FHB MORTGAGE BANK
PUBLIC LIMITED COMPANY

ANNUAL REPORT FOR 2007

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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.

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.

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.

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. During the year, the Mortgage Bank has changed its name, and carries on its operations as FHB Mortgage Bank Public Limited Company.

As a result of the strategic investments, the Bank Group presented new products on the market during the year 2007. Debit card and bank account services are available at FHB Commercial Bank Ltd., while FHB Annuity Ltd. offers annuity services, and sells the mortgage products of FHB Mortgage Bank especially for oldsters.

In parallel with the creation of the Bank Group, the building of the branch network was in progress. Today the services of the Bank Group are offered to clients through 20 branches.

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

2 The macroeconomic environment in 2007

2.1 The economic environment

Depending on the economic performance of the United States, global economic growth in 2007 may reach the 2006 level, or will fall only slightly short of it. Growth in the dominant regions is expected around the previous year's rate, and in the euro zone it can be even higher. The emerging economies continue their dynamic growth. At the same time, growth is not likely to accelerate in the euro zone economies and may even slow in 2008. The extremely rapid expansion of China with an annual GDP growth of around 10% seems to settle into a long-term trend that will substantially transform global economic positions. Central Europe continues along the path of catching up with the developed industrial countries.

There are significant differences among global economic regions and countries in terms of the role they play in the expansion of investment. However, investment trends that are favourable in the long term are generally an important precondition to a balanced growth. Developing or emerging economies are characterized by a higher rate of investment to GDP, while investment to GDP tends to be lower in the industrial countries.

While the figures published in the first half foreshadowed a possible slump, it was not until the second half that real problems emerged. The collapse of credit markets overseas caused a strong negative turbulence in finance and capital markets, and FED's prime concern was to preserve the stability of the market. To this end the Federal Reserve Bank of the U.S. lowered the base rate twice in succession. Overseas trends had an impact on euro zone economies. As a result ECB discontinued the interest rate cuts started in the first half and left the base rate of interest unchanged in the second half.

In the Visegrád countries the progress of nominal convergence and alignment with the prices and wages of the developed EU member states have gradually eased the inflationary pressure, which in turn contributes to lower interest rates – a demand also put forth by economic policy striving to introduce the euro. Among the four Visegrád countries Hungary has had the highest base rate of interest since mid-2003, although the interest rates have been substantially converging in the region over the past four years.

In Hungary, the 2007 economic processes were in some respects more positive than expected; however, both growth and inflation worsened. On a positive note, there has been a greater improvement in both internal and external balance compared to forecasts: the deficit of the state budget will be below the figure set forth in the convergence programme, the foreign trade balance has improved substantially as the growth in exports was much faster, approximately 15%, than that of imports over the course of the year, and there was a slight drop in the rate of unemployment. On the other hand, the dynamism of growth slowed considerably, to around 1.3% according to the data released by the Central Statistical Office (CSO), there was a slight decrease in year-on-year investment as well as in consumption, the latter resulting from a 5-6% drop in real wages. Due to the macroeconomic adjustment Hungary's economic growth falls short of the growth rate in other Eastern European countries and is also slightly below the EU's average growth. The causes of deceleration are multifarious, a strong impact being a sharp decline in all elements of domestic demand coupled with negative trends in the agricultural market.

Compared to European and, in particular, to CEE countries, investment and labour market trends in Hungary were especially unfavourable in 2007. The consolidation of the Hungarian state budget had a negative effect on public spending, and later on personal consumption and savings (due to a decrease in real wages). The impact was most conspicuous in the branches most concerned by public spending. In 2008 a moderate (3-6%) increase is expected in investment because of an expansion in EU resources and the low 2007 reference values.

The impact of structural change appeared in labour market processes. The decline in the number of employees was strongest in the public sector and the private sector was able to absorb the workforce only to a limited extent. A low level of employment is one of the bottlenecks of Hungarian economic growth. Boosting employment calls for increasing the scope and volume of measures activating the labour market coupled with continuing with the reforms that have been started in related areas. Partial achievements such as dismantling illegal work in the building industry (marked by an above-the-average increases in real wages in this sector) indicate that reduction of the black and grey economy still has a substantial inherent growth potential.

Hungary's growth rate falls far behind that of the Eastern European countries and is also slightly below the EU's average growth. As a result the process of catching up has come to a halt and the Hungarian economy has suffered a substantial deterioration of its position over the past three or four years compared to other countries in the Central European region.

2.2 The banking sector in 2007

According to the preliminary figures of the Hungarian Financial Supervisory Authority (HFSA), in 2007 the banking sector achieved 316.5 billion forints earnings after taxation, 11.3% less than the previous year's figure of 356.8 billion forints.

The aggregate balance sheet total of the banking sector was 24,355.7 billion forints at the end of the year, the year-on-year growth was 17.3%, somewhat slower than the 2006 growth rate of 18.7%. Aggregate gross loans increased by 22.1% to 16,691.1 billion forints, including 12.6% increase in loans to non-financial enterprises amounting to 6,575.3 billion forints, and retail loans (i.e. loans to individual and self-employed clients) grew by 26.4% to reach 5,450.6 billion forints.

Lending continued to be dominated by loans denominated in foreign exchange: as opposed to a 0.6% drop in gross HUF loans compared to 2006, FX-denominated loans were 41.4% up and contributed 62.7% to loans in total by the end of 2007, while their contribution in 2006 was slightly over 50%.

FX-based loans were particularly popular with retail customers: while HUF loan disbursements shrank by 2.7% FX-based loans extended to this segment increased by 59.6%. The banks' portfolio improved: at the end of 2007 94.6% of the rated portfolio was problem-free as opposed to 92.7% in 2006. the proportion of the specially watched loans dropped from 5.8% to 3.96%, and that of substandard loans from 1.53% to 1.44%.

Deposits were 6.9% up and amounted to 10,745.2 billion forints by the end of 2007. Entrepreneurs' deposits grew by 1.5% to 3,376.5 billion forints and household deposits were 6.3% higher, at 5,172.6 billion forints.

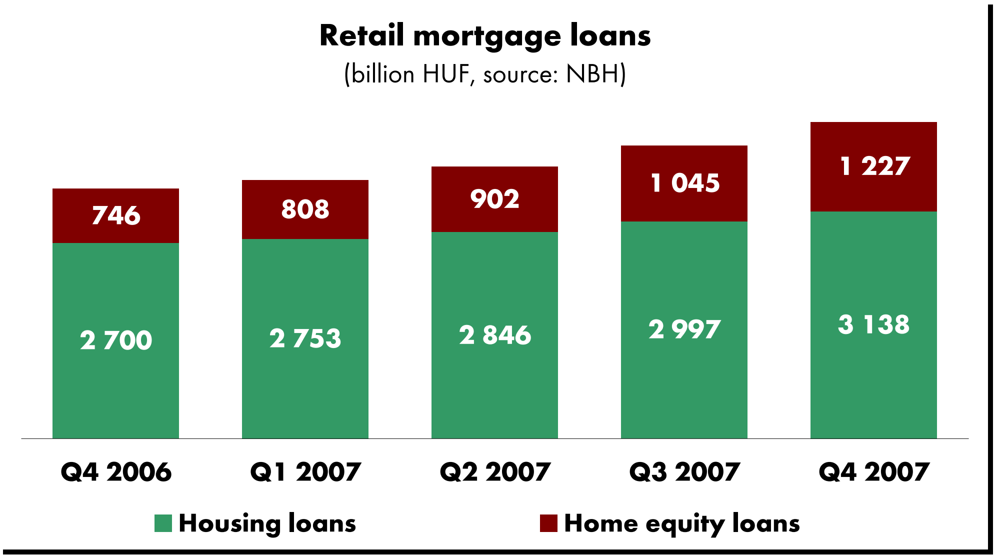
Aggregate owners' equity in the banking sector increased by 18.3% in 2007 and exceeded 2,030 billion forints by year-end. The average solvency ratio of the banking sector dropped from 11.54% to 10.42%.

2.3 Home lending in 2007

The slackening in the growth rate of mortgage loans as a whole that started in 2005 continued also in 2007. By the end of the year mortgage loans increased by 26.7%, or by 918.5 billion forints, as opposed to 38.4% in 2005 and 29.0% in 2006, and amounted to an aggregate 4,364.0 billion forints according to NBH data. The growth rate of housing loans also slowed. Up to 31 December 2007 retail home lending increased by 438.3 billion forints to reach 3,137.8 billion forints compared to the previous year's figure. This is a 16.2% growth, two percentage points less than the preceding year's rate; however, newly issued loans were tens of billions of forints higher as the 2006 year-end outstanding loans of 2,699.5 billion forints were significantly reduced by repayments and prepayments made throughout the year. Excluding the impact of changes in exchange rates retail mortgage loans (calculated at the 31 December 2007 rate) increased by 962.1 billion forints, or 28.3% in 2007.

The growth of the portfolio continues to be the effect of the dynamics of FX-denominated disbursements, which were 1,033.4 billion forints higher than in the previous year. Conversely, HUF-denominated loans decreased by 114.9 billion forints. At year-end FX-denominated mortgage loans amounted to 2,644.7 billion forints, which was 60.6% contribution to the aggregate mortgage loans portfolio as opposed to 1,719.7 billion forints HUF-denominated loans, which continue to shrink. The intensity of growth is marked by the fact that in 2006 the contribution of FX-based loans was 46.8%.

Year-on-year growth in home loans extended to households was 16.2% or 438.3 billion forints. The annual growth was slightly above the 2006 figure of 416.2 billion forints. The average growth per month was 36.5 billion forints. Similarly to the previous year, growth was particularly spectacular in the summer months. The fourth quarter 2007 growth was 140.6 billion forints, double the base quarter growth of 73.0 billion forints. The entire home loans portfolio amounted to 3,137.8 billion forints as of 31 December 2007.



The increase in FX-based loans was greatly contributed to by soaring home equity mortgage loans whose growth had been insignificant over the previous years. Compared to 746.4 billion forints contributing 21.7% to the overall retail loan portfolio as of 31 December 2006, the contribution of general purpose loans to retail lending grew to reach 28.1% by the end of the period of reporting due to general purpose loans' 52.3% contribution to the growth of the loan portfolio over the past year.

Year-on-year growth in the portfolio of home equity loans to retail customers was 64.3%. In 2006 the average monthly growth was 29.8 billion forints; in contrast, the average monthly growth in 2007 reached 40.0 billion forints. Of the total amount of home equity loans 97.0% was disbursed in foreign exchange; the total portfolio value was nearly 1,226.6 billion forints as of 31 December 2007. Home equity mortgage loans contributed 58.0% to total consumer loans as of 31 December 2007 as opposed to 49.0% in the reference period. This indicates a significant restructuring within the consumer loans product: the growth of consumer and personal loans is less and less dynamic and the growth of home equity loans continues to be strong. The main reason for the trend is the need for households to supplement their shrinking real income from cheap mortgage loans in order to maintain their level of consumption.

3 Ownership structure of FHB Plc.

As a result of the privatisation, the 54.11% majority share of the Hungarian Privatization and State Holding Company (ÁPV Zrt.) in the Bank dropped to 4.11% held exclusively in the form of Series "B" preference shares In the third quarter of 2007.

On 17 December 2007 HSBC Bank Plc. purchased 6,270,000 FHB Series "A" shares that represent 9.50% direct voting rights in the Company. Furthermore, HSBC Bank and VCP Finanz Holding Kft. concluded a conditional forward transaction. As a result of the transaction VCP Finanz Holding Kft. will be able to acquire a maximum of 6,270,000 Series "A" registered ordinary shares of HUF 100.00 par value each at the time of settlement, which is to take place not later than 22 December 2009, provided the relevant permits and approvals have been obtained. The shares involved in the transaction represent 9.50% voting rights in the Company. Before the transaction VCP Finanz Holding Kft. held 6,500,000 shares that represented 9.85% voting rights in the Company. Consequently, as a result of the transaction VCP Finanz Holding Kft. can acquire not more than a total of 12,770,000 shares representing 19.35% voting rights in the Company.

Shareholders	Number of shares (pcs)		Ownership share in the share capital	
	31.12.2006	31.12.2007	31.12.2006	31.12.2007
Series "A" voting preference shares				
ÁPV Rt.	33,000,010	0	50.00%	0.00%
Domestic institutional investors / companies	7,249,509	32,425,272	10.98%	49.13%
Foreign institutional investors / companies	16,185,389	24,979,670	24.53%	37.85%
Private individuals	1,499,223	501,265	2.27%	0.76%
FHB employees	57,205	84,974	0.09%	0.13%
FHB Plc.	8,674	8,829	0.01%	0.01%
Series "A" total	**58,000,010**	**58,000,010**	**87.88%**	**87.88%**
Series "B" voting preference shares				
ÁPV Rt.	2,714,300	2,714,300	4.11%	4.11%
Institutional investors	5,285,700	5,285,700	8.01%	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%**

4 The Bank Group's medium-term business strategy

In February 2006 the Board of Directors of FHB Mortgage Bank Plc. adopted the Bank's new medium-term business strategy. Based on the strategy the Mortgage Bank was transformed into a Bank Group over the past two years. The Group's first full business year was 2007.

The Group consists of the following members:

1. FHB Mortgage Bank Plc.
2. FHB Commercial Bank Ltd.
3. FHB Services Ltd.
4. FHB Real Estate Ltd.
5. FHB Annuity and Real Estate Investment Ltd.

Similarly to 2006, the Bank implemented the goals set forth in the strategic plan in the context of the Strategic Programme and strategic projects for 2007. Tasks to be carried out were defined in the Bank Programme and the Project Foundation Documents, and were delegated to eight independent but closely interrelated thematic projects (Flexcube, Electronic and Branch Front End, Branch Network, Mobile Payments, Data Property Management, Real Estate Management, Bank Cards, and Basel II). Most of the projects were aimed at developing the Commercial Bank's infrastructure, products, services and processes.

Development of the Bank Group was essentially completed in 2007 and the Group companies were highly active in their respective areas of business in 2007.

5 Report on the 2007 business activity

5.1 FHB Mortgage Bank Plc.'s business activity in 2007

5.1.1 Major consolidated financial indicators (according to IFRS)

The major financial indicators for 2007 were in keeping with projections despite a volatile market and increasingly keen competition in retail lending. The **consolidated balance sheet total** calculated by the International Financial Reporting Standards (IFRS) was 14.8% 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 78.9 billion forints annual growth. At the end of 2007 **the consolidated balance sheet total approached 617 billion forints. Shareholders' equity** increased by 2.6 billion forints, or 8.7%, year-on-year.

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

Earnings before tax were 33.6% down from the previous year's figure. Increasing competition in the marketplace, narrowing net average interest margin, rising operating costs due to the implementation of the Bank Group's strategic programme had a negative effect on the Bank's earnings in the reported year. Launched in 2006, strategic implementation was essentially completed in 2007. As a result, FHB Bank Group was established and started its business. The income generating capacity of the new activities will gradually be reflected in Group level earnings.

Major consolidated financial indicators	Consolidated figures by IFRS		
	31 Dec 2006	31 Dec 2007	Change 2007 / 2006
Balance sheet total (million HUF)	537,302	616,954	14.8%
Book value of mortgage loans (million HUF)	480,872	559,822	16.4%
Book value of mortgage bonds (million HUF)	455,658	493,879	8.4%
Shareholders' equity (million HUF) [1]	29,487	32,057	8.7%
Earnings before tax (million HUF)	9,843	6,540	-33.6%
After tax profit (million HUF)	7,640	5,294	-30.7%
CIR (operating costs / gross operating profit)	45.2%	65.1%	44.0%
EPS (HUF)	116	80	-30.7%
Tier 1 capital[1]	26,694	27,009	2.1%
Total capital adequacy	14.1%	12.0%	–14.9%
ROAA (return on average assets)	1.5%	0.9%	-40.0%
ROAE (return on average equity) [1]	26.5%	16.2%	-38.9%

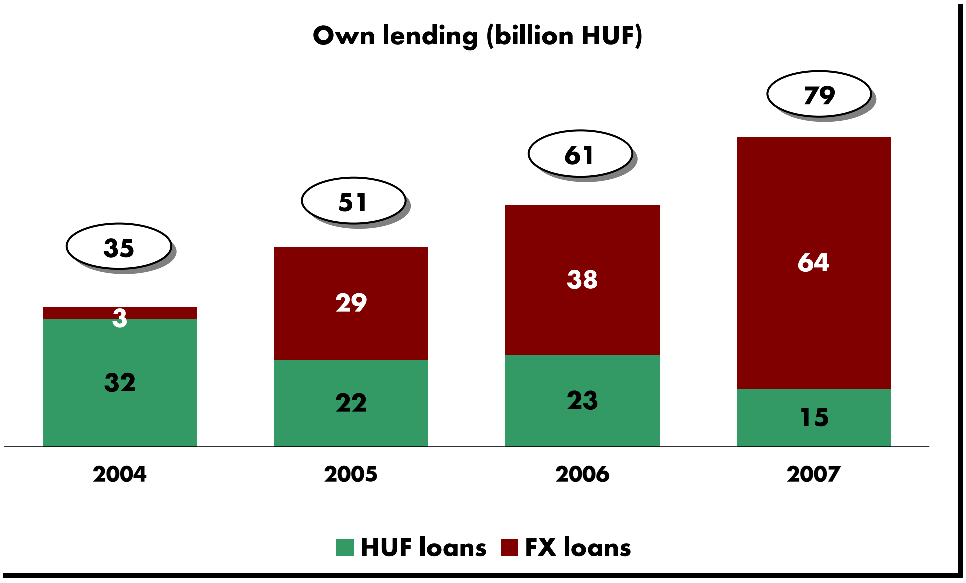
[1] Excluding cash flow hedge reserve and taking the profit for the year into consider

5.1.2 Products

In 2007 the business of the Group focused on four main areas: own lending, refinancing, deposit and account services, and sales of annuity schemes.

a) Own lending

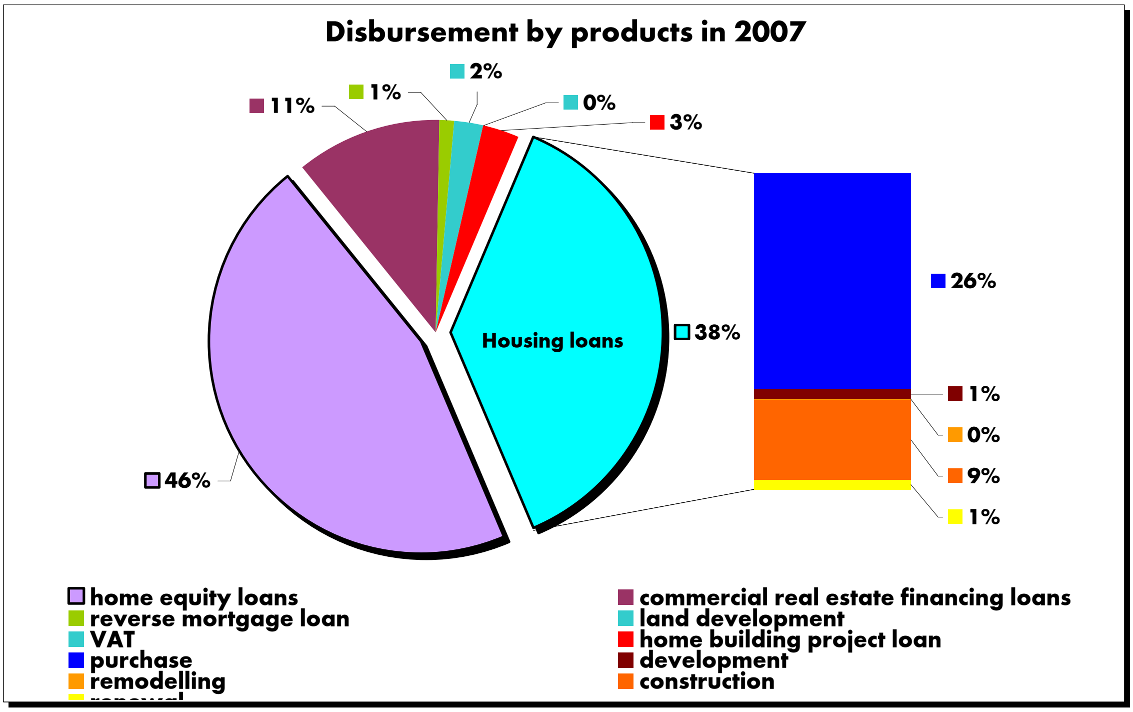
Over the past year up to 31 December 2007 the gross amount of **mortgage loans sold by the Bank** grew by 52.5 billion forints, or 24.7%. Disbursements amounted to 79.4 billion forints in 2007, with a 29.0% year-on-year increase over the 61.6 billion forints achieved in the reference year. In keeping with the general trend in the mortgage loans market, FX-based loans gained ground, and contributed 81.3% to disbursements in 2007 compared to 62.0% in the reference year.



Home equity mortgage loans continue to be the most popular loan product sold by the Bank, with a 45.4% contribution to disbursements. A total of 36.1 billion forints were disbursed, denominated virtually entirely in FX. The rate of HUF-based loans was only 0.7%. In keeping with market trends, in 2007 home equity loan disbursements were 47.5% higher than the 24.5 billion forints achieved in 2006. At year-end the portfolio was 68.8 billion forints, 75.7% above the 31 December 2006 figure.

At the same time, the demand for **housing loans** seems to be declining: as opposed to 50.6% in 2006, the contribution of this product in 2007 was only 37.3%, and the amount disbursed was 29.6 billion forints as opposed to 31.2 billion forints in 2006. The category of housing loans is dominated by **loans extended for the purchase of existing homes** with an achievement of 16.3 billion forints in 2007 (as opposed to 15.6 billion forints in 2006). **New home purchase loans** amounted to 3.8 billion forints (3.8 billion forints in 2006), **home building loans** were 7.5 billion forints (8.5 billion forints in 2006). The housing loan portfolio amounted to 178.9 billion forints as of 31 December 2007, 7.1% higher than the year-end 2006 figure.

Corporate lending significantly surpassed the previous year's achievement: in 2007, corporate loans were 151.8% higher than the 2006 figure. Of the 11.3 billion forints disbursed in this category, 9.0 billion forints were contributed by **commercial real estate financing loans** (with a 185.5% year-on-year increase), while **housing project financing loans** achieved 2.2 billion forints disbursed, 64.8% higher than the 1.3 billion forints achieved in 2006. Corporate loans contributed 14.2% to total disbursements in 2007. The year-end portfolio amounted to 13.5 billion forints with an annual growth of almost 180%.



Land development loans achieved 1.8 billion forints in 2007, 27.3% higher than the 1.4 billion forints in 2006. This product contributed 2.2% to the Group's 2007 disbursements. The land development portfolio amounted to 3.0 billion forints at the end of 2007, 14.7% than the previous quarter and 125.5% above the previous year's figure.

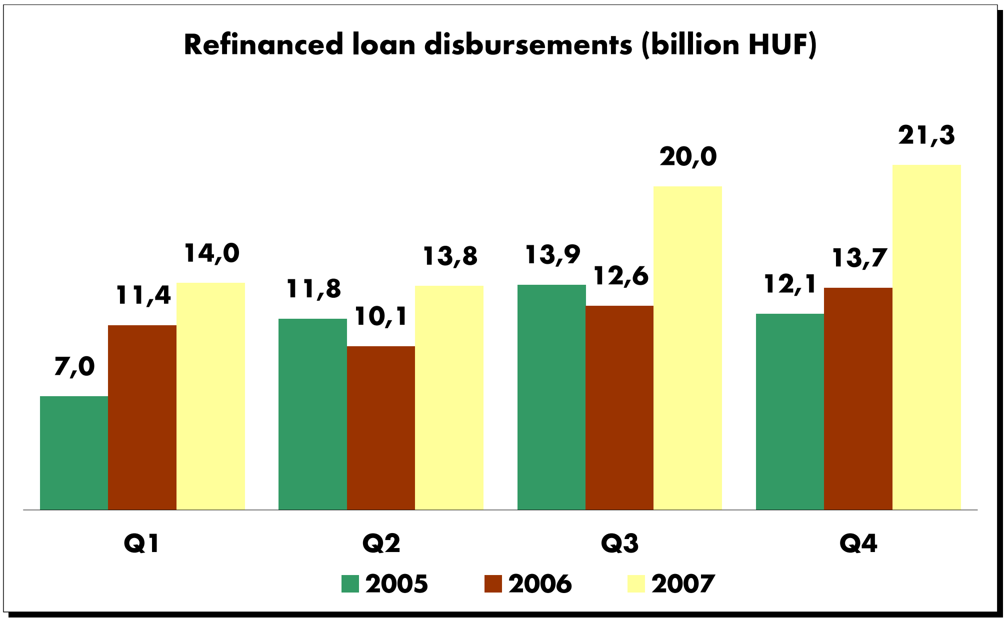
Launched in 2007, **mortgage loans to senior citizens** increased dynamically and achieved 0.7 billion forints in the year of reporting. Since the fourth quarter the Bank has offered this product denominated in euro but 2007 was dominated by forint-denominated loans.

b) Refinancing

In the course of 2007 the Bank had effective cooperation agreements with nine partners in the business of refinancing through purchasing independent mortgage liens.

As of 31 December 2007 the consolidated portfolio of refinanced loans showed a 9.5%, or 25.5 billion forints year-on-year increase and amounted to 294.7 billion forints. Newly refinanced mortgage loans amounted to 69.0 billion forints in 2007. Newly financed mortgage loans exceeded the 2006 disbursements amounting to 47.8 billion forints by 44.5%.

In accordance with the cooperation agreement with FHB Commercial Bank Ltd., the Mortgage Bank has transacted refinancing deals within FHB Group on a continuous basis. The independent liens purchased in the course of the reported year amounted to 14.1 billion forints, which is not represented in the consolidated portfolio.



Within the refinancing portfolio the proportion of FX-based loans continued their steady increase: after 2006, when already 79.3% of refinancing was denominated in foreign exchange, FX loan disbursements further increased in the reported year to reach 91.5%. The bulk of new disbursements were predominantly denominated in Swiss francs, amounting to 63.1 billion forints.

The contribution of refinancing to total disbursements in 2007 was 46.5%. The same rate was 46.8% in 2005 and 43.7% in 2006; thus the contribution of refinancing to total disbursements was fairly steady over the years.

Similarly to the previous year, clients' prepayment intent was strong also in 2007: throughout the year prepayments amounted to 39.7 billion forints, which included 26.6 billion forints prepayment of refinanced loans.

The **average loan size** slightly increased from 3.8 million forints in 2006; at year-end of 2007 the combined average size of own and refinanced loans was 4.1 million forints.

c) Bank account services

At the end of 2007 the number of **retail accounts** was over 8,000 and there was a steady increase in retail as well as corporate deposits during the period. This, however, had no real bearing on the Group's balance sheet as yet. Bank cards were launched as a new product on 1 September 2007. The Bank offers current and potential clients a choice of three card types, MasterCard Unembossed, MasterCard Standard and MasterCard Gold. Almost 4,000 cards were issued in 2007, three-quarters of them issued by the Commercial Bank in the fourth quarter.

d) Annuity schemes

As of 31 December 2007 FHB Annuity signed annuity contracts amounting to 1.5 billion forints with approximately the same total real estate value. Contracts amounting to 727 million forints were concluded in the fourth quarter. This indicates the gradual ascent of this new product and an increasing interest on the part of customers. Since the foundation of FHB Annuity aggregate annuity disbursements including lump sum payments have amounted to 484 million forints.

5.1.3 The Bank's sales channels

a) Direct FHB distribution network

During the last two years, the Bank Group expanded its network in accordance with its strategy, which meant that existing country offices were converted to branches suitable to undertake commercial banking functions, and new branches were also opened. After the conversion the branches have been gradually integrated in the provision of mortgage and commercial banking services since the end of 2006. After the network development the Bank serves its clients through 19 branches in addition to the Budapest head office (Békéscsaba, Budapest Békásmegyer, Debrecen, Eger, Győr, Kaposvár, Kecskemét, Miskolc, Nyíregyháza, Pécs, Salgótarján, Szeged, Székesfehérvár, Szekszárd, Szolnok, Szombathely, Tatabánya, Veszprém, Zalaegerszeg).

Year-on-year lending through the Bank's network soared by 55.2%, or 9.2 billion forints due primarily to the expansion of the network system. As a result the **contribution of the network of branches to the Bank's own lending** was **38.1%** in 2007, significantly higher than in the reference year (29.3%).

b) Network of agents

After 39.0 billion forints total disbursement of transactions in 2006, the network of agents only contributed 1.5 billion forints, or 3.9% more in 2007. Together with the expansion of the Bank's network of branches, shrinking agency activity resulted in a drop in agents' contribution to disbursements within the Bank's own lending activity, from 68.3% in 2006 to 59.4% in the year of reporting. A large portion, 32.0 billion forints, was disbursed in FX, which is more than 127.0% of the 2006 performance by agents (25.2 billion forints).

As of 31 December 2007 the number of contracted partners was 1,200, and the number of examined agents selling the Bank's loan products was several thousand.

c) Syndicated loans

As of 31 December 2007 the total value of 2,591 syndicated loan contracts was 10.7 billion forints, of which 6.9 billion forints (64.5%) was contributed by savings coops and financial enterprises as partners.

The total amount of syndicated loans outstanding not yet due was 8.3 billion forints as of 31 December 2007, of which 5.5 billion forints (67.9%) of which was contributed by savings coops and financial enterprises as partners.

Analysis of the aggregate data for 2007 reveals that the total amount of syndicated disbursed or purchased HUF and FX loans was over 1.7 billion forints.

The contribution of **syndicated loans** to own lending grew from 2.4% in 2006 to **2.5%** in 2007.

Out of the disbursements resulting from syndicate agreements concluded in 2007, 91.9% (1.6 billion forints) were contributed by joint transactions from a financial enterprise as a syndicate partner.

As of 31 December 2007 the Bank had valid framework agreements with 116 financial institutions based on joint risk sharing; four of them are commercial banks, 111 are savings coops and one is a financial enterprise. Among the syndicate partners, five savings coops and one financial enterprise can be considered as active in 2007.

5.1.4 Portfolio analysis, impairment and provisions

The quality of the portfolio continues to be good. Compared to 2006 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).

Figures in '000 HUF

Item	31 December 2007	31 December 2006
Impairment as at 1 January	819,296	546,906
Growth in the period	2,497,719	1,521,101
Release/charge in the period	-2,317,315	-1.248.711
Impairment as at end of period	**999,701**	**819,296**
Net effect of charge and release	**181,142**	**294,699**
Loans written off	0	0
Loss on loans sold	142,367	104,895
Loss on terminated loans	18,296	9,132
Charge/(release) on commitments	7,935	1,877
Losses on loans and advances	**349,740**	**410,603**

As of 31 December the Bank's classified assets amounted to 624.5 billion forints according to IFRS. Receivables from customers amounted to 286.0 billion forints (45.8% of the portfolio). Out of these items 16.5 billion forints were classified in the categories watch to bad.

The refinancing loans portfolio amounted to 294.4 billion forints (47.1%) classified as problem-free. The Bank had term or at-sight deposits with nine commercial banks amounting to 44.1 billion forints (7.1%).

As of 31 December 2007, 97.4% of the classified portfolio was problem-free (compared to 98.6 as of 31 December 2006). The aggregate rate of substandard, doubtful and bad debts was 1.4% (0.6% as of 31 December 2006), the rate of transactions on the watch list was 1.2% (and 0.9% on 31 December 2006).

Figures in million HUF

Classification of outstandings and committals		
CLASSIFICATION	**31 December 2007**	**31 December 2006**
Problem-free	608,005	519,044
Watch	8,718	5,846
Substandard	1,962	1,462
Doubtful	5,801	2,268
Bad	22	0
TOTAL	***624,508***	***519,043***

The average level of impairment was 0.2% in 2007, while it was 0.1% as at 31 December, 2006.

As of 31 December 2007, there were 68 foreclosure procedures initiated by the Bank, 10 of which were foreclosure auctions. The foreclosure auction that was commenced within the period of reporting was fully completed before the end of the period. In the year of reporting 75 foreclosure procedures were concluded, one of which was a completed foreclosure auction, 10 were concluded within foreclosure procedures but not through auctions, and 64 were sold by the Bank through tenders

5.1.5 Collateral valuation

In 2007 the number of valuations was 37.5 thousand, somewhat abowe 36 thousand of the previous year. The number of valuations in conjunction with the Bank's own lending was 18.8 thousand and the number of valuations by partner banks was 15.4 thousand. In 2007, FHB Real Estate Ltd. also participated in valuation, and extended its services to companies both in and outside the Group. The number of valuations was over three thousand, almost 1.5 thousand done for Group companies.

In 2007 the Group recorded 55.3 million forints net expenditure as the balance of income from valuation fees and valuation fees paid to external service providers. Because of toughening competition the Bank launched several campaigns of free valuation to attract clients.

5.1.6 Mortgage bond issue, mortgage bond cover

a) Mortgage bond issue

In 2007 the Bank raised 83.7 billion forints net as opposed to 37.4 billion forints in the previous year.

The securities transactions amounting to 83.7 billion forints were the result of 62.7 billion forints mortgage bond issues, 47.0 billion forints bond issues, 22.5 billion forints repayment and 3.5 billion forints repurchase.

In the first quarter of 2007 the Bank launched mortgage bonds in a total value of 100 million euros, of which 80 million had a maturity of 3.5 years and 20 million, 15 year. Gross long-term funds involved amounted to 25.7 billion forints. The Bank coupled the EUR mortgage bonds with 90 million euros cross currency swap and replaced the long-term funds with CHF.

Market conditions and adequate size HUF liquidity created a favourable environment for the Bank to repurchase some of its premium mortgage bonds issued earlier. In January mortgage bonds from two series were repurchased totalling 3.0 billion forints.

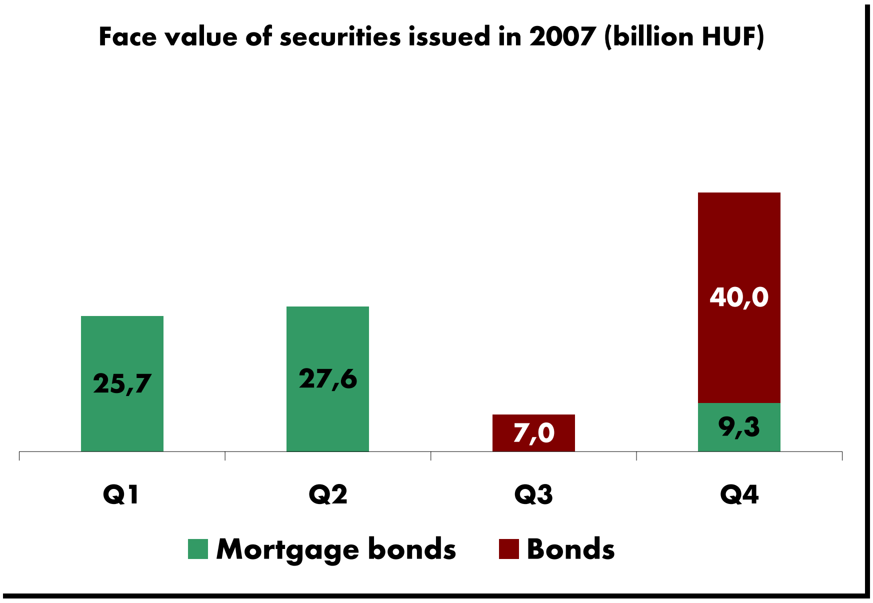
Similarly to the first quarter, the Bank launched one domestic and two international mortgage bond series in the second quarter of 2007. Mortgage bonds issued in Q4 amounted to an aggregate face value of 110 euros. In addition to EUR-denominated mortgage bonds a series with a total face value of 500 million forints was also launched parallel with the repurchase of a previous issue of the same value, taking HUF liquidity and HUF cover into consideration. The international series are part of FHB Mortgage Bank Plc.'s EMTN Programme and was launched in the Luxembourg Stock Exchange.

The Bank issued no new mortgage bond series in the Hungarian or international capital markets. However, in keeping with its 2006-2007 Issues Programme the Bank successfully launched its first domestic bond issue. Bonds issued during the third quarter amounted to seven billion forints.

The fourth quarter was a very active period in terms of fund raising The Bank launched three new mortgage bond series in this quarter. Two series of 10 million and 25 million euros face value respectively were launched in the context of private placement under the EMTN programme. The third series with a total nominal value of 500 million forints was launched in the domestic money market also in the context of private placement.

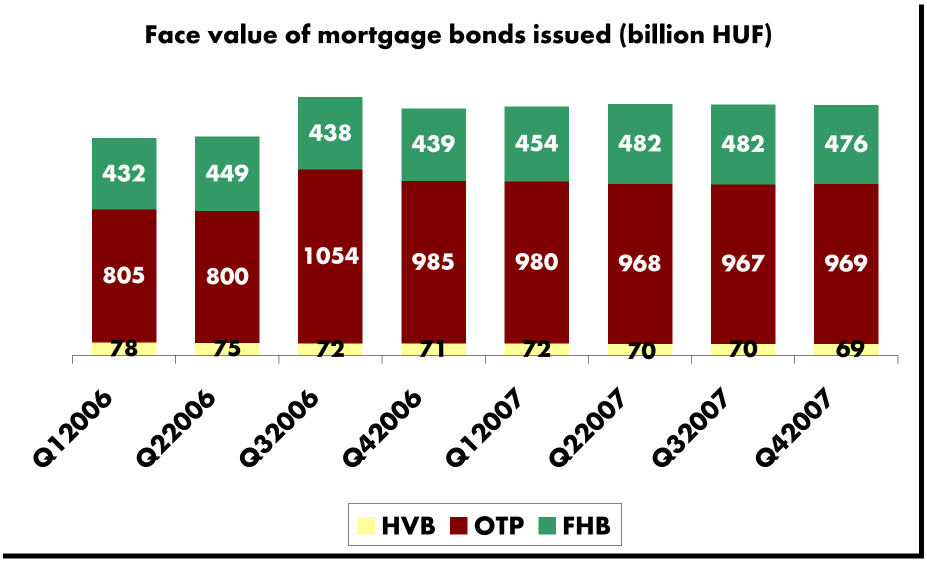
The Bank staged several auctions in the course of the quarter with mortgage bonds issued to the total value of 40.0 billion forints.

At the end of the quarter the Bank signed a club loan agreement for 43.5 million euros with a one-year drawdown. The transaction is aimed at repaying the syndicated loan raised in September 2005.



b) The mortgage bond market

The aggregate amount of outstanding mortgage bonds issued by the three Hungarian mortgage banks was 1,515.3 billion forints as of 31 December 2007. FHB Bank managed to slightly increase its share of the mortgage bond market, to 31.5% as opposed to 29.4% in the previous year.



c) Mortgage bond cover

In accordance with the relevant statutory provisions the Bank is continuously undertaking 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 2007 the number of **mortgage loans classified** by the property inspector **as ordinary collateral was 7,733**, and – due from mainly maturity-ends, repayments and achieving the conditions of loan in advance – 4,192 mortgage loans were cancelled from among ordinary collaterals and 307 loans were reclassified from ordinary to neutral. By the end of the period of reporting **the ordinary collateral portfolio included 61,683 items** as opposed to **58,835 items** in 2006, with **151,358** real estate properties involved as cover. The number of **neutral** collateral items is **381**, which is **0.61%** of the entire mortgage loan portfolio

In the refinancing segment a total of 168 independent lien contracts were repurchased in the course of 2007 involving 16,643 real estate properties securing 15,409 loan contracts. As a result of modifications following repurchase (release or replacement of collateral, change in the obligor, etc.) a total of **544** changes occurred that concerned the **independent lien purchased.**

As of 31 December 2007 the net value of ordinary collateral covering the mortgage bonds issued by the Bank was **911.2 billion forints**, 14.5% higher than the 796.1 billion forints of ordinary collateral as of 31 December 2006.

Net value of assets involved as collateral as of 31 December 2007 (million forints):

Outstanding mortgage bonds in circulation	
Face value:	477,775
Interest:	148,066
Total:	**625,841**
Ordinary collateral value	
Principal:	527,906
Interest:	383,248
Total:	**911,154**

As of 31 December 2007 the Bank had no supplementary (excess) collateral.

As of 31 December 2007 the present value of mortgage bonds was 509.3 billion forints and the present value of collateral was 594.2 billion forints. The rate of coverage was 116.7%.

The Bank met the cover requirements set forth in the Act on Mortgage Banks and Mortgage Bonds on a continuous basis.

5.1.7 Liquidity management

Group level liquidity was stable throughout 2007, the Mortgage Bank smoothly provided cash as was required by every member of the Group.

The Bank Group had a 25.1 billion forint net lending position based on its opening interbank portfolio. The position was reduced by a HUF-to-FX swap of 633 million forints, thus the actual HUF lending position was 25.7 billion forints.

As of 31 December 2007 the Group had a 5.2 billion forints net interbank lending position. In addition the Bank had two-week NBH bonds at its disposal with a total face value of 17 billion forints, which was handled as par of the short interbank position, thus the HUF interbank position was 22.2 billion forints lending. The HUF interbank position was reduced by a HUF-to-FX swap of 12.5 billion forints, the adjusted HUF position was 34.7 billion forints.

In terms of maturity, the Bank strives to match its lending with resources having longer maturity. However, the current market situation and the resulting relatively higher premiums justified smaller margins not to be fixed for a longer period, so the one-year club loan appeared to be an appropriate instrument to bridge financing, taking into consideration the respective interest terms of FX-denominated loans and refinancing, which can be well adjusted to the renewal of funds.

The policy to sell smaller series in the domestic market and seek alternative sources of funds helped the Bank to bide its time until the turbulence in the international markets settled and unfavourable trends turned. Given the size of issues, the Bank's position did not change for lending and continuous involvement of funds by Treasury became more prominent.

Taking into consideration the breakdown of assets, end-of-quarter portfolios and the changes in position, the main advantage of the Mortgage Bank's relative surplus of HUF is that unengaged funds can be used for FX swaps in order to provide temporary currency financing from HUF funds in the periods preceding issues. The Bank typically keeps its temporary surplus HUF cash (in addition to the government securities handled as liquidity reserve) in short-term deposits of maximum one month, and gives preference to NBH's two-week bonds available on a weekly basis. In order to ensure access to cash at any time, when investing into this instrument the Bank closely follows expected monetary policy decisions and flexibly switches around its funds between the various terms as required in order to achieve higher yields based on market forecasts and the Bank's own analyses.

In 2007 the relatively longer FX borrowing position and stable HUF lending position was due to the cyclic nature of involvement of long-term funds on the one hand, which provide the FX instruments matching maturity and interest rate gaps with the appropriate currency and cash flow (the last large issue prior to 2007 was launched in mid-November 2006). The other factor affecting position was the breakdown of outgoing funds. Outflow was even paced in terms of both financial institutions in the Group. FHB Mortgage Bank's HUF liquidity is balanced, the monthly outflow (operating costs, new loans and other expenses) are covered by income from interest, and the majority of prepayments is also related to HUF-based loans.

The Bank handles the revolving credit facilities as supplementary funds supporting and improving liquidity at any time. The current revolving credit is available in HUF, EUR or CHF. The multi-currency lines provide temporary secure financing for FX-based lending until the loan portfolio reaches the size required for the issue of mortgage bonds. As of 31 December 2007 the used capacity was 50% of the multi-currency credit lines.

The Bank ensures 100% mortgage bond-to-capital rate. To this end it may freeze government bonds and deposit funds to special barred accounts kept by the NBH. In 2007 it was not necessary to deposit funds to NBH supplementary cover accounts.

While interbank lending consisted earlier of two-week NBH deposits, and maximum two-month term deposits with other banks, in the first quarter of 2007 interbank deposits were made mainly with commercial banks. The reason was that NBH's staggered two-week deposit facility was replaced by a two-week NBH bond. Driven by the intent to realize a favourable yield (NBH base rate), the Bank reallocated substantial funds from the interbank loans portfolio to this money market facility.

Interbank lending mostly applies short O/N-2M terms. The closing portfolio of interbank lending as of 31 December 2007 including margin deposits was 35.2 billion forints. This included FX equivalent to 23.8 billion forints long-term funds to finance FHB Commercial Bank, and funds equivalent to 2.2

billion forints were margin deposit. Based on this, short-term interbank liquidity was equivalent to 10,270 million forints.

As of 1 January 2007 the value of the Bank's securities was 2.6 billion forints (at gross purchase price), and consisted entirely of discounted treasury bills. The Bank continues to handle the portfolio of securities as a liquidity reserve, and holds it for the purposes of risk management. The portfolio contained only government bonds and discounted treasury bills as well as NBH bonds during the year. In terms of breakdown, as of 31 December 2007, the portfolio of 21 billion forints nominal value contained two-week NBH bonds of 17 billion forints nominal value. The remaining four billion forints contained 87.5% discounted treasury bills and 12.5% government securities.

5.1.8 Risk management principles

a) Risk management policy

The Bank continued its conservative risk policy in 2007 and tried to keep exposure at an appropriate level. With the emergence of the Group new risk factors have appeared that require a new risk management approach.

The great majority of new loans were denominated in FX, which resulted in a gradual change in the structure of the loans portfolio besides its expansion compared to the previous period. Volatility of FX rates and frequent changes in HUF and FX interest rates and also require an active risk management policy.

b) Lending risk

Lending risk essentially stems from risks related to the Bank's core business, which is lending. Lending risk is the risk of the Bank suffering losses because the borrowers do not service the loans they borrowed from the Bank.

Lending consists primarily of extending loans with (mainly residential) real estate cover. Lending risk stems from risks related to borrowers, to cover, or to partner risk involving partner banks refinanced through independent mortgage lien purchases.

The Bank rates the creditworthiness of its clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's rating is appropriate. The Bank monitors clients' and partners' rating on an ongoing basis and applies stringent regulations relating to determining the scope of collateral eligible for cover, their valuation and coverage ratio. Risks via partner banks are minimized by means of bilateral agreements and the assignment of the refinanced loan portfolio as prescribed by law.

The chart below shows the historical default rates in portfolio classification categories. In the retail sector clients may be classified into 5 categories. The other (generally credit institutions) partners are classified in 7 ones. The chart shows the scales together.

Classification	Default rates (%) 2007	Total Million HUF 2007
CLASS_1	0.00%	611
CLASS_2	0.00%	1,561
CLASS_3	0.61%	246,902
CLASS_4	1.04%	196,407
CLASS_5-7	2.74%	136,594

c) 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.

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

The chart below shows the net interest result and the volatility of interest rates in case 1 base point change. The change in the yearly net interest income has originated from the change of the net interest result of financial assets and liabilities with non-fixed interest rates planned to be revaluated within one year. The volatility of the shareholder's equity reflects the revaluation of the total assets, liabilities and items out of balance sheet which are defined in accordance with the expiry dates of assets- liabilities. The volatility of the shareholder's equity based on a condition that the yield curve moves parallelly but the analysis based on that the expiry classes reflects the volatility of non-parallel moves.

Change vs. base point						
FX	Interest rate risk 2007 Million HUF	Principal penetrability (2007)				
		0-6 months Million HUF	6-12 months Million HUF	1-5 years Million HUF	>5 years Million HUF	Total Million HUF
HUF	-0.4	0.5	-0.8	-12.9	-10.4	-23.5
EUR	-0.4	-0.4	0.0	0.0	0.0	-0.4
CHF	-4.3	1.6	0.8	0.0	0.0	0.0

d) Exchange rate risk

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

e) 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. The Bank regularly reviews prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

f) Risk management

In the context of assets and liabilities management, the Bank contains risks by creating natural hedges, keeping open FX positions at a minimum, applying hedging transactions, and, in general, an active A/L management. Risk management was also involved in the repurchase and issue of mortgage bonds in 2007 in order to develop an optimal interest and maturity structure.

The turbulence in the capital market caused by the American credit crunch and ensuing liquidity crisis did not have a significant impact on the Bank and was conspicuous only in the interest premium on liabilities. The turbulence did not have a negative bearing on the Bank's liquidity or interest rate risk profile.

Due to the development of the Bank Group and the ensuing expansion of products new risk aspects appeared in day-to-day business and require risk management at the level of product development, introduction and sales.

In the context of the Basel 2 project the Bank has continued general preparation for compliance with relevant new statutory provisions in terms of lending, market and operation-related risks. Due to the high priority of the tasks involved, the project was formally integrated into FHB Group's priority strategic programme structure as of the beginning of 2007. Group level implementation of the Basel 2 strategy started at that time including its introduction and operation in risk management as well as revision and redrafting Bank and Group regulations wherever necessary. The implementation of the CRD at FHB Group level necessitated the installation of several new IT systems (e.g. capital calculation, lending risk modelling and banking risk related data collection support systems were installed). The HFSA approved application of the standard IRB method (in terms of lending risk) by the Mortgage Bank with effect from 1 July 2008 provided certain conditions are met, and by the entire Group in terms of operating risk with effect from 1 January 2008.

5.1.9 Assets in the course of construction

Based on the strategy approved in February 2006, the Group deployed substantial investment into assets. The main purpose of investment was to promote restructuring and establishment of the Group, and help create future banking products. Investment amounted to 4.1 billion forints of which 92.4%, or 3.8 billion forints, are reported as assets in the course of construction. The remaining 0.3 billion forints are reported as cost towards the 2007 earnings. Investment not related to the strategic programme amounted to 0.7 billion forints and included, in the mains, replacement of assets required for regular operation, expansion of the vehicle fleet and investment in conjunction with office buildings.

5.1.10 Restructuring and staff figures

As a result of restructuring 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.

The Chief Executive Officer of the Commercial Bank is László Harmati, the number of staff was 255. Staff of the branches (171 persons) is employed entirely by Commercial Bank. FHB Annuity Ltd.'s core business is to pay annuities and sell reverse mortgage products. As of 31 December 2007 FHB Annuity had 16 staff. The Chief Executive Officer 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 eight. The core business of FHB Services Ltd. is to provide the tools necessary for the operation of the Group members and to extend IT, business management and back-office services. The Chief Executive Officer is Tamás Foltányi, end-of-year headcount was 161.

The Bank had 92 staff as of 31 December 2007 as opposed to 373 as of 31 December 2006. The reduction in headcount was resulted from the restructuring of tasks within the Group. In 2007 the average statistical headcount was 101.2 as opposed to 380.4 in 2006. The proportion of full-time staff was 61.9%. The Bank employed 43 part-time staff.

As of 31 December 2007 the consolidated head count was 532, 22.9% higher than the 433 as the end of 2006. Staff mobility between existing and newly created Group companies was significant. Due to the division of tasks among Group members some staff have part-time jobs with several of the companies.

Employees of the Group participate in further training on a continuous basis. The Bank promotes further training through educational agreements. In addition, FHB operates its own in-service training system to deliver this knowledge. Within the framework of this, FHB 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.

As regards the entire year, at the Bank's Annual General Meeting held on 27 April 2007 István Somkúti was electeed external member of the Board of Directors. The mandate of Róbert Somfai and Ágnes Winkler, members of the Supervisory Board, was renewed for another five years. Dr. Gábor Csányi, external member of the Board of Directors of FHB Mortgage Bank Plc. and member of the Supervisory Board of FHB Commercial Bank Ltd. resigned from both posts with effect from 21 December 2007 due to conflict of interest after his election on the Supervisory Board of NBH. Dr. Márton Vági resigned from their position on the Board of Directors of FHB Commercial Bank Ltd. as of 4 December 2007. The Board elected Ágnes Koltai Nádházi, FHB Mortgage Bank Plc.'s Managing Director to serve on the Board as external Director for a term of five years starting from 4 December 2007.

6 The consolidated financial accounts of FHB Plc. (by IFRS)

6.1 P/L structure

Figures in million HUF

LINE ITEM	31 Dec 2006	31 Dec 2007	Change 2007/2006
Net income from interest	17,112	16,602	-3.0%
Net income from fees and commission	636	1,631	156.4%
Net result of financial operations	870	1,172	34.6%
Other income and expenditure	93	338	264.5%
Gross operating income	**18,711**	**19,743**	**5.5%**
Operating costs	-8,457	-12,853	52.0%
Net operating income	10,254	6,890	-32.8%
Losses from lending	-411	-350	-14.8%
Earnings before tax	9,843	6,540	-33.6%
Taxes	-2,204	-1,246	-43.5%
Profit after tax	***7,640***	***5,294***	***-30.7%***

The Bank's 2007 **consolidated earnings before tax according to IFRS was 5.3 billion forints**. **Earnings before tax** was **6.5 billion forints**, 33.6% short of the prior year's result. **Gross operating income** was **5.5% up** from 2006.

a) Net income from interest

The **16.6 billion forints net income from interest** emerged as the balance of 60.5 billion forints income from interest (108.4% of the 2006 figure) and 43.9 billion forints interest expenditure (113.4% of the 2006 figure). Interest expenditure grew faster than income from interest, mainly as a result of the negative capital market trends in the second half of 2007.

In 2007, **within the item of income from interest**, the contribution of loans disbursed by the Group was 43.1%. Income from interest on refinancing generated 39.6%. The joint income from interest on securities and interbank deposits contributed 3.5%. Income from interest on derivatives contributed 13.8% to the total item. The earlier trend seems to be continued in terms of the breakdown of this item: the contribution of interest on refinancing dropped about 6.0 percentage points, and that of derivative transactions was up by 6.0 percentage points year-on-year. The contribution of subsidized interest (subsidized interest on mortgage bonds and supplementary interest subsidy) to income from interest was 44.0% in 2007 compared to 56.6% in 2006. The decline in the contribution of income from interest on subsidized loans and concurrent increase in the contribution of income from customers indicates the advancement of non-subsidized loans (primarily FX-denominated home equity loans) within the loans portfolio.

On the side of **expenditure on interest**, 75.1% was generated by interest paid on mortgage bonds. Interest paid on interbank loans did not have a significant contribution. On the other hand, interest paid on derivative transactions contributed 20.1%. Interest paid on newly involved funds was insignificant in the reported year, interest on deposits contributed 0.2% and interest on bonds issued contributed 1.1% to the item.

As of 31 December 2006 the **average net interest margin (NIM)** was 3.25%, which dropped to **2.84%** by 31 December 2007. 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 own loans and refinanced loans portfolio. Within the refinanced portfolio the contribution of subsidized loans has been steadily decreasing due to the fact that new loan are typically denominated in FX, thus scheduled loan principal repayments and prepayments exceed new disbursements. The shrinking subsidized portfolio is replaced by FX-denominated refinancing loans with lower interest margins. Another negative impact on the Bank's total average margin is re-pricing of subsidized loans, which takes place predominantly in 2007-2008. 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, the latter exacerbated by the international capital market situation, which is currently unfavourable for both mortgage bonds issue and the involvement of non-hedged funds.

b) Net income from fees and commission

In 2007 the **net income from fees and commission** amounted to 1.6 billion forints, which is 156.4% higher than the 636.1 million forints achieved in 2006. Its contribution to the Bank's gross operating income was 8.3% in 2007 as opposed to 3.4% in the base period. This item was greatly influenced by expanding effective interest calculation under IFRS by another sophisticated method within FHB Bank Group. As a result, almost the entire scope of initial one-off income and expenditure relating to lending is reported in the P/L statement by means of the effective interest calculation method.

Income from fees and commission amounted to 1.9 billion forints, which is 19.8% higher than the 2006 figure. Handling fees amounted to 486.1 million forints, fees received from credit institutions amounted to 850.9 million forints, and income from fees related to mortgage loans amounted to 442.8 million forints.

From **expenditure on fees** amounted to 68.0 million forints and contributed one-third to the item. Fees paid to syndicate partner banks amounted to 52.8 million forints (contributing 22.1% of total expenditure on fees), fees paid in conjunction with the launch of mortgage bonds were 42.4 million forints (17.7%), and fees paid in conjunction with bonds amounted to 40.5 million forints and contributed 17.0% to this item.

c) Net profit from financial transactions

The net profit of financial transactions amounted to 1.2 billion forints in 2007, 34.6% higher than the previous year's figure. The contribution of net exchange rate gains was 1.4 billion forints, almost twice the previous year's figure of 696.1 million forints and reflected FX rate changes throughout the period of reporting. As of 31 December 2007 the positive balance of 220.0 million forints of securities transactions, which emerged as the balance of exchange rate gains and losses from mortgage bonds issues and repurchase transactions. Loss on derivative transactions amounted to 427.6 million forints, twice higher than the 195.6 million forints loss in 2006.

d) Other income and expenditure

As of 31 December 2007 the balance of **other income and expenditure was 338.2 million forints**, arising from 842.6 million forints income net of 504.3 million forints expenditure. A large portion of the other income item, 665.8 million forints, was realized in conjunction with the activities of FHB Annuity and resulted from valuation of annuity receivable. Approximately half of the other expenditure item included expenditure on unplanned depreciation, annuity settlements (44.2 million forints) as well as various donations, late payment interest and settlement with the tax authorities reported here.

e) Operating costs

Figures in million HUF

LINE ITEM	31 Dec 2006	31 Dec 2007	Change 2007/2006
General administrative costs	7,459	9,872	32.4%
Personnel expenses	3,429	4,574	33.4%
Other administrative costs	4,030	5,298	31.5%
- including special mortgage banking costs	1,048	845	-19.4%
Taxes paid	462	1,729	274.2%
Depreciation	536	1,252	133.6%
TOTAL OPERATING EXPENSES	***8,457***	***12,853***	***52.0%***

Operating costs amounted to 12.9 billion forints in the course of 2007, 52.0% higher than the 8.5 billion forints achieved in the base period. Out of the increase 28.8% was contributed by taxes paid (a large portion being bank tax) and 16.3% depreciation (strategic developments put into operation). General administrative costs went up by 31.5%. As a result of infrastructure development as well as restructuring and organizational changes the cost/income ratio went up from 45.2% in 2006 to 65.1% by the end of 2007. Approximately 450 million forints were contributed to operating costs by the one-off expenses incurred in the third quarter in conjunction with privatization.

There was a slight change in the **breakdown of costs**. Personnel expenses contributed 35.6% in 2006 as opposed to 40.5% in 2006, with is a 33.4% year-on-year increase, due primarily to staff increase in conjunction with network expansion. Other administrative costs dropped from 47.7% as of 31 December 2006 to 41.2% at year-end 2007.

Personnel expenses including contributions amounted to 4,574.1 million forints. The contribution of non-capitalized costs incurred in conjunction with the implementation of the strategic programme amounted to 92.1 million forints. Wages and salaries were a total of 2,731.0 million forints, 40.3% up from the previous year's figure mainly because of greater head count in the wake of network expansion, and also due to the one-off expenses related to privatization. Contributions amounted to 987.5 million forints and were 19.7% higher than in 2006.

There were major changes within the **other administrative costs** item in the reported period. In 2007 rents amounted to 1.1 billion forints due to the expansion of the network of branches. This item was only 563.2 million forints in 2006. Consequently, in 2007 the contribution of rents to other administrative costs was 21.6% in the reported period as opposed to 14.0% in the reference year.

Marketing and advertising costs amounted to 887.7 million forints as of 31 December 2007, 39.4% higher than in the reference year. Higher marketing costs resulted from the launch of new products, the campaigns related to branch openings, and periodical advertising of traditional products.

Consultants' fees amounted to 1.1 billion forints in 2007, 14.2% up from the 2006 figure of 990.8 million forints. As of 31 December 2007, the contribution of consultants' fees was 21.3% to other administrative costs, the second largest within the item.

Within other administrative costs, general and administrative costs amounted to 730.6 million forints, 33.0% higher than the 549.3 million forints incurred in 2006.

The contribution of **special mortgage banking costs** to the item of other administrative costs changed significantly (from 26.0% to 16.0). Year-on-year decrease of this item was 19.4%. An important factor contributing to the change was the next stage of introducing effective interest calculation, i.e.. accruing the portion of the starting costs of newly disbursed loans incurred in the reported year but related to the next years. An important component of special mortgage banking costs is contribution of life insurance premium payments related to loan cover, which contributed 51.0% to the special mortgage banking costs item in 2006, and 84.4% in the reported year. The increase is imputed to the increase in the value of this item, from 534.7 million forints to 713.5 million forints, or by 33.4%, over the year.

Depreciation was 1.3 billion forints in the reported period, almost three times higher than the 2006 figure. The difference was caused by the extra depreciation incurred on newly acquired tangible and intangible assets capitalized. Of depreciation 53.9% was related to intangible assets and 46.1% to tangible assets.

Taxes paid were considerably higher year-on-year: in 2006, taxes amounted to 536.0 million forints as opposed to 1.7 billion forints in 2007 due to the new bank tax introduced with effect from 1 January 2007. The bank tax is 5% paid on income from interest on subsidized loans. **This new tax exceeded 1.0 billion forints in the period of reporting and contributed 7.8% to costs.**

6.2 Balance sheet structure

The Bank's consolidated balance sheet total according to the IFRS as of 31 December 2007 was 617.0 million forints, 79.7 billion forints, or 14.8% higher than in 2006.

Figures in million HUF

LINE ITEM	31 Dec 2006	31 Dec 2007	Change 2007/2006
Cash	37	488	-
Receivables from NBH	19,351	191	-99.0%
Interbank loans extended	20,063	11,892	-40.7%
Securities available for sale	2,855	21,710	660.5%
Refinanced mortgage loans	269,190	294,720	9.5%
Loans	211,682	265,102	25.2%
Real value of derivatives	2,540	6,289	147.6%
Real estate investment		1,507	-
Tangible assets	986	2,499	153.4%
Intangible assets	2,066	7,019	239.7%
Assets in the course of construction	3,464	127	-96.3%
Other assets	5,068	5,410	6.7%
Total assets	***537,302***	***616,954***	***14.8%***
Total liabilities	**507,815**	**584,896**	**15.2%**
- Interbank loans received	44,749	31,346	-30.0%
- Mortgage bonds	455,658	493,879	8.4%
- Bonds	0	47,417	-
- Deposits	657	3,599	-
- Real value of derivatives	3,265	3,878	18.8%
- Liabilities from annuity	0	385	-
- Other commitments	3,488	4,393	25.9%
Shareholders equity	**29,487**	**32,057**	**8.7%**
- Subscribed capital	6,600	6,600	0.0%
- Own equity repurchased	-12	-19	57.4%
- Share premium	1,210	1,709	41.3%
- General reserve	2,603	3,060	17.5%
- Cash flow hedge reserves	-1,884	-1,970	4.6%
- Reserve for share option	182	182	0.0%
- Change in the real value of liquid financial assets	-6	-11	76.6%
- Retained earnings	20,794	22,507	8.7%
Total liabilities	***537,302***	***616,954***	***14.8%***

Compared to the 31 December 2006 reference period, the increase in assets was generated by the synergy of several factors. While the expansion of the loan portfolio contributed 79.0 to growth, receivables from the National Bank of Hungary reduced it by 19.2 billion forints. Interbank lending also contributed substantially to the increase in assets and securities, with 10.7 billion forints year-on-year increase. The year-on-year increase in tangible assets was also significant, 4.6 billion forints including 1.5 billion forints contributed by the value of real estate passed into the Group's possession by way of annuity contracts.

On the liabilities side, the predominant portion (though in 2007 only 48.0%) of the increase was contributed by the 38.2 billion forints growth of the mortgage loans portfolio, and reduced by interbank borrowings amounting to 13.4 billion forints. Bonds issued constituted a new type of assets and contributed 47.4 billion forints to liabilities. Deposits were 2.9 billion forints higher year-on-year.

a) Interest earning assets

The Group's interest earning assets increased from 593.6 billion forints, exceeding the reference year's figure by 13.5% (or 70.5 billion forints). Loans to retail customers disbursed by the Bank were 25.2% higher as of 31 December 2007 than a year earlier. Loss in value to cover for losses from lending grew from 819.3 million forints to 999.7 million forints compare to 2006. The year-on-year increase in refinanced loans was 9.5%. As of 31 December 2006 refinancing and the Bank's own loans contributed 91.9% to interest earning assets. This contribution grew to reach 94.3% by 31 December 2007.

The loan collateral value of real estate covering ordinary collateral amounted to 1,339.9 billion forints as of 31 December 2007, 10.5% higher than the figure (1,212.2 billion forints) in the reference year. The LTV ratio (loan principal receivable to collateral value) was 39.0% as of 31 December 2007, somewhat better than the 38.6% ratio in reference period of the previous year.

As of 31 December 2007, the amount of principal repayment from mortgages for the subject year was HUF 58.6 billion, of which HUF 17.0 billion was mortgage repayment from customers and 41.6 billion was repayment from credit institution refinancing.

The portfolio of NBH and other interbank deposits amounted to 12.1 billion forint as of 31 December 2007 and its contribution to interest earning assets was 2.0%. NBH lending dropped from 19,4 billion forints to 191.4 million forints due to a change in NBH's methodologies as the NBH replaced two-week deposits by bond issues as of January 2007. Interbank deposits continue to serve primarily for the purpose of liquidity.

In conjunction with the shrinking of receivables from NBH, the value of the securities portfolio of the Bank increased from 2.9 billion forints as of 31 December 2006 to 21.7 billion forints as of 31 December 2007. The contribution of securities to interest earning assets was 3.7%. NBH discount bonds replacing NBH deposits contributed 17.0 billion forints to securities, and the contribution of discount treasury bills was 3.2 billion forints and government bonds contributed the remaining 1.5 billion forints. The Bank's securities portfolio continues to serve exclusively as a liquidity reserve.

b) Own assets

The net value of **tangible and intangible assets** amounted to 6.5 billion forints as of 31 December 2006. This amount increased to reach 9.6 billion forints by the end of reported period due primarily to new hardware and other tangible assets as well as software, in accordance with the strategic programme.

The value of real estate transferred to the Bank Group's possession as a result of the 2007 annuity sales exceeded 1.5 billion forints as of 31 December 2007.

Other assets amounted to 5.4 billion forints as of 31 December 2007, similarly to 5.1 billion forints in the same period of the reference year. The main items include 2.2 billion forints settlements (of interest subsidies) with the Hungarian State (the reference year balance was 2.6 billion forints), VAT receivable from investment amounting to 898.3 million forints (as opposed to 1.2 billion forints in the reference year), and 0.9 billion forints active accruals.

c) Interest bearing liabilities

Mortgage bonds

Mortgage bonds contributed 85.7% to the Bank's interest bearing liabilities in the reported period, identical with the previous year's figure. The 493.9 billion forints book value of mortgage bonds as of 31 December 2007 was 8.4% higher than the 2006 year-end value, the year-on-year increase amounting to 38.2 billion forints was contributed by 62.7 billion forints new issues, 22.5 billion forints repayments and 3.5 billion forints repurchase including related exchange rate adjustments.

Interbank funds

As of 31 December 2007 the 31.3 billion forints **interbank portfolio** contained interbank drawdown amounting to 7.6 billion forints and a Schuldschein loan equivalent to 12.7 billion forints denominated in euro. The CHF-based syndicated loan taken in September 2005 was repaid from a EUR club loan facility equivalent to 11.0 billion forints as of 31 December 2007. The Bank has used the syndicated loan facility as supplementary funds

Deposits

As of 31 December 2007 deposits amounted to 3.6 billion forints including 1.0 billion forints surety deposits covering corporate loans Deposits from retail and corporate costumers of FHB Commercial Bank amounted to 2.6 billion forints. As of 31 December 2006 deposits amounted to 655.7 million forints.

Bonds issued

Launched first in September 2007, bond issues constitute a new fund raising securities type instrument in addition to mortgage bond issues. The issues resulted in bonds with a book value of 47.4 billion forints as of the 31 December 2007 balance date.

Liabilities related to annuity

The calculated reserve to cover future payments fixed in annuity contracts was 385.2 million forints at the end of 2007. The whole amount of the reserve was created in 2007.

d) Other liabilities

The Bank's other liabilities amounting to 4.4 billion forints include, among others, debts to suppliers contributing 33.1% as of 31 December 2007, 9.7% higher than the 31 December 2006 contribution. Passive accruals amounted to 685.9 million forints as of 31 December 2007 and contributed 15.6% with a 70.5% increase over the previous year. Taxes payable contributed 15.4% as of 31 December 2007 increased by 2.2% compared to the base year. Liabilities from settlement with customers were also substantial, 1.1 billion forints contributing 25.4% to other liabilities compared to 18.1% at the end of 2006.

e) Shareholders' equity

The year-on-year increase in shareholders' equity was 8.7% (2.6 billion forints), reaching **32.1 billion forints** as of 31 December 2007. The increase was predominantly contributed by a 1.7 billion forints rise in accumulated profit. The 86.4 million forints drop in the real value of cash-flow hedge reserve also had a negative impact on the increase in shareholders' equity and resulted from changes in yield and exchange rates. Provision for annuity payments amounted to 385.2 million forints and was entirely generated in 2007. The combined growth in stock exchange premium and general reserve amounted to 955.5 million forints and contributed significantly to the increase in shareholders' equity.

Risk-weighted assets amounted to 224,9 billion forints at year-end 2007. The annual growth of 35.7 billion forints was almost entirely generated by balance sheet items, predominantly the change in the loan portfolio. The Bank's adjusted capital was 27.0 billion forints at the end of the period of reporting.

As of 31 December 2007 **the capital adequacy ratio** was **12.0%**, taking into consideration the audited earnings for the year as opposed to 14.1% at the end of 2006.

f) Off-balance sheet items

The Bank's off-balance sheet items amounted to 3.7 billion forints. Contracted but not yet disbursed loans amounted to 5.9 billion forints. Future liabilities amounted to 257.9 billion forints and consisted predominantly of hedge transactions relating to mortgage bonds issued. Future liabilities amounted to 257.9 billion forints and consisted mainly of mortgage bonds related hedges. Liabilities from currency swaps amounted to 12.5 billion forints consisting entirely of CHF swaps. Liabilities from interest swaps amounted to 3.6 billion forints and also consisted entirely of 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.

7 Financial Statements Prepared in accordance with International Financial Reporting Standards

7.1 Report of Independent Auditors

ERNST & YOUNG

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Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of FHB Jelzálogbank Nyrt.

1.) We have audited the accompanying 2007 consolidated annual financial statements of FHB Jelzálogbank Nyrt. ("the Company"), which comprises the consolidated balance sheet as at 31 December 2007 - showing a balance sheet total of HUF 616 954 271 thousands and a profit for the year of HUF 5 294 155 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 2006 on 11 April 2007.

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.

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

ERNST & YOUNG

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 2007 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, 14 April 2008

Ernst & Young Kft.
Registration No. 001165

Gabriella Virágh
Registered Auditor
Chamber membership No.: 004245

7.2 Consolidated Profit and Loss Statement

31 December 2007

	Notes	31 December 2007	31 December 2006
Income from interest	3	60,539,912	55,850,838
Expenditure on interest	3	(43,937,507)	(38,739,400)
Net income from interest		**16,602,405**	**17,111,438**
Income from fees and commission		1,869,944	1,561,478
Expenditure on fees and commission		(239,008)	(925,365)
Net income from fees and commission		**1,630,936**	**636,113**
Gain less losses from foreign exchange transactions		1,379,658	696,110
Change in fair value of trading derivatives	25	(427,604)	(195,633)
Gain less losses from securities		219,582	369,698
Other operating income	4	842,572	199,192
Other operating expense		(504,342)	(106,403)
Operating income		**19,743,207**	**18,710,515**
Losses/provision on loans and advances	11	(349,814)	(410,603)
Operating costs	4	(12,853,226)	(8,456,512)
Earnings before tax		**6,540,167**	**9,843,400**
Income tax	6	(1,246,012)	(2,203,830)
Profit		**5,294,155**	**7,639,570**
Earnings per share (HUF 100 face value)			
Ordinary shares (HUF)		***73.33***	***105.07***
Diluted earnings per share (HUF)		***73.33***	***105.07***

7.3 Consolidated Balance Sheet

31 December 2007

	Notes	31 December 2007	31 December 2006
Assets			
Cash		487,887	37,128
Dues from National Bank of Hungary	7	191,428	19,350,720
Interbank loans	8	11,891,998	20,062,517
Securities available for sale	9	21,709,922	2,854,666
Refinanced mortgage loans	10	294,719,978	269,190,180
Loans	11	265,102,077	211,681,817
Investment	12	644	-
Real estate for investment	13	1,507,287	-
Tangible assets	14	9,645,369	6,516,614
Derivative financial assets	25	6,288,603	2,540,266
Deferred tax	6	531,915	691,846
Other assets	15	4,877,163	4,376,349
Total assets		**616,954,271**	**537,302,104**
Liabilities			
Interbank borrowing	16	31,345,977	44,748,830
Mortgage bonds	17	493,879,144	455,657,457
Bonds	18	47,416,562	-
Deposits	19	3,599,089	-
Derivative financial liabilities	25	3,877,636	3,264,552
Reserve for annuity payments		385,175	-
Other liabilities	20	4,393,299	4,144,077
Total liabilities		**584,896,882**	**507,814,916**
Shareholders' equity			
Share capital	21	6,600,001	6,600,001
Treasury shares		(18,871)	(11,988)
Share premium		1,709,014	1,209,562
General reserve	23	3,059,537	2,603,494
Cash flow hedge reserve	25	(1,970,360)	(1,883,929)
Share option reserve	22	182,110	182,171
Change in fair value of financial assets available for sale		(10,604)	(6,003)
Retained earnings		22,506,562	20,793,880
Total shareholders' equity		**32,057,389**	**29,487,188**
Total liabilities and shareholders' equity		**616,954,271**	**537,302,104**

Budapest, 14 April 2008

Dániel Gyuris
Chief Executive Officer

Jenő Siklós
Deputy Chief Executive Officer

7.4 Consolidated Cash Flow Statement

31 December 2007

	31 December 2007	31 Ddecember 2006
Cash flow from operation		
Net profit	5,294,155	7,639,570
Non cash adjustments to net cash from:		
Depreciation	1,251,868	642,489
Change in value of real estate for investment	(665,757)	-
Provision for losses	188,220	274,271
Loss on tangible assets derecognized	76,278	2,494
Share option reserve	(61)	182,171
Derivatives in P/L	(3,221,684)	(1,678,148)
Current value of annuity payments	385,175	-
Change in fair value of financial assets available for sale	-	-
Operating profit before change in operating assets	**3,308,194**	**7,062,848**
Decrease in operating assets:		
Refinanced mortgage loans	(25,529,798)	(9,277,729)
Loans	(53,600,665)	(40,689,891)
Other assets	(340,882)	(887,027)
Increase in operating liabilities:		
Deposits	3,599,089	-
Interbank deposits	10,093,148	1,438,771
Other liabilities	104,402	1,741,135
Net cash flow from operation	**(62,366,512)**	**(40,611,893)**
Cash flow from investment related activities		
Increase in liquid securities	(18,859,857)	560,421
Proceed from sales of tangible assets	9,218	1,925
Purchase of tangible assets	(4,466,119)	(5,370,952)
Purchase of real estate for investment	(841,530)	-
Investment services	(644)	-
Net cash flow from investment related activities	(24,158,932)	(4,808,606)
Cash flow from financing		
Repurchased treasury shares	(525,595)	(259,749)
Treasury shares sold	518,712	250,610
Treasury shares transacted in previous years	(513,978)	(236,485)
Capital repayment on mortgage bonds	(25,558,430)	(30,228,476)
Proceed from issues	111,333,684	64,776,505
Long term loans repayment	(23,496,000)	-
Long term loans drawn	-	11,814,000
Dividend paid	(2,112,000)	(1,776,933)
Net cash flow from financing	59,646,393	44,339,472
Net decrease in cash and cash equivalents	(26,879,051)	(1,081,027)
Opening balance of cash and cash equivalents	39,450,364	40,531,391
Closing balance of cash and cash equivalents	12,571,313	39,450,365
Breakdown of cash and cash equivalents:		
Cash at hand	487,887	37,128
Receivables from National Bank of Hungary	191,428	19,350,720
Interbank deposits with a maturity of less than 90 days	11,891,998	20,062,517
Closing balance of cash and cash equivalents	**12,571,313**	**39,450,365**
Supplementary data		
Interest received	58,266,119	*55,214,899*
Interest paid	(41,850,315)	*(38,484,880)*
Tax paid	(1,298,678)	*(2,409,054)*

7.5 Consolidated Statement of Shareholders' Equity

		Share capital	Treasury shares	Capital reserve	General reserve	Cash flow hedge reserve	Share option reserve	Change in fair value of fin. assets availabl	Retained earnings	Share-holder 's equity
1 January 2006		**6,600,001**	**(2,849)**	**1,466,047**	**1,897,032**	**(1,907,468**	**210,036**	**(979)**	**15,498,73**	**23,740,55**
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)
Share option	22.		250,610	(236,485)			(210,036)		210,036	14,125
2006 dividend declared									(1,848,000)	(1,848,000)
Change in share option reserve							182,171			182,171
Change in fair value of financial assets available for sale								(5,024)		(5,024)
Earnings for the reported period									7,639,570	7,639,570
31 December 2006 / 1 January		**6,600,001**	**(11,988)**	**1,209,562**	**2,603,494**	**(1,883,929**	**182,171**	**(6,003)**	**20,793,88**	**29,487,18**
Transfer to general reserve					456,043				(456,043)	0
Change in cash flow hedge reserve						(86,431)				(86,431)
Purchase of treasury shares			(525,595)							(525,595)
Share option	22.		518,712	499,452			(145,667)		(1,013,430)	(140,933)
2007 dividend declared									(2,112,000)	(2,112,000)
Change in share option reserve							145,606			145,606
Change in fair value of financial assets available for sale								(4,601)		(4,601)
Earnings for the reported period									5,294,155	5,294,155
31 December 2007		**6,600,001**	**(18,871)**	**1,709,014**	**3,059,537**	**(1,970,360)**	**182,110**	**(10,604)**	**22,506,562**	**32,057,389**

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE BANK

FHB Mortgage Bank Public Limited Company ("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 license to operate as a specialized financial institution in accordance with the provisions of Act CXII of 1996 on Credit Institutions and Financial Enterprises and Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds on 6 March 1998. The Bank commenced 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 (HFSA) granted permission for Land Credit and Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange. Following a public and private placement of the Bank's shares, a total of 2,500,000 ordinary shares were sold in the context of public offering along with an additional 1,324,899 ordinary shares sold to institutional investors in the context of private placement. A total of 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 its New Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries besides the already existing FHB Services Ltd., specifically FHB Commercial Bank Ltd, FHB Real Estate Trading and Valuation Ltd., and FHB Annuity and Real Estate Investment Ltd. At the same time the Bank changed its name to FHB Mortgage Bank Plc. FHB Mortgage Bank Co Plc. is the parent company of the group. The Bank and its subsidiaries are jointly referred to as the Group or Bank Group.

The third quarter of 2007 brought a major change in the Bank's ownership structure. On 29 August 2007 the Hungarian Privatization and State Holding Company (ÁPV Zrt.) formerly holding a 54.11% majority share in the Bank sold its packet of Series "A" ordinary shares of 50% + 1 vote in the Hungarian and international capital market in the context of accelerated book building. The transaction was administered by HSBC Plc. investment service company. As a result of the sale ÁPV's share in the Bank dropped to 4.11% held exclusively in the form of Series "B" preference shares. (Note 21)

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 14 April 2008.

2. MAJOR ACCOUNTING PRINCIPLES

2. 1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a historical cost basis, except for investments available for sale, derivative financial instruments and financial liabilities held at fair value hedges, and have been measured at fair value as required by IAS 39.

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 the accounting policy*

The accounting policy adopted is consistent with those of the previous financial year except that the Group has adopted those new or revised standards and IFRIC rules mandatory for the financial years beginning on or after 1 January 2007 if applicable. These changes in accounting policy result from adoption of the following new or revised standards:
IAS 1 amendment – Presentation of the financial statements – Disclosure of equity
IFRS 7 – Financial instruments: disclosure

The above amendments had no bearing on the Group's financial performance or position but provided grounds for the presentation of new items in the Notes.

IFRS standards and IFRIC interpretations not yet effective

The Bank has not applied the following IFRS standards and IFRIC interpretations issued but not yet effective:

International Financial Reporting Standards (IFRS)
IFRS 8 Operating Segments

International Financial Reporting Interpretations Committee (IFRIC)
IFRIC 11 IFRS 2 – Group and treasury shares transactions

It is expected that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of their initial application.

2.3 Currency of the annual financial statements

Unless otherwise stated, the consolidated financial statements are presented in thousands of Hungarian forint (HUF), which is the functional and presentation currency used by the Group and each of its companies.

2.4 Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries as at 31 December 2007.
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 Services Ltd., FHB Real Estate Trading and Valuation Ltd., FHB Annuity and Real Estate Investment Ltd., and FHB Commercial Bank Ltd., all of which have been included in the Group's consolidated financial statements.

FHB Services Ltd. provides business administration, accounting, back-office and IT services to other companies belonging to the Group.
FHB Real Estate Trading and Valuation Ltd. provides real estate valuation services primarily in conjunction with the Group's business.
FHB Annuity and Real Estate Investment Ltd. sells annuity products to senior clients.
FHB Commercial Bank Ltd. offers an increasing choice of universal banking services.
Group companies signed agency agreements with each other in order to promote efficient sale of their respective products.

2.5. Main accounting policy

a) Cash and cash equivalents

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.

b) Securities available for sale

Based on data supplied by the subsidiaries, the Bank reappraises securities "available for sale" at market value. In cases where the unrealised gains and losses resulting from reappraisal are not part of a hedging transaction, they are reported in the balance sheet against the share capital.
When the financial statements are prepared the Group verifies any objective evidence for loss in value of any security available for sale. If the impairment test shows a potential significant loss that is expected to prevail over a long term, the Bank derecognizes loss in value under the share capital item and reports it directly in the P/L statement. If the market value of securities available for sale should rise in the coming years, the loss in value will be re-recognized.

c) Refinanced mortgage loans

As parent company, the Bank has a substantial refinanced loans portfolio. As part of the refinancing arrangements, partner banks sell the Bank independent liens, which are used as security for housing loans. The Bank in turn refinances the long-term loans granted by the partner banks to their customers.

Based on the refinancing contract, the independent liens are repurchased. The repurchase is scheduled to follow the principal repayment schedule of the particular mortgage loan but will be effected irrespective of whether or not the partner bank receives repayments from the partner its client.

Refinanced loans are classified as problem-free given that by purchasing the independent lien the Bank extends a long-term loan to the partner commercial bank and client risk is entirely borne by the partner bank. The individual loans that are refinanced are in conformity with the relevant statutory provisions, classification is made and impairment is reported by the partner bank.

d) Loans and advances

Loans extended directly to clients are reported under the item of loans and advances to customers and are stated at amortized cost less any impairment losses. All loans and advances are included in the assets upon their disbursement.

e) Loan impairment

On the balance date the Bank reviews loans and advances to clients and determines whether it is necessary to recognize impairment. Impairment on a particular loan or a group of similar loans is recognized if their book value is greater than the 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. In the case of loans of significant amounts impairment is assessed on a loan-by-loan basis. For loans that are of lesser amounts the Bank assesses impairment on a portfolio basis, taking into consideration the type and classification of loan, non-performance history and losses.

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 profit and loss upon receipt.

f) Real estate for investment

Real estate held for investment purposes are initially reported at cost, taking transaction costs into consideration. Cost includes purchase price and any other direct expense related to the transaction. Direct expenses include, for instance, fees paid for legal services, property transfer tax and other transaction costs.

At the end of subsequent years, the initial value of the real estate is adjusted to the market value by means of the fair value model based on the data provided by Group companies. Change in value is recognized in profit and loss. Real estate held for investment purposes does not depreciate.

g) Tangible and intangible assets

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

Building	6%
Equipment and furniture	9% - 14.5%
Software	16.7%
Hardware	33%
Vehicles	20% - 33%
Other fixed assets	9% - 14.5%

h) Project accounting applied when establishing the Bank Group

The Bank and FHB Services 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 Program Foundation Documents (PAO by its Hungarian acronym).
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.
Based on the project plans submitted, the Bank's Board of Directors passed a decision on launching the projects and provided for the availability of the necessary funds. The Board also made decisions regarding the necessity and feasibility of tasks under the projects, and stated its intent to conclude the projects in the form of Board resolutions. Since the initial decision to launch the projects the Directors invited the Bank's management to report on progress at Board meetings. The Directors also checked actual use of funds against the project budgets and established the projects can be completed from the funds committed, and declared the need to continue with the work.
Certain intellectual products (such as concepts, guidelines) cannot be capitalized. These items do not generate future economic benefits nor serve as basis of services offered but are necessary for the preparation of other products. The expenses attributable to such products are recognized in the relevant year's profit and loss in accordance with IAS 38.

i) Derivatives

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

Types of derivative transactions

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 Group companies hedge their risks in different ways depending on their risk management policy, for example by 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. Derivatives with a positive fair value are recognized under receivables (unrealized gains), and those with a negative fair value are recognized under liabilities (unrealized loss).

The Group also concludes hedge transactions with specific criteria with a view to avoid special risks.

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.

Upon concluding the hedge contract the Group drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets forth the method of effective hedging measurement.

Once the hedge is established, the Bank assesses whether the hedge transaction is expected to be effective in the long term in meeting the fair value attributable to the risk hedged or in offsetting cash flow changes. Hedges are reviewed on a quarterly basis. A hedge transaction is considered effective if, as a result, the fair value attributable to the risk hedged or the cash flow change offset by the hedge is within a range of 80-125% in the period to which the hedge refers.

In relation to fair value hedges that meet the conditions for hedge accounting, any gain or loss from adjusting the hedging instrument to fair value is recognized immediately in the P/L statement.

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 re-valued amount is recognized in the P/L statement proportionally, until 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 P/L statement in the period in which the hedged transaction affects the P/L statement, or are 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 P/L statement 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/loss for the period.

j) Deferred taxes

Tha Bank applies the liability method for calculating deferred taxes. Receivable and payable deferred taxes are determined using the tax rate applicable for the period in which the amounts are expected to be received or paid.

k) Current tax

Current taxes payable and refundable for the current and prior year are measured at the amount expected to be recovered from or paid to the tax authorities. The rates applied are in accordance with the provisions of the Hungarian taxation laws.

l) Liabilities

The Bank raises the bulk of the funds required for the Group's business by issuing mortgage bonds and bonds. The issued securities are recognized as other financial liabilities. They are reported initially at cost, and subsequently at cost adjusted with amortization, with the exception of mortgage bonds and bonds that are hedged items in fair value hedges. The securities involved in such transactions are reported at fair value, and changes in fair value are recognized in the profit/loss.

m) 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.

n) Pensions

In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual 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.

o) Repurchased 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.

p) Share option

The Bank reports share option benefits extended in shares at fair value, in accordance with IFRS 2. The fair value of shares involved in the share option scheme but not yet delivered is recognized as expenditure.

q) Annuity payment reserve

An annuity contract is an "insurance contract" for regular annuity payments. In accordance with IFRS 4 the Bank sets up a reserve for the calculated value of future payments under annuity contracts (calculated at current value and in consideration of death statistics). The amount in reserve is reviewed on a quarterly basis, when changes in the time that has elapsed since contracting and in death statistics are taken into account and the Bank adjusts the existing reserve to the current value of future annuity payments. The change is reported in the P/L statement. Annuity payments made are recognized as expenditure in the annuity payment reserve item. All fees, expenses and cost of funds with respect to the beneficiary of annuity or the real estate involved in the annuity contract are recognized as operating costs in the period they emerge.

r) Income and expenditure

Income from, and expenditure on, interest (vis-à-vis clients as well as the interest subsidy received from the Hungarian State) are recognized *pro rata temporis* by means of the effective interest rate method. Income from, and expenditure on, interest include the amortized discount or premium on securities. Income from interest includes loan disbursement fees also amortized with the effective interest rate method during the loan term. Income also includes all other income that are accounted in the period they arise.

s) Off-balance sheet items

In the ordinary course of business, the Group undertakes commitments that are considered off-balance sheet items, including commitments related to lending. Such instruments are recorded in the balance sheet when they become payable. The Bank sets up provisions for such commitments commensurate with the amount of potential future losses.

t) Contingent liabilities / contingent assets

Consequent to the Group's business, contingent liabilities are not recognized in the financial statements but are presented in the Report. They are disclosed unless the possibility of an outflow of resources embodying financial gains is remote.
Likewise, a contingent asset is not recognized in the financial statements but disclosed when an inflow of financial gains is probable.

u) 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.
Estimates are applied in the following areas:

- Fair value of financial instruments (Note 25)
- Share option (Note 22)
- Annuity payment reserve (accounting policy)
- Deferred tax on assets (Note 6)

- Loan impairment test and its result (accounting policy)

v) Post-period-end 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.

w) Segment information

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).

A business segment is a clearly delineated organizational unit that provides individual services or groups of interrelated services, and that are distinctly different from other business segments in terms of risks and yields.

The Bank takes the following factors into consideration when determining whether services are interconnected: nature of services, type or group of clients buying the services, methods applied in the course of service provision, and the regulatory environment. The Bank presents each segment whose contribution to (internal and external) revenue, earnings or balance sheet total is at least 10%, in consideration of other material provisions of IAS 14. The data related to the business segments thus established, i.e. own lending and refinancing, are separated in the balance sheet (under Notes 10 and 11) and in the profit and loss statement (under Note 3).

x) Offset

The Group offsets financial assets against financial liabilities and reports the net value in the balance sheet only if such offset is based on an enforceable right and the Group intends to net such financial assets and liabilities when settling, or wishes to realize receivables and settle dues simultaneously. When a financial asset is posted in a way that is not in conformity with the conditions of derecognition the Group does not offset the asset so posted against the related liability.

y) Foreign currency transactions

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 reported in retained earnings.

z) Trade date and settlement date accounting

A regular way purchase or sale of a financial asset is recognized on the date of delivery. The date of settlement is the day on which the Company takes possession of the asset. A regular way sale or purchase transactions is a transactions where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

3. INTEREST AND SIMILAR INCOME AND EXPENDITURE

	31 December 2007	31 December 2006
Income from interest		
Loans	26,059,823	23,899,007
Refinanced mortgage loans	23,986,648	25,403,232
Interbank loans	724,901	1,849,989
Securities	1,392,735	233,605
Interest on derivative transactions	8,375,805	4,465,005
Total	**60,539,912**	**55,850,838**

	31 December 2007	31 December 2006
Expenditure on interest:		
Mortgage bonds	33,007,925	31,906,767
Interbank deposits	1,444,938	669,250
Interest paid on deposits	82,412	-
Interest on bonds	472,041	-
Interest on derivative transactions	8,809,879	6,150,168
Other interest paid	120,312	13,215
Total	**43,937,507**	**38,739,400**

Income from interest for the period ended as at 31 December 2007 includes interest subsidies of HUF 26,643 million from the Hungarian State (2006: HUF 30,207 million).

a) Interest subsidy

Interest subsidy is available to debtors who have been granted loans in accordance with the specific provisions of Government Decree 12 of 2001 (31 January). 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 income from interest on subsidized mortgage loans. This additional tax is reported in operating costs.

b) 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:

i. Mortgage loans granted by the Bank or with syndicate partners; and
ii. Independent liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien 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 subsidized loans or mortgage bonds.

c) 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 subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

4. OPERATING COSTS

	Note	31 December 2007	31 December 2006
Staff costs	5	4,574,116	3,428,462
Valuation fees		-	379,390
Marketing and advertising		887,746	636,660
General and administrative costs		730,612	549,312
Rent		1,143,953	563,156
Depreciation	14	1,251,868	462,049
Consultancy fees		1,131,107	990,795
Maintenance costs		286,968	145,835
Other taxes paid		1,728,904	535,966
Insurance premiums		761,282	584,720
Information expenses		101,385	95,732
Other		255,285	84,435
Total		**12,853,226**	**8,456,512**

Valuation fees paid by the Bank for the independent collateral valuations are recharged to the customers. Therefore valuation expense of HUF 554,586 thousand (2006: HUF 980,501 thousand) has been netted off against the valuation income from customers in the amount of HUF 576,299 thousand (2006: HUF 601,111 thousand).
Other taxes paid include HUF 640,835 thousand local business tax (2006: HUF 466,302 thousand), and HUF 96,064 thousand innovation contribution (2006: HUF 69,330 thousand).

5. STAFF COSTS

	31 December 2007	31 December 2006
Wages and salaries	2,730,977	1,946,990
Social security contribution	987,496	825,123
Other personnel related payments	855,643	656,349
Total	**4,574,116**	**3,428,462**

Social security is payable by the Bank based on gross wages and salaries paid to employees. The average head count of the Bank during the period was 496 (2006: 364).
The calculated amount of share-based payment reserve (HUF 182,110 thousand) is recorded in the other personal payments. (2006: HUF 182,171 thousand).

6. INCOME TAX

	31 December 2007	31 December 2006
Current tax payable	1,064,473	2,295,640
Deferred tax refund / (expense)	181,539	(91,810)
Total	**1,246,012**	**2,203,830**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows: 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 2006 (Act CII of 2004).

Due to the cumulative effect of changes in relevant legislation effective from 1 January 2007 (Act CII of 2004 imposing the 8% bank tax was abrogated but a 4% solidarity tax is introduced pursuant to Act LIX of 2006 entered into effect) the applicable corporate income tax rate is 20%.

	31 December 2007	31 December 2006
Earnings before tax	**6,540,167**	**9,843,400**
Corporate income tax (20%)	1,308,033	2,362,416
Items modifying the Hungarian tax base	(60,493)	(74,552)
Tax on share option	(131,929)	(56,756)
Effect of general risk provision	(46,162)	(296,288)
Effect of change in tax rate	-	171,053
P/L of subsidiaries	384,517	97,957
IFRS deferred tax on interest rate change	(25,482)	-
IFRS impairment	(182,472)	-
Total	**1,246,012**	**2,203,830**

Breakdown of deferred taxes payable and receivable

	31 December 2007					31 December 2006				
	Assets	Liabilities	Net	P/L statement	Share-holders' equity	Assets	Liabilities	Net	P/L statement	Share-holders' equity
Statutory temporary differences	-	(4,047)	(4,047)	(4,766)	-	718		718	1,718	-
Depreciation difference from consolidation	-	(10,127)	(10,127)	(5,362)	-	-	(4,766)	(4,766)	(4,766)	-
Mark to market value of securities	-	-	-	-	-	-	-	-	(235)	-
Disbursement fee	-	(7,334)	(7,334)	(156,684)	-	149,350	-	149,350	19,532	-
Share option	65,555	-	65,555	29,121	-	36,434	-	36,434	36,434	-
Fair-value hedge	604	-	604	604	-	-	-	-	-	-
Annuity payment adjusted to fair value	3,782	-	3,782	3,782	-	-	-	-	-	-
Re-valuation of annuity related real estate	-	(133,151)	(133,151)	(133,151)	-	-	-	-	-	-
Trading derivatives	124,043	-	124,043	84,917	-	39,127	-	39,127	39,127	-
Cash flow hedge	492,590	-	492,590	-	492,590	470,983	-	-	-	470,983
Net tax receivable	**686,574**	**(154,659)**	**531,915**	**(181,539)**	**492,590**	**696,612**	**(4,766)**	**691,846**	**91,810**	**470,983**

7. DUES FROM THE NATIONAL BANK OF HUNGARY

There is no short-term deposit due from the National Bank of Hungary (NBH) at the end of the period (2006: HUF 19,000 million HUF). The balance of nostro account held by NBH is HUF 188 million (2006: HUF 318 million), deferred interest for the period is HUF 3 million. (2006: HUF 33 million).

8. INTERBANK DEPOSITS

	31 December 2007	31 December 2006
Nostro accounts	259,369	483,303
Term deposits	11,632,629	19,579,214
Total	**11,891,998**	**20,062,517**

9. SECURITIES AVAILABLE FOR SALE

	31 December 2007	31 December 2006
Government bonds	509,491	-
Discounted Treasury bills	4,219,128	2,854,666
NBH discounted bonds	16,981,303	-
Total	**21,709,922**	**2,854,666**

10. REFINANCED MORTGAGE LOANS

Act L of 2000, which amended other acts providing for financial organizations, introduced substantial changes to Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, modifying the role of commercial banks in the provision of mortgage loans. The amendment has introduced the possibility for using the mortgages as collateral cover for covered mortgage bonds and, at the same time, the possibility of their sale and purchase. Thus mortgage banks are now able to refinance the mortgage loans of commercial banks.

The Bank signed contracts with the several major Hungarian commercial banks to refinance mortgage loans; hence the mortgage loans are available in about 800 outlets. The balance as at 31 December 2007 includes loans disbursed to 72,295 individual retail customers (2006: 64,335).

11. LOANS

	31 December 2007	31 December 2006
Real estate purchase loans	112,110,594	103,651,164
Housing construction	51,119,531	46,940,123
Remodelling	4,639,375	4,386,351
Expansion	12,003,582	12,576,236
Other loans secured by real estate	83,510,987	43,551,429
Loans not secured by real estate	56,824	-
Loans to employees	1,664,978	1,493,426
Loans gross	**265,105,871**	**212,598,729**
Including: loans to retail customers	250,752,094	207,369,243
Loans to other bowwowers	14,353,777	5,229,486
Loan loss provision	(999,701)	(819,296)
Accrued interest	959,238	649,136
Amortized origination cost	36,669	(746,751)
Loan portfolio reported	**265,102,077**	**211,681,817**

Changes in impairment for loan losses:

	31 December 2007	31 December 2006
Impairment as at 1 January	819,296	546,906
Charge for the period	2,497,712	1,521,101
Release/charge during the period	(2,317,307)	(1,248,711)
Impairment as at end of period	**999,701**	**819,296**
Net effect of charge and release	181,149	272,390
Loans written off	-	-
Loss on loans sold	142,367	127,204
Loss on terminated loans	18,363	9,132
Charge/(release) for commitments	7,935	1,877
Losses on loans and advances	**349,814**	**410,603**

The aggregate amount of non-performing loans amounted to HUF 14,222 million at 31 December 2007 (2006: HUF 8,891 million).
Within the total balance of mortgage loans 99.55% have maturity over five years (31 December 2006: 99.46%).

The total outstanding mortgage loan principle does not exceed 70% of the aggregate collateral value of real estate cover that is required by the Section 5(3) of Act XXX of 1997 on Mortgage Loan Companies. As of 31 December 2007, LTV is 39.6%; 31 December 2006: 38.6%).

As of 31 December 2007 the total collateral value of real estate involved as ordinary collateral is HUF 1,339,929 million (31 December 2006: 1,212,236 million).

12. INVESTMENT

The HUF 644 thousand investment presented is the SWIFT membership share. The investment resulted in a holding under 1% .

13. REAL ESTATE FOR INVESTMENT

Real estate held for the purpose of investment are reported in conjunction with the Bank's annuity services.

	31 December 2007	31 December 2006
Gross value		
Opening balance	-	-
Increase	841,531	-
Re-valuation	-	-
Decrease	-	-
Closing balance	**841,531**	**-**
Adjustment		
Opening balance	-	-
Increase	665,756	-
Re-valuation	-	-
Decrease	-	-
Closing balance	665,756	-
Net value	**1,507,287**	**-**

14. TANGIBLE AND INTANGIBLE ASSETS 31 December 2007

	Leasehold improvement	Office equipment	Software	In-tangible assets	Total
Gross value					
Opening balance	388,223	2,418,906	5,015,420	504,403	8,326,952
Increase	557,010	893,730	2,904,716	110,663	4,466,119
Decrease	(63,457)	(31,107)	(1,386)	(24,515)	(120,465)
Closing balance	881,776	3,281,529	7,918,750	590,551	12,672,606
Depreciation					
Opening balance	74,961	892,909	702,569	139,899	1,810,338
Change for the period	51,149	539,275	563,179	98,265	1,251,868
Decrease	(8,129)	(13,513)	(419)	(12,908)	(34,969)
Closing balance	117,981	1,418,671	1,265,329	225,256	3,027,237
Net value	**763,795**	**1,862,858**	**6,653,421**	**365,295**	**9,645,369**

Of the HUF 2.9 billion increase in software in the period HUF 2.6 billion is related to the establishment of the Group.

	Leasehold improvement	Office equipment	Software	In-tangible assets	Total
Gross value					
Opening balance	310,070	1,243,924	1,115,466	361,473	3,030,933
Increase	78,153	1,194,799	3,937,893	160,107	5,370,952
Decrease	-	(19,817)	(37,939)	(17,177)	(74,933)
Closing balance	388,223	2,418,906	5,015,420	504,403	8,326,952
Depreciation					
Opening balance	55,463	613,224	476,802	92,874	1,238,363
Increase	19,498	296,470	262,424	64,097	642,489
Decrease	-	(16,785)	(36,657)	(17,072)	(70,514)
Closing balance	74,961	892,909	702,569	139,899	1,810,338
Net value	**313,262**	**1,525,997**	**4,312,851**	**364,504**	**6,516,614**

In the context of the impairment test of intangible assets the Group reviewed assets in the course of construction but not yet capitalized by 31 December 2007. The Bank established that the costs budgeted for the projects (HUF 2,820,800 thousand) and the actual costs incurred up to 31 December 2007 (HUF 2,839,583 thousand) are identical, and that each project relating to intangible assets is progressing according to plan. Exploitation of the product that are the expected outcome of the projects is certain, and none of the projects will be terminated without generating the expected outcome. No depreciation is reported on intangible assets in the course of construction.

15. OTHER ASSETS

	31 December 2007	31 December 2006
Active accruals	859,898	221,514
Reclaimable taxes	898,317	1,203,328
Settlements with the Hungarian State	2,187,094	2,567,029
Receivables from customers	124,075	102,370
Insurance premium reimbursed	8,767	200,439
Surety given	601,543	-
Other	197,469	81,669
Total	**4,877,163**	**4,376,349**

The balance of settlements with the Hungarian State includes one month's interest subsidy due from the State and not yet settled as of 31 December, 2007 (same as in 2006).
Surety was provided in conjunction with MasterCards offered.

16. INTERBANK DEPOSITS

Interbank deposits have a balance of HUF 12,667 million and include long-term FEX loans from non-Hungarian financial institutions (EUR 50 millions), short-term loans from domestic banks in the amount of HUF 18,399 million (2006: HUF 8,249 million), and the accrued interest for the period amounting to HUF 280 million (2006: HUF 337 million).

17. MORTGAGE BONDS

Mortgage bonds are transferable registered or bearer securities and, pursuant to Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds, 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 independent lien 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) Cover 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) Cover for the interest: the interest on the nominal value of the ordinary and supplementary 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 2007 HUF 149,160 million has a maturity exceeding five years (31 December 2006: 188,520 million).

a) Amortized cost of mortgage bonds

	31 December 2007		31 December 2006	
	Net book value	**Nominal value**	**Net book value**	**Nominal value**
Non-listed mortgage bonds				
Fixed interest	169,197,744	168,731,250	177,714,000	177,152,250
Floating interest	49,006,645	49,027,750	24,068,807	24,087,750
Listed mortgage bonds				
Fixed interest	145,857,337	146,127,290	179,365,271	179,509,400
Floating interest	56,713,539	56,885,180	57,142,735	57,372,680
	420,775,265	**420,771,470**	**439,508,349**	**439,159,150**
Accrued interest	16,179,409		16,149,108	
Item reported	***436,954,674***		***455,657,457***	***439,159,150***

b) Fair value of mortgage bonds

	31 December 2007		31 December 2006	
	Net book value	Nominal value	Net book value	Nominal value
Non-listed mortgage bonds				
Fixed interest	7,212,323	7,600,500	-	-
Floating interest	31,517,354	31,668,750	-	-
Listed mortgage bonds				
Fixed interest	-	-	-	-
Floating interest	17,665,042	17,734,500	-	-
	56,394,719	**57,003,750**	**-**	**-**
Accrued interest	529,751		-	
Item reported	***56,924,470***		***-***	***-***

In 2006 the Group did not have mortgage bonds appraised at fair value.

c) Mortgage bonds total (appraised at amortized cost and at fair value)

	31 December 2007		31 December 2006	
	Net book value	Nominal value	Net book value	Nominal value
Non-listed mortgage bonds				
Fixed interest	176,410,068	176,331,750	177,714,000	177,152,250
Floating interest	80,523,999	80,696,500	24,068,807	24,087,750
Listed mortgage bonds				
Fixed interest	145,857,337	146,127,290	179,365,271	179,509,400
Floating interest	74,378,581	74,619,680	57,142,735	57,372,680
	477,169,984	**477,775,220**	**439,508,349**	**439,159,150**
Accrued interest	16,709,160		16,149,108	
Item reported	***493 879 144***		***455,657,457***	***439,159,150***

18. BONDS

In 2007 the Bank launched bonds for the first time in addition to mortgage bonds.

Bonds are registered dematerialized securities. Pursuant to the provisions of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December) the Bank generates a document containing the data of the bond series. The document, which itself is not a security, is then deposited with KELER (Central Clearing House and Depository Ltd.).

Bonds incorporate the Bank's direct, unconditional, non-subordinate unsecured liabilities. Bonds are equal in rank to the Bank's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions. They include liabilities related to mortgage bonds issued by the Bank, which, pursuant to Sections 21 and 21 of the Act on Mortgage Loan Companies, are given precedence over all other unsecured non-subordinate liabilities in bankruptcy or foreclosure procedures instituted against the Bank.

As of 31 December 2007 the Bank's bond portfolio is HUF 47 billion, of which 10.5 billion matures in 2009 and 36.5 billion matures in 2010.

a) Amortized cost of bonds

	31 December 2007		31 December 2006	
	Net book value	Nominal value	Net book value	Nominal value
Non-listed bonds				
Fixed interest	-	-	-	-
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	3,977,707	4,000,000	-	-
Floating interest	-	-	-	-
	3,977,707	**4,000,000**	**-**	**-**
Accrued interest	59,932		-	
Item reported	***4,037,639***		**-**	**-**

b) Fair value of bonds

	31 December 2007		31 December 2006	
	Net book value	Nominal value	Net book value	Nominal value
Non-listed bonds				
Fixed interest	26,136,832	26,000,000	-	-
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	16,788,327	17,000,000	-	-
Floating interest	-	-	-	-
	42,925,159	**43,000,000**	**-**	**-**
	453,764		-	
Item reported	***43,378,923***		**-**	**-**

The Group issued no bonds before 2007.

c) Bonds total (appraised at amortized cost and at fair value)

	31 December 2007		31 December 2006	
	Net book value	Nominal value	Net book value	Nominal value
Non-listed bonds				
Fixed interest	26,136,832	26,000,000	-	-
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	20,766,034	21,000,000	-	-
Floating interest	-	-	-	-
	46,902,866	**47,000,000**	**-**	**-**
	513,696		-	
Item reported	***47,416,562***		**-**	**-**

19. DEPOSITS

As a lending institution the Bank holds deposits from clients. The deposit portfolio is as follows:

	31 December 2007	31 December 2006
Sight deposits		
Term deposits	505,702	-
Total	**3,599,089**	

As of 31 December 2006 the Bank held no sight or term deposits.

20. OTHER LIABILITIES

	31 December 2007	31 December 2006
Taxes payable	675,191	660,463
Creditors	1,452,850	1,324,251
Accrued expenses	685,899	402,386
Provision for commitments	15,526	7,711
Customer loan prepayments	1,117,387	632,268
Liabilities to shareholders	312,850	269,243
Liabilities on other financial services	45	655,657
Other	133,551	192,098
Total	**4,393,299**	**4,144,077**

Liabilities to shareholders includes dividend due but not yet received by shareholders.

21. SHARE CAPITAL

As of 31 December 2007 the Bank's share capital consists of 58,000,010 authorized, issued and fully paid ordinary shares of HUF 100 par value each and 8,000,000 authorized, issued and fully paid voting preference shares of HUF 100 par value each, i.e. a total of 66,000,010 shares of HUF 100 par value each.

The ownership structure of the Bank as at 31 December 2007 and 31 December 2006 is as follows:

	31 December 2007		31 December 2006	
Shareholder	**Holding %**	**Shares pc**	**Holding %**	**Shares pc**
Ordinary shares (Series "A")				
Hungarian State	-	-	50.00	33,000,010
Domestic institutional investors	49.13	32,425,272	10.98	7,249,509
Foreign institutional investors	37.85	24,979,670	24.58	16,185,389
Private investors	0.89	586,239	2.30	1,556,428
Treasury shares	0.01	8,829	0.01	8,674
	87.88	***58,000,010***	***87.88***	***58,000,010***
Voting preference shares (Series "B")				
Hungarian State	4.11	2,714,300	4.11	2,714,300
Institutional investors	8.01	5,285,700	8.01	5,285,700
	12.12	***8,000,000***	***12.12***	***8,000,000***
Total shares	**100.00**	**66,000,010**	**100.00**	**66,000,010**

In 2007 there was a major change in the Bank's ownership structure as the Hungarian State sold its entire packet of ordinary shares. See Note 1 for details.

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 diluting securities in existence at 31 December 2007 and 31 December 2006.

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

	31 December 2007	31 December 2006
Net earnings	5,294,155	7,639,570
Transfer to retained earnings	(456,042)	(706,462)
Attributable profit	**4,838,113**	**6,933,108**
Weighted average number of shares	65,972,959	65,987,548

b) 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:

i. Amendment to the Statutes, including the change of the form of operation of the Company;
ii. 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;
iii. Election of the members of the Board of Directors and of the auditor;
iv. 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 voting preference right can only be exercised in the General Meeting in person or by proxy.

22. SHARE-BASED BENEFITS

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.
In consideration of the stipulations of the Management Share Option Scheme and pursuant to the resolution passed by the OGM on 27 April 2007 the Bank repurchased 242,755 treasury shares in the first half (par value: HUF 24,275,500, price: HUF 379,044,438). On 7 May 2007 the Bank offered 242,600 shares of HUF 100 par value each to its managers. After completion the number of treasury shares held by the Bank was 8,829.

Treasury share data (pc)

	31 December 2007	31 December 2006
Opening number	8,674	2,060
Shares purchased	242,755	187,940
Shares offered	(242,600)	(181,326)
Closing number	**8,829**	**8,674**

The Bank's 2006 Annual General Meeting concluding the year 2005 approved a new two-year (2006-2007) share-based incentive scheme. Out of the Series "A" ordinary shares repurchased or newly issued not more than 27,500-27,500 thousand can be allocated to the managers each year provided the performance of the Bank's shares on BSE meets the criteria set forth in the Rules of Remuneration.

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

Criteria of drawdown:

- Simulation of share price movements 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 share have been defined by random numbers independent from each other and the probabilities of the successive days were also independent;
- Correlations between daily yields are also modelled;
- Model calculations are performed 10,000 times.

Determination of the drawdown price:

- The hypothetical date of drawdown was 01.06.2008;
- The average share price before dividend adjustment has been defined as the risk-free drawing price if the drawdown criterion was fulfilled, otherwise 0 was used, always provided the participants in the share option scheme are also be eligible in the current year.

Assessment of the turnover and profit criteria:

- The assessment of the turnover criteria has been performed using statistical methods (Chebishev inequalities, correlation calculations), as a result 1% or less is shown as the probability of non-fulfilment;
- Fulfilment of the profit criterion is based on executive estimation.

23. 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.

Although it is no longer required by Hungarian law, the Bank sets up a general reserve provision in accordance with its internal rules and its power of decision by law. The amount set aside is 1.25% of the assets risk weighted balance sheet total plus off-balance sheet items. In this Report the provision is set aside from retained earnings, with a view of compliance with the International Accounting Standards. As of 31 December 2007 the general risk provision amounted to HUF 2,655 million (31. December 2006: HUF 2,425 million).

24. COMMITMENTS

Off-balance sheet commitments comprise of irrevocable commitments to extend credit of HUF 9,559 million (2006: HUF 10,238 million).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 book 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 deposits with banks and with the Central Bank of Hungary as well as deposits from banks.

The value of the HUF 644 thousand SWIFT membership share disclosed under investment is reported at cost as its fair value cannot be established.

Securities available for sale: Securities available for sale 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.

a) Loans and refinanced 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 following:

- 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 re-priced 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 re-priced the model treats the loans as matured at the date of re-pricing, thus the Bank does not calculate with interest or subsidy further on.

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation. The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FEX values. The data presented herein refer to the Bank.

	31 December 2007		31 December 2006	
	Gross book value	Fair value	Gross book value	Fair value
Refinanced mortgage loans	308,351,696	335,098,885	269,190,180	307,888,296
Loans (not yet matured)	229,890,808	263,574,004	213,245,074	257,297,297

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

b) Mortgage bonds:

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 repayments are discounted to present value using the valuation yield curve.

c) Mortgage bonds carried at amortized cost

	31 December 2007		31 December 2006	
	Gross book value	Fair value	Gross book value	Fair value
Non-listed mortgage bonds				
Fixed interest	176,073,672	185,136,954	181,898,543	194,755,102
Floating interest	49,551,240	49,434,224	47,526,652	47,422,737
Listed mortgage bonds				
Fixed interest	153,114,129	153,332,795	171,074,147	171,616,894
Floating interest	58,215,633	58,419,227	55,158,115	55,481,302
Total	**436,954,674**	**446,323,200**	**455,657,457**	**469,276,035**

Gross book values include accrued interest.

d) Bonds issued:

The fair value of 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 bonds the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal repayments are discounted to present value using the valuation yield curve.

e) Bonds issued carried at amortized cost

	31 December 2007		31 December 2006	
	Gross book value	Fair value	Gross book value	Fair value
Non-listed bonds				
Fixed interest	-	-	-	-
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	4,037,639	4,024,110	-	-
Floating interest	-	-	-	-
Item reported	**4,037,639**	**4,024,110**	**-**	**-**

f) 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.

g) Fair value of derivative transactions

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

In the 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.

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.

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

The Bank classified most of its derivative transactions concluded in 2007 as fair value hedges under IAS 39. In keeping with the Bank's risk management policy and strategy, the purpose of these transactions was to hedge the exposure to changes in the fair value of FEX-denominated mortgage bonds, bonds or loans booked at fair value. The parameters of the hedging transaction (maturity, amount, FEX, rate, due dates, etc,) are identical with the parameters of the hedged instrument, and consequently its cash flow is identical with the cash flow of principal and interest.

h) Combined fair value of hedge instruments

	2007	2006
Hedging instruments of cash flow hedges	(2,655,840)	(2,772,298)
Hedging instruments of fair value hedges	177,834	(424,351)

i) Cash flow relating to cash flow (CF) hedge transactions (discounted values)

Year	Cash outflow	Cash inflow	Net CF	Net interest CF
2008	(4,404,888)	1,989,135	(2,415,753)	(2,415,753)
2009	(26,502,562)	25,562,121	(940,441)	(2,197,237)
2010	(10,774,648)	10,991,031	216,383	(822,302)
2011	(912,180)	553,183	(358,997)	(358,997)
2012	(852,741)	528,541	(324,200)	(324,200)
2013	(798,512)	505,153	(293,359)	(293,359)
2014	(748,524)	482,205	(266,319)	(266,319)
2015	(10,555,254)	12,281,897	1,726,643	(242,655)
Total	**(55,549,309)**	**52,893,266**	**(2,656,043)**	**(6,920,822)**

j) Values relating to cash flow (CF) hedge transactions reported in earnings or equity

	Reported in net income from interest	Reported in equity (excl. deferred tax effect)
2006	91,937	(447,443)
2007	(224,497)	(108,039)

No gains are generated due to non-effectiveness as the effectiveness of every CF hedge transaction is 100%.

k) Fair value hedges

In 2007 the Bank applies the fair value option allowed under IAS 39 for some of the new interbank deposits, mortgage bonds and bonds, and thus presents the hedged item at fair value in the balance sheet. Assessment of fair value is done on a cash flow basis as described above.

	Hedging instrument		Hedged instrument	
	2007	2006	2007	2006
Profit				
Exchange rate accounted (EUR)	1,258,655	-	-	-
CHF rates accounted	(373,970)	-	-	-
Interest outstanding but not yet due accounted (active)	988,546	-	-	-
Net gains from changes in fair value	-	-	449,566	-
Total	**1,873,231**	**-**	**449,566**	**-**
Loss				
Exchange rate accounted (EUR)	-	-	(1,258,655)	-
Interest outstanding but not yet due accounted (passive)	(681,455)	-	(988,547)	-
Net loss from changes in fair value of derivatives	(452,586)	-	-	-
Total	**(1,134,041)**	**-**	**(2,247,202)**	**-**

26. RISK MANAGEMENT

a) Overview

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

Risk management identifies, evaluates and analyses the exposure of the Group and its members. It processes the information gained and develops risk guidelines and acceptable exposure limits, and operates risk management systems.
The Group is basically exposed to lending, liquidity, market, and risks from operation.

27. Risk management structure

Board of Directors

The Board of Directors is responsible for the Group's risk management policy and strategy. The Board of Directors develops the basic framework rules for risk management and guidelines of applicable methodologies.

Based on the reports of the Director responsible for the Group's prudent operation and on regular risk exposure reports, the Board of Directors evaluates the Group's operation, and specifically its risk management activities and the level of exposure. If the level of exposure undertaken by the Group does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

The Supervisory Board is responsible for monitoring the overall risk and risk management processes within the Bank. In this context it supervises and monitors the suitability of methods and systems applied by the Bank in order to ensure compliance with the statutory capital adequacy requirements.

Group Assets and Liabilities Management Committee (GALCO)

GALCO makes Group level decisions with respect to assets and liquidity management, risk management, liquidity management and pricing issues.

Department of Risk Management

Risk Management is responsible for determining the requirements necessary for the Group's prudent operation. It develops the risk guidelines and exposure limits for the Group as a whole and for each company belonging to the Group, and monitors compliance with the limits.

- *As the unit responsible for independent lending risk control,* the Department undertakes tasks related to the development, supervision, validation and review of customer and partner rating systems. Furthermore, it evaluates and estimates risk parameters.

Bank Treasury

Bank Treasury is responsible for ensuring the Bank's and the Group's short-term and long-term liquidity, and for the operative management of liquidity, interest and exchange rate related risks.

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 reports its findings to the Supervisory Board and the Management.

It operates the internal control system which consists of management control and management information system incorporated in processes, and an independent internal control unit. This function encompasses all Group companies and all organizational units and is incorporated in day-to-day operation. It is traceable and provides feedback to the appropriate levels of management and control.

Property supervisor

Prior to their issue, the property supervisor reviews whether the Bank is in possession of adequate collateral for the issue and makes a statement accordingly.

Risk evaluation and reporting system

In areas of risk exposure where appropriate empirical data are available the Group applies statistical methods for the evaluation of risks. Statistical models are used for estimating expected and unexpected losses in most areas of exposure. Losses are evaluated according to a variety of stress scenarios.

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits refelct the Bank's strategy, willingness to undertake risks, and the market environment. The Group collects and analyses data about losses related to risk from operation.

As a result of risk assessment the Group determines the level of capital justified by the level of acceptable exposure.

GALCO evaluates the report on lending risk on a monthly basis. It reviews the reports on compliance with liquidity management limits and assets and liabilities management limits. Reports on risk from operation risk are submitted on a quarterly basis.

The Board of Directors evaluates the risk reports every quarter and exercises professional control over all components of the system through demanding reports from Management.

The Supervisory Board evaluates the reports on risks on a quarterly basis. It exercises its function of ongoing control through the Department of Internal Audit under its professional supervision.

28. Risk mitigation

Interest rate and exchange rate risks

The Bank manages interest rate and exchange rate risks through derivative transactions.

Lending risk

Lending risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation and do not service the loans they borrowed from the Bank.

The Group rates the creditworthiness of its clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitors clients' and partners' rating on an ongoing basis.

Lending consists primarily of extending loans with (mainly residential) real estate cover. Lending risk stems from risks related to borrowers, to cover, or to partner risk involving partner banks refinanced through independent mortgage lien purchases.

Product development gave rise to standardized loan schemes, which allows simplification of lending risk management. The client portfolios of the resulting products are characterized by large numbers of clients and small amounts of individualized loans. This diversification reduces the level of exposure compared to portfolio size.

The Bank applies stringent regulations relating to determining the scope of collaterals eligible for coverage, their valuation and coverage ratio. The collateral value of real estate covering mortgage loans is established by FHB also for the refinanced loans portfolio.

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.

Lending risk relating to hedge swaps is limited to the amount of positive fair value over and above margin accounts.

Gross maximum lending risk exposure:

	31 December 2007	31 December 2006
Receivables from National Bank of Hungary		
Interbank deposits	11,891,998	20,062,517
Securities for sale	21,709,922	2,854,666
Refinanced mortgage loans	294,719,978	269,190,180
Loans	266,101,778	212,501,113
Fair value of derivative transactions	6,288,603	2,540,266
Other assets	4,877,165	4,367,453
Total	**605,780,872**	**530,866,915**
Guarantees, L/C	-	-
Commitments	9,559,495	10,237,600
Total	**9,559,495**	**10,237,600**
Total lending exposure	**615,340,367**	**541,104,515**

29. Loan portfolio quality

The following tables present the Bank's and FHB Commercial Bank Ltd.'s receivables and commitments. The refinanced mortgage loans item comprises consolidated data. Interbank deposits and loans are unconsolidated.

	Portfolio of loans not in default and unimpaired	Portfolio of loans in default or impaired	Total
	2007	2007	2007
	HUF million	HUF million	HUF million
Interbank deposits and refinanced mortgage loans	338,431	34	338,465
Loans	274,501	11,540	286,041
To corporate customers	27,713	28	27,741
To retail customers	246,788	11,512	258,300
Total	**612,932**	**11,574**	**624,506**

As of 31 December 2007 the Company has HUF 12,656 million to cover for loans in default or impaired.

	Portfolio of loans not in default and unimpaired	Portfolio of loans in default or impaired	Total
	2006	2006	2006
	HUF million	HUF million	HUF million
Interbank deposits and refinanced mortgage loans	293,511	-	293,511
Loans	218,824	6,494	225,319
To corporate customers	11,039	-	11,039
To retail customers	207,785	6,494	214,280
Total	**512,335**	**6,494**	**518,830**

As of 31 December 2006 the Company had HUF 6,650 to cover for loans in default or impaired.

Lending risk exposure in terms of internal risk classification

Class	***Historic default rate 2007 (%)***	***Uncovered 2007 HUF million***	***Total 2007 HUF million***
CLASS_1	0.0	611	611
CLASS_2	0.0	1,561	1,561
CLASS_3	0.6	14,299	246,902
CLASS_4	1.0	3,444	196,407
CLASS_5-7	2.7	24,824	136,594

Class	Historic default rate 2006 (%)	Uncovered 2006 HUF million	Total 2006 HUF million
CLASS_1	-	-	-
CLASS_2	-	230	230
CLASS_3	0.2	15,482	278,408
CLASS_4	1.0	5,388	68,140
CLASS_5-7	1.0	1,795	164,180

The table shows the Bank gross outstanding loans portfolio (interbank deposits, refinanced mortgage loans and loans) less default principal.
In accordance with its risk management policy, the Bank classifies its loan portfolio in different rating categories. Retail customers are rated into five categories (classes). Other partners (mainly credit institutions) are rated into seven categories. The Bank consolidated the two sets of classes in the above table, in this way the historical default rates of the entire portfolio are combined and broken down in terms of rating classes.
The effectiveness of rating systems are reviewed annually. Appropriateness of classification is reviewed on a quarterly basis.

Age analysis of loans in default but unimpaired

	31-90 days 2007 HUF million	31-90 days 2006 HUF million
Interbank deposits and refinanced mortgage loans	-	-
Loans	5,007.2	2,746.1
Corporate customers	-	-
Retail customers	5,007.2	2,746.1
Total	**5,007.2**	**2,746.1**

It is mandatory to set up provision for impairment for transactions that have been in default for at least 90 days.
In accordance with the Company's internal rules and regulations transactions under HUF 10 thousand and in default for under 31 days are considered transactions in technical default.

30. Covers and other means for improving rating

Covers for lending risk applied by FHB Group:

Real estate cover
The Bank extends or purchases loans only if secured by (independent or collateral) mortgage on real estate of a durable value and located in Hungary, and purchases independent liens on such real estate.

Real estate is valued by independent valuation agents who are not involved in decision making regarding the loan. The Bank takes real estate into consideration at a conservatively established collateral value.

State guarantee

All instances of State guarantee accepted by the Bank involve joint and several liability set forth by law. It was not necessary to conclude guarantee agreements with the Hungarian State as the rules governing the guarantee are laid down in the relevan statutory provisions. The Bank applies this type of cover in the following two cases:

- Loans extended to private individuals employed in the public sector; and
- Housing loans extended to young clients partially covered by State guarantee.

Surety

Surety can take the form of cash or bank deposit, Government securities or debt securities issued by a credit institution.
The Bank accepts surety on bank accounts as cover for housing and commercial property development project financing, and for loans extended with commercial real estate cover.

In addition to the above the Group also accepts joint and several guarantee by third party (where the third party is other than the Hungarian State), as well as assigned claims, lien on claims, home savings assigned to the Bank; insurance (for example property and life insurance) assigned to the Bank, and lien, surety or option on holding or share possessed by the borrower giving the right to participate in company capital.

31. Market risk

Due to the nature of its business as a mortgage bank and to the special legal regulation relating to it, FHB Plc. has a distinctive assets and liabilities structure within the Hungarian banking system as its assets and liabilities are essentially long-term and raises most of its funds in the capital market.
In terms of liquidity and market risk, as leading member of the Group, it is the Bank's duty to provide the necessary funds and manage risks for the Group as a whole and for each Group company.
Exposure of A/L and off-balance sheet items to maturity, interest rate and exchange rate risks is kept at a low level. The Bank does not undertake a position for trading purposes and only uses derivative transactions for hedging purposes.

32. Interest rate risk

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

Average portfolio of interest earning assets and interest bearing liabilities of FHB Mortgage Bank Plc. in the period

	31 December 2007		31 December 2006	
	Average net A/L	Average interest rate %	Average net A/L	Average interest rate %
Interest earning assets				
Interbank loans and receivables from NBH	27,483,731	4.83	31,354,089	5.55
Refinanced mortgage loans	281,593,308	8.53	266,537,387	9.51
Securities for sale	17,122,744	8.02	3,484,032	6.68
Loans	222,522,309	11.31	193,557,841	12.21
Total interest earning assets	**548,722,092**	**9.45**	**494,933,349**	**10.30**
Interest bearing liabilities				
Interbank deposits	43,854,978	3.79	33,693,603	2.08
mortgage bonds	470,121,786	7.13	431,412,267	7.40
Deposits	958,879	6.36	-	-
Total interest bearing liabilities	**514,935,643**	**6.84**	**465,105,870**	**7.01**

Interest rate risk exposure – sensitivity analysis (figures in HUF million)

	Sensitivity of interest from income 2007	Sensitivity of equity (2007)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	(0.4)	0.5	(0.8)	(12.9)	(10.4)	(23.5)
EUR	(0.4)	(0.4)	-	-	-	(0.4)
CHF	(4.3)	1.6	0.8	-	-	-

	Sensitivity of interest from income 2007	Sensitivity of equity (2006)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	(1.4)	(0.1)	(0.9)	(18.6)	(12.2)	(31.7)
EUR	0.1	-	(1.0)	1.5	-	0.5
CHF	(2.0)	0.6	(1.3)	(0.1)	(0.1)	(0.9)

Sensitivity of net income is the estimated effect of one base point change in interest rates to net income from interest realized in advance over a period of a year, based on floating rate financial assets and liabilities or A/L to be re-priced next year carried as of 31 December 2007. Sensitivity of equity means the re-valuation of all financial assets and liabilities and off-balance sheet positions. This has been done in terms of A/L maturity. Full-fledged sensitivity of shareholders' equity is based on the presumption that the yield curve moves in parallel, while analysis by maturity groups highlights sensitivity to non-parallel movements.

33. Exchange rate risk management

The Mortgage Bank is a specialized credit institution, which narrows the scope of business where exchange rate-related risks may arise. Moreover, the Bank's business policy is to keep exchange rate risk at a low level.

The Bank strives to immediately hedge the exchange risks related to its core business, i.e. mortgage lending, refinancing and financing though mortgage bonds, as allowed by market circumstances. Therefore an open FEX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals in currencies in which the Bank keeps a nostro account.

Assets and liabilities by currency as of 31 December 2007:

	EUR	CHF	USD	HUF	Total
Assets					
Cash	55,485	16,697	4,391	411,314	487,887
Receivables from	-	-	-	191,428	191,428
Interbank	1,516,197	4,043,957	30,598	6,301,246	11,891,998
Securities for sale	-	-	-	21,709,922	21,709,922
Refinanced	1,195,208	108,553,463	-	184,971,307	294,719,978
Loans	10,241,934	101,653,618	-	153,359,290	265,102,077
Investment	644	-	-	-	644
Real estate for	-	-	-	1,507,286	1,507,286
Fixed assets	-	-	-	9,645,369	9,645,369
Derivative financial	-	-	-	6,288,603	6,288,603
Other assets	-	13,331	602,661	4,793,086	5,409,078
Total assets	13,009,468	214,281,066	637,650	389,026,087	616,954,271
Future receivables	225,363,302	-	-	55,697,284	
Total assets:	238,372,770	214,281,066	637,650	444,723,371	898,014,857

	EUR	CHF	USD	HUF	Összesen
Liabilities					
Interbank deposits	27,752,415	3,051,909	-	541,653	31,345,977
Mortgage bonds	210,344,339	-	-	283,534,805	493,879,144
Bonds issued	-	-	-	47,416,562	47,416,562
Deposits	2,409	-	-	3,596,680	3,599,089
Derivative financial liabilities	-	-	-	3,877,636	3,877,636
Reserve for annuity payment	-	-	-	385,175	385,175
Other liabilities	218,492	682,465	833	3,491,509	4,393,299
Total liabilities	**238,317,655**	**3,734,374**	**833**	**342,844,020**	**584,896,882**
Shareholders' equity	-	-	-	**32,057,389**	**32,057,389**
Liabilities plus shareholders' equity	**238,317,655**	**3,734,374**	**833**	**374,901,409**	**616,954,271**
Future liabilities	-	210,625,701	621,396	60,717,500	271,964,597
Total liabilities	**238,317,655**	**214,360,075**	**622,229**	**435,618,909**	**888,918,868**
Position	55,115	(79,009)	15,421	-	-

Assets and liabilities as of 31 December 2006:

Total assets	**164,800,121**	**117,047,440**	**413,141,008**	**694,988,569**
Total liabilities	**164,099,062**	**117,081,961**	**410,365,723**	**692,177,497**
Position	**70,309**	**(34,521)**	-	-

FEX risk (in the case of 1% change in exchange rate), HUF million

FEX	Effect on EBT (31.12.2007)	Effect on capital (31.12.2007)	Effect on capital (31.12.2006)
EUR	(2.0)	(1.64)	(6.20)
CHF	14.0	(35.08)	4.32

34. Prepayment risk

Prepayment risk means the potential risk that the Bank may suffer losses when clients and refinancing partners partially or entirely repay their outstanding mortgage loans or refinanced loans respectively before the due date in the loan agreement. The impact of prepayment risk on both assets and liabilities is presented in the statement.
The following method was applied to quantify the effect on net income from interest:
An annual prepayment rate was determined on the basis of actual amounts prepaid and gross average receivables from outstanding loans. Then income from interest was netted of internal settlement interest. The resulting net income from interest was geared to the amount of outstanding loans for the year and this resulted in the average interest margin on loans for the year. The series of average loans, average prepayment rate and average net interest margin for the period shows the projected effect of prepayments on net income from interest.
The following method was applied to quantify the effect on shareholders' equity:
The effect on net income from interest was adjusted by the actual income from prepaid fees for the period. The effect on corporate income tax was disregarded.

	Effect on net income from interest	Effect on shareholders' equity	Effect on net income from interest	Effect on shareholders' equity
	2007	2007	2006	2006
	HUF million	HUF million	HUF million	HUF million
Loans	**(666)**	**(285)**	**(438)**	**(260)**
HUF	(501)	(252)	(389)	(242)
EUR	(19)	(11)	(2)	-
CHF	(146)	(22)	(47)	(18)
Refinanced mortgage loans	**(582)**	**250**	**(457)**	**269**
HUF	(544)	198	(443)	237
EUR	(1)	1	(1)	2
CHF	(37)	51	(13)	30
Total	**(1,248)**	**(35)**	**(895)**	**9**

35. Liquidity and maturity risk

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

Age analysis of the Bank's assets and liabilities according to maturity of principal as of 31 December 2007:

	At sight	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Over 15 year	Total
Banking assets								
Cash	487,887	-	-	-	-	-	-	487,887
Interbank deposits	257,927	11,618,801	-	-	-	-	-	11,876,727
National Bank of Hungary deposits	188,772	-	-	-	-	-	-	188,772
Securities for the purpose of sale	-	19,420,115	2,289,808	-	-	-	-	21,709,923
Refinanced mortgage loans	-	4,071,069	11,365,030	65,615,532	81,255,507	80,013,529	52,064,287	294,384,954
Loans (gross)	616,642	3,034,498	11,293,566	59,775,849	72,694,363	56,799,458	57,891,495	265,105,871
Total banking assets	**1,551,228**	**38,144,483**	**24,948,404**	**125,391,381**	**156,949,870**	**136,812,987**	**109,955,782**	**593,754,135**
Banking liabilities								
Interbank deposits	-	18,410,772	12,667,500	-	-	-	-	31,078,272
Mortgage bonds (nominal value)	-	-	13,886,070	57,159,085	257,569,665	131,468,400	17,692,000	477,775,220
Bonds (nominal value)	-	-	-	-	47,000,000	-	-	47,000,000
Deposits	3,102,811	493,878	2,400	-	-	-	-	3,599,089
Total banking liabilities	**3,102,811**	**18,904,650**	**26,555,970**	**57,159,085**	**304,569,665**	**131,468,400**	**17,692,000**	**559,452,581**
Net position	**(1,551,583)**	**19,239,833**	**(1,607,566)**	**68,232,296**	**(147,619,795)**	**5,344,587**	**92,263,782**	**34,301,554**
Cumulative position	**(1,551,583)**	**17,688,250**	**16,080,684**	**84,312,980**	**(63,306,815)**	**(57,962,228)**	**34,301,554**	

Age analysis of the Bank's assets and liabilities according to maturity of principal as of 31 December2006:

	At sight	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Over 15 year	Total
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**
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**	**(102,539,170)**	**(129,437,202)**	**(27,208,315)**	**40,161,854**	

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 (repurchasing bonds issued by the Bank).

The table above shows an age 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 mortgage bonds issued by the Bank are presented at actual due principal amounts disclosed in the related information memoranda and programs 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. Interbank deposits NBH deposits and refinanced mortgage loans are not affected by accrued interest.

Interest bearing liabilities according to re-pricing dates as of 31 December 2007:

	At sight	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Over 15 year	Total
Banking assets								
Financial assets (including nostro)	937,241	-	-	-	-	-	-	**937,241**
Interbank deposits	-	11,618,801	-	-	-	-	-	**11,618,801**
NBH deposits	-	16,981,303	-	-	-	-	-	**16,981,303**
Securities for sale	-	2,501,226	2,224,738	-	-	-	-	**4,725,964**
Refinanced mortgage loans	-	69,784,860	147,323,633	74,344,177	2,682,634	249,650	-	**294,384,954**
Loans (gross, incl. Loans to employees)	56,824	61,640,997	107,873,062	86,078,229	9,372,869	83,891	-	**265,105,871**
Total banking asets	**994,065**	**162,527,187**	**257,421,433**	**160,422,406**	**12,055,503**	**333,541**	**-**	**593,754,135**
Banking liabilities								
Interbank borrowings	-	31,078,272	-	-	-	-	-	**31,078,272**
Mortgage bonds (face value)	-	38,163,460	158,148,480	157,637,880	106,133,400	17,692,000	-	**477,775,220**
Bonds	-	-	-	47,000,000	-	-	-	**47,000,000**
Deposits from clients (surety)	3,114,687	285,185	198,917	300	-	-	-	**3,599,089**
Refinancing	-	-	-	-	-	-	-	**-**
Total banking liabilities	**3,114,687**	**69,526,917**	**158,347,397**	**204,638,180**	**106,133,400**	**17,692,000**	**-**	**559,452,581**
Net position	**(2,120,622)**	**93,000,270**	**99,074,036**	**(44,215,774)**	**(94,077,897)**	**(17,358,459)**	**-**	**34,301,553**
Cumulative position	**(2,120,622)**	**90,879,648**	**189,953,684**	**145,737,909**	**51,660,012**	**34,301,553**	**34,301,553**	**68,603,107**

Interest bearing liabilities according to re-pricing dates as of 31 December 2006:

	At sight	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Over 15 year	Total
Total banking assets	954,714	87,595,188	173,163,394	250,437,452	10,942,787	630,946	8,692	523,733,173
Total banking 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

36. Management of risk from operation

Risk from operation is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The Bank's management considers feedback to be particularly important in terms of operations-related risk management as this is the tool to check the effectiveness of measures taken to eliminate risks.

37. Other disclosures in accordance with IFRS 7

a) Book value of financial assets and financial liabilities

	Book value	Book value
Financial assets	**31.12.2007**	**31.12.2006**
Financial assets at fair value against P/L	6,288,603	2,540,267
Including: those initially presented at fair value	6,288,603	2,540,267
Including: those kept for trading	-	-
Investment kept to maturity	-	-
Loans and receivables	572,393,367	520,322,362
Financial assets available for sale	21,710,566	2,854,666
Total	**600,392,536**	**525,717,295**
Financial liabilities		
Financial liabilities at fair value against P/L	115,227,107	3,264,553
Including: those initially presented at fair value	115,227,107	3,264,553
Including: those kept for trading	-	-
Financial liabilities reported at amortized cost	464,891,301	500,406,286
Total	**579,906,132**	**503,670,839**

Financial assets do not include the book value of real estate kept for the purpose of investment, tangible assets, intangible assets, deferred taxes due and other assets. Financial liabilities do not include other liabilities and the items of shareholders' equity.

b) Calculation of adjusted capital, capital adequacy and ROE

The calculation of adjusted 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.

Based on the guidelines of the Committee of European Banking Supervisors (CEBS) the Bank will omit the effect of the cash flow hedge reserve in the future with respect to equity based financial indicators.

Due to the fact that the cash flow hedge reserve can cause significant variances between the adjusted capital and shareholders' equity compared to the previous period, the Bank will also disclose the adjusted capital and the indicators calculated based on the adjusted capital separately.
The Tier 1 capital adequacy ratio calculated accordingly was 12.0 % as of 31 December 2007 as opposed to 14.1 as of 31 December 2006.

DESCRIPTION	31 December 2007	31 December 2006
Risk weighted assets		
Balance sheet items	215,625	184,470
Off-balance sheet items	9,298	4,743
Total risk weighted assets	**224,923**	**189,213**
Tier 1		
Share capital	6,600	6,600
Repurchased treasury shares	(19)	(12)
Share premium	1,709	1,210
General reserve	3,060	2,603
Share option reserve	182	182
Retained earnings	22,507	20,794
Change in fair value of financial assets available for sale	(11)	(6)
Total Tier 1 capital excluding cash flow hedge reserve	**34,028**	**31,371**
Intangible assets	(7,019)	(4,677)
Total adjusted capital	**27,009**	**26,694**
Capital adequacy (%)	**12.0**	**14.1**
ROAE (return on average equity %)	**16.2**	**26.5**

The decrease in ROAE in 2007 is the result of additional costs incurred in conjunction with strategic implementation.

38. TRANSACTIONS WITH MEMBERS AND ASSOCIATED ENTERPRISES

An enterprise is regarded associated if it has the power of control over, or has a significant influence in, decisions relating to the finances and operation of another enterprise. For the purposes of this Report, associated parties also include shareholders whose holding in the Bank exceeds 10%, and the Bank's Management and members of the Board of Directors and of the Supervisory Board. The Bank enters into transactions with associated parties on a market basis.

	31 December 2007	31 December 2006
Loans to executives, members of the Board of Directors and Supervisory Board	82,853	102,973
Emoluments		
Salary	78,775	92,556
Bonus	196,343	54,977
Premium	-	87,115
Honorarium	47,487	45,768
Shares	272,402	150,869
Total emoluments	**595,007**	**431,285**

8 Annexes

8.1 Structure of securities

A forgalomba hozott jelzáloglevelek értékesítéséből befolyó összegeket a Bank a jelzáloghiteleinek finanszírozására használta fel. Az üzleti tevékenységről szóló beszámolóban található hitelfolyósítások dinamikus növekedése mutatja a befolyó összegek hasznosulását.

8.1.1 Issued securities by FHB

FHB has 47 mortgage bond series in circulation, in the amount of HUF **477,775.22 million face value**. (Series denominated in EUR were calculated to HUF by FX middle rate of National Bank of Hungary as at December 31, 2007).

Mortgage bond series with **fixed interest rate are 33, their summarized face value is HUF 322.5 billion.***

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
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.	8.50	At maturity
FJ08NF02/ HU0000650304	14.10.2002.	5,948.76	Opened	16.03.2008.	9.50	At maturity
FJ08NF03/ HU0000650346	11.11.2002.	10,000	Opened	15.04.2008.	9.25	At maturity
FJ08NF04/ HU0000650379	09.12.2002.	9,235.96	Opened	15.05.2008.	8.50	At maturity
FJ08NF05/ HU0000650429	13.01.2003.	9,657.37	Opened	15.06.2008.	8.00	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.	7.50	At maturity
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/	19.02.2004.	19,706.25	Closed	03.03.2012.	10.55	At maturity

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalmen t
HU0000650825						
FJ12ZF02/ HU0000650882	02.04.2004.	19,125	Closed	02.04.2012.	10.00	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.	€ 3.650	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.	€ 3.900	At maturity
FJ15ZF02/ HU0000651369	18.05.2005.	50 M €	Closed	18.05.2015.	€ 3.875	At maturity
FJ11NF01/ HU0000651476	10.10.2005.	2,768.63	Opened	12.10.2011.	6.50	At maturity
FJ11ZF03/ HU0000651716	13.10.2006.	500	Closed	13.10.2011.	8.44	At maturity
FJ08ZF03/ HU0000651781	13.02.2007.	1,000	Closed	13.02.2008.	8.00	At maturity
FJ22ZF01/ HU0000651831	22.03.2007.	20 M €	Closed	22.03.2022.	€ 4.50	At maturity
FJ12ZF03/ HU0000651872	16.05.2007.	10 M €	Closed	16.05.2012	€ 4.50	At maturity
FJ12ZF04/ HU0000651906	14.06.2007.	500	Closed	14.06.2012.	7.00	At maturity
FJ12ZF05/ HU0000641971	12.10.2007.	500	Closed	12.10.2012.	7.00	At maturity

*calculation with MNB middle rate as at 31.12.2007. (1€=253,35Ft)

Mortgage bond series with **non-fixed interest rate are 14, their summarized face value is HUF 155.3 billion.***

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
FJ08ZV01/ HU0000650056	13.07.2000.	1,000	Closed	13.01.2008.	- 11.3 - 1 year ÁKK ref. - 7.20	At maturity
FJ08ZV02/ HU0000650106	30.01.2001.	78	Closed	30.01.2008.	- 11.3 - 1 year ÁKK ref. - 7.10	In the 5., 6. and 7. year (30-40-30%) instalments
FJ11ZV01/ HU0000650148	15.05.2001.	1,080	Closed	17.05.2011.	- 11.2 - 1 year ÁKK ref. - 7.40	In the 9.and 10. year (50%-50%) instalments
FJ09NV01/ HU0000650155	06.09.2001.	4,739.29	Opened	12.09.2009.	- 11.1 - 1 year ÁKK ref. - 8.60	In the 7.and 8. year (50%-50%) instalments
FJ12NV01/ HU0000650205	11.03.2002.	11,609.89	Opened	13.03.2012.	- 9.25 - 1 year ÁKK ref. - 7.20	In the 9.and 10. year (50%-50%)

FHB/ISIN code	Date of issue	Face value (HUF million)	Type of distribution	Maturity	Starting rate (%)/ floater	Instalment
						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 havi Euribor - 3.884 (€)	At maturity
FJ10NV01/ HU0000651823	21.03.2007.	80 M €	Opened	21.09.2010.	- 4.159 (€) - 6 months Euribor - 4.159 (€)	At maturity
FJ14ZV01/ HU0000651898	25.06.2007.	100 M €	Closed	25.06.2014.	- 4.329 (€) - 3 havi Euribor - 4.893 (€)	At maturity
FJ12ZV01/ HU0000651971	12.10.2007.	10 M €	Closed	12.10.2012.	- 5.204 (€) - 6 months Euribor - 5.204 (€)	At maturity
FJ08ZV03/ HU0000651971	13.12.2007.	25 M €	Closed	15.12.2008.	- 5.431 (€) - 6 months Euribor - 5.431 (€)	At maturity

*calculation with MNB middle rate as at 31.12.2007. (1€=253,35Ft)

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

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

8.1.3 Issued securities owned by management

The management did not own mortgage bonds issued by the Bank at 31 December, 2007. FHB shares owned by management is presented in point 10.2.2.

8.2 Management, employment

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

	Beginning of year January 1, 2007	1st quarter March 31, 2007	2nd quarter June 30, 2007	3rd quarter September 30, 2007	End of year December 31, 2007
Bank	141	106	96	101	92
Consolidated	436	478	496	520	532

8.2.2 Persons in senior positions

Type [1]	Position	Position	Beginning of mandate	End / termination of mandate	Shares held (pcs)
IT	István Somkúti	member	27.04.2007.	27.04.2012.	0
IT	Dr. Gábor Borsányi	member	12.05.2006.	12.05.2011.	8,000
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.	11,972
IT	Dr. Gábor Csányi	member	28.05.2005.	22.12.2007.	0
IT	Dr. Márton Vági	Elnök	21.04.2006.	21.04.2011.	0
FB	Róbert Somfai	Elnök	27.04.2007.	27.04.2012.	5,000
FB	Ágnes Winkler	member	27.04.2002.	27.04.2012.	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.	0
FB	Nguyen Viet	member	02.05.2006.	02.05.2011.	1,500
FB	Márta Szántó	member	02.05.2006.	02.05.2011.	0
SP	Jenő Siklós	Deputy CEO	21.10.1997.	indefinite	6,310
SP	Tamás Foltányi	Deputy CEO	07.11.2005.	indefinite	0
Shares held (pcs) T O T A L :					**43,474**

[1] Person in strategic position (SP), Member of Directory Board (IT), Member of Supervisory Board (FB)

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, 29 April 2008.

Dániel Gyuris Chief Executive Officer	Jenő Siklós Deputy CEO