end of the year.

In keeping with its risk policy the Bank is aiming at keeping its FX position as closed as possible. With the ascent of the FX business the Bank has become a regular player in spot and futures interbank market and is actively engaged in liquidity management in both EUR and CHF. The security and flexibility of FX liquidity management is supported by the multi-currency credit line amounting to 16 million euros available to the Bank.

The Bank managed to keep its position within the limits on a continuous basis throughout the year.

Temporarily unengaged funds covering monthly financing were kept in the form of short-term interbank loans. Similarly to previous years, expansion of financing and improving the security of liquidity were important considerations in 2005, therefore the Bank renewed the **revolving loan** contracts concluded earlier with two banks, one of which was renewed as a multi-currency facility.

As regards FX transactions related to the asset side the banks keeping EUR and CHF nostro accounts based on contracts concluded last year will continue providing their services.

4.8 Risk management principles

Risk management policy

Due to its activity as a mortgage bank and the related special legal regulations, the Bank has a special assets and liabilities structure within the Hungarian banking sector. In consideration of the above and observing the regulations pertaining to prudence the Bank developed its risk management strategy aiming at keeping risk exposure at a low level.

The Bank primarily tries to manage market risk exposure by natural hedging but a 100% match of assets and liabilities can never be achieved. The shortcomings of natural hedging are offset by active intervention in the form of mortgage bond repurchase and swaps and by increasing the term of mortgage bonds.

In accordance with the relevant statutory provisions and its business policy the Bank uses derivative instruments solely for hedging purposes.

Lending risk

Lending is the Bank's core activity secured by mortgage liens on real estate, purchase of mortgage liens or by the State as aval.

The lending activity is focused on home lending. Lending risk stems from risks related to borrowers, to coverage, or to partner risk involving partner banks refinanced through independent mortgage lien purchases.

The Bank developed a scoring system to measure creditworthiness and applies stringent regulations relating to determining the scope of collaterals eligible for coverage, their valuation and coverage ratio. Risks vis-a-vis partner banks are minimized by means of bilateral agreements and the assignment of the refinanced loan portfolio as prescribed by law.

Interest rate risk

The principal characteristic feature of banking is the ratio of assets and liabilities in the balance sheet, which is of a determining nature. Due to the complexity of the business the characteristics of financing portfolios and their related liabilities can be highly different, thus every bank has to reckon with a certain amount of interest rate risk.

Risk can be most effectively managed by the approximation of the maturity structure of liabilities and assets and by the coordination of repricing. In addition, the Bank also uses interest swaps whenever the market so allows, and also issues mortgage bonds earning structured interest.

In the course of 2005 the average monthly utilisation of the limit for income-based sensitivity to interest rates was not more than 55.0%, with the highest daily rate being only 69.8%.

Liquidity 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.

Risk management

In the reporting period the size and structure of the loan portfolio as well as its FX structure changed considerably compared to the base period. The rise of FX loans increased the complexity of the risk profile and resulted in mounting **risk management** work as well as increasing **assets and liabilities management** activities. In this context **risk management on the liabilities side** became more and more important.

The implementation of the Risk Management System that had started in the previous year was completed. This led to a major change in attitude in risk management and a new method of setting limits was introduced. The Bank's Board of Directors approved the **VaR (Value Risked) based risk management system**, which was introduced in the period of reporting, thus the limits to the Bank's entire exposure are set on the basis of VaR. Together with the front office software installed in 2004 the risk management software serves as a complex tool in assets and liabilities management.

The Bank continued its active assets and liabilities management policy in 2005. Risk management was always considered in mortgage bond repurchase and issue as well as in the development of interest and maturity structures, product pricing, application of hedging techniques, and in the planning of issues, all of which contributing to the ultimate goal of shaping the Bank's optimal assets and liabilities structure.

Launched in the middle of 2004, some of the main tasks under the Basel II project included the validation of debtor rating, the development of data bases, handling some of the operating risk related tasks, and creation of the framework conditions necessary for the introduction of Basel II.

4.9 Capital investments

As of 31 December 2004 the Bank had gross invested assets amounting to 2.0 billion forints which consisted of 46.5% (or 0.9 billion forints) intangible assets and 53.5% (or 1.1 billion forints) in fixed assets necessary for rendering its activities as a credit institute. During 2005 the gross amount of both intangible assets and fixed assets increased by 0.5 billion forints. Depreciation written off on invested assets increased from 0.9 billion forints at the beginning of the year to 1.2 billion forints by the end of the year. As a balance of these items, **the net value of intangible assets on 31 December 2005 was 0.9 billion, and that of fixed assets was 0.88 billion forints.**

In the course of 2005 the Bank completed numerous investment projects that had been started earlier, the most important being the upgrading of the country branches and the opening of new coordination offices. The Bank developed its basic transaction systems and infrastructure in keeping with business requirements and the changing legislative environment.

4.10 Restructuring, staff figures

Senior officers

Of the **senior officers** of the Bank Group, Dr. Miklós Szőke and Attila Kéri resigned from their position on the Supervisory Board with effect from 21 April 2005 and 22 April 2005 respectively. The ordinary 2005 General Meeting removed Zsuzsanna Ács and Zoltán Egressy from their position on the Board of Directors with effect from 22 April and elected Ferenc Karvalits and Dr. Gyula Czok to serve on the Board of Directors with effect from 5 May 2005, and elected Dr. Gábor Csányi to serve on the Board of Directors with effect from 28 May. The General Meeting removed Tibor Nagy Huszein from his position of the Supervisory Board with effect from 22 April 2005 and elected Péter Heim with effect from 22 April 2005 as well as Mónika Kék, Kata Orsolya Molnár and Éva Baranyi each with effect from 5 May 2005 to serve on the Supervisory Board for a term of five years.

At its meeting on 8 September 2005 the Board of Directors of FHB Rt. elected **Ferenc Karvalits** the **Bank's new Chairman of the Board of Directors**. Dr. Márton Vági, the previous Chairman resigned from his position while retaining his membership on the Board of Directors. On the General Meeting of the Bank held at 21 April 2006, Ádám Terták, and dr. Gyula Czok resigned from their positions in the Board of Directors, and Pablo Arnoldo Fritz Sepulveda resigned from the Supervisory Board. The General Meeting elected Károly Salamon and Gábor Borsány from the Supervisory Board to the Board of Directors. Dr. Gyula Czok and some FHB employees – dr. Erik Landgraf, Mária Szántó, and Nguyong Viet – were elected to the Supervisory Board. Heim Péter resigned from the Supervisory Board with effect from 23 March, 2006.

Organizational changes

As of 1 November 2005 the Bank created a **Directorate of Bank Operation and Informatics**, headed by Deputy CEO Tamás Foltányi. The new Directorate supervises the areas of information technology, back office and documents handling.

A Department of Investment Preparation was set up as a new organisational unit under the supervision of Senior Management in the fourth quarter. The main duties of the Department include participation in the development of alternative strategic investment, preparation and coordination of strategic directions, exploration and evaluation of potential investment opportunities, control and supervision of the implementation of investment plans determined by the Bank's Management, development of detailed operative plans and participation in their implementation. In December 2005 the former **Department of Risk Management and Control** was split into two. The former Department transferred control duties and continues its operation under the name of **Department of Risk Management**. A new **Department of Control** was set up to undertake the control duties transferred by the former Department.

Staff management

The Bank had 270 **staff** as of 31 December 2005 as opposed to 199 as of 31 December 2004. The average statistical headcount in 2005 was 269.4 compared to 198.8 in 2004. The **consolidated headcount** was 299 as of 31 December 2005, 31.1% higher than in the previous year. The proportion of active employees in the total headcount was 99.0%, and the proportion of full time employees was also 99.0%. Fluctuation in 2005 was 23% due to a large number of new hires. Of the total number of employees, 10.6% work for the Coordination Offices outside Budapest. The proportion of women is 64.9%. Women contribute 45.8% to managerial staff.

Employees of the Bank participate in further training on a continuous basis. The Bank promotes further training through educational agreements. In addition, FHB operates its own **internal education system** to deliver this knowledge. Within the framework of this, the Bank offers continuous training and further training facilities to those employees who work in the lending area, who have to take exams from time to time, to prove their level of skills.

5 Account of FHB Service Company

FHB Service Company is in 100% ownership of FHB Land Credit and Mortgage Bank, and performs agent's tasks for the Bank since the objective of the company was set in the second half of 2003

Within the frame of the task above, the employees of FHB Service Company inform clients about loan products, render assistance to clients in preparing their applications and carry out admission of the same.

The year 2005 was a successful period for FHB Service Company: the strategic conception was fully realized, the **profit after tax increased by HUF 24.6 million**, and **the shareholder's equity raised by HUF 46.4 million** since last year. The financial figures got higher, the company increased the sold loans by 28.6% in quantity, and 22.9% in value, while the operating expenses decreased by 6% (or HUF 11.1 million).

The successful business strategy is justified with the fact, that the **profit in value was HUF 48.3 million in 2005, which is twice higher than in prior year.**

The growth of the profit was influenced by the dynamic increase of the agent's activity on one hand, and the declining of the operating cost on the other hand. Since the fees paid by the Bank for the service activity haven't changed in 2005, while the rental fee for office tools paid by the Service Company increased by the published inflation rate since August 1, 2005, the dynamism of the realized profit is more pointed.

The realized revenue from agent's activity was HUF 220.3 million in 2004, and HUF 235.6 million in 2005.

The average staff was 30 in 2005, which is lower by 16.7% than in prior year, which fall is the main reason of the decrease of the operating expenses. Because of the lower staff, the personal type expenses dropped down: it was HUF 153.2 million in the end of 2005, which is 4% lower, than the prior year's expenditure.

Value of shareholders' equity amounted to HUF 115.2 million – considering also the after-tax profit of the subject year -, which shows a significant increase compared to the figure of the preceding year.

By 31 December 2005 balance-sheet total of FHB Service Company increased from HUF 83.6 million to HUF 128.7 million, because of the increased amount of term deposits, and the long term loans given to employees.

6 New business strategy of FHB

At its meeting on 8 September 2005 the Management of FHB Rt. discussed the concept for a possible review of the Bank's medium-term strategy and decided that Management should include an imminent review of the Bank's current strategy on its agenda. The Board of Directors approved the strategic guidelines developed by Management by virtue of Resolution No. 58 of 2005 (21 December), and subsequently approved the medium-term strategic plan developed on the basis of the guidelines by its Resolution No. 1 of 2006 (07 February).

Major goals of the approved strategy:

- Acquisition of a share exceeding 12% of the housing loans market based on own lending by the end of the strategic timeline (2010).
- Increasing the volume of business by diversification of the Bank's activities, appearance in new markets, launching new products and diminishing risk exposure.
- Maintaining a ROE ratio above the market average but not less than 20%.

The Bank's mission is to increase the value of equity through offering its domestic and foreign clients and investors a choice of banking, real estate, mortgage and capital market services of high standards that is wider than at present relying on its existing values and activities as a mortgage bank and within an efficient model of institution and operation.

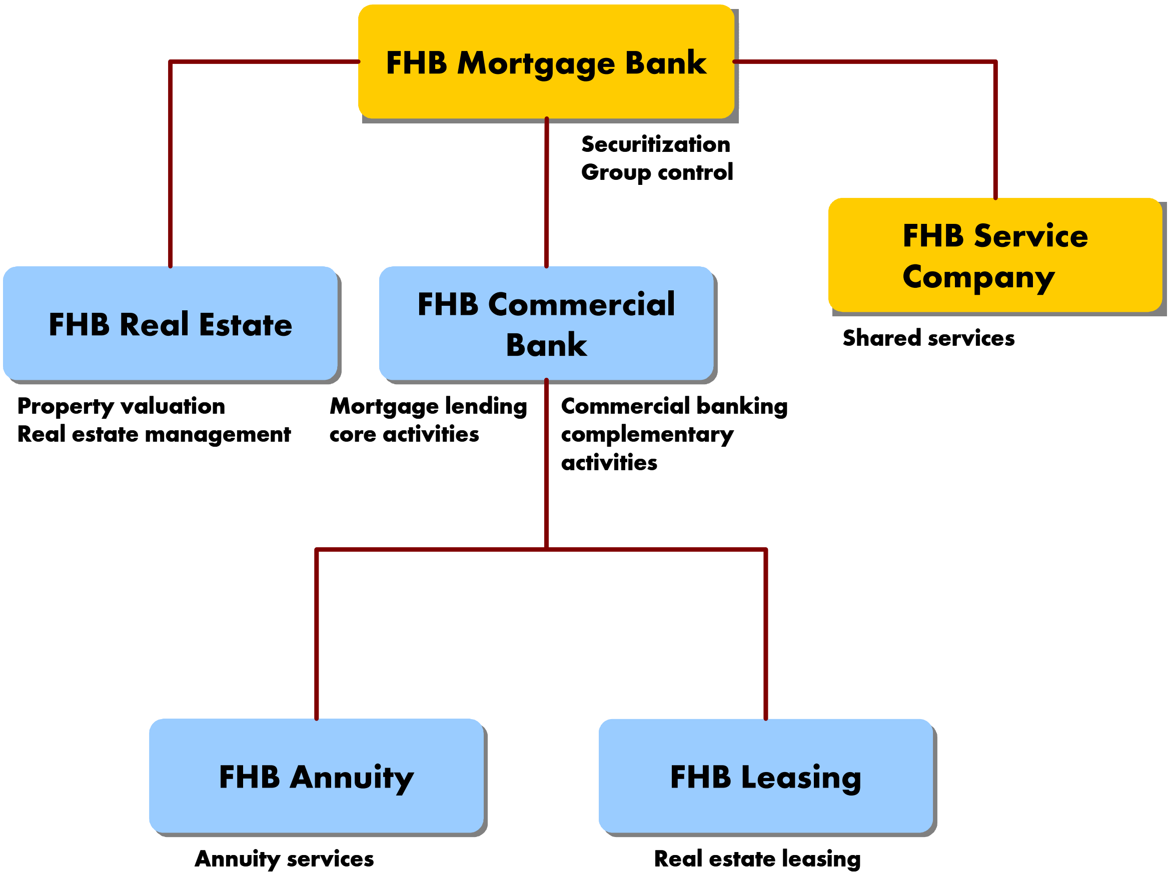
Introduction of activities that can be deployed solely in a commercial banking context will be a great contribution to the implementation of the strategic goals as it will give the Bank an opportunity to add standard banking products to its current basic business in both the corporate and the retail market. As a first step towards the implementation of the modified strategic guidelines the development of the project organisation in charge of establishing FHB Bank Group with the participation of representatives of the Bank and consultants concerned. The project also includes the development of independent IT, marketing and HR strategies.

During the period of accounting the initial steps towards creating the Bank Group were already taken. As the owner of FHB Service Ltd., the Bank made a decision to increase the capital of FHB Service Ltd. by 1,435 billion forints. The capital increase took the form of a cash contribution. The Bank transferred 30% of the face value of shares as well as the difference between the face value and the amount of issue of new shares to the account of FHB Service Ltd. on 21 February 2006. The remaining 70% of the capital increase shall be paid by the Bank within one year from registration.

Pursuant to a decision by the owner, FHB Service Ltd. is also a founder with 5% participation of the shares of FHB Real Estate Co. Plc. to be established, of which one million forints were transferred by FHB Service Ltd. to the relevant deposit account on 17 February 2006. The balance shall be paid within one year from establishment.

According to the Bank's decision, FHB Service Ltd. will participate with10% of shares as a founder of FHB Commercial Bank Co. Plc. Of this amount, 100 million forints shall be transferred once the deposit account of FHB Commercial Bank Co. Plc. is opened. The balance shall be paid after the licence of establishment is granted.

The future structure of FHB Group is presented in the table below:



The Bank – continuing the turnaround in 2005 – calculates growing own lending activity. In the next five years, the portfolio of own disbursed housing loans can increase by 22% par annum. The total loan portfolio will also include new mortgage based products. The Bank expects further expansion of FX lending in the mid-term period, and the share of foreign currency loans can rise to 57.7% by 2010 from the ratio of 10.4% in 2005, while the share of subsidized loans will parallel decrease.

The Bank projects that the stronger competition in the housing loan market and the entry to the Euro-zone results in decreasing net interest margins, the decline can reach 20-30 base points a year.

The cost/income ratio (CIR) will slightly increase because the dynamics of own lending activity, however the 44-45% level will still be favourable compared to the average ratio of other retail banking groups on the market.

Shareholders' equity will 2.5 times higher than the current level, and the dividend policy is not expected to change (payout ratio is maximum 25% of the net profit).

7 Financial analysis

The presented financial figures are based on the audited, consolidated Financial Statement (by International Financial Reporting Standards) as at December 31, 2005.

7.1 P/L structure

Figures in million HUF

LINE ITEM	31 Dec 2004	31 Dec 2005	Change 2005/2004
Net interest income	14,926	16,555	10.9%
Net fees and commission income	239	405	69.5%
Net result of financial operations	-1,146	765	166.8%
Other income and expenditure	347	698	101.2%
Gross operating income	**14,366**	**18,423**	**28.2%**
Operating costs	- 5,697	- 7,494	31.5%
Net operating income	8,669	10,929	26.1%
Losses from lending	- 158	- 228	44.3%
Earnings before tax	8,511	10,701	25.7%
Taxes	- 1,209	- 2,235	84.9%
Profit after tax	**7,302**	**8,466**	***16.0%***

In 2005 the Bank realised **10.7 billion forints consolidated after-tax profit under the IFRS**, 25.7% more than the previous year's figure. The growth was mainly generated by an increase in net interest income and by the significant improvement of the net result of financial operations. **Gross operating income was 28.2% up** compared to the 2004 figure. **After-tax profit** was 16.0% higher than in the previous year.

Net interest income

The **16.6 billion forints net interest income** generated in 2005 emerged as the balance of 53.1 billion forints interest income (13.3% higher than at the end of 2004) and 36.5 billion forints interest expenditure (14.4% growth).

Similarly to the previous year, the 2005 **interest income** was mainly generated by interest income on refinanced mortgage loans (with a contribution of 50.4%, which is nevertheless 1.4 percentage points below the previous year's figure). Interest income on own lending contributed 41.9%, the combined contribution of interest income on interbank loans and securities was 3.2% and interest income on derivative transactions contributed 4.6%. The change in the breakdown of interest income compared to 2004 was caused by an increase in income from derivatives. The contribution of subsidized interest (subsidized interest on mortgage bonds and supplementary interest subsidy) to income from interest was 61.2% in 2005, considerably below the 2004 contribution (66.3%).

In 2005 almost all of the **expenditure on interest** (86.1%) was generated by interest paid on mortgage bonds and 13.7% was contributed by mortgage bond related derivative hedge transactions.

As of 31 December 2004 the **average net interest margin (NIM)** was 3.90%, which only dropped to **3.63%** by 31 December 2005. Against a background of falling interest rates this minor drop in the net interest margin over the past year can be considered favourable. The moderate decrease, according to plans, in the Bank's interest margin is supported by gradually improving cost of funds, the strengthening of own lending and, within this portfolio, the increase of non-subsidised FX loans on the one hand, and by an interest margin on the currently existing subsidised mortgage loans portfolio, which has remained higher over a longer period of time.

Net fees and commission income

The balance of **income from and expenditures of fees and commissions** in 2005 was a **net income amounting to 405 million forints** as opposed to a net income of 239 million forints in 2004. At the end of 2005 net income from fees contributed 2.2% to gross operating income.

In 2005, 49.5% of fees and commission income was contributed by commission, 38.1% by fees from credit institutions, and 12.4% by fees paid by customers. Only 12.6% of expenditures on fees and commission were related to the placement of mortgage bonds, as issues were kept low in the course of 2005. As a result of an increasing volume of disbursement by agents commissions paid to acquisition agents contributed 80.0% expenditure on fees and commission and this rising trend is expected to continue.

Net profit from financial transactions

In the course of 2005 the Bank achieved 227 million forints profit from securities as opposed to 1.2 billion forints loss in 2004. The main component contributing to the profit from securities was the gain on mortgage bonds issued and revalued. In the period of reporting foreign exchange transactions generated 415 million forints profit, which far exceeds the 34 million forints profit generated in 2004. A large portion of the 2005 profit was contributed by exchange gain resulting from the revaluation of the foreign exchange portfolio.

Of the **765 million forints net profit from financial transactions** achieved in 2005, 54.2% was contributed by FEX transactions, 29.7% by profit from securities, and 16.1% by profit from changes, amounting to 123 million forint, in the real value of derivatives.

Other income and expenditures

In 2005 the balance of **other income and expenditure was 698 million forints**, arising from 748 million forints income netted of 50 million forints expenditure. The increase over the 2004 net figure of 347 million forints was significant. On the other income side, 84.5% was contributed by valuation fees from customers and partner banks.

Operating expenses

Figures in million HUF

LINE ITEM	31 Dec 2004	31 Dec 2005	Change 2005 / 2004
General administrative costs	5,393	7,044	30.6%
Personnel expenses	2,399	3,173	32.3%
Other administrative costs	2,994	3,871	29.3%
- including special mortgage banking costs	901	1,231	36.6%
Depreciation	304	450	48.0%
TOTAL OPERATING EXPENSES	***5,697***	***7,494***	***31.5%***

The Bank's **operating expenses amounted to 7.5 billion forints** in the course of 2005, 31.5% higher than in the base period. There was only a slight change in cost effectiveness expressed in the cost/income ratio: CIR went up from 39.7% to 40.7% by the end of 2005, which is still considered favourable.

Personnel expenses including contributions amounted to 3.2 billion forints, contributing 42.3% to total operating costs. This line item is considerably higher than in the previous year due to mounting personnel expenses related to the additional staff that handle increased own lending, as well as to the opening of new coordination offices and incentive payments. **Other administrative costs** increased by 29.3% over the base period figure. There was no significant change in the contribution of **special mortgage banking costs** to the item of other administrative costs but their amount was 36.6% higher than in 2004. The amount of **other administrative costs** contributed 2.1 billion forints to general administrative costs in the base period and 2.6 billion forints in 2005. **Depreciation** was 48.0% higher in 2005 than in 2004. This was caused by the fact that the investment projects implemented in 2005 doubled the value of intangible assets and fixed assets.

The greater-than-planned expansion of own lending led to an increase in the balance sheet total and income from interest but also caused a substantial rise in operating costs in 2005. In an effort to strengthen its market position the Bank stepped up its marketing expenditure in addition to offering clients one-time discounts from fees and raising payments to agents. This expenditure will be recovered over the term of loans.

Loan loss provisions

61.0% of the HUF 228 million loss on provisions at the end of 2005 is caused by the yearly change of provisions, while loans sold contributed 25.7% to the total amount. In 2004 loss on provisions was HUF 158 million, four-fifths of this was generated by the changes in provisions, while 17.1% was covered by write-down of loans. The quality of the portfolio continues to be good, there has been virtually no change in the average loss in value (0.1% in the entire portfolio and 0.3% in the loan portfolio).

7.2 Balance sheet structure

The Bank's consolidated balance sheet total as of 31 December 2005 was 481.9 billion forints, 16.1% higher than in 2004. Of the annual increase in total assets 85.9% was generated by the expansion of the loan portfolio. The growth in liabilities throughout the year was generated by an increase in the mortgage bond portfolio, which contributed 54.9%. The contribution of increasing interbank loans was 33.7%.

Figures in million HUF

BALANCE SHEET ITEM	31 Dec 2004	31 Dec 2005	Change 2005/2004
Cash	2	1	-50.0%
Receivables from NBH	10,181	29,128	186.1%
Interbank loans extended	18,849	11,403	-39.5%
Securities available for sale	3,871	3,420	-11.7%
Refinanced mortgage loans	241,289	259,912	7.7%
Loans	132,472	171,264	29.3%
Real value of derivatives	-	773	100.0%
Fixed assets	1,134	1,793	58.1%
Other assets	7,273	4,181	-42.5%
Total assets	***415,071***	***481,875***	***16.1%***
Total liabilities	397,574	458,134	15.2%
- Interbank loans received	8,996	31,496	250.1%
- Mortgage bonds	384,420	421,113	9.5%
- Real value of derivatives	2,683	3,199	19.2%
- Other commitments	1,475	2,326	57.7%
Shareholders equity	17,497	23,741	35.7%
- Subscribed capital	6,600	6,600	0.0%
- Own equity repurchased	0	-3	100.0%
- Share premium	1,709	1,446	-15.4%
- General reserve	1,158	1,897	63.8%
- Cash flow hedge reserves	- 1,139	- 1,907	67.4%
- Reserve for share option	220	210	-4.5%
- Change in the real value of liquid financial assets	0	- 1	100.0%
- Retained earnings	8,949	15,499	73.2%
Total liabilities	***415,071***	***481,875***	***16.1%***

Interest earning assets

The Bank's interest earning assets increased from 406.7 billion forints as of 31 December 2004 by 16.8% to 475.1 billion forints by the end of 2005. Over the course of the year refinanced loans increased by 7.7%. Loans to retail customers sold by the Bank through its branches and network of agents as well as by its syndicated partners was 29.3% above the base year figure and amounted to 171.3 billion forints. Loans to retail customers contributed 36.0% to net interest earning assets at the end of 2005.

The aggregate **portfolio of mortgage loans** amounted to 431.2 billion forints as of 31 December 2005, 15.4% (or 57.4 billion forints) higher than the base period figure.

The collateral value of real estate covering mortgage loan principal receivable amounted to 1,083.2 billion forints at the end of 2005. Thus the **average loan-to-value (LTV) ratio** was **39.4%** as of 31 December 2005, only two base points below the 2004 average of 39.6%.

The capital repayment of mortgage loans was 38 billion forints until 31 December, 2005, from which repayment from own lending was 12.5 billion forints, and from refinanced loans was 25.5 billion forints.

Receivables from the NBH and other interbank loans grew from 29.0 billion forints on 31 December 2004 to 40.5 billion forints on 31 December 2005. The contribution of this item to interest earning assets grew from 7.1% in the base year to 8.5% at the end of the year of reporting. The total of **securities held by the Bank** dropped from 3.9 billion forints in 2004 to 3.4 billion forints as of 31 December 2005 but the contribution of securities stayed 1.0% in both periods. The Bank's interbank loans extended and securities continue to serve only for liquidity purposes.

Own assets

The net value of **fixed assets and intangible assets** as of 31 December 2004 was 1.1 billion forints. This amount grew to 1.8 billion forints by the end of 2005 due primarily to an increase in IT equipment and software and the remodelling of the coordination offices.

Other assets

The Bank's **other assets** amounted to 4.2 billion as of 31 December 2005. This included 7.9% active accruals. Of the receivables, 73.9% was contributed by Treasury settlements of subsidised interest.

Interest bearing liabilities

Mortgage bond portfolio

As of 31 December 2005 almost all (93.0%) of the interest bearing liabilities were contributed by the Bank's **mortgage bonds portfolio** that ensures long-term funding for mortgage loans.

As of 31 December 2005, **mortgage bonds** issued by the Bank amounted to 421.1 billion forints including accrued interest, which was 9.5% higher than the previous year's figure. Excluding accrued interest, the change in the portfolio emerged as the balance of 61.6 billion forints new mortgage bonds offered, 18.2 billion forints repurchase and 7.9 billion forints principal repayment as well as the effect of exchange rate changes.

Interbank loans received

As of 31 December 2005 the Bank's increased **interbank loans received** amounted to 31.5 billion forints, contributing 7.0% to interest bearing liabilities. The breakdown shows 7.3 billion forints short-term interbank loans and a long-term syndicated loan denominated in CHF equivalent to 24.2 billion forints. Of interbank loans received, 84.1% are CHF, 13.4% are HUF and 2.5% are EUR-based. The Bank handles the revolving credit facilities as supplementary funds to the syndicated loan available since September 2005. The revolving facilities support and improve the Bank's liquidity.

Other liabilities

Other liabilities increased by 57.7% over the year to reach 2.3 billion forints. This item includes deferred valuation fees and debts to suppliers.

Shareholders' equity

As of 31 December 2005 **shareholders' equity** amounted to 23.7 billion forints, 35.7% higher than the 17.5 billion forints figure at the end of 2004. The bulk of the increase resulted from retained earnings, which were 6.6 billion forints up from the previous year's figure. Conversely, cash flow hedge reserves reduced shareholders' equity by 0.8 billion forints.

Risk-weighted and off-balance sheet items amounted to 158,7 billion forints as of 31 December 2005, which is 20.9% higher than the previous year's figure of 131.3 billion forints. The bulk (95.2%) of the growth resulted from balance sheet items, primarily the change in the loan portfolio. Tier 1 and **adjusted capital** grew from 18.1 billion forints as of 31 December 2004 by 36.9% to reach 24.8 billion forints at the end of 2005.

As of 31 December 2005 **the capital adequacy ratio** was 15.6%, taking into consideration the audited earnings for the year, 13.0% higher than the 2004 ratio of 13.8%.

Off-balance sheet items

The Bank's pending liabilities among the off-balance sheet items include mainly contracted but not yet disbursed loans. Such loans amounted to 7.8 billion forints as of 31 December 2005, 43.5% higher than the 5.4 billion forints in 2004.

The most important item among future liabilities includes derivative transactions, which mainly include hedge transactions relating to EUR-denominated mortgage bonds. As of 31 December 2005 liabilities from currency swaps amounted to 85.7 billion forints, and liabilities from interest swaps amounted to 3.5 billion forints. **The Bank only undertakes hedge transactions to close currency positions and eliminate risks, and does not engage in derivative transactions for speculative purposes.**

8 Financial Statements Prepared in accordance with International Financial Reporting Standards

For the period 1 January 2005 to 31 December 2005

8.1 Independent Auditors' Report

ERNST & YOUNG

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Independent Auditors' Report

To the Shareholders of
FHB Földhitel- és Jelzálogbank Rt.

We have audited the accompanying consolidated balance sheet of FHB Földhitel- és Jelzálogbank Rt. ("the Company") as at 31 December 2005, which shows a balance sheet total of HUF 481 874 539 thousands, the related consolidated profit and loss account for the year then ended which shows a profit for the year of HUF 8 466 108 thousands, changes in shareholders' equity, consolidated cash flows for the years then ended and the related notes 1 to 24 included in the Company's 2005 consolidated annual financial statements. The consolidated annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements.

We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the Hungarian accounting law as at 31 December 2004 on 16 March 2005 and on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards on 21 March 2005.

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of FHB Földhitel- és Jelzálogbank Rt. in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated annual financial statements give a true and fair view of the equity and financial position of FHB Földhitel- és Jelzálogbank Rt. as at 31 December 2005 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

Budapest, 27 February 2006

Hergovits Mariann

Ernst & Young Kft.
Registration No. 001165

Hergovits Mariann

Hergovits Mariann
Registered Auditor
Chamber membership No.: 004648

A member of Ernst & Young Global

8.2 P/L STRUCTURE

	Notes	2005 31 December	2004 31 December (restated)
Interest income	4	53,068,552	46,841,392
Interest expense	4	(36,513,772)	(31,915,115)
Net interest income		16,554,780	14,926,277
Fee and commission income		1,225,153	847,764
Fee and commission expense		(820,143)	(608.709)
Gain less losses from dealing in foreign currencies		414,996	34,202
Change in fair value of trading derivatives	21	123,006	
Gain less losses from securities		226,828	(1,180,360)
Other operating income	5	748,724	566,993
Other operating expense		(49,669)	(219,790)
Operating income		18,423,675	14,366,377
Losses/provision on loans and advances	12	(228,338)	(157,744)
General and administration costs	5	(7,494,445)	(5,697,266)
Profit before tax		10,700,892	8,511,367
Taxation expense	7	(2,234,784)	(1,209,246)
Profit for the period		8,466,108	7,302,121
Earnings per share (HUF 100 nominal amount)			
ordinary shares (in HUF)		117.12	99.86
diluted shares (in HUF)		117.12	99.86

	Notes	2005 three months ended 31 Dec (restated)	2004 three months ended 31 Dec (restated)
Interest income	4	13,694,330	13,344,320
Interest expense	4	(9,389,525)	(9,115,295)
Net interest income		4,304,805	4,229,025
Fee and commission income		363,341	264,607
Fee and commission expense		(287,215)	(181,134)
Gain less losses from dealing in foreign currencies		124,519	25,301
Change in fair value of trading derivatives		(110,417)	
Gain less losses from securities		(36,663)	(1,265,858)
Other operating income	5	234,499	190,895
Other operating expense		(32,533)	(200,665)
Operating income		4,560,336	3,062,171
Losses/provision on loans and advances	12	(54,683)	(24,969)
General and administration costs	5	(2,164,017)	(1,395,281)
Profit before tax		2,341,636	1,641,921
Taxation expense	7	(376,725)	(120,213)
Profit for the period		1,964,911	1,521,708
Earnings per share (HUF 100 nominal amount)			
ordinary shares (in HUF)		27.72	21.05
diluted shares (in HUF)		27.72	21.05

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

8.3 BALANCE SHEET

Assets	Notes	2005 31 December	2004 31 December (restated)
Cash		781	1,924
Due from National Bank of Hungary	8	29,128,156	10,181,322
Placements with other banks	9	11,402,455	18,848,957
Available for sale financial assets	10	3,420,111	3,871,005
Refinancing of mortgage loans	11	259,912,451	241,288,506
Loans	12	171,264,316	132,471,979
Property and equipment	13	1,792,570	1,133,552
Derivative financial assets	21	772,667	
Other assets	14	4,181,032	7,273,491
Total Assets		481,874,539	415,070,736
Liabilities			
Deposits from banks	15	31,496,058	8,995,686
Mortgage bond liabilities	16	421,112,594	384,420,416
Derivative financial liabilities	21	3,198,503	2,683,220
Other liabilities	17	2,326,828	1,474,110
Total Liabilities		458,133,983	397,573,432
Shareholders' Equity			
Share capital	18	6,600,001	6,600,001
Repurchased treasury shares		(2,849)	-
Share premium		1,446,047	1,709,014
General reserve	19	1,897,032	1,157,536
Cash-flow hedge reserve	21	(1,907,468)	(1,139,073)
Share option reserve		210,036	220,393
Fair value of available for sale financial assets		(979)	
Retained earnings		15,498,736	8,949,433
Total Shareholders' Equity		23,740,556	17,497,304
Total Liabilities and Shareholders' Equity		481,874,539	415,070,736

Budapest, 27 February, 2006

Dániel Gyuris
Chief Executive Officer

Jenő Siklós
Deputy General Director

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

8.4 CASH FLOW STATEMENT

Cash flows from operating activities	**2005 31 December**	**2004 31 December (restated)**
Net profit	8,466,107	7,302,121
Non cash adjustments to net income		
to net cash from operating activities:		
Depreciation	449,914	303,866
Provision for losses	175,356	127,281
Loss on sale of fixed assets	(11,441)	163,199
Share option reserve	(10,357)	220.393
Payment of shares option	161,540	
Derivatives in P&L	(1,025,779)	1,544,147
Fair value of available for sale financial assets		
Operating profit before changes in operating assets	**8,205,340**	**9,661,007**
(Increase) decrease in operating assets:		
Refinancing of mortgage loans	(18,623,945)	(48,646,887)
Loans	(38,965,096)	(26,204,082)
Other assets	3,092,459	(4,345,770)
Increase (decrease) in operating liabilities:		
Due to other banks	22,500,372	2,964,208
Other liabilities	(574,359)	(884,083)
Net cash used in operating activities	(24,365,229)	(67,455,607)
Cash flows from investing activities		
Change in available for sale investments	431,066	(375,850)
Proceeds from sale of property and equipment	24,475	28,916
Purchase of property and equipment	(1,121,966)	(866,527)
Net cash used in investing activities	(666,425)	(1,213,461)
Cash flows from financing activities		
Sale of treasury shares	(265,816)	
Installment from mortgage bonds	(26,054,700)	(15,949,830)
Proceeds from issue of mortgage bonds	62,851,358	110,562,575
Net cash from financing activities	36,530,842	94,612,745
Net increase in cash and cash equivalents	11,499,188	25,943,677
Cash and cash equivalents at beginning of year	29,032,203	3,088,516
Cash and cash equivalents at end of period	40,531,391	29,032,203
Cash and cash equivalents comprises of:		
Cash	781	1,924
Due from Central Bank	29,128,155	10,181,322
Placements with other banks, with a maturity of less than 90 days	11,402,455	18,848,957
Cash and cash equivalents at end of period	40,531,391	29,032,203
Supplemental information:		
Interest received	52,341,539	46,026,326
Interest paid	(35,561,881)	(24,753,996)
Tax paid	(2,332,413)	(1,215,577)

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

8.5 SHAREHOLDERS' EQUITY

	Note	Share Capital	Treasury Shares	Share Premium	General reserve	Cash-flow hedge reserve	Share option reserve	Fair value of available for sale financial assets	Retained earnings (deficit)	Shareholders' Equity
01 January 2004		**6,600001**		**1,709,014**	**446,109**				**3,018,739**	**11,773,863**
Transfer to general reserve					711,427				(711,427)	
Change in cash-flow hedge reserve						(1,139,073)				**(1,139,073)**
Dividend declared									(660,000)	**(660,000)**
Change in shares option reserve							220,393			**220,393**
Profit for the period									7,302,120	**7,302,120**
31 December 2004 (restated)	21	**6,600,001**		**1,709,014**	**1,157,536**	**(1,139,073)**	**220,393**		**8,949,432**	**17,497,303**
Transfer to general reserve					739,496				(739,496)	
Sale of treasury shares			(250,917)							(250,917)
Change in cash-flow hedge reserve						(768,395)				(768,395)
Payment of shares option			248,068	(262,967)			(224,208)			(239,107)
Dividend declared									(1,320,000)	(1,320,000)
Change in shares option reserve							213,851		161,541	375,392
Fair value of available for sale financial								(979)	(18,849)	(19,828)
Profit for the period									8,466,108	8,466,108
31 December 2005		**6,600,001**	**(2,849)**	**1,446,047**	**1,897,032**	**(1,907,468)**	**210,036**	**(979)**	**15,498,736**	**23,740,556**

The accounting policies and other notes form part of, and should be read in conjunction with these financial statements.

Calculation of regulatory capital, capital adequacy and ROE

In case of the calculation of regulatory capital based on the proposed banking and capital adequacy directive of the European Union and the guidelines of the Committee of European Banking Supervisors (Guidelines on prudential filters for regulatory capital) cash flow reserve should be ignored, thus ensuring the soundness of the comparison with previous periods.
The Bank will – based on the guidelines of CEBS – omit the effect of the cash flow hedge reserve in the future in case of equity based financial indicators.
Due to the fact that the cash flow hedge reserve can cause significant variances between the regulatory capital and shareholder's equity compared to the previous period the Bank will disclose the Regulatory Capital and the indicators calculated based on the Regulatory Capital separately as well.

The Tier 1 capital **adequacy ratio** calculated accordingly was 15.6% as at 31 December 2005, while the ratio reached 13.8% at the end of 2004.

DESCRIPTION	31 December 2005	31 December 2004
Risk weighted assets		
Balance sheet items	154,667	128,602
Off-balance sheet items	4,016	2,693
Total risk weighted assets	**158,683**	**131,295**
Tier 1		
Share capital	6,600	6,600
Share premium	1,446	1,709
General reserve	1,897	1,158
Stock option reserve	210	220
Retained earnings	15,499	8,949
Cash-flow hedge reserve	0	0
Fair value of available for sale financial assets	(1)	
Intangible assets	(908)	(557)
Total Tier 1 Capital	**24,743**	**18,079**
Tier 2		
General risk reserve	0	0
Total Tier 2 Capital	**0**	**0**
Regulatory capital	**24,743**	**18,079**
Tier 1 capital adequacy (%)	**15.6**	**13.8**
Total capital adequacy (%)	**15.6**	**13.8**
ROAE	**42.9**	**48.1**

8.6 SUPPLEMENTARY NOTES

1. DESCRIPTION OF THE COMPANY

FHB Földhitel - és Jelzálogbank Rt. ("Land Credit and Mortgage Bank Ltd", "FHB" or "the Bank"), 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 provides mortgage-banking services through its Head Office and seven regional representative offices located within the Republic of Hungary. The Bank also uses the branch network of other Hungarian commercial banks to offer its products to the retail sector. The Bank also refinances mortgage loans provided by commercial banks to their customers. The address of the Bank's registered office is Váci út. 20. H-1132 Budapest, Hungary.

The Bank received its licence to operate as a specialised financial institution in accordance with the provisions of Act CXII on Credit Institutions and Financial Enterprises (1996) and Act XXX on Mortgage Loan Companies and on Mortgage Bonds (1997) on 6 March 1998. The Bank commenced operations as of 16 March 1998. The first loans were approved and disbursed during the second half of 1998.

On 31 October 2003 the Hungarian Financial Supervisory Authority 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 a further 588,570 voting preference shares were sold to the Bank's priority strategic partners in the context of private placement. The ordinary shares were listed on the Budapest Stock Exchange on 24 November 2003.

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) on a quarterly basis and have been prepared under the historical cost convention as modified by the revaluation of certain trading assets to fair value. Derivatives and available for sale investments are measured at fair value as required by IAS 39. Revenues and expenses are recorded in the period in which they are earned or incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 2 "Share-Based Payment";
IFRS 3 "Business Combinations",
IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
IAS 1 (revised) "Presentation of Financial Statements";
IAS 2 (revised) "Inventories";
IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
IAS 10 (revised) "Events after the Balance Sheet Date";
IAS 16 (revised) "Property, Plant and Equipment";
IAS 17 (revised) "Leases";
IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
IAS 24 (revised) "Related Party Disclosures";
IAS 27 (revised) "Consolidated and Separate Financial Statements";
IAS 28 (revised) "Investments in Associates";
IAS 31 (revised) "Interests in Joint Ventures";
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
IAS 33 (revised) "Earnings per Share";
IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and
IAS 40 (revised) "Investment property".

The principal effects of these changes in policies are discussed below.

IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. The effect of the adoption of IFRS 3 upon the Group's accounting policies has impacted the recognition of restructuring provisions arising upon an acquisition. The Group is now only permitted to recognise an existing liability contained in the acquiree's financial statements on acquisition. Previously this type of restructuring provision could be recognised by acquirer regardless of whether the acquiree had recognised this type of liability.

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing impairment testing at the cash generating unit level annually (unless an event occurs during the year, which indicated goodwill may be impaired, thus requiring goodwill to be tested more frequently) from January 1, 2005. These transitional provisions of IFRS 3 have not caused any change as the Group did not account for any goodwill on previous acquisitions.

IFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations"

The Group has applied IFRS 5 prospectively in accordance with the transitional provisions of IFRS 5, which has resulted in a change in accounting policy on the recognition of assets held for sale. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The result of this change in accounting policy is that assets and liabilities of a disposal group classified as held for sale are recorded in the consolidated balance sheet separately from other assets.

IAS 1 (revised) "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Group's subsidiaries have to be presented within equity, separately from parent shareholders' equity. Previously, minority interests were presented separately from liabilities and equity in the Group's consolidated balance sheet. In addition, the Group discloses on the face of the consolidated income statement, the allocation of the result for the year between profit for the year attributable to shareholders of the Bank and profit for the year attributable to minority interest. Due to ownership changes taking place in previous year the Group now fully owns its subsidiaries and presents no minority interests.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004)

Financial assets available-for-sale

The gains and losses on re-measurement of financial assets available-for-sale to fair value are recognised as a separate component of equity. Transitional provisions of IAS 39 allow the Group to re-designate any financial assets and liabilities as "at fair value through profit or loss" when the Standard is first applied.

Securities pledged under repurchase agreements

In accordance with IAS 39 (amended 2004), the Group has to classified securities pledged under repurchase agreements, which the transferee has the right to sell or repledge, separately from other assets in the balance sheet and to amend comparative figures accordingly. As at both 31 December 2004 and 31 December 2005 the Group had no such sale-and-repurchase agreements.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

International Financial Reporting Standards (IFRS)	
IFRS 1	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources
IFRS 4	Amendments to International Financial Reporting Standards IAS 39 Financial Instruments: Recognition and Measurement IFRS 4 Insurance Contracts Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
International Accounting Standards (IAS)	
IAS 1	Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures
IAS 19	Amendment to IAS 19 Employee Benefits Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21	Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates Net Investment in a Foreign Operation
IAS 39	Amendments to IAS 39 Financial Instruments: Recognition and Measurement The Fair Value Option
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement Cash Flow Hedge Accounting of Forecast Intragroup Transactions

IAS 39	Amendments to International Financial Reporting Standards IAS 39 Financial Instruments: Recognition and Measurement IFRS 4 Insurance Contracts Financial Guarantee Contracts

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds incorporating an Amendment to IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

3.1. Currency of presentation

All balances are denominated in thousands of Hungarian Forints (HUF) unless otherwise stated.

3.2. Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2005. The Bank and the entities, which it controls, are referred to collectively as "the Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the members of the Board of Directors. The effects of all material intercompany balances and transactions are eliminated. The fully owned subsidiary FHB Szolgáltató Rt. ("Service Company"), registered in Hungary, has been consolidated into the accounts of the Bank.

3.3. Property and equipment

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is charged to the statement of income in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the lease terms, whichever is shorter, as follows:

Buildings	6%
Equipment and furniture	9% - 14.5%
Software	16.7%
Hardware	33%
Vehicles	20% - 33%
Other equipment	9% - 14.5%

3.4 Revenue recognition

Interest income and expense is recognized in the income statement on an accrual basis by using the effective interest rate method. Interest income and expense includes the amortization of any discount or premium on securities. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortized over the life of the loan.

3.5. Deferred taxation

The Bank uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are determined using the tax rate for the period in which those amounts are expected to be received or paid. Owing to the amendment of the prevailing Hungarian corporate tax law (Act LXXXI of 1996) in 2004, deferred tax was calculated at a rate of 16%.

3.6. Available for sale investments

After initial recognition, investments, which are classified as "available for sale", are remeasured at fair value. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported in the balance sheet for the period.

3.7. Loans and advances

Loans originated by the Bank by providing money directly to a borrower are categorized as loans and advances to customers and are stated at amortized cost less any impairment losses. All loans and advances to customers are recognized on the balance sheet when cash is advanced to borrowers.

Loans and advances to customers are subject to periodic impairment test. Impairment losses for a loan, or a group of similar loans is established if their carrying amount is greater than their estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The amount of the impairment loss is included in net profit or loss for the period.

Impairment and uncollectability are measured and recognized individually for loans that are individually significant. Impairment and uncollectability for a group of similar loans that are not individually identified as impaired is measured and recognized on a portfolio basis.

The Bank writes off loss loans and advances when borrowers are unable to fulfill their obligations to the Bank and when relevant evidence has been obtained from the appropriate court. Loans and advances are written off against the reversal of the related impairment losses. Subsequent recoveries are credited to the income statement on receipt.

3.8. Refinanced loans

As part of the refinancing arrangements, partner banks sell the mortgage-rights, which are used as security of housing loans, to the Bank. The Bank in turn refinances the long-term housing loans granted by the partner banks to their customers.

Parallel with the refinancing contract, the mortgage-rights are then repurchased by the partner banks with a delay in payment that reflects the principal repayment schedule specified in each housing loan agreement.

The repurchase of mortgage-rights is independent from whether or not the instalments are received from the partner bank's customer. Purchasing mortgage-rights in a way of refinancing have become the Bank's leading products. All refinanced loans are classified as pass, as by purchasing the mortgage-rights, the Bank grants the loan to a commercial bank and thus all credit risks remains at the commercial bank. Each refinanced loan must meet statutory requirements and the responsibility for customer rating and impairment remains with the partner banks.

3.9. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash, balances due from the Central Bank and placements with other banks with less than 90 days maturity from the original date of issue.

3.10. Treasury shares

Treasury shares represents the cost of shares of the Bank repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent disposal are credited and debited respectively directly to retained earnings. According to Hungarian regulations, any premiums arising are available for distribution.

3.11. Pensions

The Bank, in the normal course of business, makes fixed contributions into the Hungarian State and private pension funds on behalf of its employees. The Bank does not operate any other pension scheme or post retirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

3.12. Short-term employee benefits

According to effective Hungarian legislation, the employer must let employees take their regular annual leave in the relevant period. For cases, when this it not possible for some reason, the Bank has established a limit until leave can be cumulated. Accordingly, the expected leave accrual requirement of IAS 19 is not applicable to the Bank.

3.13. Off Balance Sheet items

In the ordinary course of business, the Bank enters into off balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the balance sheet when they become payable. The Bank maintains an allowance for possible credit losses on such financial instruments at a level adequate to absorb possible future losses.

3.14. Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments may include forwards, futures, swaps and options.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. In case of interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

The Bank is hedging its risks based on its risk management policy by entering into among others off-balance sheet derivative deals, typically swap transactions.

Derivatives are stated in the report at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

For the purposes of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and

(b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of income, in case the deal satisfies the requirements the criteria set by hedge accounting. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. If the revaluation relates to an interest earning asset, the revalued amount is recognised in the statement of income proportionately until its maturity.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity. The ineffective portion is recognised in the statement of income. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the statement of income in the period in which the hedged transaction impacts the statement of income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit and loss for the period.

3.15. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3.16. Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions, actual results may differ from those estimates.

3.17. Subsequent Events

Post-period-end events that provide additional information about a Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

3.18. IAS 39 Financial instruments: Recognition and Measurement

The Bank's risk management strategy and the accounting policy corresponding to the related IFRSs – taking into account the increase in the number and value of hedge transactions and the standards valid since 1 January 2005 - has been revised in the second quarter of 2005. The purpose of the modifications was to ensure the minimum volatility of the after-tax profit caused by the hedge transactions in line with the Bank's risk management strategy and mortgage banking activities. Parallel to the changes a more developed method has been introduced, which improves the evaluation of the efficiency of the Bank's FX and interest rate risk management.

As part of the revision the Bank has reclassified its derivative deals based on the international accounting standards and in the future they will be registered and disclosed accordingly. Depending on the type of the derivative deal different accounting methodology is applied:

- In case of the cash flow hedge deals the efficient portion of the change in the fair value of the hedge appears in shareholder's equity. The Bank treats in such a manner its fix-fix interest, HUF-FX derivative hedge deals.
- In case of the fair value hedge deals the profit or loss resulting from the revaluation is accounted in the profit and loss statement.
- The Bank classifies the floating interest rate FX-FX and HUF-FX derivative deals as trading transactions from an accounting point of view, thus the profit or loss resulting from the revaluation appears directly in the profit and loss statement

The Bank discloses the fair value of its loans and mortgage bonds based on a new methodology as supplemental information. The fair value of loans is calculated based on a more sophisticated internal valuation model. In case of mortgage bonds the internal valuation model already applied has been replaced by a streamline version as a result of the implementation of the Bank's risk management system.

The Bank has indicated in its IFRS annual report for 2004 that due to the new standards and interpretations the comparative figures for 2004 may differ from the figures disclosed in the annual report. FHB Land Credit and Mortgage Bank Ltd. discloses restated figures as at 31 December 2004 as part of the IFRS financial statements as of 31 December 2005.

Restatements of fair value reserve of derivatives designated as cash flow hedges presented in Shareholders' equity

	31 December 2004
Cash flow hedge reserve before restate	72,462
Amount of restatement	(1,211,535)
Restated cash flow hedge reserve	**(1,139,073)**

IFRS 2 Share-Based Payment

The Bank's Annual General Meeting for the year 2004 has approved a two year (2004-2005) share-based incentive scheme for members of the Board of Directors, the executives and selected members of the management in which the shares may be granted free of charge. In the framework of the scheme the first share award has been completed in May 2005.

According to the rules of IFRS 2 FHB has to disclose share-based benefits granted as shares at fair value. The fair value of the shares granted by the scheme, but not yet exercised are accounted as expenditures. Due to the retrospective application of this standard the Bank's after-tax profit has been decreased by HUF 220 million in 2004.

Further in the report and in later periods the Bank will use its restated figures for comparison purposes.

Description of the methodology applied for the valuation of the management share incentive scheme of FHB

The fair value has been identified using a simulation, due to the complexity of the criteria of the scheme.

Criteria of drawing

1./ In the program for 2005 the growth of the average quarterly share price (FHB2005Q1/FHB2004Q1) exceeds the similar growth of the shares of the BUX Index, in the program for 2006 the benchmark (2004Q1) is not changing.
2./ Certain criteria concerning the Stock Exchange turnover of FHB shares are fulfilled
3./ The financial plan for after-tax profit is fulfilled

The model applied

I./ assessment of the 1.drawing criteria:

- the simulation of the share prices is based on a binomial model (Cox-Ross-Rubinstein), where the coefficient for the increase or decrease in share prices can be calculated using standard deviations of yields, while the risk free yield is used to calculate the probability of the increase in share prices

- the price movements for each shares have been defined by random numbers independent from each other, the probabilities of the successive days were also independent
- model calculations have been performed 10,000 times

II./ definition of the drawing price
- the date of drawing was 01.06.2005 and 01.06.2006
- the average share price before dividend adjustment has been defined as the risk-free drawing price if the I. drawing criterion was fulfilled, otherwise 0 was used
- assuming that the participants in the particular year are also eligible for dividend, only the share price of the second year end has to be adjusted by the amount of the dividend

III./ assessment of the turnover and profit criteria
- the assessment of the turnover criteria has been performed using statistical methods (Tschebishev inequalities, correlation calculations), as a result 1% or less is shown as the probability of non-fulfilment
- the fulfilment of the profit criterion is based on executive estimation
- the implications of both groups of criteria have been considered by the modification of the net present value adjusted by dividends

The parameters used
- the standard deviation data have been defined based on the closing share prices for the period 2002-2004 (in case of FHB starting from the date of listing) using the daily logarithmic yields
- the yields applied have been calculated based on the zero coupon yield curve as of 03.01.2005 published by GDMA (ÁKK)
- dividend per share is HUF 20 (all calculations have been performed using the HUF 100 face value valid after the split)
- the probability of the fulfilment of the after-tax profit is 100% for 2004 and 100% for 2005

3.19. Reclassification of prior year's figures

Certain balances from the prior year have been reclassified to conform with the presentation of these financial statements. As a result of this reclassification accrued interests from the other assets (in amount of 1,391 million HUF in 2004) and liabilities (in amount of 18,891 million HUF in 2004) have been reclassified to their gross value (to deposits, loans, securities); separate balance sheet lines have been introduced for derivatives.

4. INTEREST INCOME AND EXPENSE

	2005 31 December	2004 31 December
Interest income:		
Loans	22,209,919	19,409,186
Refinancing of mortgage loans	26,734,517	24,247,348
Placements with banks	1,406,618	2,387,626
Securities	292,808	277,461
Derivatives	2,424,690	519,771
	53,068,552	46,841,392

	2005 three months ended 31 Dec	2004 three months ended 31 Dec
Interest income:		
Loans	5,957,652	5,310,472
Refinancing of mortgage loans	6,635,530	6,642,401
Placements with banks	206,192	785,369
Securities	160,403	86,307
Derivatives	734,553	519,771
	13,694,330	13,344,320

	2005 31 December	2004 31 December
Interest expense:		
Mortgage bonds	31,420,463	30,522,958
Deposits from banks	101,744	72,241
Derivatives	4,991,565	1,319,916
	36,513,772	31,915,115

	2005 three months ended 31 Dec	2004 three months ended 31 Dec
Interest expense:		
Mortgage bonds	7,942,551	8,131,968
Deposits from banks	54,315	10,237
Derivatives	1,392,659	973,090
	9,389,525	9,115,295

Interest income for the year ended as at 31 December 2005 includes interest subsidies of HUF 32,489 million from the Hungarian State (2004: HUF 31,080 million).

Interest subsidy

The interest subsidy is available to debtors who have been granted loans in accordance with the specific provisions of government decree 12/2001 (I.31.). There are two types of interest subsidy: mortgage bond's interest subsidy and additional interest subsidy. Both methods are designed to reduce the interest payable by the debtor, the first being based indirectly on the bank's costs (mortgage bond's interest subsidy) and the second on the actual amount of interest payable by the customer (asset side subsidy). Both types of subsidy are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the customers as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

Mortgage bond interest subsidy

The regulation relating to this type of subsidy has modified twice during 2003. According to the government decree 12/2001 (I.31.) and its amendments, the subsidy is to be calculated over the first 20 years of a housing loan by using one of three different methods, these being dependent upon the date of disbursement as follows:

(i). If the loan has been disbursed prior to 16 June 2003, and is still within the first five years of maturity, the calculation for the first five years is based on the original Decree;

(ii). If the loan has been disbursed between 16 June and 22 December 2003 and the remaining maturity of loans referred to in (i) above, the calculation is based on the first amendment as of 16 June, 2003;

(iii). For all loans disbursed after 22 December 2003, the calculation is based on the second amendment as 22 December 2003.

The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the decree and calculated in accordance with the above criteria. Furthermore the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

a) Mortgage loans granted by the Bank or together with partner banks as a consortium, and
b) Mortgage-rights purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of mortgage-right packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily number of subsidised loans or mortgage bonds.

Additional interest subsidy

The amount of additional interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the customer. The monthly interest subsidy is one-twelfth of the prevailing subsidised outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

5. GENERAL AND ADMINISTRATIVE COSTS

	2005 31 December	2004 31 December
Staff costs (Note 6)	3,172,752	2,398,963
Valuation fees	731,849	440,068
Advertising	610,649	593,087
Administrative costs	424,189	247,553
Rental fee	398,602	372,354
Depreciation and amortisation (Note 13)	449,914	303,866
Consultancy fees	625,940	476,808
Maintenance costs	96,536	84,113
Other taxes paid	446,837	389,499
Insurance expenses	374,368	318,320
Information system costs	89,068	62,385
Other	73,741	10,250
	7,494,445	5,697,266

	2005 three months ended 31 Dec	2004 three months ended 31 Dec
Staff costs (Note 6)	1,074,197	779,980
Valuation fees	179,816	120,458
Advertising	60,091	60,115
Administrative costs	114,759	67,183
Rental fee	98,309	85,790
Depreciation and amortisation (Note 13)	136,113	104,000
Consultancy fees	213,945	107,758
Maintenance costs	23,080	28,492
Other taxes paid	117,040	111,810
Insurance expenses	99,709	(48,408)
Information system costs	27,116	14,243
Other	19,842	(36,140)
	2,164,017	1,395,281

Valuation fees include amounts that were paid to independent valuers for the appraisal of real estate. These fees are recharged to customers and hence corresponding amounts of HUF 633 million for 2005 (2004: HUF 553 million) are included within valuation fees and recorded as other operating income.

6. STAFF COST

	2005 31 December	2004 31 December
Wages and salaries	1,900,123	1,575,193
Social security costs	773,035	555,504
Other personal payments	499,594	268,266
	3,172,752	2,398,963

	2005 three months ended 31 Dec	2004 three months ended 31 Dec
Wages and salaries	649,123	505,247
Social security costs	234,486	161,116
Other personal payments	190,588	113,617
	1,074,197	779,980

Social security is payable by the Bank based on the gross level of wages and salaries payable to employees. The average number of persons employed by the Bank during the period was 299 (2004: 235).

7. TAXATION EXPENSE

	2005 31 December	2004 31 December
Current tax expense	2,252,811	1,241,917
Deferred tax (benefit)/expense	(18,027)	(32,671)
	2,234,784	1,209,246

	2005 three months ended 31 Dec	2004 three months ended 31 Dec
Current tax expense	390,154	150,376
Deferred tax (benefit)/expense	(13,429)	(30,163)
	376,725	120,213

A reconciliation between the expected tax expenses based on taxable profit accounted for in accordance with Hungarian accounting legislation to the actual current tax expense is detailed below. The corporate income tax rate applicable to the Bank for the year ended 31 December 2003 was 18%. The Hungarian corporate income tax rate has been reduced to 16% from 1 January 2004 due to changes in the Hungarian tax law.

Due to the change in the tax legislation effective from 1 January, 2005 the Bank will have corporate tax liability at a rate of 24% in 2005 and 2006 (Banks can choose between additional corporate tax rate of 8% on pre-tax profit or additional tax of 6% on their interest margin. Corporate tax rate of 16% is not effected by the changes). A reconciliation between income according to Hungarian accounting legislation and International Financial Reporting Standards is presented in Note 25.

	2005 31 December	**2004 31 December**
Profit before tax	10,700,892	8,511,367
Tax expense (24%) (2004:16%)	2,568,214	1,361,819
Statutory tax base items	(42,835)	(5,749)
Treasury share transaction	(63,112)	
Release of general risk provision	(206,851)	(52,518)
Share option	36,284	35,263
Effect of change in tax rate		(37,188)
Profit of Service Company	(9,729)	(3,497)
Tax allowance	(26,190)	(88,884)
Cash-flow hedge reserve	(20,997)	
	2,234,784	1,209,246

	2005 three months ended 31 Dec	**2004 three months ended 31 Dec**
Profit before tax	2,341,636	1,641,920
Theoretical Tax expense (24%) (2004:16%)	561,993	262,708
Statutory tax base items	(8,121)	2,858
Release of general risk provision	(206,851)	(52,518)
Share option	20,560	35,263
Effect of change in tax rate		(37,188)
Profit of Service Company	310	(2,026)
Tax allowance	(26,190)	(88,884)
Cash-flow hedge reserve	35,024	
Tax expense	376,725	120,213

Deferred tax assets and deferred tax liabilities as of 31 December 2005 and 31 December 2004 are attributable to the items detailed in the table below:

	31 December 2005			**31 December 2004**		
Item	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Statutory temporary differences		(1,000)	(1,000)		(1,199)	(1,199)
Mark to market value (securities)	235		235		(4,524)	(4,524)
Loan origination fee	129,818		129,818	116,750		116,750
Net tax asset	130,053	(1,000)	129,053	116,750	(5,723)	111,027

8. DUE FROM NATIONAL BANK OF HUNGARY

Of the amount due from the National Bank of Hungary at period end HUF 29,000 million is short term deposit placed at the NBH (2004: 10,000 million HUF), and 111 million HUF represents nostro accounts held at the NBH (2004: 163 million HUF). The remaining amount of 17 million HUF represents accrued interest (2004: 19 million HUF)

9. PLACEMENTS WITH OTHER BANKS

	2005 31 December	2004 31 December
Nostro accounts	139,184	74,218
Term placements	11,263,271	18,774,739
	11,402,455	18,848,957

10. AVAILABLE FOR SALE SECURITIES

	2005 31 December	2004 31 December
State bonds	15,534	929,236
Treasury bills	3,401,848	2,938,954
NBH bonds	2,729	2,815
	3,420,111	3,871,005

11. REFINANCING MORTGAGE LOANS

Act L, which amended other acts regulating financial organisations, introduced substantial changes to Act XXX on Mortgage Loan Companies and on Mortgage Bonds (1997), modifying the role of commercial banks in the provision of mortgage loans. The amendment has introduced the possibility to use the mortgages as collateral coverage for covered mortgage bonds and, at the same, the possibility of their sale and purchase. The mortgage banks are thus now able to refinance the mortgage loans of the commercial banks.

The Bank signed contracts with the 8 major commercial banks in Hungary to refinance mortgage loans; hence the mortgage loans are available in more than 800 outlets. The balance as at 31 December 2005 includes loans disbursed to 59,940 individual retail customers (2004:53,117).

12. LOANS

	2005 31 December	2004 31 December
Real estate purchase	94,358,403	77,926,819
Real estate construction	40,272,001	33,079,401
Real estate reconstruction	2,857,737	1,723,925
Real estate extension	12,928,260	12,616,740
Other loans secured by real estate	19,641,777	6,063,657
Employees	1,202,603	978,838
Loans, gross	171,260,781	132,389,380
comprising: Retail loans	170,704,579	132,305,070
Other	556,202	84,310
Loan loss provision	(546,906)	(374,147)
Accrued interest	550,441	456,746
Loan, net	171,264,316	132,471,979

Movement in provision for loan losses:

	2005 31 December	2004 31 December
Provision as at 1 January	374,147	248,065
Charge for the period	616,494	434,205
Release during the period	(443,735)	(308,123)
Provision as at end of period	546,906	374,147
Net effect of charge and release	172,759	126,082
Loans written off		3,466
Loss on loans sold	39,812	21,673
Loss on terminated loans	13,310	5,324
Charge/(release) for commitments	2,597	1,199
Losses on loan and advances	228,338	157,744

The aggregate amount of non-performing loans amounted to HUF 5,656 million at 31 December 2005 (2004: HUF 3,465 million).

Within the total balance of mortgage loans 99.75% have maturity over 5 years (2004: 99.87%). Total outstanding mortgage loan balance does not exceed the 70% of collateral value of real estates as it is required by the Act on Mortgage Banks (at 31 December 2005 this ratio is 39.36%; 2004: 39.57%). Total collateral value of real estates backing the outstanding loan portfolio is HUF 1,074,990 million (2004: 931,643 million).

13. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Office equipment	Computer Software	Intangible Assets	Total
Cost					
Opening balance	185,959	889,201	925,212	7,898	2,008,270
Additions	139,211	438,701	524,390	19,664	1,121,966
Reclassification			(334,136)	334,136	
Disposals	(15,100)	(83,978)		(225)	(99,303)
Closing balance	310,070	1,243,924	1,115,466	361,473	3,030,933
Depreciation					
Opening balance	42,422	456,364	369,246	6,686	874,718
Charge for the period	15,412	240,533	186,368	7,601	449,914
Reclassification*			(78,812)	78,812	
Disposals	(2,371)	(83,673)		(225)	(86,269)
Closing balance	55,463	613,224	476,8	92,874	1,238,363
Net book value 31.12.2005	254,607	630,700	638,664	268,599	1,792,570
Net book value 31.12.2004	143,537	432,837	555,966	1,212	1,133,552

14. OTHER ASSETS

	2005 31 December	2004 31 December
Prepayments	329,114	247,557
Reclaimable taxes	142,174	31,704
Deferred tax asset (Note 7)	129,053	111,026
Settlements with the Hungarian State	3,087,964	6,499,295
Sundry receivables	113,298	139,239
Reimbursed insurance fees	238,220	172,817
Other	141,209	71,853
	4,181,032	7,273,491

15. DEPOSITS FROM BANKS

Deposit from banks with a balance of HUF 24,350 millions includes long term syndicated loan in foreign currency from foreign financial institutions (CHF 150 millions), short term deposits from domestic banks in the amount of HUF 7,094 millions (2004: HUF 8,989 millions), and the accrued interest for the period amounting to HUF 52 millions (2004: HUF 7 millions).

16. MORTGAGE BOND LIABILITIES

Mortgage bonds are transferable registered or demand bonds and, according to Act XXX of 1997, can be issued only by mortgage banks. Prior to their issue, a property supervisor reviews if the Bank has adequate collateral for the issue. These collaterals may be (i) ordinary collaterals such as the principal and interest receivable (including interest subsidies) from mortgage loans provided in accordance with the standard collateral requirements, the repurchase price of an individual mortgage-right and the related refinancing interest, and (ii) additional collateral such as, typically, government bonds and related interest and any principal and interest receivable guaranteed by the government. According to the Act, if the amount of principal receivable exceeds 60% of the collateral value of related property offered, only the principal receivable amounting to 60% of the collateral value and the proportionate amount of interest can be considered as an ordinary collateral. The Act governs the proportionate between ordinary and additional collaterals: at least 80% of all collateral must be ordinary collateral. In addition to the statutory requirements, the Bank's internal policies regulate that the following limits also need to be met:

(i) Coverage for the nominal value: the nominal value of the ordinary collateral (the underlying principal excluding the provision for any impairment loss and interest) should exceed 100% of the not yet repaid face value of the mortgage bonds outstanding,

	31 December 2005.	**31 December 2004**
Outstanding Mortgage bonds	403,838,820	366,332,210
Nominal value of ordinary and additional collateral	424,063,763	370,958,866

(ii) If point (i) is not met, the Bank has to acquire additional collateral to the extent that the sum of the nominal values of the ordinary and additional collaterals always exceed 100% of the not yet repaid face value of the mortgage bonds outstanding.

(iii) Coverage for the interest amount: the interest on the nominal value of the ordinary and additional collaterals should exceed 100% of the interest on the not yet repaid face value of the mortgage bonds outstanding.

	31 December 2005	**31 December 2004**
Interest on outstanding mortgage bonds	182,703,302	211,649,442
Interest on the nominal value of ordinary and additional collaterals	333,492,526	342,153,154

Within total outstanding mortgage bonds as at 31 December, 2005 HUF 194,102 million has maturity exceeding 5 years (2004: 210,243 million).

	31 December 2005		**31 December 2004**	
	Net carrying amount	**Nominal value**	**Net carrying amount**	**Nominal value**
Non-listed mortgage bonds				
Fixed	176,142,392	175,538,250	152,898,148	152,335,250
Floating	24,076,279	24,098,750	5,600,000	5,600,000
Listed mortgage bonds				
Fixed	188,171,960	187,852,640	192,695,438	192,047,780
Floating	16,124,855	16,349,180	16,085,276	16,349,180
	404,515,486	403,838,820	367,278,862	366,332,210

The book value of the mortgage bond in the balance sheet is include own accrued interests, 16,597 million HUF, (2004: HUF 17,142 millions).

17. OTHER LIABILITIES

	2005 31 December	2004 31 December
Accrued loan origination fee	540,908	486,456
Taxes payable	244,071	307,046
Creditors	586,267	261,488
Accrued expenses	348,973	79,752
Provision for commitments	5,830	3,233
Customer loan prepayments	349,134	258,015
Other	251,645	78,120
	2,326,828	1,474,110

18. SHARE CAPITAL

Authorised, issued and fully paid ordinary shares comprise 58,000,010 shares at par value of HUF 100 each as at 31 December 2005. Authorised, issued and fully paid preference shares comprise 8,000,000 shares at a par value of HUF 100 each as at 31 December 2005.

The Court of Registration on 23 May, 2005 registered the resolution 12/2005 (04.22.) of the Annual General Meeting held on 22 April, 2005 regarding the decrease of the nominal value of ordinary and voting preference shares issued by the Bank from HUF 1.000 to 100. The date of the transformation was 14 June, 2005. As a result of the transformation the share capital of the Bank is represented by 66.000.010 shares each having nominal value of HUF 100.

The ownership structure of the Bank as at 31 December 2005 and 31 December 2004 is as follows:

	31 December 2005		31 December 2004	
Owner's name	**Percentage Owned**	**Share of capital**	**Percentage Owned**	**Share of Capital**
Ordinary shares (Class A)				
Hungarian State	50.00%	33,000,010	50.00%	3,300,001
Hungarian enterprises	8.82%	5,819,160	3.29%	217,437
Foreign enterprises	25.48%	16,814,510	33.09%	2,184,092
Private individuals	3.58%	2,364,270	1.49%	98,471
Repurchased treasury shares	-	2,060	-	-
	87.88%	58,000,010	87.88%	5,800,001
Voting preference shares (Class B)				
Hungarian State	3.2%	2,114,300	3.2%	211,430
Domestic enterprises	8.92%	5,885,700	8.92%	588,570
	12.12%	8,000,000	12.12%	800,000
Total shares	100.00%	66,000,010	100.00%	6,600,001

Earning per share is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares.

There were no potentially dilutive securities in existence at 31 December 2005 and 31 December 2004. For the calculation of the weighted average number of shares it has been assumed that all HUF 100,000 nominal value shares are converted into shares of HUF 1,000 value each.

The following amounts were used in the calculation of earnings per share:

	2005 31 December	**2004 31 December**
Net income	8,466,108	7,302,121
Transfer to general reserve	(739,496)	(711,427)
Net attributable profit	7,726,612	6,590,694
Weighted average number of ordinary shares on issue	65,972,458	66,000,010

The Bank's Supervisory Board has approved a share-based incentive scheme for members of senior management for the two years of 2004 and 2005. Each year, up to 20,000 class A ordinary shares may be granted free of charge if the Bank's listed share price meet or exceeds pre-specified targets. The first award period falls between 8 April 2004 and the date of the AGM for the financial year of 2004.

All the targets of the executive share purchase plan for 2004 have been met. As a result, further to the resolution of the annual shareholders' meeting of 22 April 2005, the first phase of the share contribution was duly paid on 5 May 2005.

In December 2004, the Bank and the holders of class B preference shares signed a contract to ensure that these shareholders will exert the same influence they currently exercise if the shareholding held by Government is sold. This contract specifies the rights and obligations of preference share holders in relation to share transfers and contains special rules on the appointment of executives.

19. GENERAL RESERVE

In accordance with statutory requirements, a non-distributable general reserve equal to 10% of net income after tax is required to be made. Increases in the general reserve are treated as appropriations from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income.

20. COMMITMENTS

Off-balance sheet commitments comprise of non-revocable commitments to extend credit of HUF 7,825 million (2004: HUF 5,453 million).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank discloses the fair value of its loans and mortgage bonds based on a new methodology as supplemental information. The fair value of loans is calculated based on a more sophisticated internal valuation model. In case of mortgage bonds the internal valuation model already applied has been replaced by a streamline version as a result of the implementation of the Bank's risk management system.

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments stated at carrying value: Due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values. These include cash and placements with banks and with the Central Bank of Hungary, deposits from banks.

Investments available for sale: Available for sale securities held for liquidity purposes are marked to market. For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.
Loans and Refinancing mortgage loans:

The Bank calculates the fair value of loans and refinanced loans based on the analytical rudimentary level the deals.

The applied valuation model takes into account:

- the scheduled repayments and prepayments without customer risk
- the interest and interest type revenues until maturity, including the interest subsidies of the loans and their unique legal regulation
- In addition, the loans qualifying for subsidy based on the rules valid before 16 June 2003 and between June 16 and 22 December 2003 according to the Law previously referred to are treated by the model as practically non repriced for 20 years due to the fix interest ceiling of 5-6%. (note 4)
- Also due to the interest ceiling the subsidy cash flows related to the loans mentioned above have been calculated until maturity of the deals but maximum for 20 years.
- In case of loans repriced the model treats the loans as matured at the date of repricing, thus the Bank does not calculate with interest or subsidy further on.

The cash flow series calculated are discounted using the valuation yield curve by the Bank. The net asset value that is the fair value of the total loan portfolio is calculated by aggregating and exchanging the values to forints.

	31 December 2005		**31 December 2004**	
	Gross carrying value	**Fair value**	**Gross carrying value**	**Fair value**
Refinancing mortgage loans	259,912,451	310,502,089	241,288,506	284,478,896
Customer loans (not-matured)	171,264,316	222,223,553	132,471,979	181,536,549

Gross carrying values include accrued interest.

Mortgage bonds liabilities:

The fair value of mortgage bonds is calculated by the Bank on a cash flow basis. During the calculations the Bank identifies the forint amounts of the cash flows of the mortgage bonds recorded in the prospectus discounted by the valuation yield curve. This is considered as the fair value of mortgage bonds.

In case of floating rate mortgage bonds the expected interest rates are estimated on a forward basis including interest premium. The interest cashflow calculated and the principal payments are discounted to present value using the valuation yield curve.

	31 December 2005		**31 December 2004**	
	Gross carrying value	**Fair value**	**Gross carrying value**	**Fair value**
Non-listed mortgage bonds				
Fix interest bearing	183,085,973	203,479,402	159,281,225	173,916,067
Floating interest bearing	24,441,695	24,648,441	5,953,123	6,068,592
Listed mortgage bonds				
Fix interest bearing	196,573,628	202,289,016	201,689,126	201,868,560
Floating interest bearing	17,011,298	17,797,117	17,496,942	18,275,786
Total	421,112,594	448,213,976	384,420,416	400,129,005

Gross carrying values include accrued interest.

Fair value of other items of the balance sheet

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

Fair value of derivative instruments:

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the deals are broken down to elementary cash flows and the present value is calculated.

The present value of the future cash flows of the fixed interest rate deals is calculated by the Bank using the yield curve corresponding to the appropriate currency. The fair value of the swap deal is the difference of the present value of the two cash flows (the incoming and outgoing).

In case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cashflow calculated and the principal payments are discounted to present value using the valuation yield curve. The fair value of the deal is the aggregate of the present values.

	31 December 2005	31 December 2004 (restated)
Derivatives designated as cash flow hedges		
Positive fair value of cash flow hedges	261,929	
Negative fair value of cash flow hedges	(2,494,847)	(2,366,515)
Accruals accounted for in the income statement	(325,450)	(1,227,442)
Fair value to be presented in the shareholders' equity	(1,907,468)	(1,139,073)
Derivatives designated as fair value hedges		
Negative fair value of fair value hedges	(421,185)	(316,705)
Fair value of base transaction	421,185	316,705
Fair value to be accounted for in profit for the period	-	-
Trading derivatives (cross currency swaps)		
Positive fair value of trading derivatives	510,738	-
Negative fair value of trading derivatives	(282,471)	
Accruals accounted for in the income statement	105,261	-
Fair value to be accounted for in profit for the period	123,006	-

Cash-flow hedge transactions under the terms of IAS 39 have been performed in order to eliminate the risk of foreign currency in case of EUR denominated covered mortgage bond issuances, thus the cash-flow in currency of booking can be fixed. The main conditions of these swap contracts (maturity, notional amount, currency, interest rate and payment dates, etc) therefore the cash-flow is identical to the underlying bond issue.

Swap contracts used for trading purposes under the terms of IAS 39 are also bound to EUR covered mortgage bonds. The conditions of the EUR side is identical to the mortgage bond as in case of cash-flow hedge transactions, however, the interest type concerning the liabilities of the swap might be different and the currency is not necessarily the currency of booking.

22. RISK MANAGEMENT

Overview

Risk Management is responsible for the assessment and management of market risks associated with the Bank's operations, for developing internal policies and for presenting these to the decision makers. The most important function of the Bank's comprehensive risk management system is a carefully designed and continuously maintained complex limit system that ensures prudent operations in compliance with applicable regulations.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by the borrower or counterparty on their obligations to the Bank. The Bank has strictly defined procedures for the processing of all loan applications and includes a Credit Committee which implements the Bank's credit policy and monitors credit risk limits. Lending limits for a given customer are determined by the Bank's credit risk assessment methodology and are classified according to their creditworthiness.

The Bank limits its exposure to credit risk by obtaining collateral from its borrowers in the form of real estate mortgages as prescribed in Act XXX/1997 on Mortgage Loan Companies and on Mortgage Bonds.

In addition to ensuring regulatory compliance, standardised and detailed internal policies developed for each product and lending processes are essential to effective risk management. These policies are aimed at achieving and maintaining a preferred homogenous loan portfolio.

The main elements of the Bank's credit risk management process are as follows:

Decision making system: authorization to make decisions over the acceptance of applications, credit limits and granting depend on the amount requested as well as on the position and professional experience of the bank officer involved.

Customer risk: Each debtor and their guarantors are assessed individually and are then assigned a monetary limit in accordance with the Bank's credit policies.

Property risk: the values of properties offered as collateral are assessed based on statutory criteria and on the Bank's relevant policies. The Bank has access to the records of the Hungarian

Property Duty Office for comparative purposes. The Bank's property supervisor also conducts independent reviews of collateral valuations obtained on a test basis.

Loan monitoring: Fluctuations in the Bank's customer risks and property risks are assessed during the life of each loan.

Watch customers: A separate unit independent from the Bank's credit authorisation process handles loan customers in arrears by more than 45 days.

In the case of refinanced loans all associated customer credit risks remain with the partner bank.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Annual average balances and average interest rates of interest bearing assets and liabilities:

	31 December 2005		31 December 2004	
	Net average balance	**Average interest rate %**	**Net average balance**	**Average interest rate %**
Interest bearing assets				
Placements with other banks and the NBH	20,730,807	6.71%	21,532,334	11.01%
Refinancing of mortgage loans	249,290,412	10.73%	226,400,079	10.70%
Available for sale investments	3,605,575	8.12%	3,336,821	10.59%
Loans	148,128,303	14.56%	119,153,278	16.07%
Total interest bearing assets	421,755,097	11.86%	370,422,512	12.44%
Interest bearing liabilities				
Deposits from banks	5,746,432	1.78%	1,039,507	8.00%
Mortgage bond liabilities	389,156,516	8.07%	342,169,567	9.20%
Total interest bearing liabilities	394,902,948	7.98%	343,209,074	9.20%

Managing FX risks

Owing to the special nature of its operations, the Bank focuses on minimising its foreign exchange risks. It is the Bank's strategic goal to immediately hedge all foreign exchange risks, wherever possible, arising from its basic operations (mortgage loans, refinancing and mortgage bond financing). Therefore, open FX positions may only occur due to liquidity management, crediting and refinancing transactions and to FX accruals/deferrals in currencies in which the Bank has nostro accounts.

All open FX position limits are set and authorised by the Assets and Liabilities Committee, based on recommendations from the affected functions and from risk management. All limits are reviewed as and when necessary but at least once a year.

Liquidity Risk

Liquidity risk arises from mismatches in the cash flows from financial transactions. The Bank's liquidity policy is reviewed and approved by the Management Board and is designed to ensure that the Bank has sufficient funds available, even in adverse circumstances, to meet all its known and potential commitments.

The following table shows banking assets and liabilities by maturity dates as at 31 December 2005:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 Years	Over 15 years	Total
Banking Assets								
Cash	781							781
Placements with other banks	139,046	11,248,244						11,387,290
Due from Central Bank	111,170	29,000,000						29,111,170
Available for sale securities		1,110,560	2,308,569					3,419,128
Refinancing of loans		3,829,960	11,418,874	66,413,633	78,892,375	63,160,057	35,995,877	259,710,776
Loans (gross)	244,713	2,427,860	7,525,106	42,657,535	57,687,990	37,497,466	23,220,110	171,260,781
Total Banking Assets	**495,710**	**47,616,624**	**21,252,549**	**109,071,168**	**136,580,365**	**100,657,523**	**59,215,987**	**474,889,926**
Banking Liabilities								
Deposits from banks		31,496,058						31,496,058
Mortgage bonds (nominal)		2,628,000	17,048,000	190,061,130	164,875,440	29,226,250		403,838,820
Total Banking Liabilities		**34,124,058**	**17,048,000**	**190,061,130**	**164,875,440**	**29,226,250**		**435,334,878**
Net position	**495,710**	**13,492,566**	**4,204,549**	**(80,989,962)**	**(28,295,075)**	**71,431,273**	**59,215,987**	**39,555,048**
Cumulative position	**495,710**	**13,988,276**	**18,192,825**	**(62,797,137)**	**(91,092,212)**	**(19,660,939)**	**39,555,048**	

The above schedule shows an aged analysis of the Bank's assets and liabilities based on the remaining terms of the loans until maturity calculated from the balance sheet date. The issued mortgage bonds are presented at actual due principal amounts disclosed in the related information memoranda and programmes and are not affected by exchange rate gains and losses or by any valuation difference arising on derivatives. In practice, the maturity of assets and liabilities may depart from the contracted terms.

As at 31 December 2004:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years	Total
Total Banking Assets	480,159	35,329,256	18,937,275	93,552,661	120,237,214	85,575,477	52,120,104	406,232,146
Total Banking Liabilities	-	14,189,330	2,666,000	148,222,840	181,017,120	29,226,250		375,321,540
Net position	**480,159**	**21,139,926**	**16,271,275**	**(54,670,179)**	**(60,779,906)**	**56,349,227**	**52,120,104**	**30,910,606**
Cumulative position	**480,159**	**21,620,086**	**37,891,360**	**(16,778,819)**	**(77,558,724)**	**(21,209,497)**	**30,910,606**	

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purposes of these financial statements, related parties include shareholders with a holding in the Bank of greater than 10%, management of the Bank, and members of the Supervisory Board and Board of Directors. The transactions with related parties were conducted on an arms length basis.

	2005 31 December	2004 31 December
Loans to directors	84,000	141,992

24. RECONCILIATION OF THE NET ASSETS AND RESULT UNDER HUNGARIAN ACCOUNTING STANDARDS TO THOSE UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2005 31 December	2004 31 December (adjusted)
Total Shareholders' Equity per Hungarian Statutory Financial Statements	24,783,253	18,664,721
Loan origination fee	(540,908)	(486,456)
General reserve	1,190,115	328,237
Cash-flow hedge reserve	(1,907,468)	(1,139,073)
Changes in fair value of trading derivatives	87,489	-
Deferred tax asset	129,053	111,026
Mark to market of available for sale investments	(978)	18,849
Total Shareholders' Equity per IFRS Financial Statements	23,740,556	17,497,304

	2005 31 December	2004 31 December
Profit per Hungarian Statutory Financial Statements	7,441,383	7,136,124
Loan origination fee	(54,451)	(29,195)
Deferred tax benefit	18,027	32,671
Trading derivatives	87,489	
General reserve	861,878	328,237
Sale of treasury shares	262,967	
Change in share option reserve	(151,185)	(220,393)
Mark to market of available for sale investments		54,677
Profit per IFRS financial statements	8,466,108	7,302,121

9 Annexes

9.1 Structure of securities

The amounts received from the issued mortgage bonds are used for financing the mortgage loans lent by the Bank. The dynamic increase of the loans proves this way of financing.

9.1.1 Issued securities by FHB

FHB has 47 mortgage bond series in circulation, in the amount of HUF **403,839 million face value**. (Series denominated in EUR were calculated to HUF by FX middle rate of National Bank of Hungary as at December 31, 2005).

Mortgage bond series with fixed interest rate are 36, their summarized face value is HUF 363,391 million.

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ06ZF01/ HU0000650015	July 2, 1999	200	Closed	July 2, 2006	12.80%	In the 4., 5., 6. and 7. year, in equal (25%) instalments
FJ07ZF01/ HU0000650049	February 25, 2000	800	Closed	February 25, 2007	9.70%	In the 5., 6. and 7. year (20-40-40%) instalments
FJ06ZF02/ HU0000650098	November 28, 2000	1.150	Closed	March 28, 2006	11.10%	At maturity
FJ06ZF03/ HU0000650114	January 30, 2001	750	Closed	January 30, 2006	9.70%	At maturity
FJ07NF01/ HU0000650122	March 8, 2001	6,304.68	Open	March 14, 2007	9.60%	At maturity
FJ07NF02/ HU0000650171	October 8, 2001	8,000	Open	October 10, 2007	9.50%	At maturity
FJ08NF01/ HU0000650189	February 11, 2002	5,859.31	Open	February 13, 2008	8.25%	At maturity
FJ09NF01/ HU0000650247	August 10, 2002	10,000	Open	January 14, 2009	9.25%	At maturity
FJ13NF01/ HU0000650288	September 9, 2002	4,999.99	Open	January 11, 2013	8.50%	At maturity
FJ08NF02/ HU0000650304	October 14, 2002	5,948.76	Open	March 16, 2008	9.50%	At maturity
FJ08NF03/ HU0000650346	November 11, 2002	10,000	Open	April 15, 2008	9.25%	At maturity
FJ07ZF02/ HU0000650296	November 26, 2002	6,500	Closed	November 26, 2007	9.22%	At maturity
FJ08NF04/ HU0000650379	December 9, 2002	9,235.96	Open	May 15, 2008	8.50%	At maturity
FJ08NF05/ HU0000650429	January 13, 2003	9,657.37	Open	June 15, 2008	8.00%	At maturity

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ10NF01/ HU0000650452	February 10, 2003	12,622.80	Open	February 12, 2010	7.75%	At maturity
FJ10NF02/ HU0000650486	March 10, 2003	14,000.44	Open	March 12, 2010	7.75%	At maturity
FJ08NF06/ HU0000650502	April 14, 2003	11.636,77	Open	October 16, 2008	7.50%	At maturity
FJ13NF02/ HU0000650528	May 12, 2003	10,000	Open	May 14, 2013	7.25%	At maturity
FJ13ZF01/ HU0000650551	July 23, 2003	20,040	Closed	July 23, 2013	8.51%	At maturity
FJ13NF03/ HU0000650593	September 8, 2003	16,000	Open	September 10, 2013	8.25%	At maturity
FJ06NF01/ HU0000650619	October 13, 2003	10,000	Open	October 25, 2006	8.75%	At maturity
FJ08ZF01/ HU0000650650	November 17, 2003	13,000	Closed	November 19, 2008	9.75%	At maturity
FJ13ZF02/ HU0000650684	November 28, 2003	16,601.25	Closed	December 5, 2013	10.796%	At maturity
FJ09ZF01/ HU0000650767	January 9, 2004	5.500	Closed	January 9, 2009	10.35%	At maturity
FJ12ZF01/ HU0000650825	February 19, 2004	19,706.25	Closed	March 3, 2012	10.55%	At maturity
FJ12ZF02/ HU0000650882	April 2, 2004	19,125	Closed	April 2, 2012	10.00%	At maturity
FJ19ZF01/ HU0000650890	April 6, 2004	12.625	Closed	April 6, 2019	9.75%	At maturity
FJ11ZF01/ HU0000651005	June 7, 2004	5,030	Closed	June 7, 2011	9.85%	At maturity
FJ09NF03/ HU0000651021	July 8, 2004	100 M €	Open	July 8, 2009	3.875% (EUR)	At maturity
FJ10ZF01/ HU0000651104	November 12, 2004	50 M €	Closed	November 12, 2010	3.65% (EUR)	At maturity
FJ16ZF01/ HU0000651146	November 29, 2004	16,601.25	Closed	November 29, 2016	8.95%	At maturity
FJ10NF03/ HU0000651278	March 9, 2005	10,000	Open	March 9, 2010	7.375%	At maturity
FJ15ZF01/ HU0000651310	April 14, 2005	50 M €	Closed	April 14, 2015	3.90% (EUR)	At maturity
FJ15ZF02/ HU0000651369	May 8, 2005	50 M €	Closed	May 18, 2015	3.875% (EUR)	At maturity
F06NF02/ HU0000651385	June 8, 2005	5,000	Open	June 8, 2006	7.60%	At maturity
FJ11NF02/ HU0000651476	October 10, 2005	3,313.56	Open	October 12, 2011	6.50%	At maturity

Mortgage bond series with non-fixed interest rate are 11, their summarized face value is HUF 40,447 million.

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ06ZV01/ HU0000650023	July 2, 1999	1,240	Closed	July 2, 2006	15.7% / 1 year ÁKK +100 bp, current rate: 7.9%	At maturity
FJ07ZV01/ HU0000650031	February 25, 2000	500	Closed	February 25, 2007	11.3% / 1 year ÁKK + 80 bp, current rate: 7.0%	Instalments: in the 6. and 7. year with equal (50-50%) instalments
FJ08ZV01/ HU0000650056	July 13, 2000	1,000	Closed	January 13, 2008	11.3% / 1 year ÁKK + 80 bp, current rate: 7.2%	At maturity
FJ07ZV02/ HU0000650072	October 25, 2000	994	Closed	October 25, 2007	10.9% / 1 year ÁKK + 70 bp, current rate: 6.6%	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ07ZV03/ HU0000650080	November 28, 2000	70	Closed	November 28, 2007	10.1% / 1 year ÁKK + 80 bp, current rate: 7.2%	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ08ZV02/ HU0000650106	January 30, 2001	260	Closed	January 30, 2008	11.3% / 1 year ÁKK + 80 bp, current rate: 9.4%	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ11ZV01/ HU0000650148	May 15, 2001	1,080	Closed	May 17, 2011	11.2% / in 2-5 year 1 year ÁKK + 100 bp, in 6-10. year + 80 bp, current rate: 8.4%	Instalments: in the 9. and 10. year with equal (50-50%) instalments
FJ09NV01/ HU0000650155	September 6, 2001	4,739.29	Open	September 12, 2009	11.1% / 1 year ÁKK + 70 bp, current rate: 6,6%	Instalments: in the 9. and 10. year with equal (50-50%) instalments
FJ12NV01/ HU0000650205	March 11, 2002	11,609.89	Open	March 13, 2012	9.25% / 1 year ÁKK +100 bp, current rate 7,2%	Instalments: in the 9. and 10. year with equal (50-50%) instalments
FJ11ZV02/ HU0000651229	February 10, 2005	50,000 €	Closed	February 10, 2011	2.364% / 6 month Euribor + 17.5 bp, current rate 2.88%	At maturity
FJ10ZV01/ HU0000651427	June 29, 2005	25,000 €	Closed	June 29, 2010	2.243% / 6 month Euribor + 15 bp, current rate 2.789%	At maturity

9.1.2 Changes in the rights related to the securities issued by the Bank

There were no changes in the rights related to mortgage bonds.

9.1.3 Issued securities owned by management

The management did not own mortgage bonds issued by the Bank at 31 December, 2005. FHB shares owned by management is presented in point 9.2.2.

9.2 Management, employment

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

	Beginning of year January 1, 2005	1st quarter March 31, 2005	2nd quarter June 30, 2005	3rd quarter September 30, 2005	End of year December 31, 2005
Bank	204	227	240	249	270
Consolidation	233	256	270	281	299

9.2.2 Persons in senior positions

Type [1]	Name	Position	Beginning of mandate	End / termination of mandate	Shares held (pcs)
IT	Ferenc Karvalits	Chairman	05.05.2005	05.05.2010	0
IT	dr. Gábor Borsányi	member	21.04.2006	5 years after PSZÁF permission	0
IT	Dr. Gyula Czok	member	05.05.2005	21.04.2006	0
IT	Dr. Gábor Csányi	member	28.05.2005	28.05.2010	0
IT	Dániel Gyuris	member, CEO	11.01.1999	21.04.2011	4,000
IT	László Harmati	member, Deputy CEO	26.07.2002	21.04.2011	12,192
IT	dr. Károly Salamon	member	21.04.2006	5 years after PSZÁF permission	0
IT	Dr. Zoltán Szedlacskó	member	23.05.2003	23.05.2008	8,000
IT	Ádám Terták	member	07.06.2004	21.04.2006	0
IT	Dr. Márton Vági	member	26.07.2002	21.04.2011	0
FB	Róbert Somfai	Chairman	26.07.2002	26.07.2007	5,000
FB	Ágnes Winkler	member	26.07.2002	26.07.2007	0
FB	Dr. Gyula Czok	member	21.04.2006	5 years after PSZÁF permission	0
FB	dr. Gábor Borsányi	member	07.04.2004	21.04.2006	0
FB	dr. Károly Salamon	member	07.04.2004	21.04.2006	0
FB	Pablo Arnoldo Fritz Sepulveda	member	07.04.2004	21.04.2006	0
FB	Mónika Kék	member	22.04.2005	22.04.2010	0
FB	Kata Orsolya Molnár	member	22.04.2005	22.04.2010	0
FB	Éva Baranyi	member	22.04.2005	22.04.2010	0
FB	Péter Heim	member	22.04.2005	23.03.2006	0
FB	Dr. Erik Landgraf	member	21.04.2006	5 years after PSZÁF permission	0
FB	Mária Szántó	member	21.04.2006	5 years after PSZÁF permission	0
FB	Nguyen Viet	member	21.04.2006	5 years after PSZÁF permission	0
SP	Tamás Foltányi	Deputy CEO	01.11.2005	indefinite	0
SP	Jenő Siklós	Deputy CEO	21.10.1997	indefinite	16,810
Shares held (pcs) T O T A L :					46,002

[1] Employee in a strategic position (SP), Member of the Board of Directors (IT), member of the Supervisory Board (FB)

9.3 Announcements in the period

Date	Published in/on	Brief content
14.01.2005	Magyar Tőkepiac Magyar Hírlap	Information on the value of mortgage bonds and collateral as at 31 December 2004
26.01.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the repurchase of FHB's mortgage bonds before maturity on the secondary market issued in the context of public offering
03.02.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the result of repurchase of FHB's mortgage bonds before maturity on the secondary market issued in the context of public offering
08.02.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	New euro-denominated issue in the context of the EMTN scheme
14.02.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	FHB Rt.'s Preliminary Report for 2004 under the Capital Market Act (Tpt.)
14.02.2005	Web site of BSE	Stock Market Preliminary Report of FHB Rt. for the 4th Quarter of 2004
15.02.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Purchase of own shares
21.02.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information regarding the renewal of a revolving credit agreement
28.02.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Public Offering of FHB Rt.'s Domestic Issues Programme for 2005-2006
03.03.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Interest rate of FHB Rt.'s mortgage bond FJ10NF03 to be auctioned on 07.03.2005
04.03.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Purchase of own shares
07.03.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Re-pricing of FHB Rt. 's mortgage bond Fj12NV01
07.03.2005.	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Purchase of own shares
07.03.2005.	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information regarding the result of the FJ10NF03 mortgage bond auction
16.03.2005	Web site of BSE Magyar Hírlap	Purchase of own shares

Date	Published in/on	Brief content
17.03.2005	Web site of BSE Magyar Hírlap	Purchase of own shares
17.03.2005	Magyar Hírlap	Amendment of the Rules of Retail Lending
18.03.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Purchase of own shares
19.03.2005	Web site of BSE	Invitation to the General Shareholders' Meeting of FHB Rt.
21.03.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Invitation to the General Shareholders' Meeting of FHB Rt.
24.03.2005	Web site of BSE	Purchase of own shares
25.03.2005	Magyar Hírlap Népszabadság	Purchase of own shares
01.04.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the repurchase of FHB's mortgage bonds before maturity on the secondary market issued in the context of public offering
04.04.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	FHB Rt.'s forint-based Domestic Issues Programme for 2005-2006
06.04.2005	Web site of BSE	Supplement to the Invitation to the General Shareholders' Meeting of FHB Rt.
07.04.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Supplement to the Invitation to the General Shareholders' Meeting of FHB Rt.
07.04.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	New euro-denominated issue in the context of the EMTN scheme
07.04.2005.	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Invitation to an informal meeting with small shareholders of FHB Rt. on 14 April 2005
07.04.2005.	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the result of repurchase of FHB's mortgage bonds before maturity on the secondary market issued in the context of public offering
07.04.2005	Web site of BSE	Proposals submitted to the General Shareholders' Meeting of FHB Rt. to be held on 22 April 2005
22.04.2005	Web site of BSE	Resolutions passed by the 2005 General Shareholders' Meeting of FHB Rt.
25.04.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Resolutions passed by the 2005 General Shareholders' Meeting of FHB Rt.
25.04.2005.	Web site of BSE	Correction to the Resolutions passed by the 2005 General Shareholders' Meeting of FHB Rt.
26.04.2005.	Magyar Hírlap Népszabadság Magyar Tőkepiac	Correction to the Resolutions passed by the 2005 General Shareholders' Meeting of FHB Rt.
26.04.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the value of mortgage bonds and collateral

Date	Published in/on	Brief content
26.04.2005	Magyar Hírlap Népszabadság	Information regarding the resignation of members of the Supervisory Board
27.04.2005	Web site of BSE	Information regarding the resignation of members of the Supervisory Board
28.04.2005	Magyar Tőkepiac	Information regarding the resignation of members of the Supervisory Board
29.04.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Abstract of FHB Rt.'s Annual Report for 2004 under the Capital Market Act (Tpt.)
29.04.2005.	Web site of BSE	Stock Market Report of FHB Rt. for 2004
29.04.2005	Web site of BSE	Statement on the corporate governance of FHB Rt. based on the BSE's Recommendations for Corporate Governance
05.05.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the repurchase of publicly issued FHB mortgage bonds before maturity on the secondary market
06.05.2005	Web site of BSE	Public, single-round tender to select a lead manager/adviser
10.05.2005	Web site of BSE	Information on the shares granted within the framework of FHB's share based management incentive scheme
11.05.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the shares granted within the framework of FHB's share based management incentive scheme
11.05.2005	Web site of BSE	New euro-denominated issue in the context of the EMTN scheme
12.05.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	New euro-denominated issue in the context of the EMTN scheme
12.05.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on the result of repurchase of publicly issued FHB mortgage bonds before maturity on the secondary market
18.05.2005	Web site of BSE	Stock Market Preliminary Report of FHB Rt. for the 1st Quarter of 2004 extended with the Statement of Responsibility
18.05.2005.	Magyar Hírlap Népszabadság Magyar Tőkepiac	Information on dividend payment
20.05.2005	Web site of BSE	Report of FHB's Annual Shareholder's Meeting on 22 April, 2005
20.05.2005	Web site of BSE	Prolongation of multicurrency revolving loan facility on 19 May, 2005
23.05.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac	Prolongation of multicurrency revolving loan facility on 19 May, 2005
25.05.2005	Web site of BSE	Information on the change of FHB's publication placed
25.05.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac Világgazdaság Napi Gazdaság	Information on the number of shares granted within the framework of FHB's share based management incentive scheme
26.05.2005	Web site of BSE	Information on the number of shares granted within the framework of FHB's share based management incentive scheme

Date	Published in/on	Brief content
26.05.2005	Magyar Hírlap Népszabadság Magyar Tőkepiac Világgazdaság Napi Gazdaság	Information on the change of FHB's publication placed
01.06.2005	Web site of BSE Magyar Tőkepiac Világgazdaság Napi Gazdaság	Public offering of FJ06NF02 and FJ10NF03SR2 Covered Mortgaged Bonds
03.06.2005	Web site of BSE Magyar Tőkepiac Világgazdaság Napi Gazdaság	Coupon of FJ06NF02 Covered Mortgage Bond
03.06.2005	Web site of BSE	Articles of Association of FHB amended by the Annual General Meeting
06.06.2005	Web site of BSE	Notice of FHB regarding the transformation of the Company's shares
07.06.2005	Magyar Tőkepiac Világgazdaság Napi Gazdaság	Notice of FHB regarding the transformation of the Company's shares
08.06.2005	Web site of BSE Magyar Tőkepiac Világgazdaság Napi Gazdaság	Information regarding the result of the mortgage bond auction on 6 June, 2005
15.06.2005	Web site of BSE	FHB executive sold FHB shares
16.06.2005	Magyar Tőkepiac Világgazdaság Napi Gazdaság	FHB executive sold FHB shares
24.06.2005	Web site of BSE	New euro-denominated issue in the context of the EMTN scheme
27.06.2005	Magyar Tőkepiac Világgazdaság Napi Gazdaság	New euro-denominated issue in the context of the EMTN scheme
01.07.2005	Web site of BSE	FHB executive sold FHB shares
04.07.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB executive sold FHB shares
26.07.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	Information on the value of mortgage bonds and collateral as of 30 June 2005
28.07.2005	Web site of BSE	Information on the value of mortgage bonds and collateral as of 30 June 2005
29.07.2005	Web site of BSE Magyar Tőkepiac Napi Gazdaság Világgazdaság	Change in person responsible for investor relations
29.07.2005	Web site of BSE	Press announcement of ÁPV Rt. on FHB privatization tender
09.08.2005.	Web site of BSE	Stock Market Report of FHB Rt. for Q2 2005
09.08.2005	Web site of BSE Magyar Hírlap Népszabadság Magyar Tőkepiac	Abstract of FHB's preliminary report for H1 2005 under the Capital Market Act (Tpt.)
07.09.2005	BSE web site	FHB signed a syndicated loan agreement
08.09.2005	BSE web site	Interest rate on mortgage bond FJ09NV01
09.09.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB signed a syndicated loan agreement
09.09.2005	Magyar Tőkepiac	Interest rate on mortgage bond FJ09NV01

Date	Published in/on	Brief content
	Napi Gazdaság Világgazdaság	
09.09.2005	BSE web site	Announcement of the election of the new Chairman of FHB's Board of Directors
12.09.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	Announcement of the election of the new Chairman of FHB's Board of Directors
29.09.2005	BSE web site	Confirmation of, and change in, Moody's rating
06.10.2005	BSE web site	Mortgage Bond and Bond Issues Programme of FHB for 2005-2006 – Prospectus and Annexes
07.10.2005	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Public offering of mortgage bond FJ11NF01
10.10.2005	BSE web site	Information on FHB Rt.'s mortgage bonds auction of 10.10.2005
11.10.2005	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Information on FHB Rt.'s mortgage bonds auction of 10.10.2005
21.10.2005	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB Rt.'s mortgage bonds and collaterals portfolio as at 30.09.2005
26.10.2005	BSE web site	Appointment of a new Deputy Chief Executive Officer
26.10.2005	BSE web site	FHB's statement on the language of disclosure
27.10.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	Appointment of a new Deputy Chief Executive Officer
27.10.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB's statement on the language of disclosure
02.11.2005	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Approval by the HFSA (PSZÁF) of the amendment of the Mortgage Bond and Bond Issues Programme of FHB for 2005-2006 – Prospectus and Annexes
07.11.2005	Magyar Tőkepiac Napi Gazdaság Világgazdaság	Information regarding the amendment of the Business Rules for Retail Lending
10.11.2005.	BSE web site	Stock Market Preliminary Report of FHB Land Credit and Mortgage Bank Ltd. for the 3rd quarter of 2005.
2005.11.17	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Additional information about the Mortgage bonds Issuer Programme for the years 2005-2006
02.12.2005.	BSE web site	About upgrading the FHB's mortgage bonds denominated in HUF by Moody's
12.01.2006.	BSE web site	Update of the FHB Ltd's EMTN Programme
13.01.2006.	BSE web site	Base Prospectus relating to FHB Land Credit and Mortgage Bank Ltd's EMTN Program.
18.01.2006.	BSE web site	Current value of FHB's mortgage bonds and their collaterals as at 31.12.2005.
02.02.2006.	BSE web site	Another euro issue under the EMTN Program of FHB
07.02.2006.	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB's new strategic plan by has been approved by the Board of Directors

Date	Published in/on	Brief content
08.02.2006.	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Summary presentation of FHB's new strategic plan
13.02.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Stock Market Preliminary Report of FHB Land Credit and Mortgage Bank Ltd. for the 4th quarter of 2005
20.02.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	FJ11ZF02 Mortgage bond serie has been succesfully issued
24.02.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Additional information to FHB Land Credit and Mortgage Bank Ltd's Mortgage Bond Issuing Program for 2005-2006
27.02.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Moody's changes outlook on 7 Hungarian banks' deposit ratings following a similar change on Hungary' s sovereign ratings
02.03.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Information about FHB signing a multicurrency revolving loan contract
06.03.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Repricing the FJ12NV01 mortgage bond.
08.03.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Information on the decision of FHB Rt. to purchase own shares
08.03.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Invitation to the Annual General Shareholder's Meeting of FHB Land Credit and Mortgage Bank Ltd.
23.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Péter Heim resigned from its position from Supervisory Board with the effect of 23.04.2006.
04.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Purchase of ordinary shares of series 'A' on April 4, 2006 of FHB Land Credit and Mortgage Bank Ltd
06.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Extraordinary information of the purchase of FHB ordinary shares of series "A"
11.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB purchased another 50,000 pieces of own ordinary shares of series „A".
11.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Quarterly report of FHB Land Credit and Mortgage Bank about the value mortgage bonds and collaterals

Date	Published in/on	Brief content
20.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Resignations from the Board of Directors and the Supervisory Board
21.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	FHB Land Credit and Mortgage Bank purchased own shares
21.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Resolutions of the 2006 Annual General Meeting
26.04.2006	BSE web site Magyar Tőkepiac Napi Gazdaság Világgazdaság	Changes in the structure of FHB shares owned by the management due to the fulfilment of the criteria of the share option program for 2005

Declaration

Földhitel- és Jelzálogbank Rt. (Land Credit and Mortgage Bank Ltd.) hereby declares that the figures and statements of this Annual Report comply with reality, and it does not conceal any fact or information that would be substantial in the judgement of the issuer's position.

As issuer, Földhitel- és Jelzálogbank Rt. assumes exclusive liability for the contents of the annual report. Földhitel- és Jelzálogbank Rt. declares that it is liable as issuer for the reimbursement of losses caused by the omission and/or the misleading contents of regular and extraordinary information.

Budapest, 27 April, 2006

Dániel Gyuris CEO	Jenő Siklós Deputy CEO