FHB MORTGAGE BANK PUBLIC LIMITED COMPANY

CONSOLIDATED ANNUAL REPORT BY IFRS FOR 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.

The Bank Group has been set up in 2006, the Bank has founded new companies. FHB Commercial Bank Ltd. has been founded in order to expand the lending activity, and to introduce commercial banking within the Bank Group. FHB Annuity Ltd. has started its operations, by offering own services, and selling mortgage loan products of the Mortgage Bank to the elderly customers. To rationalize the internal operations of the Group, FHB Real Estate Ltd. has been founded, which specializes on the real estate valuation and real estate handling activities. The function of FHB Service Ltd. has been modified so that it provides infrastructural, accounting, payroll and human resources, regulatory reporting, and IT services for the entire Bank Group. During the year, the Mortgage Bank has changed its name, and carries on its operations as FHB Mortgage Bank Public Limited Company.

2 The macroeconomic environment in 2006

2.1 The economic environment

In 2006 the growth in the global economy surpassed expectations. While the economic dynamism of the United States seemed to have slowed down there was an unexpected upswing in the European Union and the emerging economics of Asia continued their impressive growth. The gradual monetary stringency that started two years ago in the United States came to an end last summer. Conversely, the cycle of interest rate increases in the euro zone that commenced in late 2005 was not yet concluded by the end of 2006, given that prosperity took a more positive shape than expected. After its modest performance in previous years, Germany's growth, together with the dynamism of the new CEE member states provided a solid foundation for the growth of the European Union. The sharp increase in oil prices in the world market during the summer months was followed by a substantial decline. The dollar-euro rate was again dominated by the strengthening of the euro.

The Hungarian economic growth is slowing down: According to the preliminary calculations of the Central Statistics Office (CSO), Hungary's GDP increased by 3.4[1] in the last quarter of 2006. The 2006 growth rate was 4%[2]. After a significant drop the United States achieved (following the third quarter) 2.2% growth; the average growth rate in the euro zone for the whole of 2006 was 2.5%, and the GDP of the EU-25 was up by 2.9%. The Hungarian economic growth, which is still considered keen, was mainly driven by the processing industry and the financial sector. Growth in the processing industry is due, to a large extent, to booming export sales; by contrast, the performance of the building industry was shrinking.

According to CSO data, the 2006 **industrial production was 10.1% up** from the 2005 figure. Industrial exports grew by 14.6%, and domestic sales increased by 4% over 2005. The volume of production in the processing industry grew by 11%.

The expansion of foreign trade was substantial on both the export and the import side. In 2006 exports amounted to 58.4 billion euros and imports, to 60.3 billion euros. Compared to 2005 the value of export increased by 17%, and that of import, by 13%[3]. In terms of euro, the growth in the value of export was 11%, and of import, 14%. The foreign trade deficit was 1.9 billion euros, 640 million euros less than in 2005. In the main categories of goods the highest growth in the volume of trade was achieved by machines and means of transport (20% and 16% respectively). The balance of trade with the European Union was 13% higher in both directions. Non-European Union trade increased by 30% on the export side and 12% on the import side. While the balance of trade with Russia deteriorated, this was offset by the trade with other Eastern countries (Turkey, Croatia and Ukraine).

[1] Or by 3.2% without seasonal adjustment.
[2] Or by 3.9% without seasonal adjustment.
[3] At current prices, 24% and 21% respectively.

Macroeconomic indicators	2005	2006
GDP[1]	4.1%	3.4%
Inflation (year-on-year)[1]	3.6%	3.9%
Deficit of public finances (bn HUF)[2]	984	2,033.8
Production of the building industry[1]	16.6%	-1.6%
Gross average wages (HUF)[1]	158,315	171,200

Source: [1] CSO, [2] Ministry of Finance

Based on the analysis of the Ministry of Economy and Transport **the deficit of the balance of payment on current accounts** amounted to **4.06 billion euros** in the first three quarters of 2006 compared to 4.6 billion euros in the same period of the previous year. The aggregate deficit of 3.7 billion euros of the balance of payments and the capital balance, i.e. the net financing needs of the country decreased by almost one billion euros. In the same period foreign investment in Hungary was 1.8 billion euros, more than a year earlier, however, capital export, at 256 million euros, was lagging behind last year's figure. As of 30 September 2006 the gross foreign debts of the national budget and the National Bank amounted to 28.8 billion euros, net debts were 11.7 billion euros (the 2005 year-end figures were 26.9 billion and 10.4 billion euros respectively). Gross debts in the private sector increased from 41.5 billion euros at the end of 2005 to 48.7 billion, the net figure from 19.2 billion to 24.4 billion euros.

As of 31 December 2006 the National Bank of Hungary's foreign exchange reserves amounted to **16.4 billion euros**, 700 million euros higher than the previous year-end figure.

In terms of **foreign direct investment,** the first half of 2006 brought an excellent achievement: the FDI amounting to 2,497 million euros was the highest-ever first half figure. A large portion of it was contributed by the sales of MOL's gas business. In the first half of 2006 foreign direct investment into Central and Eastern Europe was 10% down from the figure in the same period of the previous year. Poland received 33% more (4,738 million euros); Slovakia +101% (1,724 million euros), but the Czech Republic received 61% less FDI (2,194 million euros). Hungary scored highest in terms of per capita FDI (470 euros), followed by Slovakia (320 euros).

The **deficit of public finances was 8.8% of the GDP in 2006,** substantially higher than the 3-3.5% figure required under the European convergence criteria.

In 2006 **the cash flow deficit of the budget was 2,033.8 billion forints**, or 8.7% of the GDP. The cash flow deficit stayed below the forecast set forth in the amended Budget Act (2,055.5 billion forints).

In June 2006 Standard & Poor's downgraded Hungary's **long-term foreign currency debts ratings** to BBB+, followed by Moody's A2 ratings in December.

CSO figures showed a decline in the **housing market**: license of usage was issued for 34 thousand new homes built (as opposed to 41 thousand in 2005), and 45 thousand building permits were issued for new homes (51.5 thousand in 2005). The number of new homes licensed for usage was 17% less, that of new building permits 13% less than in 2005.

The amount of loans extended to households in Hungary increased by approximately 941.7 billion forints in 2006, reaching 4729.9 billion forints according to NBH reports. Of the growth 903.2 billion forints were contributed by the growth of foreign exchange loans. The contribution of foreign exchange denominated loans to the total loans portfolio reached 42.4%.

Net financial assets of households increased by 1,105 billion forints last year, amounting to 14,432.1 billion forints.

According to the CSO, in December 2006 **consumer prices** increased by 6.5 compared to the same period of the previous year. The 2006 inflation followed a U-shaped curve, with an annual average price increase of **3.9%**, not much higher than the 2005 figure of 3.6%.

In 2006, gross average wages (171,200 forints/month) were 8.1% higher, net average wages (110,900 forints/month) were 7.5% higher than 8.8% and 10.1% respectively in the previous year. While the 2005 real wages increased by 6.3%, in 2006 they grew by 3.5%, taking into consideration the 3.9% increase in consumer prices.

In the period October-December 2006 the size of the working population was 3.953 million, the number of the unemployed was 320 thousand. Unemployment rate was 7.5% according to the Central Statistics Office. The year-on-year increase in the number of unemployed was over 37 thousand. According to Eurostat, the statistics office of the European Union, the rate of unemployment across the EU was 7.5% in 2006, 0.9 percentage points down from the previous year's figure.

At the end of 2006 the base rate was 8.0%. The 2005 year-end base rate of 6% was increased five times in the period between June and October with a total of 200 base points to reach the 2006 year-end level.

2.2 The banking sector in 2006

According to the figures of the Hungarian Financial Supervisory Authority (HFSA), in 2006 the banking sector achieved 13.9% higher earnings before tax than the previous year's figure. After-tax profit was 15.4% up, which indicates that banks managed to maintain their 2005 growth dynamics in 2006. Compared to the 2005 trend of strong increases in income from fees and commission, the increase in the 2006 earnings was again driven by net income from interest. In addition to a 13.5% increase in the net balance of interest income from commissions grew by 12.4%. This dynamics is contrary to the developed European model; however, the trend seems to suggest a continued prominence of income from fees and commissions.

In 2006 the growth rate of the portfolio of deposits was only 13.1% lagging significantly behind the dynamics of the previous year despite the end-of-summer campaigns to boost deposits before the introduction of the tax on earnings from interest. Similarly to the previous year, the 18.5% increase in loans exceeded the growth in deposits also in 2006. In terms of profitability, the performance of Hungarian banks outperformed their Western European counterparts: the 2006 earnings before taxation of the banking sector was 434.1 billion, or 13.9% higher than in the same period of the base year. This increase emerged as a result of 20.8% achieved by large banks[4], 20.0% by small banks as well as +5% achieved by medium-sized banks and –33.3% by special credit institutions. The growth in the balance sheet total of financial institutions remained 18.7%.

Despite a decreasing trend in interest rates the banking sector managed to retain its profitability, excellent by international standards: although return on average assets (ROAA)[5] at 1.5% was somewhat below the previous year's figure, return on average equity (ROAE)[6], also somewhat below the previous year's figure, remained high at 19.3%.

Despite the increase in the base rate over the year, the interest margin dropped somewhat due to fierce competition. The difference if income from, and expenditure on interest to assets was 30 base points lower.

2.3 Home lending in 2006

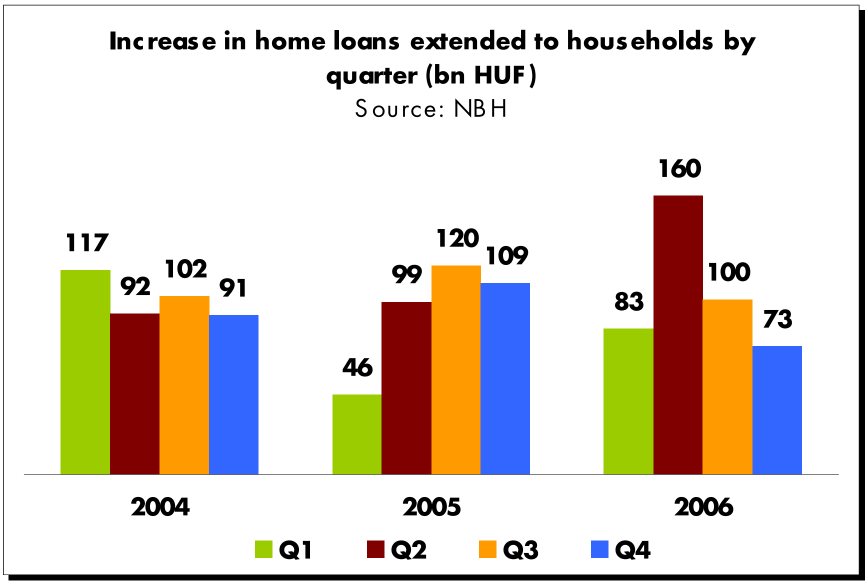
The slackening in the growth rate of residential mortgage loans as a whole that started in 2005 continued also in 2006. By the end of the year mortgage loans increased by 28.5% as opposed to 38.4% in 2005, and amounted to an aggregate 3,612.0 billion forints according to NBH data. The growth rate of housing loans also slowed down. Up to 31 December 2006 retail home lending increased by 416.3 billion forints to reach 2,699.6 billion forints compared to the previous year's figure. This is an 18.2% growth, the same as the preceding year's rate, however, newly issued loans were tens of billions of forints higher as the 2005 year-end outstanding loans of 2,283 billion forints were significantly reduced by repayments and prepayments made throughout the year.

Home equity loans increased dynamically. After a quarterly increase exceeding 20% throughout 2005 the growth pattern was different but the rate was almost the same in 2006.

The seasonal effect conspicuous in the monthly breakdown of increase in retail housing loans (showing a massive one-off increase in the first half and slower growth in the second half) resulted in a much slower growth in the first quarter, however, the figures picked up in the second and third quarters to surpass the figures in the same periods of 2004 and 2005, and the trend continued in the fourth quarter of 2006.

The early 2005 halt in the growth of forint-based housing loans was not reversed by the first home owners' scheme titled Fészekrakó (Nest Building) nor by the positive effect of falling FX and HUF loan interest rates on the demand side. In 2006 forint interest rates grew more quickly, which also favoured FX-denominated lending.

[4] HSFA's classification based on the balance sheet total and special banking activities.
[5] From after-tax profit.
[6] From after-tax profit.



The monthly growth rate of **forint denominated home loans** also reflects this restructuring: the **average growth rate of 3.8 billion forints,** already slowed in 2005, **was followed by a 1.9 billion forints fall in 2006**.

Similarly to the first quarter of 2005, after a substantial slowing in growth in January and February 2006, the March figures of forint-based housing loans soared up, and then reverted to the January level. For the rest of 2006 the change in lending data was greatly influenced by the EUR-to-HUF exchange rate, and even more by the CHF-to-HUF exchange rate. Thus, forint data have to be screened in order to reflect the real dynamism of lending. In the second half of 2006 the exchange rate adjusted figures show an average growth of 43-50 billion forints/month in net loans, indicating an average of 50-58 billion forints/month new disbursements.

The driving engine of the growth of housing loans was foreign exchange-denominated housing loans: their amount and growth rate have surpassed those of forint-based housing loans since August 2004. The amount of forint loans gradually shrank in the first five months of 2006 and stayed around the reduced amount with some volatility until the end of August, followed by stagnation and a minor decline. The reason for this is that banks have no interest in extending the currently existing subsidized schemes and typically try to replace old HUF-based loans by FX-denominated loans. Following the 2005 trend, FX housing loans that amounted to 472.5 billion forints at the end of 2005 increased to 911.2 billion by the end of 2006, which is a 438.7 billion forints (or 92.8%) increase.

The movements of home equity loans throughout the year was similar to that of foreign exchange-based housing loans up to the end of the first half. This product was also marked by a decline in the early part of the year, which was followed by a growth that substantially surpassed the growth rate of HUF loans.

In the second half of 2006 due to a significant decline in home building and home transactions general-purpose loans became the driving force behind growth in the retail mortgage market. The advent of foreign exchange loans that started in previous years was caused by the long-term low levels of CHF interest rates and the fact that the forint remained strong despite falling interest rates, which unequivocally shifted demand to seek FX loans.

The growth trend in the portfolio of home equity loans extended to households that started in 2005 continued in 2006. The aggregate amount of retail general-purpose mortgage loans was almost 746.4 billion forints by the end of 2006, about double the 2005 figure.

The quality of the retail loans portfolio remained virtually unchanged. Doubtful and bad debts were below 1.92%, substandard and problem loans were up from 3.06% to 3.39%.

In the market of entrepreneurial home building, developers continued to be pessimistic, forecasting deteriorating prospects and slowing sales. Competition among banks is still very keen in financing large housing projects, which led to a slackening of lending terms despite a somewhat increasing lending risk in this segment. This was conspicuous mainly in conjunction with major developers, primarily in terms of less own funds required. Because of slowing sales an increasingly important consideration in selecting a financing institution is seamless buyer financing with the lowest possible level of own funds required. In addition to the universal large banks four or five medium-sized banks have also become active players in the market.

The market of commercial real estate financing has matured; practically all of the development and realty companies have had long-standing relations with two or three lending banks. There are three types of transactions in this area: conversion of loans, financing of real estate purchase, and financing of real estate development. This segment saw the most dynamic growth in the last period, which was predominantly contributed by the conversion of existing loans. At the same time real estate developers increasingly frequently seek banks directly for the financing of new development projects of real estate purchase transactions.

3 Ownership structure of FHB Plc.

Shareholders	Number of shares (pcs)		Ownership share in the share capital	
	31.12.2005	31.12.2006	31.12.2005	31.12.2006
Series "A" ordinary shares listed on the BSE				
ÁPV Rt.	33,000,010	33,000,010	50.00%	50.00%
Domestic institutional investors / companies	5,819,162	7,249,509	8.82%	10.98%
Foreign institutional investors / companies	16,790,459	16,185,389	25.44%	24.53%
Private individuals	2,276,387	1,499,223	3.45%	2.27%
FHB employees	111,932	57,205	0.17%	0.09%
FHB Plc.	2,060	8,674	0.00%	0.01%
Series "A" total	**58,000,010**	**58,000,010**	**87.88%**	**87.88%**
Series "B" voting preference shares				
ÁPV Rt.	2,114,300	2,714,300	3.20%	4.11%
Institutional investors	5,885,700	5,285,700	8.92%	8.01%
Series "B" total	**8,000,000**	**8,000,000**	**12.12%**	**12.12%**
Shares total	**66,000,010**	**66,000,010**	**100.00%**	**100.00%**

Compared to the end of 2005 there has been a minimal change in the ownership structure of the Company, in case of "A" type shares. The share of domestic institutional investors increased (from 8.82% to 10.98%). The ownership shares of private individuals and employees have likewise changed: their joint share increased from 3.62% at the end of 2005, the share was only 2.36% by 31 December 2006. The change in ownership share of foreign institutional investors is not significant.

However, the ownership structure has significantly changed in case of "B" type shares in 2006. The proportion of ÁPV Rt. increased from 3.20% to 4.11%, similar to the ownership share of Allianz Hungária Biztosító Rt. (from 1.73% to 8.01%). The reason of the change is that CIB Bank Zrt., ÁB-Aegon Általános Biztosító Zrt., and Inter-Európa Bank Nyrt. sold their "B" type shares to the other owners.

4 The Bank Group's new medium-term business strategy

Institutional framework for the medium-term strategy

In order to create the institutional framework necessary for the implementation of its medium-term business strategy the Board of Directors of FHB Mortgage Bank Plc. passed the following decisions at its meeting in February 2006, and the following tasks have been fulfilled by the end of 2006:

1. Foundation of **FHB Commercial Bank Ltd.** with six billion forints share capital of which two billion forints are subscribed capital and four billion forints are capital reserve. Ninety percent of the subscribed capital was contributed by FHB Mortgage Bank Plc., and 10% by FHB Services Ltd. The Court of Registration registered FHB Commercial Bank Ltd. on 14 June 2006. By virtue of its decision number E-I-1005/2006 dated 23 November 2006 the HFSA issued a license of operation for the Commercial Bank, and the main branch in Budapest started operation on 5 December 2006. With its decision number E-I-1128/2006 issued on 21 December 2006 the HSFA PSZÁF gave permission to FHB Mortgage Bank Plc. to undertake some of its activities by involving the services of FHB Commercial Bank Ltd.

2. Increase of the registered capital of **FHB Services Ltd.** by 1.4 billion forints and allocation of 502.3 million forints capital reserve: the Court of Registration registered the capital increase, the change in the scope of business and other changes with effect from 11 April 2006. The capital increase was paid to the account of FHB Services by FHB Mortgage Bank Plc. in several instalments by the end of 2006. The company is still 100% owned by FHB Mortgage Bank Plc.

3. Foundation of **FHB Real Estate Ltd.** with 100 million forints share capital, 95% of which was subscribed by FHB Mortgage Bank Plc. and 5% by FHB Services Ltd. Upon foundation the owners contributed 30% of the share capital. FHB Real Estate Ltd. was registered by the Court of Registration on 8 May 2006. Actual operation started on 1 December 2006.

4. Foundation of **FHB Annuity Real Estate Investment Ltd.** Ninety-five percent of the company is owned by FHB Mortgage Bank Plc., and 5% by FHB Services Ltd. The company's subscribed capital is 100 million forints, 30% of which was contributed upon foundation. By the end of 2006 the entire amount of subscribed capital as well as 50 million forints capital reserve were fully paid. Actual operation of FHB Annuity Ltd. started on 6 November 2006.

Strategic implementation project

In 2006 the Bank started to implement the goal of a new business model and the transformation into a bank group as set forth in the strategic plan approved by the Board of Directors in the context of a Strategic Programme and strategic projects. Tasks to be carried out were defined in the Bank Programme, and in the Project Foundation Documents, and were delegated to eight independent, but cooperative thematic projects (Bank Group Operation Model, Corporate

Management System, Product and Process Development, Sales Channels, Data Property Management, Real Estate Management, HR, and IT Infrastructure Projects).

In March 2006 the Programme Management Committee approved the finalized the Programme and the Project Foundation Documents, followed by the approval, on 28 September, of the updates for 2006.

In order to check the progress of implementation, a comprehensive project controlling report is regularly prepared for the Board of Directors.

By the decision of the Board of Directors, the task of quality assurance is managed by Ernst & Young Advisory Ltd.

5 Report on the 2006 business activity

5.1 FHB Mortgage Bank Plc.'s business activity in 2006

5.1.1 Major financial indicators (by IFRS)

The major financial indicators for 2006 were in line with projections despite the unfavourable market conditions and increasingly keen competition in retail lending. The **consolidated balance sheet total** calculated by the International Financial Reporting Standards (IFRS) was 11.6% 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 50.2 billion forints annual growth. At the end of 2006 **the consolidated balance sheet total exceeded 537 billion forints**. **Shareholders' equity** increased by 5.7 billion forints, or 24.2%, over a year.

The consolidation applies to FHB Mortgage Bank Plc., FHB Services Ltd., FHB Commercial Bank Ltd., FHB Annuity Ltd., and FHB Real Estate Ltd.

The Bank closed a successful year in 2006, again. The Bank managed to achieve close to the 2005 outstanding level of earnings despite increasing competition in the marketplace, narrowing net average interest margin, rising operating costs due to the implementation of the Bank Group's strategic programme coupled with the additional burden of the surtax to be paid by banks, while the extra income of the strategic programme will be realized in the future.

Major financial indicators	FHB's figures		
	31 Dec 2005	31 Dec 2006	2006 / 2005
Balance sheet total (million HUF)	481,334	537,302	11.6%
Mortgage loans (million HUF)	430,635	480,872	11.7%
Mortgage bonds (million HUF)	421,113	455,658	8.0%
Shareholder's equity (million HUF)	23,741	29,487	24.2%
Earnings before tax (million HUF)	10,701	9,843	-8.0%
After tax profit (million HUF)	8,466	7,64	-9.8%
CIR (operating costs / gross operating profit)	38.6%	45.2%	17.1%
EPS (HUF)	128	116	-9.8%
Tier 1 [1] (million HUF)	24,743	26.705	7.9%
Tier 1 ratio	15.6%	13.8%	-11.5%
ROAA (return on average assets)	1.9%	1.5%	-21.1%
ROAE (return on average equity) [1]	37.0%	26.5%	-28.4%

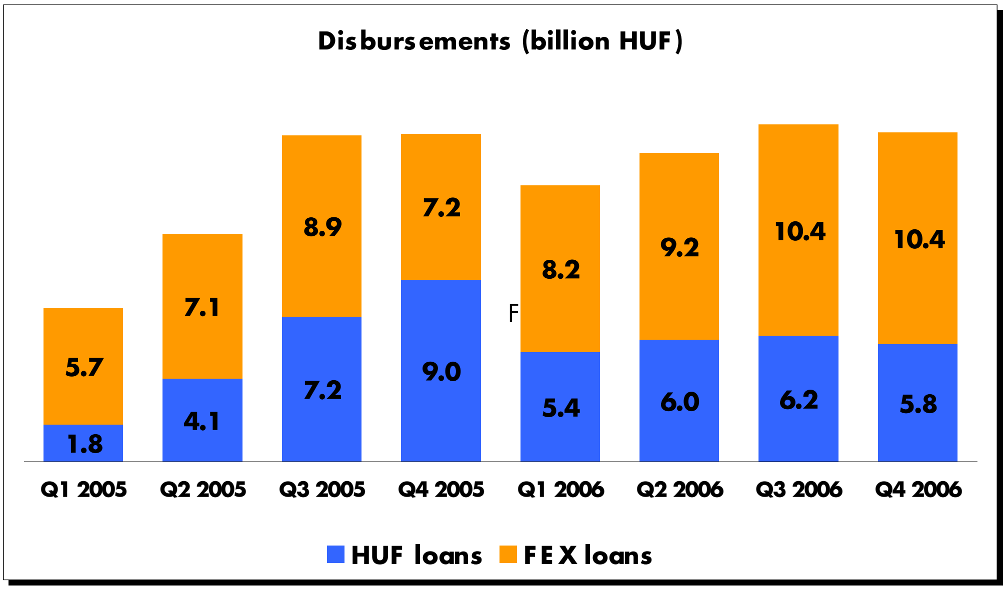
[1] Without cash flow hedge reserve, including yearly profit

5.1.2 Products

In 2006 the business of the Mortgage Bank continued to focus on two main areas: own lending and refinancing. The Products chapter includes own lending, and refinancing appears in the chapter on Sales channels.

Over the past year the Bank's direct disbursement to clients amounted to a total of 61.6 billion forints, 20.8% more than in 2005. **The breakdown of loans extended by the Bank has changed:** the leading product is **home equity loans**, contributing 40% to the loans portfolio. This is the first time that home purchase loans dropped to the second rank with 25% contribution, since the home lending started. The contribution to disbursements of home building loans was 14% and that of new home purchase loans, 6%.

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 62.0% by 31 December 2006 and exceeded the total amount of the 2005 FX disbursements by 16.1 billion forints. Monthly average disbursement was 3.2 billion forints (increasing on a quarterly basis from 2.7-3.1-3.5-3.5 billion forints/month).



There was a steady decline in the disbursement of **home purchase loans** in the course of 2006. Apart from the peak in the second quarter, average quarterly disbursement was around 4.8 billion forints. The fourth quarter showed a slight drop due to seasonal effects and a general lag in real estate sales.

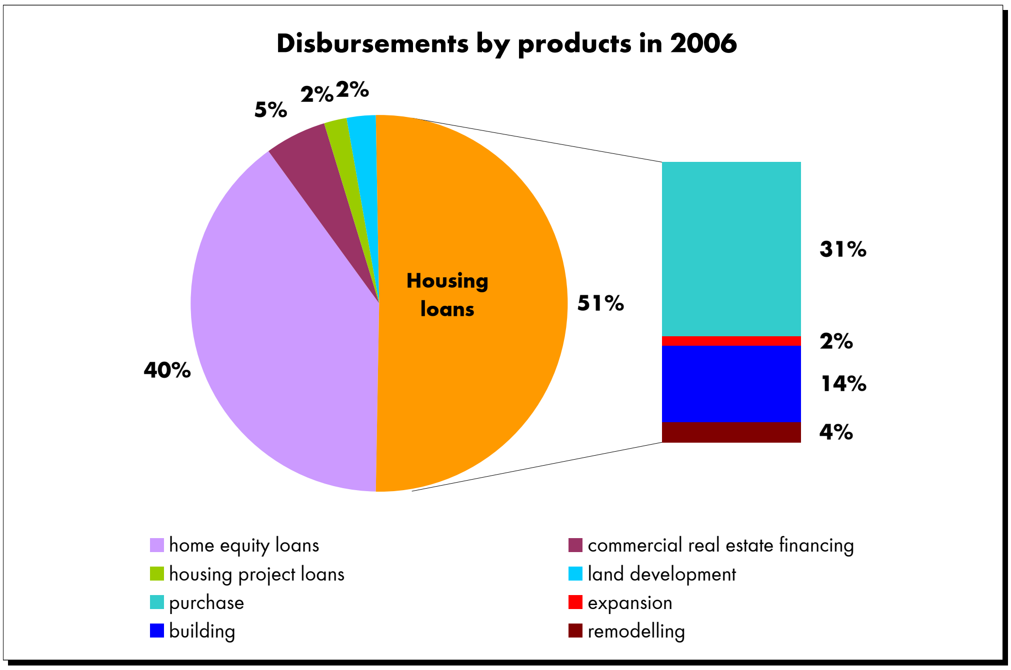
Because of its seasonal nature, **building loan** disbursements peaked in the summer and early autumn months. The seasonality of **loans for other home-related purposes** was even stronger as works to be covered from such loans – such as extension, improvement and remodelling – can be implemented within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

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

In 2006 **project financing loans** contributed 2.1% to own disbursements, the total amount disbursed reaching 1.3 billion forints. Almost half of the disbursements, 672.1 million forints, were denominated in foreign currency.

The **commercial real estate financing product** was launched in June 2006 and by the end of the year disbursements in this category exceeded 3.1 billion forints. In the case of this product, too, disbursements are predominantly FX-based, contributing 93.7% to total disbursements.

Launched in December 2005, **land development loans** started disbursements in February 2006. Disbursements under this scheme amounted to 1.4 billion forints, or more than 2%, to own lending.



At the end of 2006 the Mortgage Bank launched its **mortgage annuity (reverse mortgage) product** offered to senior citizen clients through FHB Annuity Ltd. as an agent of the Mortgage Bank.

5.1.3 Distribution channels

In 2006 the contribution of refinanced loans to total disbursements continued to decline, from 46.8% in 2005 to 43.7% in 2006. This was due mainly to the ascent of low-interest foreign exchange based loans, in line with the drop of subsidized loans.

In line with the new medium-term strategy the Bank's own lending **expanded substantially compared to the previous year**. The gross amount of loans sold by the Bank increased by 41.3 billion forints, or 24.2%, by 31 December 2006, reaching 212.6 billion forints. The growth dynamics of own lending was slower than projected, however, it was enough to increase the contribution to overall lending.

In 2006 the Bank was again faced with a strong push for repayment by clients. Prepayments amounted to 26.7 billion forints by the end of the year including 19.4 billion forints prepaid refinanced loans.

Direct FHB distribution network

In 2006 the Bank expanded its network in accordance with its strategy, which meant that the converting of the existing country offices to branches suitable to undertake commercial banking functions has been started, and new branches were also opened. After the conversion the branches have been gradually integrated in the sales of mortgage and commercial banking products and services. After the network development the Bank served its clients through 11 branches in addition to the Budapest head office (in Kecskemét, Székesfehérvár, Győr, Kaposvár, Miskolc, Debrecen, Szeged, Nyíregyháza, Zalaegerszeg, Pécs and Szolnok) in 2006.

There was a 20.5% drop in year-on-year lending through the Bank's network. By 2006 the **Bank's network** lost its earlier key role in the distribution of own loans, and **contributed 33.5%**. This is a substantial decline from the previous year's figure (41.3%), and is due to the increasing activity of agents.

The **average loan size** slightly decreased from 3.9 million forints in 2005: as of 31 December 2006 the aggregate average value of the Bank's own loans and refinanced portfolio was 3.8 million forints.

Agency activities

In order to maintain and improve the level of agents' performance and as a result of the partner banks' transforming services the Bank continued to develop and transform its network of agents in 2006, to respond to keener competition. This resulted that the share of disbursements shifted through the network of agents has rised from 55,7% to 63,7% in a year.

The total disbursement of transactions generated through agents in 2006 was 39.2 billion forints, more than 63% above the previous year's figure. Main part of the disbursements (25.4 billion forints) was set out in foreign currency. By the disbursement data, the most popular products were home equity loans (with 17.7 billion forints yearly disbursement), and home purchasing loans (13.1 billion forints distribution in a year).

As of 31 December 2005 the number of contracted partners was 594, and the number of agents selling the Bank's loan products was several thousand. In 2006 the Bank signed contracts with further 229 partners (122 individual entrepreneurs and 107 companies) and registered about

1,170 new agents (including several who are new agents of the Bank's old contracted partners). Selection of agents continued in 2006.

Consortial loans

As of 31 December 2006 the total value of 2,368 consortial loan contracts was 9.2 billion forints, 5.0 billion forints (54.5%) of which was contributed by savings coops and financial enterprises as partners.

The total amount of consortial loans outstanding not yet due was 7.3 billion forints as of 31 December 2006, 4.2 billion forints (57.6%) of which was contributed by savings coops and financial enterprises as partners.

Analysis of the aggregate data for 2006 reveals that the total amount of consortial disbursed or purchased HUF and FX loans was over 1.2 billion forints.

These figures notwithstanding, the contribution of **consortial loans** to own lending dropped from 2.0% in 2005 to **1.9%** in 2006.

Out of the disbursements resulting from syndicate agreements concluded in 2006, 17.6% (235 million forints) were contributed by joint transactions from a financial enterprise as a syndicate partner.

As of 31 December 2006 the Bank had valid framework agreements with 117 financial institutions based on joint risk sharing; four of them are commercial banks, 112 are savings coops and one is a financial enterprise. Among the syndicate partners, 25 savings coops and one financial enterprise can be considered as active in 2006.

Project lending

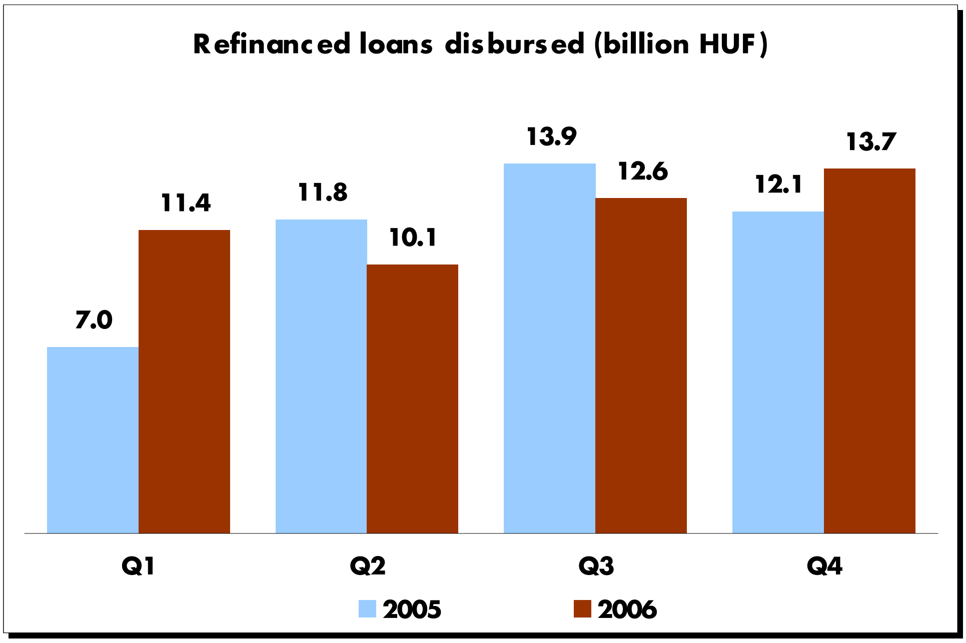
Loans extended to finance projects were re-launched in the second quarter of 2005, and were initially limited to housing development projects. From the first quarter of 2006 this business was expanded to the financing of commercial development projects aimed at building facilities for lease (offices, shops, warehouses, hotels, etc.).

The portfolio on contract or approved by the end of 2006 amounted to almost 8.6 billion forints, of which the contribution of disbursements since the re-launch exceeded 4.9 billion forints. Average loan size in the portfolio was approximately 325 million forints. The actual portfolio as of 31 December 2006 amounted to 4.8 billion forints. Financing of housing development projects contributed 37.4% to disbursements, and 62.6% was contributed by commercial development projects.

Refinancing

The Bank had effective cooperation agreements with eight partners in the business of refinancing through purchasing independent mortgage liens in 2006.

In 2006 refinancing amounted to 47.8 billion forints (including 11.4 billion forints in the first quarter, 10.1 billion forints in the second quarter, 12.6 billion forints in the third quarter, and 13.7 billion forints in the fourth quarter). This amount is 6.6%, or 2.9 billion forints higher than the amount of refinancing in 2005.



The contribution of FX-based refinancing has grown year by year within refinancing disbursements: in the year of reporting its contribution was 79.3%. As of 31 December 2006 refinanced FX loans amounted to 55.8 billion forints, contributing 20.8% to the total refinanced loans portfolio.

5.1.4 Portfolio analysis, impairments and provisions

As of 31 December 2006 the Bank's classified assets amounted to 508.8 billion forints, pending commitments amounted to 10.2 billion forints and future commitments (from swap transactions), to 155.0 billion forints.

Figures in million HUF

Breakdown of portfolio by classification, loss in value and provisions						
CLASSIFICATION	31 December 2006			31 December 2005		
	Total accounts receivable	Loss in value and provisions	Ratio	Total accounts receivable	Loss in value and provisions	Ratio
Problem-free	664,430	-	0.0%	533,247	-	0.0%
Watch	5,846	3	0.1%	3,788	2	0.1%
Substandard	1,462	155	10.6%	535	58	10.8%
Doubtful	2,268	669	29.5%	1,617	491	30.4%
Bad	0	0	100.0%	1	1	100.0%
TOTAL	***674,006***	***827***	***0.1%***	***539,188***	***552***	***0.1%***

Receivables from customers amounted to 212.5 billion forints (31.5% of the portfolio) in addition to 10.2 billion forints disbursement commitment based on valid loan agreements (1.5%). Of these receivables 8.9 billion forints attached to 2,616 contracts and 0.7 billion forints commitments were classified in the categories watch to bad, with 0.8 billion forints total loss in value and provisions.

The refinancing loans portfolio amounted to 268.9 billion forints (39.9%) classified as problem-free. The Bank had term or at-sight deposits with thirteen commercial banks amounting to 19.4 billion forints (2.9%). The Bank holds stakes in four companies: FHB Commercial Bank Ltd., FHB Services Ltd., FHB Real Estate Ltd, and FHB Annuity Ltd. The total nominal amount of investment is 8.0 billion forints (1.2%), all problem-free.

Future commitments from swap transactions related to hedging amounting to 155.0 billion at the balance date contributed 23.0% to the total portfolio.

The quality of the portfolio continues to be good. Compared to 2005 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 2006 98.6% of the classified portfolio was problem-free (compared to 98.8% as of 31 December 2005). The aggregate rate of substandard, doubtful and bad debts was 0.5% (also 0.4% as of 31 December 2005), the rate of transactions on the watch list was 0.9% (as opposed to 0.7% on 31 December 2005).

The proportion of problem-free loans in the loan portfolio was 95.7% (as opposed to 96.7% as of 31 December 2005), the combined rate of substandard, doubtful and bad debts was 1.7% (as opposed to1.2% on 31 December 2005), and the rate of loans on the watch list was 2.6% (as opposed to 2.1% 31 December 2005).

As of 31 December 2006, there were 86 foreclosure procedures initiated by the Bank, 10 of which were foreclosure auctions. In the year of reporting 123 foreclosure procedures were concluded, three of which were a completed foreclosure auction, 43 were concluded within foreclosure procedures but not through auctions, and 77 were sold by the Bank through tenders.

There has been virtually no change in the average loss in value (0.1% in the entire portfolio and 0.4% in the loan portfolio).

5.1.5 Collateral valuation

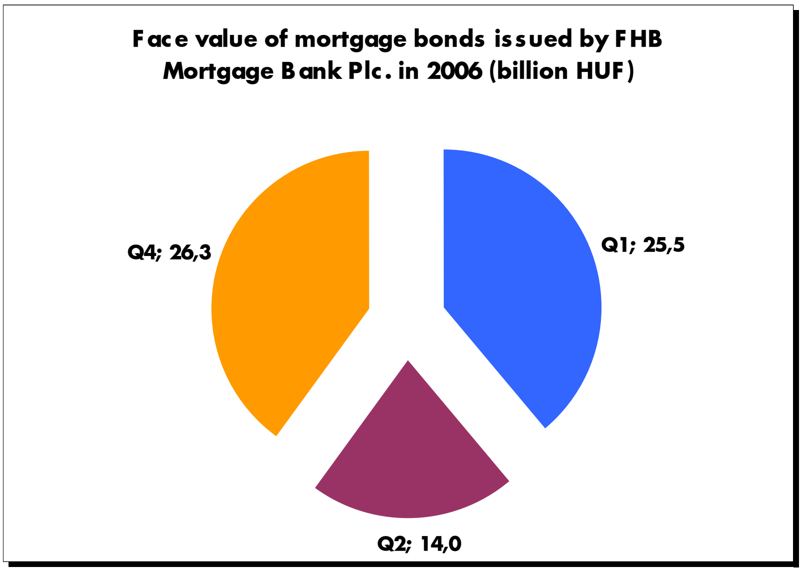
In 2006 the **number of valuations increased** along with the expansion of own lending: in 2005 the Bank valued 33 thousand collaterals while this number was 36 thousand in 2005. The number of valuations in conjunction with the Bank's own lending was 20.8 thousand and the number of valuations by partner banks was 15.3 thousand.

The Bank generated 601.1 million forints income from valuation fees. There were campaigns of free valuation in several months in 2006 in order to gain clients. The Bank has paid 981.3 million forints valuation fee to subcontractors. Costs increased by 34.0% due to an increase in the number of valuations, toughening competition, and the consequent rise in valuation fees.

5.1.6 Mortgage bond issue, mortgage bond cover

Mortgage bond issue

In 2006 the Bank involved long-term funds amounting to 79.5 billion forints, partly in the form of new bond issues, and partly by drawing a Schuldschein loan of 50 million euros (at issue price). Issues generated a total of 65.8 billion forints: 25.5 billion forints in the first quarter, 14.0 billion forints in the second quarter, and 26.3 billion forints in the fourth quarter. In accordance with its earlier strategy, the Bank issued no bonds in the third quarter of 2006 in the Hungarian or international capital markets.



In the course of 2006 the Bank launched three international and three minor Hungarian issues (the latter with a total nominal value of 500-500 million forints each). In February the Bank launched series FJ12NV02 with a total nominal value of 100 million euros under the international EMTN scheme, sold through BNP Paribas in the context of public offering. This was followed by public series FJ11NV01 in June, with a total nominal value of 50 million euros transacted through BACA, and public series FJ09NV01 in November with a total nominal value of 100 million euros, transacted through RZB. All of the three series are traded on the Luxembourg Stock Exchange.

In the first quarter of 2006 FHB issued a new public series in the international and the Hungarian market in the context of the EMTN scheme renewed according to the provisions of the new EU Prospectus Directive, with a total nominal value of 100 million euros, or 25.0 billion forints at issue price. A private series with a total nominal value of 500 million forints was launched in the Hungarian market. The Bank repaid two series in their entirety in the first quarter, in the amount of 2.6 billion forints. No redemption took place in the first quarter.

The second quarter also brought new international and Hungarian mortgage bond issues. In June a public series was issued in the context of the EMTN scheme with a total nominal value of 50 million euros, or 13.5 billion forints at issue price. In the Hungarian market, a private placement of a series of 500 million forints total nominal value took place. The amount of repayment on mortgage bonds was 5.0 billion forints in the second quarter, and no redemption took place.

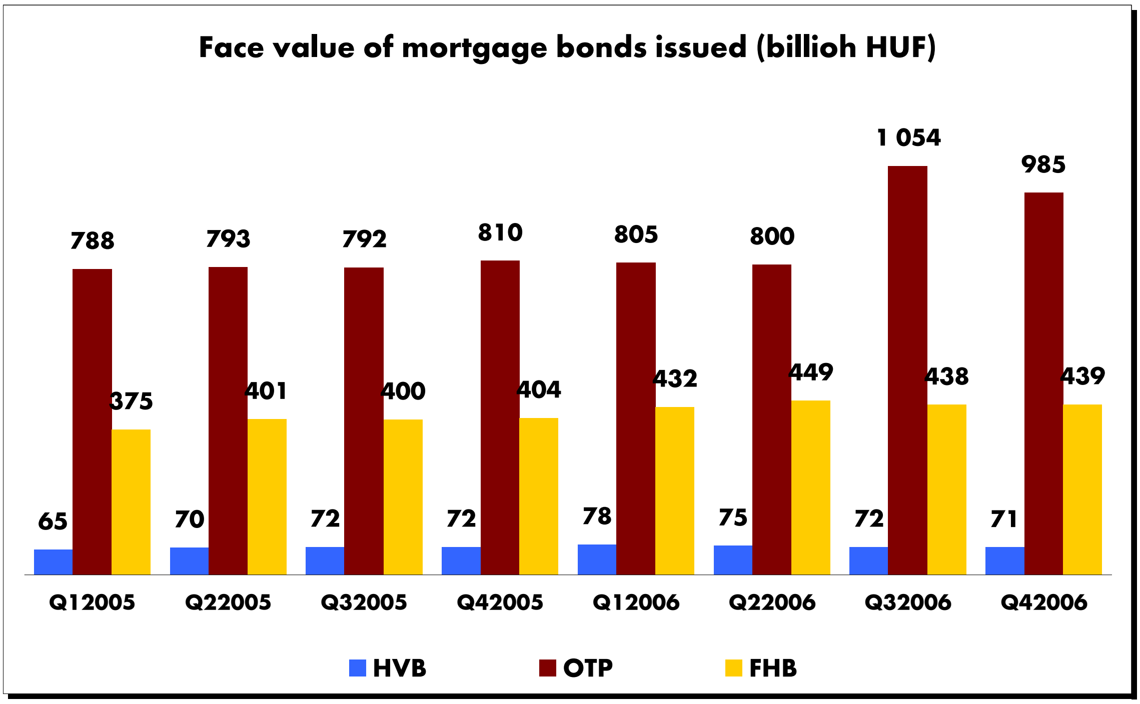
In the third quarter of 2006 the Bank offered no new series in the domestic or foreign markets. In accordance with its earlier issues strategy, the Bank tried to avoid the seasonal yield increase in the summer months. For the same reason, funds demand, already appearing in August, was covered from a low-cost, quick and easy to transact and to record, loan-type Schuldscheindarlen (promissory notes) issue. In the context of a bilateral agreement with Bayerische Landesbank, the Bank drew a Schuldschein loan of 50 million euros, or 13.6 billion forints, with a maturity of two years and two days and an interest term of six months. The value of mortgage bonds redeemed amounted to 5.4 billion forints, and repayments amounted to 2.0 billion forints in the quarter.

In the fourth quarter FHB Mortgage Bank Plc. issued one series each for the domestic and the international market. In October a lesser private placement of 500 million forints took place. In November the Bank issued a series of a total nominal value of 100 million euros in the context of the EMTN scheme. To further optimize the balance of maturity of assets and liabilities, in October and November the Bank redeemed mortgage bonds amounting to a total of four billion forints nominal value. In the fourth quarter the Bank spent 10.6 billion forints on repaying mature mortgage bonds.

As of 31 December 2006 the total nominal value of the outstanding, not yet repaid, series issued in the context of the Bank's international EMTN scheme registered in Luxembourg was 940 million euros at issue price, the outstanding amount was 60 million euros from the original one billion.

The mortgage bond market

The aggregate amount of outstanding mortgage bonds issued by the three Hungarian mortgage banks was 1,494.6 billion forints as of 31 December 2006. FHB Bank's share of the mortgage bond market was 29.4%.



On 31 May 2006 Moodys' Investors Service, the international ratings agency upgraded the ratings of FHB Mortgage Bank Plc.'s mortgage bonds issued in forints and in foreign currency from A1 to Aa2. The upgrading was due to Moody's review of the methodology of the rating system used for cover assets of mortgage banks, and as a result the rating is no longer limited by the sovereign FX risk rating of Hungary. Among the Hungarian issuers FHB Mortgage Bank Plc. is the first to achieve higher ratings for its mortgage bonds than Hungary's A1 rating. In August 2006 Moody's put FHB Mortgage Bank Plc. on the watch list with a view to the possible upgrading of the Bank's long-term deposit (bank) rating (A2). However, on 22 September 2006 Moody's decided the upgrading of FHB's bank rating was "uncertain" because in the meantime it put Hungary's A1 government bonds denominated in forint and currency on the watch list as well as the A1 foreign currency bank deposit rating for possible downgrading. From the standpoint of FHB the rating only depends on the sovereign rating of Hungary.

Mortgage bond cover

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

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

In the course of 2006 the number of **mortgage loans classified** by the property inspector **as ordinary collateral was 3,730**, 838 mortgage loans were cancelled from among ordinary collaterals and 52 loans were reclassified from ordinary to neutral. By the end of the period of reporting **the ordinary collateral portfolio included 58,835 items** with 140,519 real estate properties involved as cover. The number of neutral collateral items is 810, which is 1.36% of the entire mortgage loan portfolio.

In the refinancing segment a total of 172 independent lien contracts were repurchased in the course of 2006 involving 10,552 real estate properties securing 9,893 loan contracts. As a result of modifications following repurchase (release or replacement of collateral, change in the obligor, etc.) a total of **619** changes occurred that concerned the **independent lien purchased.**

As of 31 December 2006 the net value of ordinary collateral was **796.1 billion forints**, 5,1% higher than the amount of ordinary collateral as of 31 December 2005.

Net value of assets involved as collateral as of 31 December 2006 (million forints):

Outstanding mortgage bonds in circulation	
Face value:	439,159
Interest:	159,229
Total:	**598,388**
Ordinary collateral value	
Principal:	472,779
Interest:	323,332
Total:	**796,111**

As of 31 December 2006 the Bank had no supplementary (excess) collateral.

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

5.1.7 Liquidity management

The Bank's liquidity was stable throughout 2006. It had a 31.3 billion-forint net lending position based on its opening portfolio with 1.3 billion forints margin deposits. As regards foreign exchange liquidity, the Bank was in a borrowing position; the short-term interbank position was –0.9 billion borrowing with an additional net foreign exchange margin deposit equivalent to 1.3 billion forints (calculated with NBH fixings as of 30 December 2005). Based on the above, the Bank opened with a lending position of 30.4 billion forints adjusted by foreign exchange, and with margin deposits added, the lending position was 33.1 billion forints.

In terms of the forint, the net position was 19.4 billion forints as of 31 December 2006, with an additional 560 million forints margin deposits. The short-term interbank FX position expressed in HUF was 5.0 billion forints lending, with an additional 212 million forints net lending margin deposits (calculated with NBH fixings as of 29 December 2006). Accordingly, the 2006 year-end position adjusted with FX was 24.4 billion forints lending, and taking margin deposits into consideration, it was 25.2 billion forints lending.

The past period was characterised by lending liquidity in terms of both the forint and the combined net position. In terms of FX liquidity, in keeping with the periodicity of FX issues, the early first quarter and the mid-second, third and fourth quarters were characterised by borrowing liquidity.

In these periods the Bank ensured FX liquidity mainly by swap transactions, from free HUF liquidity, and from drawdown from its available multi-currency credit lines. The Bank managed to keep its position within the limits on a continuous basis throughout the year.

In 2006 the average interbank loans portfolio (FX and HUF combined) was 29.6 billion forints excluding margin deposits (average margin deposits amounted to 1.4 billion forints). The average portfolio of borrowings was 1.2 billion forints (with additionally borrowed margin deposits amounting to 1.8 billion forints on the average). Temporarily unengaged funds covering monthly financing were kept in the form of short-term, O/N-2M interbank loans.

Demand for FX-denominated funds is influenced by the margin deposit needs of cross-currency swaps in conjunction with mortgage bond issues, which may vary exponentially, depending on the HUF exchange rate and the yield environment. In the period of reporting the HUF value of margin deposits varied between –4.5 and 3.9 billion forints. The necessary currency funds were financed from cross-currency swaps linked to mortgage bond issues, syndicated loans; and in the periods before issues, from revolving loans and short-term swaps.

In keeping with its risk policy the Bank is aiming at keeping its FX position as closed as possible. With the ascent and continued intensity 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 lines available to the Bank, whose amounts were expanded in the first quarter.

Costs of foundation of the Bank Group had a major influence on the Bank's liquidity. A total of 7.7 billion forints were transferred over the year as contribution to the newly established companies' registered capital.

On 1 January 2006, the Bank's short-term interbank borrowings amounted to 3.5 billion forints withdrawn interbank deposits (including 1.1 million EUR margin deposits equivalent to 0.3 billion forints), and short-term interbank credits drawdown equivalent to 3.6 billion forints (1,000 million HUF, two million EUR, 13 million CHF). As of 31 December 2006 short-term interbank borrowings were equivalent to 8.4 billion forints (2.8 million EUR margin deposits) in addition to revolving loan drawdown equivalent to 3.0 billion forints (12 million CHF), and six-month interbank borrowings in the range of 1.8 billion forints (12 million EUR) supporting prepayment on loans. In 2006 the annual average amount of interbank deposits and loans drawn down in addition to syndicated loans (including margins) expressed in HUF was 3.5 billion forints. The maturity of interbank borrowings varied between one day and six months, with interest rates in accordance with current market rates.

The Bank handles the revolving credit facilities as supplementary funds supporting and improving the Bank's liquidity. The current revolving credit line is approximately eight billion forints, available in HUF, EUR or CHF. As of 31 December 2006 the Bank had drawn down 12 million CHF from the multi-currency lines. The average amount of drawdown from revolving loans was 505 million forints in the course of 2006.

The opening portfolio of interbank lending including margin deposits was 40.1 billion forints as of 1 January 2006 (including currency deposits equivalent to 3.3 billion forints). The year-end closing portfolio was 38.5 billion forints (including currency deposits equivalent to 11.5 billion forints, specifically 15.64 million EUR and 48 million CHF). The average amount of interbank lending including margin deposits was 31.0 billion forints during the period. Interbank lending throughout the period consisted of two-week NBH deposits, and maximum two-month term deposits with other banks.

5.1.8 Risk management principles

Risk management policy

Due to its activity as a mortgage bank and the related special legal regulations, the Bank has a peculiar assets and liabilities structure within the Hungarian bank 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.

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.

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 the creditworthiness of its retail clients, and applies stringent regulations relating to determining the scope of collaterals eligible for coverage, their valuation and coverage ratio. Risks vis-à-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.

Market risk can be most effectively managed mainly by natural hedging; however, the 100% approximation of the maturity of assets and liabilities is not possible. The shortcomings of natural hedging is compensated by active intervention, specifically by repurchase of mortgage bonds, swap transactions, and the extension of mortgage bond maturity.

In the course of 2006 the average monthly utilisation of the limit for yield-based sensitivity to interest rates was not more than 26.7%, with the highest daily rate being only 73.8%.

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. This applies to long-term liquidity risks (loan repayments vs. mortgage bond maturities) as well as to short-term liquidity reserves required for operation.

Risk management

In 2006 the development of the Bank Group required substantial efforts in addition to day-to-day business. Besides the traditional risk management activities, preparation, planning, concept development, regulation and implementation works were also deployed in the context of the Group development in the period of reporting.

In the reported period most of the new loans were denominated in foreign exchange. Compared to the beginning of the year, not only did the loan portfolio increase but its structure also changed significantly. The volatility of currency rates and the frequent changes in HUF and FX interest rates also call for active risk management.

In accordance with its conservative risk policy, the Bank keeps risk exposure at a low level. As a basic principle, on the lending side the Bank is striving for maintaining the optimal balance, where an acceptable level of risk does not hinder business activity. On the assets and liabilities management side, conscious risk management is manifested in the creation of natural hedges, keeping open FX positions at a minimum, and the application of difference hedging techniques.

In 2006 the Bank repurchased and issued mortgage bonds with a view to developing optimal interest and maturity structures. Risk management was always considered in 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.

The Basel II project reached a new stage. As a new milestone, the Bank purchased (through bids) the software necessary for the implementation of Basel II tasks. Relying on the data bank development project the Bank started preparations of the Basel II data exchange. The scoring system was transformed to meet Basel II requirements in the context of the same project and in harmony with steps to develop the Group.

5.1.9 Assets in the course of construction

Based on the strategy approved in February 2006, the Bank made substantial capital investment in the course of the year. The objective of the investment programme was to implement the processes aimed at developing the Group, and to develop future bank products. The total costs of investment amounted to 5.4 billion forints, 85.5% of which, or 4.6 billion forints, are included in the financial statement as investment and the remaining 0.8 billion forints are operating expenses reported in the 2006 earnings.

5.1.10 Restructuring, staff figures

In accordance with the strategy, 2006 brought a major restructuring. As a result, the different functions of the Bank Group were allocated to the newly formed companies. Thus the core business of the Mortgage Bank is focussed on mortgage lending and mortgage bond issue; and the Commercial Bank Ltd. undertakes deposit accumulation, current accounts-related loans and other banking services, and take over the own lending activity from the Mortgage Bank step by step..

The Chief Executive Officer of the Commercial Bank is László Harmati, the number of staff was 23. FHB Annuity Ltd.'s core business is to pay annuities and sell reverse mortgage products. As of 31 December 2006 FHB Annuity had six staff. The CEO is András Hodorics. The core business of FHB Real Estate Ltd. is valuation of cover assets as well as real estate management and sales. The Chief Executive Officer is Zsolt Molnár. The company's end-of-year headcount was three. The main task of FHB Services Ltd. is to provide the devices necessary for the operation of the Group members, to provide IT, and to undertake business management and back office functions. The Chief Executive Officer of FHB Services is Tamás Foltányi. End-of-year head count was 53.

There were several changes in the officers of the Bank Group. Péter Heim resigned from his position on the Supervisory Board with effect from 23 March 2006. At the Bank's regular annual General Meeting of 21 April 2006 Pablo Arnoldo Fritz Sepulveda resigned from his position on the Supervisory Board, and at the same time Ádám Terták and Dr. Gyula Czok resigned from their position on the Board of Directors. The General Meeting elected Károly Salamon and Gábor Borsányi, former Supervisory Board members to replace them. The General Meeting elected Dr. Gyula Czok, as well as Dr. Erik Landgraf, Márta Szántó and Nguyen Viet to fill the posts on the Supervisory Board; the latter three are employees.

On the Meeting of the Directory Board as at 26 March 2007, Ferenc Karvalits, the Chairman of the DB has resigned his chair. The Directory Board has elected Dr. Márton Vági to the new chairman.

The Bank had 373 staff as of 31 December 2006 as opposed to 270 as of 31 December 2005. The average statistical headcount in 2006 was 380.4 compared to 269.4 in 2005. The proportion of full-time employees in the total headcount was 96.5%. The number of part-time staff of the Bank was 13. As of 31 December 2006, 23.6%, or 88 persons, of employees worked for branch offices throughout the country.

As of 31 December 2006 the consolidated head count was 433, 44.8% higher than 299 at the end of 2005. The increase in the number of staff is in accordance with the Group's strategy. Fluctuation between existing and newly established Group members was substantial as a result of restructuring. The newly emerging cooperation between the Group members allows some of the employees to work part-time for several of the companies.

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 improve their level of skills.

6 Financial accounts of the subsidiaries (HAS)

6.1 FHB Commercial Bank Ltd.

The company closed the year 2006. with loss, amounted 272.4 million forints. Almost the whole amount of revenues realized during the year was from interest income after the shareholders' equity (118.7 million forints), since the company started the banking activity in December 2006, and the income from banking services was not relevant.

The most significant factor in operating expenses (amounted 388.5 million forints), 314.3 million forints related to the foundation of the company: the cost of advisory, expert and legal services, authorization, and duties. The company has joined several organisation, which are necessary for operation (GIRO, SWIFT systems), or prescribed by the law (OBA, BISZ). The admission fees contributed 5.0% of operating expenses. Further significant factors are the cost management, IT services (amounted 25.3 million forints), and 7.0 million forints rental fee paid for real estate and assets.

The value of the company's assets was 5.8 billion forints as at 31 December, 2006. Interest earning assets were 5.7 billion forints, of which 56.5 million was deposit at MKB, 5.2 million deposit at NBH, and 5.1 billion forints deposit was at FHB Mortgage Bank Plc. These deposit's maturity was daily, and fortnightly.

6.2 FHB Service Ltd.

FHB Service Ltd. offered acquisition agent services for FHB Mortgage Bank until February, 2006. Within this task, the employees of the company informed the clients about loan products, helped them completing and accepting the applications. Based on the decision of FHB Mortgage Bank Plc. made in February, 2006, the company has finished the acquisition agent activity. The company has started to prepare for offering services, and – in line with the Bank Group strategic project – invested in assets, and offered human resource services for the mother company.

Total assets of the company were 7.0 billion forints at the end of December, 2006, which were more times higher than a year before. Of the annual increase of total assets, 84.0% was from the increase of tangible and intangible assets and construction in progress. 14.0% of the increase was from the change of other assets. 66.4% of the increase of total liabilities was generated by the liabilities, and 26.8% from the increased equity. The raise of the assets is a main part of the Bank Group strategy, and agreed by the owner.

The loss of the company is 103.7 million forints, opposing the 46.4 million forints profit in prior year. The company took material part from the duties of building up the Bank Group. Becoming a service centre resulted significant expenses, above the starting investment cost, which affected the loss of 2006.

According to the strategy, the company purchased the main part of those assets, which were necessary for beginning the operation of the new Bank Group members. Also, one of the activities of the company was the advisory service relating to Bank Group foundation, which resulted almost 523 million forint net sales in 2006, 122.0% higher than in 2005. 27.1 million forints of the sales are from the acquisition agent activity done in the first months of 2006.

6.3 FHB Life Annuity Ltd.

The company offered two products for the clients. One of them is the already known Life Annuity, the other is the Reverse Mortgage, which is a special mortgage loan construction for oldsters. The company offers Reverse Mortgage as a "B" type contracted agent of FHB Mortgage Bank to the clients.

The purpose of both products, that the clients, who has unencumbered (or encumberable) property, can receive money once or frequently in exchange for the real estate, but without moving out from their home. Besides, the company – outstandingly on the market – offers a construction, where the clients can keep their property rights of their homes.

The cumulated loss of the company was 19.1 million forints in 2006. According to the life annuity service, the company did not realize significant incomes in the last period, but, the operating expenses excluded 19 million forints. Total assets were over 140 million forints as at 31 December, 2006. The cash and equivalents are dominant within the assets, their contribution was 97.7%. The comparatively high amount of free cash assets is necessary to assure the coverage the liabilities come up from the life annuity contracts, and the high expenses come up after the foundation. For this reason, the company does not plan to invest the cash amount.

The equity was 130.7 million forints. Issued capital has been fully paid by the owners; total amount is 100.0 million forints, while capital reserve was 50.0 million forints. 212 thousand forints accumulated loss came from the loss of pre-company period, and 19.1 million forints loss is the result of the year 2006. The liabilities were 9.5 million forints, their contribution to total liabilities was 6.8%.

6.4 FHB Ingatlan Zrt.

The company was founded to assist the completion of the duties assigned by the FHB Mortgage Bank Plc.'s strategic conception, emphasizing on the coverage and real estate valuation, real estate investment, sales, and management activities, as an agent. Besides, the company plans to offer real estate valuating services to other companies outside the Bank Group.

Total assets of the company were 32.8 million forints at the end of 2006, while the cumulated loss was 12.9 million forints. Significant part of the total assets (89,5%) was cash assets, (amounted 29.3 million forints).

Issued capital was 100.0 million forints, of which 30.0 million forints were paid in by the owners until end of 2006. Remaining amount has been paid in by FHB Service Ltd. and FHB Mortgage Bank Plc in the end of 2007. The cumulated loss was12.9 million forints.

The higher part of the incomes (892 thousand forints) was originated from the interest income of deposits, but in December, some income related to valuation activity, also.

7 Consolidated financial accounts (IFRS)

7.1 P/L structure

Figures in million HUF

LINE ITEM	31 Dec 2005	31 Dec 2006	2006/2005
Net interest income	16,555	17,112	3.4%
Net fees and commissions income	405	636	57.1%
Net profit from financial transactions	765	870	13.8%
Other income and expenditure	66	93	39.2%
Gross operating income	**17,791**	**18,711**	**5.2%**
Operating expenses	-6,862	-8,457	23.2%
Net operating income	10,929	10,254	-6.2%
Losses from lending	- 228	-411	79.8%
Profit before taxation	10,701	9,843	-8.0%
Taxes	- 2,235	-2,204	-1.4%
After tax profit	**8,466**	***7,640***	***-9.8%***

The Bank's 2006 **consolidated earnings before tax according to IFRS was 9.8 billion forints**, 8.0% below the figure as of 31 December 2005. Net interest income, a key component of gross operating income increased by 3.4% over the 2005 figure. **Gross operating income increased by 5.2%** compared to 2005. **After-tax profit** was 7.6 billion forints, falling 9.8% short of the previous year's figure.

Net interest income

The 17.1 billion forints **net interest income** generated in 2006 emerged as the balance of 55.8 billion forints income from interest (5.2% higher than at the end of 2005) and 38.7 billion forints interest expenditure (6.1% growth).

In 2006, **within the line item of interest income**, the contribution of loans disbursed by the Bank was 42.8%, showing no significant increase compared to the previous year. Interest income on refinancing generated 26.7 billion forints, its contribution dropped from 48.5% in 2005 to 45.5%. The joint interest income on securities and interbank deposits was up from 1.7 billion forints in 2005 to 2.0 billion forints in 2006; its contribution to interest income likewise grew to 3.6%. Interest income on derivatives contributed 8.0% to the total item, increasing its contribution from the 4.6% level in 2005. The contribution of subsidized interest (subsidized interest on mortgage bonds and supplementary interest subsidy) to interest income was 61.1% in 2006, essentially unchanged compared to the previous year's figure.

Almost all of the **interest expenses** (86.1% in December 2005 and 82.4% at the end of 2006) was generated by interest expenses of mortgage bonds. In 2006 interest charged on derivative transactions was also significant, contributing 15.8% to the total interest expenses.

As of 31 December 2005 the **average net interest margin (NIM)** was 3.63%, which only dropped to **3.25%** by 31 December 2005. The drop in the net interest margin over the past year is attributed to the transformation in the loan portfolio structure – a process that has a long-term impact on the Bank's loan portfolio. Within the refinanced portfolio the contribution of subsidized loans has been steadily decreasing due to scheduled loan principal repayments on the one hand, and to increasing prepayment rates on the other hand. The subsidized portfolio, shrinking in the wake of principal repayments, is replaced by FEX-denominated refinancing loans with lower interest margins. A similar transformation is conspicuous in the portfolio of loans extended by the Bank. Here an additional negative effect is caused by an upswing in EUR and CHF yield curves and an increase in the cost of funds. Due to keen competition, actors in the banking sector did not shift the burden of these trends on their clients, and where they did, it was only to a minor extent. Conversely, the narrowing of margins is still hampered by improving costs of funds.

Net income from fees and commission

In 2006 the net income from fees and commission amounted to 636.1 billion forints, which is 57.1% higher than in the base year. Its contribution to the Bank's gross operating income slightly increased to reach 3.4% as opposed to 2.2% in the base period.

In 2006 there was a substantial change in the **structure of income from fees and commission** compared to 2005. Handling commission dropped from 49.5% to 36.2% as a result of a shrinking in subsidies, and an increase in total income from fees and commission. Income from fees paid by customers grew from 12.3% to 16.8%, while fees paid by financial institutions grew from 37.9% to 45.3%, due primarily to an increase in prepayment of refinanced loans and the modification of contracts.

Expenditure on fees was 12.8% higher than the previous year's figure and the breakdown of this item also changed. The contribution of charges related to the offering of mortgage bonds dropped from 12.6% to 11.6% over the year. Fees paid to partner banks amounted to 147.2 million forints in 2006, contributing 15.9% to expenditure on fees as opposed to 26.5% in 2005, due to a decline in syndicated lending. In 2006, commission paid to acquisition agents grew substantially, by 52.8%, compared to 2005; consequently, their contribution to expenditure on fees was also significantly higher: 72.4% in 2006 compared to 51.3% in the base year.

Net income from financial transactions

The net result of financial transactions amounted to 870.2 million forints profit in 2006, 13.8% higher than the previous year's figure. The contribution of net exchange rate gains from mortgage bonds was 369.7 million forints, 63.0% higher than in the previous year, due mainly to exchange rate gains from mortgage bond repurchase transactions. The exchange rate gains from FX transactions amounted to 696.1 million forints, 67.7% over the base year figure. Loss on derivative transactions amounted to 195.6 million forints as opposed to a positive balance of 123.0 million forints in the previous year.

Other income and expense

As of 31 December 2006 the balance of **other income and expenditure was 92.8 million forints**, arising from 199.2 million forints income net of 106.4 million forints expenditure. The item of other income mainly contains income from sales of the Bank Group's tangible assets, while a large portion of other expenditures contains support to non-profit organizations.

Operating expenses

Figures in million HUF

LINE ITEM	31 Dec 2005 Actual	31 Dec 2006 Actual	Change 2006/2005
General administrative costs	6,413	7,995	24.7%
Personnel expenses	3,173	3,429	8.1%
Other administrative costs	3,240	4,566	41.0%
- including special mortgage banking costs	598	1,048	75.2%
Depreciation	449	462	2.7%
TOTAL OPERATING EXPENSES	***6,862***	***8,457***	***23.2%***

Operating costs amounted to 8.5 billion forints in the course of 2006, 23.2% higher than in the base period. There was a slight decrease in cost effectiveness expressed in the cost/income ratio: CIR went up from 38.6% to 45.2% by 31 December 2006, which is still considered favourable, considering the significant one-off expenditures necessitated by the implementation of the strategic programme in 2006

A factor generating an increase in operating costs was the costs of the substantial number of new staff hired to support the new Group structure along with fees paid to external consultants and other expenses. Conversely, the increase of expenditures in the year of reporting was contained by the fact that the portion of costs incurred by the implementation of the strategic programme that was related to developing an asset or a product was not included in the Bank's costs but were invoiced to FHB Services Ltd. Most of these items were recorded on the accounts of FHB Services as assets in the course of creation.

Personnel expenses including contributions amounted to 3,428.5 million forints, contributing 40.5% to total operating costs. The contribution of non-capitalized costs incurred in conjunction with the implementation of the strategic programme amounted to 172.6 million forints. The personnel expenses line item was 8.1% higher than in the previous year, due mainly to an increase in other personnel costs. This amount includes a significant item related to the project, as the Bank reported a lesser amount of capitalized costs within the item of other personnel expenditures and the larger portion of the item is reported as costs. Payroll expenditure amounted to 1,947.0 million forints and increased by 2.5% over the previous year's figure. The amount of wage-related contributions was 825.1 million forints, 6.7% higher than the 2005 figure.

The 2006 **other administrative costs** increased by 41.0% over the base period figure but were slightly above the projected figure, by 16.8%. The 4.6 billion forints item includes 3.5 billion forints other administrative costs. The portion of administrative expenses incurred in conjunction with the strategic programme was 607 million forints, while actual banking costs amounted to 2.9 billion forints. A significant portion of this amount, 636.7 million forints, included the 2006 marketing costs, which did not change significantly compared to the 2005 level. Rents and operation of real estate amounted to 563.2 million forints, which is a 41.3% increase over 2005. Consultants' fees also constituted a substantial item, at 990.8 million forints, 58.3% exceeding the previous year's figure. A similar increase in maintenance costs and insurance premiums was conspicuous; these items jointly amounted to 730.6 million forints.

There was a minor change in the contribution of **special mortgage banking costs** to the item of other administrative costs (from 18.5% to 23.0%) but their amount was significantly, 75.2% higher than in the previous year. Valuation fees showed the greatest change: their contribution to special mortgage banking costs grew by 182.2% over the period of a year. However, the contribution of this item to special mortgage banking costs remained unchanged over the year. The amount was greatly influenced by the numerous campaigns launched by the Bank to forego the valuation fee. Within the same item, the contribution of life insurance premiums related to loan cover was 51.0%, and its amount increased by 216.9 million forints compared to the previous year's figure.

7.2 Balance sheet structure

The Bank's consolidated balance sheet total as of 31 December 2006 was 537.3 million forints, 11.6% higher than in 2005. Of the annual increase in total assets 89.9% was generated by the expansion of the loan portfolio. The year-on-year growth in liabilities was generated by an increase in the mortgage bond portfolio, which contributed 61.8%. The contribution of increasing interbank loans was 23.7%.

Figures in million HUF

LINE ITEM	31 Dec 2005 Actual	31 Dec 2006 Actual	Change 2006/2005
Cash	1	37	-
Receivables from NBH	29,128	19,351	-33.6%
Interbank deposits	11,403	20,063	75.9%
Available for sale securities	3,420	2,855	-16.5%
Refinanced mortgage loans	259,912	269,190	3.6%
Loans	170,723	211,682	24.0%
Fair value of derivatives	773	2,540	228.8%
Tangible assets	861	986	14.6%
Intangible assets	907	2,066	127.8%
Assets in course of construction	25	3,464	-
Other assets	4,181	5,068	21.2%
Assets total	***481,334***	***537,302***	***11.6%***
Payables total	457,593	507,815	11.0%
- Interbank borrowings	31,496	44,749	42.1%
- Mortgage bonds	421,113	455,658	8.0%
- Fair value of derivatives	3,199	3,264	2.1%
- Other liabilities	1,786	4,144	132.0%
Shareholders' equity	23,741	29,487	24.2%
- Subscribed capital	6,600	6,600	0.0%
- Treasury shares	-3	-12	320.8%
- Share premium	1,446	1,210	-16.4%
- General reserve	1,897	2,603	37.2%
- Cash-flow hedge reserve	- 1,907	-1,884	-1.2%
- Stock option reserve	210	182	-13.3%
- Changes in fair value of available for sale financial assets	- 1	-6	513.2%
- Retained earnings	15,499	20,794	34.2%
Liabilities total	***481,334***	***537,302***	***11.6%***

Interest earning assets

The Bank's interest earning assets increased from 474.6 billion forints as of 31 December 2005 by 10.2% to 523.1 billion forints by the end of 2006. The year-on-year increase in refinanced loans was 3.6%. Loans to retail customers sold by the Bank through its branches and network of agents as well as by its syndicated partners was 24.0% above the base year figure and amounted to 211.8 billion forints. Loans to retail customers contributed 40.5% net interest earning assets compared to 36.0% at the end of 2005. The portfolio of refinanced loans lost out on this restructuring, as it was unable to keep pace with the expansion.

The aggregate **net portfolio of mortgage loans** amounted to **480.9 billion forints** as of 31 December 2006, 11.7% (or 50.2 billion forints) higher than the base period figure.

The collateral value of real estate covering mortgage loan principal receivable amounted to 1,212.2 billion forints at the end of 2006. Thus the **average loan principle-to-value of coverage (LTV) ratio** was **38.6%** as of 31 December 2006, not much below the 2005 average of 39.4%.

As of 31 December 2006, the amount of principal repayment from mortgages for the subject year was 52.3 billion HUF, from which 17.2 billion HUF was mortgage repayment from customers and 35.1 billion HUF was repayment from credit institution refinancing.

Receivables from the NBH and other interbank loans dropped from 40.5 billion forints on 31 December 2005 to 39.4 billion forints on 31 December 2006. The contribution of this item to interest earning assets decreased from 8.5% in the base year to 7.5% at the end of the year of reporting. The total of **securities held by the Bank** dropped from 3.4 billion forints in 2005 to 2.9 billion forints as of 31 December 2009 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 2006 was 3.1 billion forints. In addition, the Bank recorded **assets in the course of construction** amounting to 3.5 billion forints. Thus, the value of assets tripled over the past year, due to the ongoing strategic investment in assets.

Other assets

Main items under the heading of other assets amounting to 5.1 billion forints include 2.6 billion forints receivables from interest subsidies, and 1.2 billion forints V.A.T. refund in conjunction with strategic investments. As of 31 December 2006 the Bank held repurchased own shared amounted to 12.0 million forints.

Interest bearing liabilities

Mortgage bond portfolio

Mortgage bonds that ensure long-term funding for mortgage loans continue to play a dominant role among interest bearing liabilities: their contribution was 91.1% as of 31 December 2006.

As of 31 December 2006, **mortgage bonds** issued by the Bank amounted to 455.7 billion forints, 8.2% higher than the previous year's figure, and emerged as the balance of 66.5 billion forints new mortgage bonds offered, 9.4 billion forints repurchase, and 19.7 billion forints principal repayment as well as the effect of exchange rate changes.

Interbank loans received

Interbank loans received amounted to 44.7 billion forints as of 31 December 2006. The amount of CHF-based syndicated loan draw down in September 2005 was 23.5 billion forints; the EUR-based Schuldschein loan drawn down in July 2006 amounted to 12.6 billion forints. The remaining 8.6 billion forints were contributed by interbank loans received, and to a lesser extent, revolving loans. The Bank handles liabilities other than mortgage bonds, i.e. interbank facilities, as supplementary funds to support and improve the Bank's liquidity.

Other liabilities

Other liabilities increased by 132.0% over the year, to reach 4.1 billion forints. The greatest portion of the change is related to an increase in the investment portfolio and liabilities to suppliers: the aggregate increase of these items was 125.9% over the previous year's figure, and their contribution reached 32.0%. The contribution of deposits from clients on collateral accounts related to project loan transactions was also significant (15.8%), similarly to the contribution of taxes payable (15.9%).

Shareholder's equity

Shareholders' equity amounted to 29.5 billion forints as of 31 December 2006, 24.2% higher than the 23.7 billion forints figure at the end of 2005. Of the increase, 706.4 million forints were the increase in general reserve; the contribution of accumulated assets was 5.3 billion forints, while the aggregate amount of premiums, cash-flow hedge reserve and the share option reserve reduced it by 240.8 million forints.

Risk-weighted assets amounted to 193,5 billion forints as of 31 December 2006, which is 22.0% higher than the previous year's figure of 158.6 billion forints. The Bank's **adjusted capital** grew from 24.7 billion forints as of 31 December 2005 by 7.9% to reach **26.7 billion forints** at the end of 2006.

As of 31 December 2006 **the capital adequacy ratio** was **13.8%**, taking into consideration the audited earnings for the year as opposed to 15.6% at the end of 2005.

Off-balance sheet items

The Bank's off-balance sheet items amounted to 1.5 billion forints. Contracted but not yet disbursed loans amounted to 8.7 billion forints. Future liabilities amounted to 155.0 billion forints and consisted predominantly of hedge transactions relating to mortgage bonds issued. Liabilities from currency swaps amounted to 150.6 billion forints including 89.9 billion forints CHF swap and 60.7 billion forints HUF swap. Liabilities from interest swaps amounted to 3.7 billion forints, most of them (2.9 billion forints) contributed by HUF and the remainder (2.9 0.8 billion forints) contributed by CHF transactions.

The Bank only undertakes derivative transactions to close currency positions and eliminate risks, and does not engage in derivative transactions for speculative purposes

8 The 2007 financial plan of the Bank Group

FHB's new medium term business strategy has been accepted by the Board of Directors of FHB Mortgage Bank Plc a year ago, in February 2006. The year 2006 has been dedicated to the implementation of the strategy and the creation of FHB Bank Group. In 2007 the main focus will be shifted to the extension of the strategy, the contribution of the individual members of the Bank Group will already appear in the results. The balance sheet growth planned for 2007 will exceed 10% similarly to the previous years, thus the consolidated assets of the Bank Group could be above 600 billion forints. The Bank's market share of the retail mortgage loans will increase in 2007 according to the business strategy. This will be supported by new mortgage loan products to be introduced by FHB Commercial Bank and the commercial banking branch network set up in the first half of the year.

The Bank's strategic plan has been assuming a slight drop of the profit in the years 2007 and 2008. The Bank Group's consolidated IFRS pre-tax profit planned for the year 2007 is 8.1-8.2 billion forints. This already includes 1.1-1.2 billion forints of bank contribution expenses – beyond the operating expenses budgeted by the strategy – introduced as part of the austerity package to improve the budget deficit.

The Bank will fulfil all of the approved strategic objectives in 2007 as well, the average return on equity will exceed 20%, its market share will increase and the introduction of new products will continue.

The 2007 financial plan – including the above mentioned divergences – is in line with the business strategy.

9 Financial Statements Prepared in accordance with International Financial Reporting Standards

for the period 1 January 2006 to 31 December 2006

9.1 Independent Auditors' Report

ERNST & YOUNG

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Cg. 01-09-267553

Report of Independent Auditors

To the Shareholders of FHB Jelzálogbank Nyrt.

1.) We have audited the accompanying 2006 consolidated annual financial statements of FHB Jelzálogbank Nyrt. ("the Company"), which comprises the consolidated balance sheet as at 31 December 2006 - showing a balance sheet total of HUF 537 302 104 thousands and a profit for the year of HUF 7 639 570 thousands -, the related consolidated profit and loss account for the year then ended, changes in shareholder's equity, consolidated cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by EU as at 31 December 2005 on 27 February, 2006.

Management's Responsibility for the Consolidated Financial Statements

3.) Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

4.) Our responsibility is to express an opinion on these consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our work regarding the consolidated business report is restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

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6.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of FHB Jelzálogbank Nyrt. 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 the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of FHB Jelzálogbank Nyrt. as at 31 December 2006 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, 11 April 2007

Ernst & Young Kft.
Registration No. 001165

Virágh Gabriella
Registered Auditor
Chamber membership No.: 004245

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9.2 Consolidated income statement

	Notes	31 December 2006	31 December 2005 reclassified
Interest and similar income	3	55,850,838	53,068,552
Interest and similar expense	3	(38,739,400)	(36,513,772)
Net interest income		17,111,438	16,554,780
Fee and commission income		1,561,478	1,225,153
Fee and commission expense		(925,365)	(820,143)
Net fees and commission income		**636,113**	**405,01**
Gain less losses from dealing in foreign currencies		696,11	414,996
Change in fair value of trading derivatives	22	(195,633)	123,006
Gain less losses from securities		369,698	226,828
Other operating income		199,192	116,328
Other operating expense		(106,403)	(49,669)
Operating income		**18,710,515**	**17,791,279**
Losses/provision on loans and advances	12	(410,603)	(228,338)
General and administration costs	4	(8,456,512)	(6,862,049)
Profit before tax		**9,843,400**	**10,700,892**
Income tax expense	6	(2,203,830)	(2,234,784)
Profit for the period		**7,639,570**	**8,466,108**
Earnings per share (HUF 100 nominal amount)			
ordinary shares (in HUF)		*105.07*	*117.12*
diluted shares (in HUF)		*105.07*	*117.12*

9.3 Consolidated balance sheet

Assets	Notes	2006 31 December	2005 31 December reclassified
Cash		37,128	781
Due from National Bank of Hungary	7	19,350,720	29,128,156
Placements with other banks	8	20,062,517	11,402,455
Available for sale financial assets	9	2,854,666	3,420,111
Refinancing of mortgage loans	10	269,190,180	259,912,451
Mortgage loans	11	211,681,817	170,723,409
Tangibles and intangibles	13	6,516,614	1,792,570
Derivative financial assets	22	2,540,266	772,667
Deferred tax asset	6	691,846	129,053
Other assets	14	4,376,349	4,051,979
Total Assets		**537,302,104**	**481,333,632**
Liabilities			
Deposits from banks	15	44,748,830	31,496,058
Mortgage bond liabilities	16	455,657,457	421,112,594
Derivative financial liabilities	22	3,264,552	3,198,503
Other liabilities	17	4,144,077	1,785,921
Total Liabilities		**507,814,916**	**457,593,076**
Shareholders' Equity			
Share capital	18	6,600,001	6,600,001
Treasury shares		(11,988)	(2,849)
Share premium		1,209,562	1,446,047
General reserve	20	2,603,494	1,897,032
Cash-flow hedge reserve	22	(1,883,929)	(1,907,468)
Share option reserve		182,171	210,036
Fair value of available for sale financial assets		(6,003)	(979)
Retained earnings		20,793,880	15,498,736
Total Shareholders' Equity		**29,487,188**	**23,740,556**
Total Liabilities and Shareholders' Equity		**537,302,104**	**481,333,632**

Budapest, 11 April 2007

Dániel Gyuris
Chief Executive Officer

Jenő Siklós
Deputy Executive Officer, CFO

9.4 Consolidated Statement of Cash Flows

For the year ended 31 December 2006

Cash flows from operating activities	2006 31 December	2005 31 December
Net profit	7,639,570	8,466,108
Non cash adjustments to net income		
to net cash from operating activities:		
Depreciation	642,489	449,914
Provision for losses	274,271	175,355
Loss on sale of fixed assets	2,494	(11,441)
Share option reserve	182,171	(10,357)
Payment of shares option		161,540
Derivatives in P&L	(1,678,148)	(1,025,779)
Fair value of available for sale financial assets		
Operating profit before changes in operating assets	**7,062,848**	**8,205,340**
(Increase) decrease in operating assets:		
Refinancing of mortgage loans	(9,277,729)	(18,623,945)
Loans	(40,689,891)	(38,424,189)
Other assets	(887,027)	3,092,459
Increase (decrease) in operating liabilities:		
Due to other banks	1,438,771	(1,849,128)
Other liabilities	1,741,135	49,860
Net cash flow from operating activities	**(40,611,893)**	**(47,549,603)**
Cash flows from investing activities		
Change in available for sale investments	560,421	431,066
Proceeds from sale of property and equipment	1,925	24,475
Purchase of property and equipment	(5,370,952)	(1,121,966)
Net cash flow from investing activities	(4,808,606)	(666,425)
Cash flows from financing activities		
Purchase of treasury shares	(245,624)	(265,816)
Installment from mortgage bonds	(30,228,476)	(26,054,700)
Proceeds from issue of mortgage bonds	64,776,505	62,851,358
Long term loan	11,814,000	24,349,500
Dividend paid	(1,776,933)	(1,165,126)
Net cash flow from financing activities	44,339,472	59,715,216
Net increase/(decrease) in cash and cash equivalents	(1,081,027)	11,499,188
Cash and cash equivalents at beginning of year	40,531,391	29,032,203
Cash and cash equivalents at end of period	**39,450,365**	**40,531,391**
Cash and cash equivalents comprises of:		
Cash	37,128	781
Due from Central Bank	19,350,720	29,128,155
Placements with other banks, with a maturity of less than 90 days	20,062,517	11,402,455
Cash and cash equivalents at end of period	**39,450,365**	**40,531,391**
Supplemental information:		
Interest received	*55,214,899*	*52,341,539*
Interest paid	*(38,484,880)*	*(35,561,881)*
Tax paid	*(2,409,054)*	*(2,332,413)*

9.5 Consolidated Statement of Shareholders' Equity

for the year ended 31 December 2006

HUF thousand

		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	Shareholders' Equity
1 January 2005.		**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)	
Change in cash-flow hedge reserve						(768,395)				**(768,395)**
Purchase of treasury shares			(250,917)							**(250,917)**
Payment of shares option	19.		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 assets								(979)	(18,849)	**(19,828)**
Profit for the period									8,466,108	**8,466,108**
31 December 2005 / 1 January 2006		**6,600,001**	**(2,849)**	**1,446,047**	**1,897,032**	**(1,907,468)**	**210,036**	**(979)**	**15,498,736**	**23,740,556**
Transfer to general reserve					706,462				(706,462)	
Change in cash-flow hedge reserve						23,539				**23,539**
Purchase of treasury shares			(259,749)							**(259,749)**
Payment of shares option	19.		250,610	(236,485)			(210,036)		210,036	**14,125**
Dividend declared									(1,848,000)	**(1,848,000)**
Change in shares option reserve							182,171			**182,171**
Fair value of available for sale financial assets								(5,024)		**(5,024)**
Profit for the period									7,639,570	**7,639,570**
31 December 2006.		**6,600,001**	**(11,988)**	**1,209,562**	**2,603,494**	**(1,883,929)**	**182,171**	**(6,003)**	**20,793,880**	**29,487,188**

1. DESCRIPTION OF THE COMPANY

FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság ("FHB Mortgage Bank Co Plc", "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 regional representative offices located within the Republic of Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers. The Bank also uses the branch network of other Hungarian commercial banks to offer its products to the retail sector.

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.

The Bank introduced The New Strategic Plan in February 2006, expanding its banking activity and branch network. The Bank set up new subsidiaries: FHB Commercial Bank Ltd, FHB Real estate Management Ltd, FHB Life Annuity Ltd. Simultaneously the Bank changed its name to FHB Mortgage Bank Co Plc. FHB Mortgage Bank Co Plc. is the ultimate parent of the group.

The consolidated financial statements for the year ended 31 December 2006 were authorized for issue in accordance with a resolution of the directors on 11 April 2007.

2. ACCOUNTING POLICIES

2.1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments and financial liabilities held at fair value hedges, and have been measured at fair value as required by IAS 39. Revenues and expenses are recorded in the period in which they are earned or incurred.

Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. 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, 2006 if applicable. These changes in accounting policies result from adoption of the following new or revised standards:

IAS 1 and IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21	Amendment – The Effects of Changes in Foreign Exchange Rates
IAS 39	Amendment – Cash Flow Hedge Accounting of Forecast Intra-Group Transactions
IAS 39	Amendment – The Fair Value Option
IAS 39 and IFRS 4	Amendment – Financial Guarantee Contracts
IFRIC 4	Determining whether an Arrangement Contains a Lease

IFRIC 5	Rights to Interests arising from Decomissioning, Restoration, and Environmental Rehabilitation Funds

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRS 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 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
International Accounting Standards (IAS)	
IAS 1	Amendments – Capital disclosures
International Financial Reporting Interpretations Committee (IFRIC)	
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
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

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.

2.3. CURRENCY OF PRESENTATION

The consolidated financial statements are presented in thousands of Hungarian Forints (HUF), unless otherwise stated, which is the functional and presentation currency.

2.4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries as at 31 December 2006. The Bank and the subsidiaries, are referred to collectively as "the Group". Subsidiaries are fully consolidated from the date on which control transferred to the Bank. 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 the majority of the members of the Board of Directors. The effects of all material inter company balances and transactions are eliminated. The Bank has four fully owned (directly and indirectly) subsidiaries, all registered in Hungary: FHB Szolgáltató Zrt (FHB Service Ltd.)), FHB Ingatlan Zrt. (FHB Real Estate Management Ltd.), FHB Járadék Zrt. (FHB Life Annuity Ltd.) and FHB Kereskedelmi Bank Zrt (FHB Commercial Bank Ltd), which are all have been incorporated into the Group's consolidated financial statements.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Segment Reporting

The Bank has analyzed its business operations with the aim to be presented under IAS 14, Segment Reporting and has concluded that its operations cannot be further broken down to distinguishable components that are engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment).

Foreign currency translation

The functional and reporting currency of the Bank and of its subsidiary is the Hungarian forint (HUF). Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary as at the date of the balance sheet. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the statement of income.

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. Other fees receivable or payable are recognized when earned.

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 cash and short-term deposits at banks with 90 days or less original maturity .

Available for sale investments

Available for sale financial instruments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held –to –maturity or loans and advances. They include equity instruments, invest and money market and other debt instruments.

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. Any gain or loss arising from a change in fair value of available for sale is recognized directly in equity, through the statement of changes in equity, until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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.

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. Amortization is included in 'Interest and similar income', while losses arising from impairment are recognized in credit loss expense in the income statement. 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 fulfil 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.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans restructured, continue to be subject to an individual impairment assessment.

Tangibles and intangibles

Tangibles and intangibles 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%

Current tax

Current taxes assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authority.

Deferred tax

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% while at certain deferred tax items, when applicable the extra 4% was applied in our calculations.

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 off-balance sheet derivative deals, typically swap transactions.

Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from mark to market derivatives 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 recognized 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 recognized 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 recognized 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 recognized in the statement of income. If the revaluation relates to an interest earning asset, the revalued amount is recognized 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 recognized initially in equity. The ineffective portion is recognized in the statement of income. The gains or losses on effective cash flow hedges recognized 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 non-financial 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 recognized 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 recognized in equity is transferred to the net profit and loss for the period.

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.

Short-term employee benefits

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

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 directly to retained earnings.

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. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Such financial instruments are recorded in the balance sheet when they become payable. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Contingencies

Contingent liabilities are not recognized 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 recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Estimates

The preparation of financial statements in conformity with IFRS requires using 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 the actual results may differ from those estimates.

Fair value of financial instruments

Management judgements and estimates used in the determination of fair value of financial instruments is presented under a separate note, 'Note 22 Fair value of financial instruments'.

Impairment losses on loans and advances

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. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that the taxable profit will be available against the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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.

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 of income and expense related to the independent valuation of collaterals is netted off and in the balance sheet the accrued loan origination fee from other liabilities was accounted to the loans.

	31 December 2005		
	Balance before reclassification	Reclassification	Balance after reclassification
Mortgage loans (origination fee)	171,264,316,	(540,907)	170,723,409
Other liabilities (origination fee)	2,326,828	(540,907)	1,785,921
Other operating income (valuation income)	748,724	(632,396)	116,328
General and administration costs (valuation expense)	7,494,445	(632,396)	6,862,049

Share options

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.

Project accounting applied when establishing the banking group

The Bank and FHB Szolgáltató Zrt (FHB Service Co) are responsible for group strategy implementation and for ensuring the asset base and technology to Group operations.

The Bank has identified the deliverable products of strategic Group projects based on the tasks, milestones and other information laid down in the Programme Foundation Documents.

As part of this process, the Bank also considered IAS 38 Intangible assets. According to the Standard, products are separately identifiable intangible assets that have an attributable value, generate probable future economic benefits to and are controlled by the Bank Group.

Certain intellectual products (such as concepts, guidelines) cannot be capitalised. These items do not generate future economic benefits nor serve as basis of services offered. The expenses attributable to such products are recognized in the relevant year's profit and loss in accordance with IAS 38.

3. INTEREST AND SIMILAR INCOME AND EXPENSE

HUF thousand

	2006 31 December	2005 31 December
Interest income:		
Loans	23,899,007	22,209,919
Refinancing of mortgage loans	25,403,232	26,734,517
Placements with banks	1,849,989	1,406,618
Securities	233,605	292,808
Derivatives	4,465,005	2,424,690
	55,850,838	**53,068,552**

	2006 31 December	2005 31 December
Interest expense:		
Mortgage bonds	31,906,767	31,420,463
Deposits from banks	669,250	101,744
Other interest expense	13,215	
Derivatives	6,150,168	4,991,565
	38,739,400	**36,513,772**

Interest income for the period ended as at 31 December 2006 includes interest subsidies of HUF 30,207 million from the Hungarian State (2005: HUF 32,489 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 customer, the first mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy) and the second additional interest subsidy on the actual amount of interest payable by the customer (asset side subsidy). Both types of subsidies 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.

A new Hungarian legislation became effective from 1st of January, 2007 under which an additional 5% tax is to be paid for the interest income of subsidized mortgage loans.

Mortgage bond interest subsidy

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 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 balance 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.

4. GENERAL AND ADMINISTRATIVE COSTS

HUF thousand

	Note	2006 31 December	2005 31 December reclassified
Staff costs	5	3,428,462	3,172,752
Valuation fees		379,390	99,452
Advertising		636,660	610,649
Administrative costs		549,312	424,189
Rental fee		563,156	398,602
Depreciation and amortization	13	462,049	449,914
Consultancy fees		990,795	625,940
Maintenance costs		145,835	96,536
Other taxes paid		535,966	446,837
Insurance expenses		584,720	374,368
Information system costs		95,732	89,068
Other		84,435	73,742
		8,456,512	**6,862,049**

Valuation fees paid by the Bank for the independent collateral valuations are recharged to the customers. Therefore valuation expense of HUF 980,501 thousands (2005: 731,849) has been netted off against the valuation income from customers in the amount of HUF 601,111 thousands (2005: 632,397).

5. STAFF COST

HUF thousand

	2006 31 December	2005 31 December
Wages and salaries	1,946,990	1,900,123
Social security costs	825,123	773,035
Other personal payments	656,349	499,594
	3,428,462	**3,172,752**

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 364 (2005: 299).

The calculated amount of share based payment reserve (182.171 thousand HUF) is recorded in the other personal payments. (2005: 210.036)

6. INCOME TAX EXPENSE

HUF thousand

	2006 31 December	2005 31 December
Current tax expense	2,295,640	2,252,811
Deferred tax (benefit)/expense	(91,810)	(18,027)
	2,203,830	**2,234,784**

The corporate income tax rate applicable to the Bank for 31 December 2006 is 24%, which is the cumulative effect of the Hungarian corporate income tax rate being 16% and an additional tax of 8% to be paid by banks in years 2005 and 2006.

From 1 January 2007 the applicable corporate income tax rate will be 20% due to the cumulative effect of ceasing the additional 8% tax for banks but implementing a 4% solidarity surtax, which is similar in nature to the corporate income tax. For this reason 20% has been applied by the Bank as a deferred tax rate.

Reconciliation between income according to Hungarian accounting legislation and International Financial Reporting Standards is presented in Note 26.

HUF thousand

	2006 31 December	2005 31 December
Profit before tax	9,843,400	10,700,892
Calculated tax expense (24%) (2005:23,9%)	2,362,416	2,568,214
Statutory tax base items	(74,552)	(42,835)
Treasury share transaction	(56,756)	(63,112)
Release of general risk provision	(296,288)	(206,851)
Share option		36,284
Effect of change in tax rate	171,053	
Profit of subsidiaries	97,957	(9,729)
Tax allowance	-	(26,190)
Trading derivatives	-	(20,997)
Tax expense	2,203,830	2,234,784

Deferred tax assets and deferred tax liabilities as of 31 December 2006 and 31 December 2005 are attributable to the items detailed in the table below:

	31 December 2006			Income	Shareholders'	31 December 2005			Income
	Assets	Liabilities	Net	statement	Equity	Assets	Liabilities	Net	statement
					2006				2005
Statutory temporary differences	718		718	1,718			(1,000)	(1,000)	200
Depreciation difference from consolidation		(4,766)	(4,766)	(4,766)		-	-	-	-
Mark to market value (securities)				(235)		235		235	4,759
Loan origination fee	149,350		149,350	19,532		129,818		129,818	13,068
Share option	36,434		36,434	36,434					
Trading derivatives	39,127		39,127	39,127					
Cash flow hedge	470,983				470,983				
Net tax asset	**696,612**	**(4,766)**	**691,846**	**91,810**	**470,983**	**130,053**	**(1,000)**	**129,053**	**18,027**

7. DUE FROM NATIONAL BANK OF HUNGARY

Of the amount due from the National Bank of Hungary at period end HUF 19,000 million is short term deposit placed at the NBH (2005: 29,000 million HUF), and 318 million HUF represents nostro accounts held at the NBH (2005: 111 million HUF). The remaining amount of 33 million HUF represents accrued interest (2005: 17 million HUF)

8. PLACEMENTS WITH OTHER BANKS

HUF thousand

	2006 31 December	2005 31 December
Nostro accounts	483,303	139,184
Term placements	19,579,214	11,263,271
	20,062,517	**11,402,455**

9. AVAILABLE FOR SALE FINANCIAL ASSETS

HUF thousand

	2006 31 December	2005 31 December
State bonds	-	15,534
Treasury bills	2,854,666	3,401,848
NBH bonds	-	2,729
	2,854,666	**3,420,111**

10. REFINANCING OF 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 7 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 2006 includes loans disbursed to 64,335 individual retail customers (2005:59,940).

11. MORTGAGE LOANS

	2006 31 December reclassified	2005 31 December
Real estate purchase	103,651,164	94,358,403
Real estate construction	46,940,123	40,272,001
Real estate reconstruction	4,386,351	2,857,737
Real estate extension	12,576,236	12,928,260
Other loans secured by real estate	43,551,429	19,641,777
Employee loans	1,493,426	1,202,603
Loans, gross	**212,598,729**	**171,260,781**
comprising: Retail loans	207,369,243	170,704,579
Other	5,229,486	556,202
Loan loss provision	(819,296)	(546,906)
Accrued interest	649,136	550,441
Accrued origination fee	(746,751)	(540,908)
Loans, net	**211,681,817**	**170,723,408**

12. MOVEMENT IN IMPAIRMENT FOR LOAN LOSSES:

	2006 31 December	2005 31 December
Impairment as at 1 January	546,906	374,147
Charge for the period	1,521,101	616,494
Release during the period	(1,248,711)	(443,735)
Impairment as at end of period	**819,296**	**546,906**
Net effect of charge and release	272,390	172,759
Loans written off		
Loss on loans sold	127,204	39,951
Loss on terminated loans	9,132	13,031
Charge/(release) for commitments	1,877	2,597
Losses on loan and advances	**410,603**	**228,338**

The aggregate amount of non-performing loans amounted to HUF 8,891 million at 31 December 2006 (2005: HUF 5,656 million).

Within the total balance of mortgage loans 99.46% have maturity over 5 years (31 December 2005: 99.75%). Total outstanding mortgage loan balance does not exceed the 70% of collateral value of real estates that is required by the Act on Mortgage Banks (at 31 December 2006 this ratio is 38.6%; 2005: 39.36%). Total collateral value of real estates backing the outstanding loan portfolio is HUF 1,212,236 million (2005: 1,074,990 million).

13. TANGIBLES AND INTANGIBLES

	Leasehold Improvements	Office equipment	Computer Software	Intangible Assets	Total
Cost					
Opening balance 31.12.2005	310,070	1,243,924	1,115,466	361,473	3,030,933
Additions	78,153	1,194,799	3,937,893	160,107	5,370,952
Disposals		(19,8179	(37,939)	(17,177)	(74,933)
Closing balance	**388,223**	**2,418,906**	**5,015,420**	**504,403**	**8,326,952**
Depreciation					
Opening balance 31.12.2005	55,463	613,224	476,802	92,874	1,238,363
Charge for the period	19,498	296,470	262,424	64,097	642,489
Disposals		(16,785)	(36,657)	(17,072)	(70,514)
Closing balance	**74,961**	**892,909**	**702,569**	**139,899**	**1,810,338**
Net book value 31.12.2006	**313,262**	**1,525,997**	**4,312,851**	**364,504**	**6,516,614**
Net book value 31.12.2005	**254,607**	**630,700**	**638,664**	**268,599**	**1,792,570**

HUF 3,368,649 thousands of the total increase of software of HUF 3,937,893 thousands is attributable to the establishment of the new banking group and that was not put into operation and amortized in 2006. HUF 109 926 thousands of the depreciation charged for the year has been capitalized in relation of the establishment of the new banking group.

14. OTHER ASSETS

	2006 31 December	2005 31 December
		Reclassified
Prepayments	221,514	329,114
Reclaimable taxes	1,203,328	142,174
Settlements with the Hungarian State	2,567,029	3,087,964
Sundry receivables	102,370	113,298
Reimbursed insurance fees	200,439	238,220
Other	81,669	141,209
	4,376,349	**4,051,979**

Balance of 'Settlements with the Hungarian State' includes 1 months interest subsidy due from the State as of 31 December, 2006.

15. DEPOSITS FROM BANKS

Deposit from banks with a balance of HUF 36,163 millions includes long term loan in foreign currency from foreign financial institutions (CHF 150 millions and EUR 50 million), short term deposits from domestic banks in the amount of HUF 8,249 millions (2005: HUF 7,094 millions), and the accrued interest for the period amounting to HUF 337 millions (2005: HUF 52 millions).

16. MORTGAGE BOND LIABILITIES

Mortgage bonds are transferable registered or demand bonds and, according to Act XXX on Mortgage Loan Companies and on Mortgage Bonds (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,

(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.

Of the total outstanding mortgage bonds as at 31 December 2006 HUF 188,520 million has a maturity exceeding 5 years (2005: 194,102 million).

	31 December 2006		31 December 2005	
	Gross carrying amount	Nominal value	Gross carrying amount	Nominal value
Non-listed mortgage bonds				
Fixed	175,019,202	174,473,750	176,142,392	175,538,250
Floating	47,090,316	47,120,500	24,076,279	24,098,750
Listed mortgage bonds				
Fixed	163,422,704	163,370,720	188,171,960	187,852,640
Floating	53,976,127	54,194,180	16,124,855	16,349,180
	439,508,349	439,159,150	404,515,486	403,838,820
Accrued interest	16,149,108		16,597,108	
Total	**455,657,457**	**439,159,150**	**421,112,594**	**403,838,820**

17. OTHER LIABILITIES

	2006 31 December	2005 31 December Reclassified
Taxes payable	660,463	244,071
Creditors	1,324,251	586,267
Accrued expenses	402,386	348,973
Provision for commitments	7,711	5,830
Customer loan prepayments	632,268	349,134
Dividend due	269,243	205,733
Deposit account related to project loans	655,657	-
Other	192,098	45,913
	4,144,077	1,785,921

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 2006. Authorised, issued and fully paid preference shares comprise 8,000,000 shares at a par value of HUF 100 each as at 31 December 2006.

The ownership structure of the Bank as at 31 December 2006 and 31 December 2005 is as follows:

Owner's name	31 December 2006 Percentage Owned	31 December 2006 Share of Capital	31 December 2005 Percentage Owned	31 December 2005 Share of Capital
Ordinary shares (Class A)				
Hungarian State	50.00%	33,000,010	50.00%	33,000,010
Hungarian enterprises	10.98%	7,249,509	8.82%	5,819,160
Foreign enterprises	24.58%	16,185,389	25.48%	16,814,510
Private individuals	2,30%	1,556,428	3.58%	2,364,270
Treasury shares	0.01	8,674	-	2,060
	87.88%	**58,000,010**	**87.88%**	**58,000,010**
Voting preference shares (Class B)				
Hungarian State	4.11%	2,714,300	3.2%	2,114,300
Domestic enterprises	8.01%	5,285,700	8.92%	5,885,700
	12.12%	8,000,000	12.12%	8,000,000
Total shares	**100.00%**	**66,000,010**	**100.00%**	**66,000,010**

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 2006 and 31 December 2005.

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

	2006 31 December	2005 31 December
Net income	7,639,570	8,466,108
Transfer to general reserve	(706,462)	(739,496)
Net attributable profit	**6,933,108**	**7,726,612**
Weighted average number of ordinary shares on issue	65,987,548	65,972,458

Voting preference shares

Voting preference shares are similar in nature to the ordinary shares in respect of rights to dividend payments.

The General Meeting of the Bank may only adopt a resolution regarding the following issues with the yes vote of the simple majority of the series „B" vote preference shares in attendance:

a) Amendment to the Statutes, including the change of the form of operation of the Company;
b) decision on the merger and consolidation of the Company into, or the de-merger from, another company limited by shares, or the transformation of the Company into another corporate form, furthermore of the increase and reduction of the registered capital;
c) election of the members of the Board of Directors and of the auditor,
d) decision by the General Meeting on an issue not laid down in the Statutes as the exclusive competence of the General Meeting on the basis of a statutory provision or including on the agenda an issue falling within the competence of another body of the Company.

The vote preference right may only be exercised in the General Meeting in person, or in the case of presence through a representative.

19. 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 and April 2006.

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 the amount of HUF 262,967 thousands. The Bank's Annual General Meeting held on 21 April, 2006 has approved the settlement of the program's second phase, therefore HUF 236,485 thousands contribution has been paid to the option holders in year 2006.

The Bank's Annual General Meeting for the year 2006 has approved a new two year (2006-2007) share-based incentive scheme and the number of shares covered by the programme is 275,000 per year.

The estimated fair value of the share-based payment reserve in the end of year 2006 is 182,171 thousand HUF (2005: 210,036).

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

Criteria of drawing

1./ in the program for 2007 the growth of the average quarterly share price (FHB2007Q1/FHB2006Q1) exceeds the similar growth of at least one third of the shares of the BUX Index, in the program for 2008 the benchmark (2006Q1) is not changing. (50% of the shares can be transferred based on this criterion)
2./ certain criteria concerning the Stock Exchange turnover of FHB shares are fulfilled (25% of the shares can be transferred based on this criterion)
3./ the financial plan for after-tax profit is fulfilled (25% of the shares can be transferred based on this criterion)

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
- correlation between daily yields are also modelled

- model calculations have been performed 10,000 times

II./ definition of the drawing price

- the date of drawing was 01.06.2007 and 01.06.2008
- 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, the price is corrected by the expected amount of 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 parameters used (inputs to the model)

- the standard deviation data have been calculated based on the closing share prices of the previous two years, using the daily logarithmic yields
- the yields applied have been calculated based on the zero coupon yield curve as of 21.04.2006 published by GDMA (ÁKK)
- dividend per share is HUF 28
- the grant date: 21.04.2006
- maximum number of share option: 275,000

20. 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.

21. COMMITMENTS

Off-balance sheet commitments comprise of non-revocable commitments to extend credit of HUF 10,238 million (2005: HUF 7,825 million).

22. 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 on an individual basis.

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 for a maximum of 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 FX values to forints.

	31 December 2006		31 December 2005	
	Gross carrying value	Fair value	Gross carrying value	Fair value
Refinancing mortgage loans	269,190,180	307,888,296	259,912,451	310,502,089
Customer loans (not-matured)	213,245,074	257,297,297	171,264,316	222,223,553

Gross carrying values include accrued interest but does not include the decreasing effect of impairments and loan origination fee accruals.

In the calculated fair value of refinancing mortgage loans and customer loans the potential effect of the new Hungarian legislation became effective from 1st of January, 2007 - under which an additional 5% tax is to be paid for the interest income of subsidized mortgage loans - is not reflected.

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 cash flow calculated and the principal payments are discounted to present value using the valuation yield curve.

	31 December 2006		31 December 2005	
	Gross carrying value	Fair value	Gross carrying value	Fair value
Non-listed mortgage bonds				
Fixed interest bearing	181,898,543	194,755,102	183,085,973	203,479,402
Floating interest bearing	47,526,652	47,422,737	24,441,695	24,648,441
Listed mortgage bonds				
Fixed interest bearing	171,074,147	171,616,894	196,573,628	202,289,016
Floating interest bearing	55,158,115	55,481,302	17,011,298	17,797,117
Total	**455,657,457**	**469,276,035**	**421,112,594**	**448,213,976**

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 derivatives 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 cash flow 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 2006	31 December 2005
Derivatives designated as cash flow hedges		
Positive fair value of cash flow hedges	-	261,929
Negative fair value of cash flow hedges	(2,772,298)	(2,494,847)
Accruals accounted for in the income statement	(417,386)	(325,450)
Fair value to be presented in the shareholders' equity	(2,354,912)	(1,907,468)
Less: Deferred tax effect	470,983	
Fair value in shareholder' equity net of deferred tax	(1,883,929)	
Derivatives designated as fair value hedges		
Negative fair value of fair value hedges	(424,351)	(421,185)
Fair value of base transaction	424,351	421,185
Fair value to be accounted for in profit for the period	-	-
Trading derivatives (cross currency swaps)		
Positive fair value of trading derivatives	2,540,266	510,738
Negative fair value of trading derivatives	(67,903)	(282,471)
Accruals accounted for in the income statement	2,667,996	105,261
Fair value to be accounted for in profit for the period	(195.633)	123,006
Total of derivative financial assets	2,540,266	772,667
Total of derivative financial liabilities	3,264,552	3,198,503

Cash-flow hedge transactions as defined by 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) and consequently the cash-flows are identical to those of the underlying bond issue.

The Bank has entered into a forward interest rate swap, receiving fixed interest rate and paying floating interest, starting in May 2008 for five years. The transaction has been performed in order to hedge the interest rate risk of one mortgage bond issued in HUF with fixed interest for 5 years of interest paying periods, and as such the transaction has been designated as a fair value hedge.

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.

23. RISK MANAGEMENT

Risk management structure

Risk Management

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.

Risk Controlling

The risk controlling unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Supervisory Board

The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Property supervisor

Prior to their issue, a property supervisor reviews if the Bank has adequate collateral for the issue.

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 2006		31 December 2005	
	Net average balance	Average interest rate %	Net average balance	Average interest rate %
Interest bearing assets				
Placements with other banks and the NBH	31,354,089	5.55%	20,730,807	6.71%
Refinancing of mortgage loans	266,537,387	9.51%	249,290,412	10.73%
Available for sale investments	3,484,032	6.68%	3,605,575	8.12%
Loans	193,557,841	12.21%	148,128,303	14.56%
Total interest bearing assets	**494,933,349**	**10.30%**	**421,755,097**	**11.86%**
Interest bearing liabilities				
Deposits from banks	33,693,603	2.08%	5,746,432	1.78%
Mortgage bond liabilities	431,412,267	7.40%	389,156,516	8.07%
Total interest bearing liabilities	**465,105,870**	**7.01%**	**394,902,948**	**7.98%**

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.

Assets and liabilities on 31 December 2006: (translated to HUF at year end exhange rate)

	EUR	CHF	HUF	*Total*
Cash	119	78		
Due from National Bank of Hungary				
Placements with other banks	3,960,258	7,763,102	8,339,157	20,062,517
Available for sale financial assets			2,854,666	2,854,666
Refinancing of mortgage loans	1,369,947	54,564,981	213,255,252	269,190,180
Mortgage Loans	3,557,540	53,944,300	154,179,977	211,681,817
Tangibles and intangibles			6,516,614	6,516,614
Derivative financial assets (fair value)			2,452,914	2,452,914
Other assets	4,196	181	5,063,819	5,068,196
Assets	8,892,060	116,272,642	412,050,050	537,214,752
Derivative assets (nominal amount)	155,908,061	774,798	1,090,958	157,773,817
Total Assets	**164,800,121**	**117,047,440**	**413,141,008**	**694,988,569**
Deposits from banks	17,160,019	25,589,113	1,999,697	44,748,829
Mortgage bond liabilities	146,925,265		308,732,192	455,657,457
Derivative financial liabilities (fair			3,264,552	3,264,552
Other liabilities	13,778	192,152	3,938,147	4,144,077
Liabilities	**164,099,062**	**25,781,265**	**317,934,592**	**507,814,916**
Shareholders' Equity			**29,399,836**	**29,399,836**
Liabilities and Equity	**164,099,062**	**25,781,265**	**347,334,424**	**537,214,752**
Derivative liabilities (nominal amount)	630,750	91,300,696	63,031,299	154,962,745
Total liabilities	**164,729,812**	**117,081,961**	**410,365,723**	**692,177,497**
Net Position	**70,309**	**(34,521)**		

Assets and liabilities on 31 December 2005:

Total Assets	**87,616,019**	**49,138,047**	**434,743,089**	**571,497,155**
Total liabilities	**87,647,168**	**49,020,093**	**433,990,998**	**570,658,259**
Net Position	**(31,149)**	**117,954**		

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 the principal amounts of banking assets and liabilities by maturity dates as at 31 December 2006:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 Years	Over 15 years	Total
Financial Assets								
Cash	37,128							37,128
Placements with other banks	482,856	19,566,492						20,049,348
Due from National Bank of Hungary	317,852	19,000,000						19,317,852
Available for sale financial assets		1,617,623	1,159,421					2,777,044
Refinancing of mortgage loans		3,925,280	11,701,924	67,572,069	80,200,904	67,745,631	37,807,266	268,953,074
Mortgage Loans (gross)	183,547	2,840,331	10,155,825	53,952,208	68,795,659	47,108,256	29,562,903	212,598,728
Total Banking Assets	**1,021,383**	**46,949,726**	**23,017,170**	**121,524,277**	**148,996,563**	**114,853,887**	**67,370,169**	**523,733,174**
Financial Liabilities								
Deposits from banks		8,248,671		36,163,500				44,412,171
Mortgage bond liabilities (nominal)		7,058,680,	15,456,000	228,124,875	175,894,595	12,625,000		439,159,150
Total Banking Liabilities		**15,307,351**	**15,456,000**	**264,288,375**	**175,894,595**	**12,625,000**		**483,571,321**
Net position	**1,021,383**	**31,642,375**	**7,561,170**	**(142,764,098)**	**(26,898,032)**	**102,228,887**	**67,370,169**	**40,161,854**
Cumulative position	**1,021,383**	**33,663,758**	**40,224,928**	**(102539.170)**	**(129,437,202)**	**(27,208,315)**	**40,161,854**	

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
Total Financial Assets	495,710	47,616,624	21,252,549	109,071,168	136,580,365	100,657,523	59,215,987	474,889,926
Total Financiia 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 temporary mismatch in the '1 to 5 years' and '5 to 10 years' periods is managed by the Bank in the following ways:

- in accordance with the possibilities (demand) of the Hungarian mortgage bond market the Bank is aiming to maximize the maturity of its issued mortgage bonds,
- concentration of the maturity of the mortgage bonds is restricted by limits set in the Bank's internal regulations
- the Bank is an active player of the mortgage bond markets also in form of repurchasing own issued bonds.

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.

Principal amount of interest earning assets and interest bearing liabilities according to their repricing dates as of 31 December, 2006 is the following:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years	Total
Financial Assets								
Cash	37,128							**37,128**
Placements with other banks	482,856	19,566,492						**20,049,348**
Due from National Bank of Hungary	317,851	19,000,000						**19,317,851**
Available for sale financial assets		1,617,623	1,159,421					**2,777,044**
Refinancing of mortgage loans		15,509,041	99,993,881	150,674,246	2,731,198	44,709		**268,953,074**
Mortgage loans (gross)	116,879	31,902,032	72,010,092	99,763,206	8,211,590	586,237	8,692	**212,598,728**
Total Financial Assets	**954,714**	**87,595,188**	**173,163,394**	**250,437,452**	**10,942,787**	**630,946**	**8,692**	**523,733,173**
Banking Liabilities								
Deposits from banks		44,412,171						**44,412,171**
Mortgage bond liabilities (nominal)		24,485,860	161,608,500	120,810,140	119,629,650	12,625,000		**439,159,150**
Total Financial Liabilities		**68,898,031**	**161,608,500**	**120,810,140**	**119,629,650**	**12,625,000**		
Net position	**954,714**	**18,697,157**	**11,554,894**	**129,627,312**	**(108,686,863)**	**(11,994,054)**	**8,692**	**40,161,852**
Cumulative position	**954,714**	**19,651,871**	**31,206,765**	**160,911,700**	**52,224,837**	**40,230,783**	**40,239,475**	**80,323,705**

Principal amount of interest earning assets and interest bearing liabilities according to their repricing dates as of 31 December, 2005 is the following:

	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 Financial Assets	**250 993**	**63 680 113**	**73 158 639**	**329 027 332**	**8 458 679**	**230 870**		**474 806 625**
Total Financial Liabilities		**59 349 643**	**29 641 540**	**176 975 590**	**140 089 050**	**29 226 250**		**435 282 073**
Net position	**250 993**	**4 330 470**	**43 517 099**	**152 051 742**	**-131 630 371**	**-28 995 381**		**39 524 552**
Cumulative position	**250 993**	**4 581 463**	**48 098 562**	**200 150 304**	**68 519 932**	**39 524 552**	**39 524 552**	**79 049 103**

24. CAPITAL MANAGEMENT

Calculation of regulatory capital, capital adequacy and ROAE

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 was 13.8 % as at 31 December 2006, 2 percentage points lower than at the end of the 2005.

the amounts are in HUF million

DESCRIPTION	31 December 2006	31 December 2005
Risk weighted assets		
Balance sheet items	188,759	154,667
Off-balance sheet items	4,743	4,016
Total risk weighted assets	**193,502**	**158,683**
Tier 1		
Share capital	6,600	6,600
Share premium	1,210	1,446
General reserve	2,603	1,897
Stock option reserve	182	210
Retained earnings	20,794	15,499
Cash-flow hedge reserve	0	0
Fai value of available for sale financial assets	(6)	(1)
Intangible assets	(4,677)	(908)
Total Tier 1 Capital	**26,705**	**24,743**
Tier 2		
General risk reserve	0	0
Total Tier 2 Capital	**0**	**0**
Regulatory capital	**26,705**	**24,743**
Tier 1 capital adequacy (%)	**13.8**	**15.6**
Total capital adequacy (%)	**13.8**	**15.6**
ROAE	**26.5**	**37.0**

25. 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.

	2006 31 December	2005 31 December
Loans to directors	102,973	84,000
Amount of emoluments payable	431,285	319,677

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

	2006 31 December	2005 31 December
Total Shareholders' Equity per Hungarian Statutory Financial Statements	**29,673,991**	**24,783,253**
Loan origination fee	(746,751)	(540,908)
General reserve	2,424,650	1,190,115
Cash-flow hedge reserve	(1,883,929)	(1,907,468)
Changes in fair value of trading derivatives	(195,633)	87,489
Deferred tax asset	220,863	129,053
Mark to market of available for sale investments	(6,003)	(978)
Total Shareholders' Equity per IFRS Financial Statements	**29,487,188**	**23,740,556**

	2006 31 December	2005 31 December
Profit per Hungarian Statutory Financial Statements	**6,660,387**	**7,441,383**
Loan origination fee	(205,843)	(54,451)
Deferred tax benefit	91,810	18,027
Trading derivatives	(195,633)	87,489
General reserve	1,234,535	861,878
Sale of treasury shares	236,485	262,967
Change in share option reserve	(182,171)	(151,185)
Profit per IFRS financial statements	**7,639,570**	**8,466,108**

27. SUBSEQUENT EVENTS

A tender has been issued for an FHB privatisation consultant.
The Board of Directors of ÁPV Zrt. adopted a decision on the issue of a tender to select a privatisation consultant for FHB Jelzálogbank Nyrt. The consultant will be selected in an open public procurement procedure. The date of filing: 12.04.2007.
In compliance with the Position Statement of the Government of 31 October 2006, the Board of Directors of ÁPV Zrt. has been authorised to sell the 'A'-series shares of FHB in state ownership to strategic investors in a tender. If necessary, 'B'-series shares in the possession of ÁPV Zrt. may also be sold.
The sale of FHB shares is contained in the business plan of the asset management organisation for this year, and the financial closing of the transaction is forecasted by the end of 2007.
Retention of FHB's credit rating will be an outstanding criterion, while stability of its business value will represent an important criterion in relation to the sale of the shares.

10 Annexes

10.1 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.

10.1.1 Issued securities by FHB

FHB has 47 mortgage bond series in circulation, in the amount of HUF **436,660 million face value**. (Series denominated in EUR were calculated to HUF by FX middle rate of National Bank of Hungary as at December 31, 2006).

Mortgage bond series with f**ixed interest rate are 34, their summarized face value is HUF 335,346 million.***

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ07ZF01/ HU0000650049	25.02.2000	400	Closed	25.02.2007	9.7	In the 5., 6. and 7. year (20-40-40%) instalments
FJ07NF01/ HU0000650122	08.03.2001	6.304,68	Opened	14.03.2007	9.6	At maturity
FJ07NF02/ HU0000650171	08.10.2001	8.000	Opened	10.10.2007	9.5	At maturity
FJ08NF01/ HU0000650189	11.02.2002	5.859,31	Opened	13.02.2008	8.25	At maturity
FJ09NF01/ HU0000650247	10.08.2002	10.000	Opened	14.01.2009	9.25	At maturity
FJ13NF01/ HU0000650288	09.09.2002	4.999,99	Opened	11.01.2013	8.5	At maturity
FJ08NF02/ HU0000650304	14.10.2002	5.948,76	Opened	16.03.2008	9.5	At maturity
FJ08NF03/ HU0000650346	11.11.2002	10.000	Opened	15.04.2008	9.25	At maturity
FJ07ZF02/ HU0000650296	26.11.2002	6.500	Closed	26.11.2007	9.22	At maturity
FJ08NF04/ HU0000650379	09.12.2002	9.235,96	Opened	15.05.2008	8.5	At maturity
FJ08NF05/ HU0000650429	13.01.2003	9.657,37	Opened	15.06.2008	8	At maturity
FJ10NF01/ HU0000650452	10.02.2003	11.022,80	Opened	12.02.2010	7.75	At maturity
FJ10NF02/ HU0000650486	10.03.2003	12.181,20	Opened	12.03.2010	7.75	At maturity
FJ08NF06/ HU0000650502	14.04.2003	6.562,36	Opened	16.10.2008	7.5	At maturity

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ13NF02/ HU0000650528	12.05.2003	10.000	Opened	14.05.2013	7.25	At maturity
FJ13ZF01/ HU0000650551	23.07.2003	20.040	Closed	23.07.2013	8.51	At maturity
FJ13NF03/ HU0000650593	08.09.2003	12.555,91	Opened	10.09.2013	8.25	At maturity
FJ08ZF01/ HU0000650650	17.11.2003	13.000	Closed	19.11.2008	9.75	At maturity
FJ13ZF02/ HU0000650684	28.11.2003	16.601,25	Closed	05.12.2013	10.796	At maturity
FJ09ZF01/ HU0000650767	09.01.2004	5.500	Closed	09.01.2009	10.35	At maturity
FJ12ZF01/ HU0000650825	19.02.2004	19.706,25	Closed	03.03.2012	10.55	At maturity
FJ12ZF02/ HU0000650882	02.04.2004	19.125	Closed	02.04.2012	10	At maturity
FJ19ZF01/ HU0000650890	06.04.2004	12.625	Closed	06.04.2019	9.75	At maturity
FJ11ZF01/ HU0000651005	07.06.2004	5.030	Closed	07.06.2011	9.85	At maturity
FJ09NF03/ HU0000651021	08.07.2004	100 M €	Opened	08.07.2009	3.875	At maturity
FJ10ZF01/ HU0000651104	12.11.2004	50 M €	Closed	12.11.2010	3.65	At maturity
FJ16ZF01/ HU0000651146	29.11.2004	16.601,25	Closed	29.11.2016	8.95	At maturity
FJ10NF03/ HU0000651278	09.03.2005	10.000	Opened	09.03.2010	7.375	At maturity
FJ15ZF01/ HU0000651310	14.04.2005	50 M €	Closed	14.04.2015	3.9	At maturity
FJ15ZF02/ HU0000651369	18.05.2005	50 M €	Closed	18.05.2015	3.875	At maturity
FJ11NF01/ HU0000651476	10.10.2005	3.313,56	Opened	12.10.2011	6.5	At maturity
FJ11ZF02/ HU0000651542	06.02.2006	500	Closed	14.02.2011	6.97	At maturity
FJ07ZF03/ HU0000651625	12.06.2006	500	Closed	12.12.2007	7.6	At maturity
FJ11ZF03/ HU0000651716	13.10.2006	500	Closed	13.10.2011	8.44	At maturity

* calculation with MNB middle rate as at 31.12.2006.

Mortgage bond series with non-fixed interest rate are 13, their summarized face value is HUF 101,315 million.

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	- Starting rate (%), - base rate, - current rate as at 31 12 2006 (%)	Instalment
FJ07ZV01/ HU0000650031	25.02.2000	250	Closed	2007.02.25.	11,30 1 year ÁKK ref. 7,00	Instalments: in the 6. and 7. year with equal (50-50%) instalments
FJ08ZV01/ HU0000650056	13.07.2000	1	Closed	13.01.2008	11,3 1 year ÁKK ref. 7,20	At maturity
FJ07ZV02/ HU0000650072	25.10.2000	426	Closed	25.10.2007	10,9 1 year ÁKK ref. 6,60	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ07ZV03/ HU0000650080	28.11.2000	30	Closed	28.11.2007	10,1 1 year ÁKK ref. 9,20	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ08ZV02/ HU0000650106	30.01.2001	182	Closed	30.01.2008	11,3 1 year ÁKK ref. 7,10	Instalments: in the 5. 6. and 7. year in 30-40-30% instalments
FJ11ZV01/ HU0000650148	15.05.2001	1080	Closed	17.05.2011	11,2 1 year ÁKK ref 7,40	Instalments: in the 9. and 10. year with equal (50-50%) instalments
FJ09NV01/ HU0000650155	06.09.2001	4739,29	Opened	12.09.2009	11,1 1 year ÁKK ref. 8,60	Instalments: in the 7. and 8. year with equal (50-50%) instalments
FJ12NV01/ HU0000650205	11.03.2002	11609,89	Opened	13.03.2012	9,25 1 year ÁKK ref. 7,20	Instalments: in the 9. and 10. year with equal (50-50%) instalments
FJ11ZV02/ HU0000651229	09.02.2005	50 M €	Closed	09.02.2011	2,364 (€) 6 months Euribor 3,563 (€)	At maturity
FJ10ZV01/ HU0000651427	29.06.2005	25 M €	Closed	29.06.2010	2,243 (€) 6 months Euribor 3,985 (€)	At maturity
FJ12NV02/ HU0000651526	06.02.2006	100 M €	Opened	06.02.2012	2,886 (€) 6 months Euribor 3,527 (€)	At maturity
FJ11NV01/ HU0000651617	13.06.2006	50 M €	Opened	12.06.2011	3,262 (€) 6 months Euribor 3,928 (€)	At maturity
FJ09ZV01/ HU0000651732	20.11.2006	100 M €	Closed	20.11.2009	3,884 (€) 6 months Euribor 3,884 (€)	At maturity

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

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

10.1.3 Issued securities owned by management

The management did not own mortgage bonds issued by the Bank at 31 December, 2006. FHB shares owned by management is presented in point 9.2.2.

10.2 Management, employment

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

	Beginning of year January 1, 2006	1st quarter March 31, 2006	2nd quarter June 30, 2006	3rd quarter September 30, 2006	End of year December 31, 2006
Bank	268	315	356	375	373
Consolidation	299	320	361	381	433

10.2.2 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. Márton Vági	member	21.04.2006	21.04.2011	0
IT	dr. Gábor Borsányi	member	12.05.2006	12.05.2011	0
IT	dr. Károly Salamon	member	12.05.2006	12.05.2011	0
IT	Dániel Gyuris	member, CEO	21.04.2006	21.04.2011	2,500
IT	László Harmati	member, Deputy CEO	21.04.2006	21.04.2011	4,192
IT	Dr. Zoltán Szedlacskó	member	23.05.2003	23.05.2008	0
IT	Dr. Gábor Csányi	member	28.05.2005	28.05.2010	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	Mónika Kék	member	05.05.2005	05.05.2010	0
FB	Kata Orsolya Molnár	member	05.05.2005	05.05.2010	0
FB	Éva Baranyi	member	05.05.2005	05.05.2010	0
FB	Dr. Gyula Czok	member	12.05.2006	12.05.2011	4,000
FB	Dr. Erik Landgraf	member	02.05.2006	02.05.2011	74
FB	Nguyen Viet	member	02.05.2006	02.05.2011	0
FB	Mária Szántó	member	02.05.2006	02.05.2011	0
SP	Jenő Siklós	Deputy CEO	10.21.1997	indefinite	6,310
SP	Tamás Foltányi	Deputy CEO	11.01.2005	indefinite	0
Shares held (pcs) T O T A L :					22,076

Note: On the Meeting of the Directory Board as at 26 March 2007, Ferenc Karvalits, the Chairman of the DB has resigned his chair. The Directory Board has elected Dr. Márton Vági to the new chairman.

Declaration

FHB Jelzálogbank Nyrt. (FHB Mortgage Bank Plc.) 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, FHB Jelzálogbank Nyrt. assumes exclusive liability for the contents of the annual report. FHB Jelzálogbank Nyrt.. 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, 2007

Dániel Gyuris	Jenő Siklós
CEO	Deputy CEO