



**Stock Market Annual Report of
FHB Land Credit and Mortgage
Bank for 2004**

Budapest, 28 April 2005

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1 Brief history of FHB

FHB Land Credit and Mortgage Bank Company, a specialised 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 until April 2002, when the Hungarian Privatisation and State Holding Company (ÁPV Rt.) became sole proprietor of the Bank, after buying out the commercial banks and MFB.

The business activities reflecting FHB's new strategy commenced in February 2000. Since then, the main components of the Bank's strategy relying on home lending have remained unchanged. 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 2003 refinancing loans contributed almost two-thirds 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.

FHB was partially privatised 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.

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 organisation of the three Hungarian mortgage loan institutions was established in the fall of 2002.

2 Macroeconomic and monetary environment in 2004

2.1 The economic environment in 2004

According to the International Monetary Fund (IMF), following an increase of 3.9 percent in the year 2003, global economic growth accelerated to 5.0 percent. As regards the aggregate Gross Domestic Product of the EU Member States in the Euro zone, EUROSTAT anticipates a GDP growth of 2.0% for the year 2004 as its first estimate.

The **growth of Hungary's economy continues to be dynamic** in an international comparison. Based on the preliminary data, the rate of growth was nearly twice as high as the average value calculated for the EU-15. The structure of economic growth was favourable, powered by industrial production based on exports, and on the demand side relying upon the vigorous expansion of foreign trade and the intensification of investments. Industrial production increased by 8.3% compared to the preceding year. Export sales grew by 15.7% while domestic sales dropped by 0.01%. The volume of retail turnover increased by 5.7% in 2004. Consumer demand – unlike the previous three years – increased slower than GDP in 2004. The structure of GDP usage has moved to a positive direction considering the future economic development and balance.

According to the preliminary data of the National Bank of Hungary the deficit of the current account balance in the period between January and September amounted to 5.3 billion Euros, 509 million Euros more than in the preceding year. The deficit exceeded the base year figure in each quarter. In the first nine months of the year the balance of commodities turnover improved, the balance of several main components of the current account balance deteriorated compared to the same period in the previous year. During the first three quarters of 2004, foreign direct investment arrived to Hungary in a total value of 2.3 billion Euros: this exceeded by more than half billion Euros the figure for the same period in 2003.

Foreign trade deficit in 2004 achieved 3.85 billion Euros (320 million Euros less than the previous year), at current prices exports increased by 15%, so did imports by 13%.

The consolidated **deficit of public finances** (excluding local governments) – based on the preliminary data of the Ministry of Finance – amounted to HUF 1,284 billion in 2004 following a decrease by HUF 151 billion in December. In the course of twelve months – compared to the preceding year – the non-consolidated revenues of public finances grew by 8.6% while expenditures increased by 10.1%. Majority of the deficit emerged in the central government budget.

The dynamic development of the construction industry persisted in 2004, as well: production volume during last year increased by 6.8% compared to the preceding year. The increase was still principally the result of road construction investments, the construction of buildings was of smaller volume in each month since May – compared to the 2003 figures –, nevertheless the performance concerning other (infrastructure) constructions exceeded the figures of the previous year in each month since June, and an annual growth of 21.9 % was achieved.

In 2004, **44 thousand new homes were accepted for use**, by 24 % more than in 2003. **57.5 thousand new home building permits were issued**, which is by 3 percent less than in the preceding year. Home building principally increased in Budapest; nearly 25% of the new apartments were constructed in Budapest and similarly, a fourth of the new home building permits was granted also there. The structure of new home building evolved in line with the trend of the past years; the rate of construction of *entrepreneurial* homes intended for sale, and jointly with this the construction of multi-level, multi-apartment buildings further increased, the role of the construction industry strengthened as against self-made implementation. In 2004 the percentage of homes with small floor area continued to grow, the average floor space was 93 square meters. The vigorous growth of apartment construction was typical in the first six months of 2004; the last quarter brought an increase below average.

Economic growth in the year 2004 was also powered by household consumption making up two-thirds of domestic utilizations, its dynamism however – following the large expansion in the years 2002 and 2003 – slowed down, its growth rate is falling behind the expansion of the production. The **increase in household consumption in 2004 was just over 3 percent**.

Gross indebtedness of households continued in 2004 as well, net household savings decreased from 1,867 billion forints at the end of 2003 to 1,682 billion forints. Total assets of the households did not decrease though, as part of the financial savings has been converted to real estate property. Total **net financing capacity of households further declined**, since outstanding loans to households increased faster than the volume of their deposits.

The **increase in consumer prices** during 2004 compared with the same month in the preceding year was the highest in May (7.6%), after that declining monotonously it reached the lowest value in December, 5.5% for the year. The slowdown of growth rate was due to the high base and the intensifying competition of import prices. The annual increase in consumer prices in 2004 reached **6.8%** as against 4.7% in 2003.

The size of the working population with regard to the year of 2004 as a whole amounted to an average of 3.9 million employees, by 21 thousand less than one year earlier. The number of people employed in the private sector exceeded the previous year's figure by 1.5%, while in the public sector a decrease by 1.3% occurred. The **unemployment rate** increased from 5.9% to 6.1% in the past year; the rate in the fourth quarter amounted to 6.3%, which is 0.8 percent point higher than the level in the preceding year. In months October-December the number of unemployed people amounted to 263.3 thousand, 31 thousand more than in the previous year.

Average gross nominal wages and salaries of the population employed full-time was HUF 145,675 per capita in 2004, which is **in excess** of the previous year's level **by 6.1%**. Net average wages and salaries increased by 5.7%. In 2004 consumer prices increased by 6.8%; the **real wages fell behind the preceding year's figures by 1.0%**.

2.2 The banking sector in 2004

The growth of the banking sector – just as in the previous year – continued in 2004 as well, however with a slightly smaller pace than the preceding year. The total balance sheet of the banks was 26.1% higher in 2003 compared to the previous year, while in 2004 the growth amounted to 16.1% only, and the monthly trend is forecasting the continuation of the slow-down in growth. Still it is far beyond GDP growth, and as a result total assets of the banking sector reaches 73-75 percent of the nominal GDP. The engine of growth – similar to the previous year – continues to be the lending business. Two-third of the balance sheet increase of the sector originates from the growth of the loan portfolio. At the end of 2004 the banking sector was managing a loan portfolio of 9,483.2 billion forints. The net balance of loans to households increased by 29.8% (to 2,558.2 billion forints), corporate loans reached 4,514.4 billion forints, an increase of 14.1%.

The rising importance of retail loans is well illustrated by the fact that in 2004 retail loans reached 57.3% of corporate loans, while four years ago this figure stood at 17%. By the end of 2004 14.6% of loans provided by banks to retail customers were FX-based, while at the end of 2003 the ratio was 5.0%.

In terms of profitability banks have significantly improved their performance compared to 2003: pre-tax profit of 2004 was 323.8 billion HUF, an increase of 52.6% in one year. Net interest income increased by 20.5%, non-interest income by 33.9%. Return on equity (ROE) excelled to 23.4% from 17.1%, at the end of 2003, this result is extraordinary in European comparison and also in the history of the Hungarian banking sector. Return on assets (ROA) calculated based on the sector's after-tax profit increased to 1.97% from 1.50% in the previous year. The improvement of ROA is strongly supported by the decrease of operating expenses: cost/income ratio in the sector decreased in one year from 65.2% to 56.2%. Besides this income from financial transactions have increased as regards to assets, net fees and commission income has dropped however, while net interest margin has been stable in the previous year. Staff employed in the banking sector basically did not change in 2004, average headcount of the sector was 27 thousand. Concentration of the banking system is moderate, it is similar to peer countries considering the sector' overall dimensions.

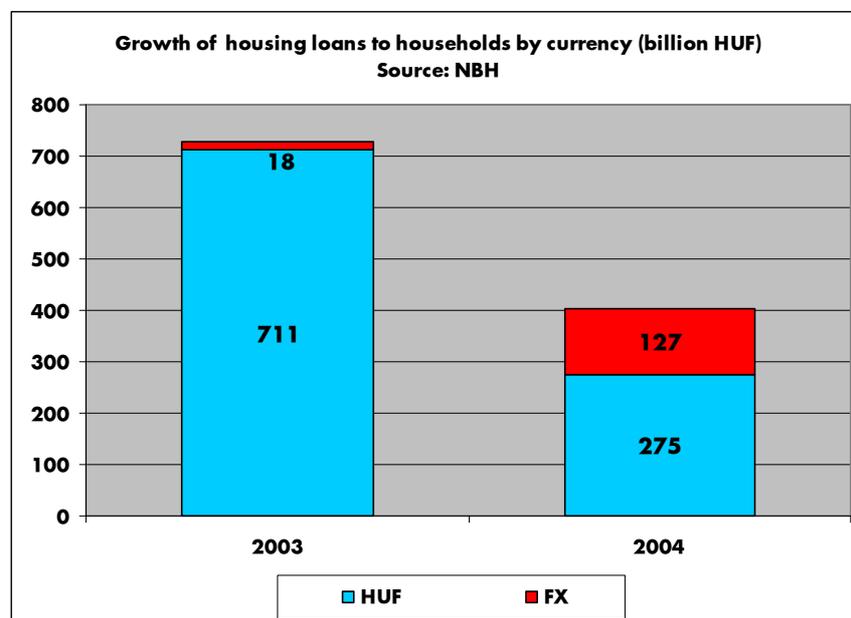
2.3 Home lending and the housing market in 2004

The growth rate of housing loans of households in 2004 returned to the normal level – due to the reduction of support granted by the state, the increase in the Forint interest level, and due to the ceasing demands carried over from 2003 at the beginning of the year –, which level considerably fell behind the vigorous rate of growth during the previous years. As an effect of the decree on subsidies the proportion of such loan portfolio increased by 141% in 2002 compared to 2001; annual growth in 2003 amounted to 94%. As a consequence of the amendment of the decree in December 2003 and of the changing market conditions, the housing loan portfolio in 2004 surpassed the year-end figure of 2003 only by 27%; the portfolio as of 31 December 2004 amounted to approx. HUF 1,910 billion.

The rate of growth of the level of **Forint housing loans** also indicates a significant slow-down: the extension of loan portfolio slowed down to one-fourth between July 2003 and April 2004;

the **monthly average growth rate** in the year 2003 amounting to HUF 59 billion **fell back to HUF 23 billion in 2004**. The regression of the growth in Forint loan portfolio – in parallel with the intensification of foreign currency based mortgage loan disbursements – stopped after the bottom in April and a slow growth started; nevertheless from August 2004 it declined again and fell far behind the same period of the base year.

An **unequivocal sign of the foreign currency housing loans gaining ground** is that the importance of foreign currency housing loans exceeded that of a Forint housing loans in the second half of 2004 in the growth of the housing loans portfolio. The increase in the portfolio achieved HUF 100 billion during this period. Though it has to be mentioned that the change in the Forint loan portfolio in 2004 already included a significant level of repayment, while in the case of foreign currency housing loans with a portfolio starting practically from zero included a minimum level of repayment (owing to annuity repayments).



The increase in foreign currency loans also implied in 2004 the restructuring of loans granted to retail customers covered by mortgage established on real estate. Home loans increased merely by 25.2%, while the level of *other non-home mortgage loans* went up by 70.8% amounting to HUF 82 billion during the past year. Within this Forint loans (typically with market interest rates) decreased by HUF 25 billion, while the portfolio of foreign currency loans grew by HUF 107 billion.

3 Ownership structure of FHB

The non-state owned share block (2,500,000 shares) out of the 5,800,001 pcs of shares of series "A" introduced on the Budapest Stock Exchange effected a considerable turnover in the year 2004. As a consequence, a significant change occurred in the sphere of owners: **foreign institutional investors increased** their ownership share **from 12.3% to 33.1%**, while the proportion of domestic institutional investors dropped to its one fourth (from 13.7% to 3.3%). A considerable decrease was experienced in the ownership share of private individuals and the Bank's employees: while at year-end of 2003 they possessed almost 12 % of the shares, the total ratio was merely 1.5 percent as of 31 December, 2004.

Ownership structure	Number of shares (pcs)		Ownership ratio to total capital stock	
	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004
Series „A” ordinary shares introduced on the Budapest Stock Exchange				
Hungarian Privatisation and State Holding Company	3,300,001	3,300,001	50.00%	50.00%
Domestic institutional investors / companies	903,475	217,437	13.69%	3.29%
Foreign institutional investors / companies	814,031	2,184,092	12.33%	33.09%
Private individuals	507,494	89,121	7.69%	1.36%
FHB employees	275,000	9,350	4.17%	0.14%
Total	5,800,001	5,800,001	87.88%	87.88%
Series „B” voting preference shares				
Hungarian Privatisation and State Holding Company	211,430	211,430	3.20%	3.20%
Institutional investors	588,570	588,570	8.92%	8.92%
Total	800,000	800,000	12.12%	12.12%
Shares total	6,600,001	6,600,001	100.00%	100.00%

4 Report on the business activities in 2004

4.1 Major consolidated financial indicators (HAS)

Following the consolidation procedure executed in compliance with the provisions of the Accountancy Act, the **balance sheet total** of the Bank Group amounted to **HUF 416,196 million**. The significant increase compared to the similar figure of the preceding year basically originates from the lending and refinancing activities of the Bank. Total assets increased by 34.2% in one year, and exceeded the 2004 financial plan by nearly 2 billion forints.

The receivables-liabilities of the two corporations existing towards each other in the value of HUF 26.2 million and the revenues-expenditures with an annual level of HUF 249.3 million were excluded from the consolidated report.

The Bank Group's consolidated profit (after creation of general reserve and dividend payments) was a balance sheet profit of HUF 5,105 million.

Shareholder's equity increased by 5,816 million forints, the 50.4% increase is made up of the profit achieved in 2004.

Major consolidated financial indicators	Consolidated data by HAS				
	31 Dec 2003 Actual	31 Dec 2004 Plan	31 Dec 2004 Actual	2004 Actual/2003 Actual	2004 Actual/2004 Plan
Balance sheet total (Million HUF)	310,149	415,200	416,196	134.2%	100.2%
Mortgage loan portfolio (Million HUF)	297,740	387,596	372,116	125.0%	96.0%
Mortgage bond portfolio (Million HUF)	277,906	387,206	366,332	131.8%	94.6%
Shareholders' equity (Million HUF)	11,529	17,732	17,345	150.4%	97.8%
Adjusted capital (Million HUF)	11,248	16,991	17,061	151.7%	100.4%
Capital adequacy ratio ¹	10.8%	13.2%	13.0%	120.1%	98.5%
After-tax profit (Million HUF)	4,026	5,700	7,136	177.2%	125.2%
Net Interest Margin (NIM)	5.0%	3.2%	4.0%	79.0%	124.8%
CIR (operating costs / gross financial profit)	51.7%	45.0%	35.2%	68.2%	78.4%
EPS (HUF)	610	864	1,081	177.2%	125.2%
ROAA (return on average assets)	1.9%	1.6%	1.9%	100.5%	119.3%
ROAE (return on average equity)	46.5%	37.5%	45.6%	98.1%	121.8%

¹ After dividend payments

4.2 Major consolidated financial indicators (IFRS)

The **consolidated balance sheet total** of the Bank Group **according to IFRS** was **HUF 415,659 million**, total assets have increased by 34.4% in the previous year.

The Bank Group's **consolidated after-tax profit according to IFRS** reached **HUF 7,523 million**, this is 2,2 times of the previous year' figure. The difference compared to HAS is explained by the alternative treatment of the creation of general risk reserve by the accounting rules.

Shareholder's equity increased by HUF 11,774 million in one year, the **58.9%** increase resulted in a total equity of **HUF 18,709 million** by the end of 2004.

Major consolidated financial indicators	Consolidated data by IFRS		
	31 Dec 2003	31 Dec 2004	Dec 2004 / Dec 2003
Balance sheet total (million HUF)	309.310	415.659	134,4%
Mortgage loans (million HUF)	298.585	373.095	125,0%
Mortgage bonds (million HUF)	278.526	367.279	131,9%
Shareholder' Equity (million HUF t)	11.774	18.709	158,9%
After-tax profit (million HUF)	3.424	7.523	219,7%
Net Interest Margin (NIM)	4,37%	3,90%	89,1%
CIR (operating expenses/gross operating income)	65,8%	40,0%	60,8%
EPS (HUF)	518,8	1.139,8	219,7%
ROAA (return on average assets)	1,6%	2,0%	126,5%
ROAE (return on average equity)	38,5%	48,1%	124,9%

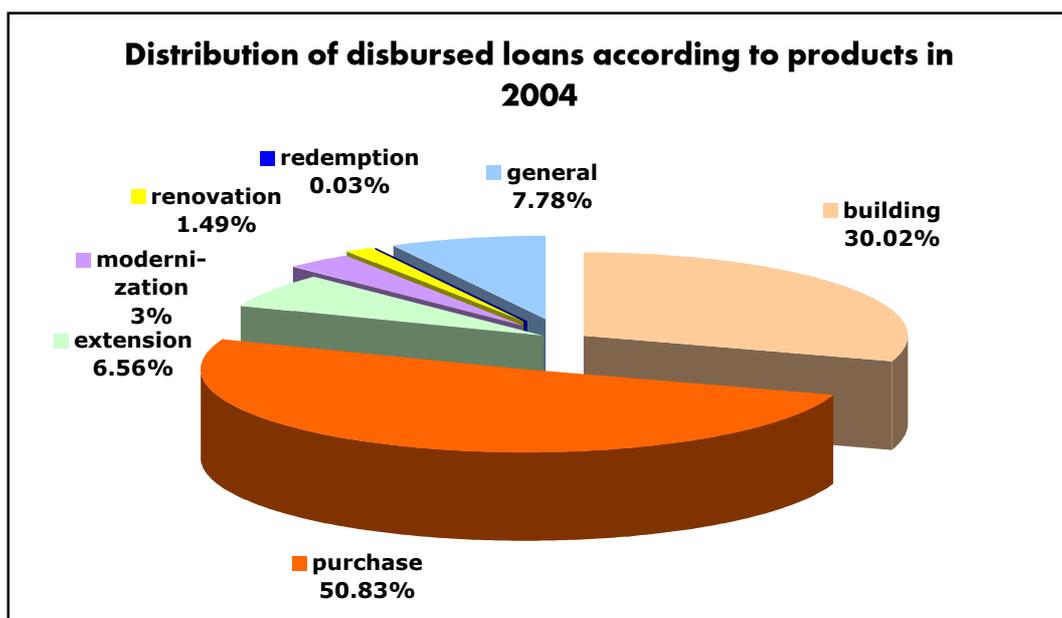
4.3 Products

During the past year the Bank disbursed loans in a total of HUF 35,523 million directly to its clients, which amounted to 71.3 % of the disbursements in the year 2003, nevertheless the level of HUF 24,700 million planned for 2004 was exceeded by 43.8%. The Bank's leading products remained the home purchase loans having a 50.8% share within total disbursements, and construction loans making 30.0% of disbursements, however **mortgage loans for general purposes also cut an important slice from the product portfolio in the second half of 2004.**

Foreign exchange denominated loan facility, launched by the Bank in the second half of 2004 – similarly to the domestic market trend – gained greater ground month by month: between July and December, disbursements in other than Forints represented a share of 17.2% and the foreign exchange denominated loan facility amounted to 8.6% of the annual disbursements.

The disbursement of **home purchase** loans in the first quarter of 2004 was generated by the large number of transactions accepted at the end of 2003. After this period the extension of loans stagnated, then in the last months of the year the value of disbursements increased significantly as an effect of the speeding real estate business, the modifications and product developments introduced in the course of the year and due to the marketing campaign carried out in September.

The peak of **construction** loan disbursements – deriving from its nature – occurred in the summer months and the early fall, **other home** loans however demonstrated stronger seasonal tendencies, since the purposes for the loans connected to these transactions – expansion, modernization, renovation – may be implemented in a shorter time. The peak values for these disbursements were achieved in the months of August and September.



As regards **general** mortgage loans, the year was characterized by fluctuations due to the unbound nature of purpose of the loan, the demand of the clients on this loan type increased considerably with the introduction of the foreign exchange denominated loan facilities in June: this was reflected in their rate of disbursement in the second half, too.

4.4 Distribution channels

In 2004 a significant change emerged in the distribution of loan disbursements by distribution channels. While in 2003 the rate of refinancing surpassed 76.3%, in 2004 the refinanced loans only generated 64.9% of total disbursements. This is primarily due to the advancement of foreign exchange denominated loan facilities. On the banking sector level the foreign exchange denominated loan facilities amounted to HUF 127 billion from the annual growth of home loan portfolio of consumers, which loans were not offered by the majority of the FHB partner commercial banks for refinancing in 2004. In the course of the year those distribution partners came to prominence, in the case of which the refinancing source capacities and additional risk benefits of FHB were more essential elements.

The level of consortial loans among the Bank's own channels remained unchanged, amounting to 1.5% of total disbursements. By the decrease in the ratio of refinancing, the weight of the agent network and co-ordination offices increased. The proportion of loans distributed by agents increased from 8.4% in 2003 by almost six percent to 14.4 %. The performance of the own network² increased at a similar rate, from 13.8% to 19.2% during the last year. Considering the keen competition among commercial banks, the reducing market growth and the appearance of foreign exchange denominated loan facilities, the latter can be regarded as good results.

4.4.1 Direct distribution network

In parallel with the recession of the entire housing loan market, the Bank **experienced a decrease compared to the previous year** in its own credit activities.

The reason for difference of the data indicating the decrease of disbursements by the Co-ordination Offices (-21.6%) from smaller change in the case of Budapest (-10.9%) is the fact that in Budapest the ratio of average lending volume and building loans as well as the proportion of disbursements in more instalments are higher. This also implies that the decline in the performance of the direct network was below the level of recession of the housing loan market as a whole.

The **average loan volume** decreased from the average value of HUF 4.7 million in 2003 below HUF 4.0 million in the first eight months of the year, then by the end of the year the trend changed and the volume increased above HUF 4.5 million again.

The Bank continues to attach great importance to the **improvement of the operation and efficiency of co-ordination offices**; the development of the offices is ongoing. Beside the offices in Győr and Kaposvár, the office in Székesfehérvár is operating at a new location since 2004.

² FHB refers to „own network” meaning the transactions acquired by employees and by FHB Szolgáltató Ltd. being in the Bank's 100% ownership.

The **weight of the direct distribution network within own loans** was determinant also in 2004, generating **54.7%** of own loan disbursements.

4.4.2 Agent network

The **unfavorable effects** of the legal changes and the narrowing and restructuring of the market could be detected in the **performance of the agency distribution channel in 2004**. Determinant partners of the Bank (insurance companies, housing savings co-operatives) – partly based on proprietary and their other business interests – entered into co-operation agreements of similar type with other banks beside FHB, which resulted in a decrease in performance towards the Bank.

With the aim of reducing the negative market and competitive impacts, increasing agency activity and making the co-operation more effective, a **new professional area has been established** within the Bank **for the co-ordination of tasks**.

As of 31 December 2003 the Bank had contractual agency relationships with 46 corporations – taking into consideration the savings cooperatives, as well – from which in the case of three companies the co-operation was extended beside the acquisition activities to perform business management. **As of 31 December 2004 the number of contracted partners** amounted to 208, while the number of agents licensed to sell bank loan products rose from 1,312 persons to 1,835 persons. Conclusion of new contracts was realized primarily with companies of a smaller organization entitled to carry out agency activities, and for the first time in 2004 with individual entrepreneurs, whose selection was performed mainly by tendering and recommendations, while taking into account the regional aspects in order to ensure national coverage. At the end of October 2004 a commission contract was concluded with ÁB-Aegon Insurance Ltd., as well.

A result of expanding the agency network to a great extent is the fact that regarding the **disbursed loan portfolio**, the **decrease** from 2003 to 2004 **in the agency channel was much less**. The weight of the agency network within own lending increased in one year from 35.4% to 40.9%.

4.4.3 Consortial lending

During the year 2004, the Bank acquired outstanding accounts from its consortial partners in a contractual amount of HUF 1,552 million. This figure implies a decline of more than 50% compared to the year 2003. The decline may be partly explained by the fact that the former most important consortial partner appeared from the second half of the year as the Bank's refinancing partner, so the group of consortial partners is exclusively constituted by savings cooperatives by the end of 2004. Among the savings cooperatives, consortial lending in 2004 shows a more favorable picture, the extent of decline is 38%.

The **ratio of consortial lending** within own lending changed from 6.4 % in the year 2003 to **4.4%** in 2004.

The Bank concluded consortial co-operation agreements with two new partners in the year 2004 for the financing of subsidized Forint loans. As a result of the business negotiations initiated during the year, an agreement was concluded for the distribution of FHB's foreign exchange denominated loan facilities with a small but powerful group of savings cooperatives that may be considered as having significant weight based on their lending activity in the past – and expected in the future.

4.4.4 Refinancing

The considerable recession in demand on the market of home loans and the advancement of foreign exchange denominated loan facilities had by far the highest impact during the past year in the field of refinancing. The sum of new refinancing in 2004 amounted to HUF 65,575 million, slightly more than 40% of the level in the year 2003.

Almost three quarters (73.5%) of **refinancing** executed in 2004 were realized in the first half of the year (as a consequence of the increased demand for home loans at the end of the year 2003), then the ratio **decreased continuously** in each quarter at a different rate for each bank.

It is promising in this field that the Bank – being first on this market – launched the refinancing of loan transactions offered in foreign currency, the first transactions were effected in December 2004.

Currently FHB Ltd. has valid co-operation agreements with eight business partners in the business branch of refinancing realized through the purchase of independent mortgage.

4.5 Portfolio analysis, provisions

As of 31 December 2004 the Bank's classified assets amounted to HUF 392.1 billion, its pending liabilities amounted to HUF 5.4 billion (amounting to a total of HUF 397.6 billion).

Data in million HUF

Breakdown of portfolio by classification, loss in value and provisions						
CLASSIFI- CATION	31 December 2003			31 December 2004		
	Total accounts receivable	Loss in value and provision	Per- centage	Total accounts receivable	Loss in value and provision	Per- centage
Problem-free	306,736	0	0.0%	393,995	0	0.0%
Watch	1,882	1	0.0%	2,188	0	0.0%
Substandard	324	37	11.5%	305	32	10.5%
Doubtful	508	185	36.3%	1,061	329	31.0%
Bad	28	28	100.0%	16	16	100.0%
TOTAL	309.478	250	0.1%	397,565	377	0.1%

Accounts receivable towards customers amounted to HUF 132.3 billion (33.3% of the portfolio), furthermore based on the contracts concluded, at the time of valuation a total disbursement commitment of HUF 5.4 billion (1.4%) existed. Within these outstanding amounts, accounts receivable of HUF 3.5 billion relating to 884 loan agreements and commitments of HUF 0.1 billion were classified in the categories of watch - bad with a total loss of value and provisions of HUF 377.4 billion.

The portfolio of refinancing loans is HUF 241.1 billion (60.6%) with problem-free classification. The Bank had loan placing at thirteen commercial banks in the form of term or at-sight deposits amounting to HUF 18.7 billion (4.7%). As for property participation, the Bank owns further on a 100% stake in FHB Szolgáltató Ltd. The nominal value of this investment is HUF 65 million, classified as problem-free.

The portfolio continues to be of good quality. With regard to the ratio of problem-free and problematic categories, no significant change occurred either in the entire portfolio, or in the loan portfolio (in case of receivables from customers and commitments).

As of 31 December 2004, 99.1% of the Bank's total portfolio was problem-free (99.1% as of 31.12.2003). The percentage of substandard, doubtful and bad debts was in total 0.3 % (0.3% as of 31.12.2003), transactions classified to watch separately amounted to 0.6% (0.6% as of 31.12.2003).

The percentage of problem-free category in the loan portfolio amounted to 97.4% (97.6% as of 31.12.2003), the proportion of substandard, doubtful and bad debts was 1.0% (0.75% as of 31.12.2003), that of the watch category was 1.6% (1.65% as of 31.12.2003).

The level of average loss in value remained unchanged with respect to both the total portfolio (0.1 %) and the loan portfolio (0.3%).

4.6 Collateral appraisal

In 2004 the **number of appraisals completed** – primarily in parallel with the fallback of refinanced lending – **decreased significantly** compared to the preceding years: while the Bank carried out 46 thousand collateral appraisal in 2002 and nearly 59 thousand in 2003, in 2004 the figure amounted to merely 28 thousand. The number of appraisals related to own and consortial loans was by 24% less than in 2003, the number of appraisals attached to refinancing decreased to almost one-third of the previous level. Despite the decrease in the annual figure, the collateral appraisal activity demonstrated an increase compared to the second quarter of 2004: 6% in the third quarter and 8% in the fourth.

The **average loan collateral values** increased in line with the rising home prices. The **average growth rate** amounted to **8.5%**.

FHB earned an income of HUF 553 million in 2004 as collateral appraisal fees against payments of HUF 441 million to subcontractor agencies (the positive difference resulted from the

Bank's own appraisals). This meant a decrease by 58.6% compared to the income earned in 2003, while costs were 60.1% lower than in the preceding year.

4.7 Mortgage bond issue, mortgage bond coverage

4.7.1 Mortgage bond issue

The year 2004 was a milestone in the Bank's operation, as it issued mortgage bonds directly in Euros for the first time, furthermore its capital market activities concerning the trade of mortgage bonds was extended by repurchases.

The **volume of mortgage bonds issued** by the Bank **in 2004** – calculated at the NBH exchange rate at issue – amounted to **HUF 121,329 million**, which exceeded by 10.8% the planned value of HUF 109,500 million. During the previous year four repurchases were effected in a total of HUF 32,351 million, and in case of one series of mortgage bonds repayment matured in the value of HUF 200 million. Thus taking into account the changes in the exchange rates as well, the Bank's mortgage bond portfolio increased by HUF 88.78 billion during the past year.

The volatile interest environment and the higher yield expectations of the domestic investors forced the Bank to **cover the decisive part of its financing needs from foreign capital market sources**; an adequate background for this purpose was provided by FHB's effective international bond program and its good credit rating. In 2004 – deviating from the former regular monthly auction activities – only two domestic mortgage bond series were issued in the domestic market.

In January 2004 the Bank issued within the framework of an international transaction a five-year maturity mortgage bond in the value of HUF 5.5 billion (20 million Euros). In the first quarter the Bank appeared only once with its funding demand on the Hungarian capital market; in connection with the yield decline in February it issued a one-year maturity mortgage bond in a total nominal value of HUF 5 billion. In March the Bank sold a series of mortgage bonds within the framework of the EMTN Program anew, with a total nominal value of HUF 19,706 million (75 million Euros) and maturity of eight years.

In the second quarter three further series were issued within the international program. All three series were issued by private placement with fixed interest and denominated in Forints, the maturities were 8, 15 and 7 years. During this period a domestic private issue of a nominal value of HUF 500 million with fixed interest and one-year maturity was effected.

The only mortgage bond issue in the third quarter was the first public issue denominated in Euros within the framework of the EMTN Program registered in November 2003 in Luxembourg; these series are subscribed independently on the Luxembourg stock exchange.

In the fourth quarter of 2004 two international issues were effected in the amount of 50 million Euros and HUF 16.6 billion (equivalent to 67.5 million euros). Both transactions were private placements with maturities of 6 and 12 years. In the course of the issue with the nominal value of 50 million Euros the Bank succeeded to achieve the highest yield premium so far.

The repurchase of a nominal value of HUF 8 billion in July was followed by three similar transactions in the fourth quarter, in November and December. The two repurchases in November included an auction with a value of HUF 5,260 million and a private transaction worth HUF 16,601 million. Within the framework of the December auction the mortgage bonds with a nominal value of HUF 2,490 million were repurchased by the Bank. As part of its **active asset-liability management**, the Bank successfully improved its co-ordination of maturity with these transactions, reduced the repayment peaks expected in the years 2008 and 2013 and through the increasingly favorable yield premiums and commission structures it reduced its financing costs considerably.

Also in November the **renewal** of the Bank's **international bond program** was completed, from the total amount of 1 billion Euros a portion of 422.5 million Euros are waiting for utilization.

4.7.2 Mortgage bond market

With regard to the volume issued on the **domestic mortgage bond market**, the Bank remains to be in a stable position further on with a **market share of 30%**, and as far as public sale towards institutional investors is concerned, the Bank has kept its market leading position; all these are reflected in the second market trade of FHB mortgage bonds on the stock exchange. During the year 2004 the total value of mortgage bonds traded on the stock exchange amounted to HUF 87 billion, the majority of which (HUF 51 billion, nearly 60%) were generated from FHB's papers.

The successful securities - issuing activity in 2004 was greatly assisted by the more favourable investment climate accompanying Hungary's joining to the EU in May, the growing interest of foreign customers towards Hungarian mortgage bonds, the domestic disinflation process and the reduction of the interest rate by the NBH on several occasions.

In 2004 the Bank was awarded by the Budapest Stock Exchange – already in four consecutive years – the title of „**Best securities issuer of BÉT**” while **Euromoney** awarded FHB the title of „**Best Structured Borrower 2004**”.

4.7.3 Mortgage bond coverage

FHB assumed from the beginning of 2004 – almost half a year earlier than stipulated by law (from 10 June 2004) – to keep a stricter mortgage bond coverage ratio, i.e. to ensure principal-to-principal adequacy at all times. In line with this, the aggregate amount of net ordinary coverage principal – minus loss of value – and supplementary collateral principal exceeded every day the sum of the nominal value of outstanding mortgage bonds in circulation but not yet repaid. The same adequacy rule prevailed also with respect to interest-to-interest.

The Bank – in accordance with the Act on Mortgage Loan Companies and on Mortgage Bonds and the provisions of its own regulations on collateral – monitored the collateral situation and the compliance with the proportionality requirements.

For the purpose of ensuring the coverage of mortgage bonds, the Bank investigated the existence of the conditions for the declaration of ordinary collateral following loan disbursements and if necessary it took measures for supplementing missing items, and after that it initiated immediately the declaration of ordinary collateral with the property supervisor.

During 2004 the property supervisor **classified 8,374 mortgage loans as ordinary collateral** for coverage backing own loans, whereas it cancelled 707 mortgage loans from ordinary collateral while in the case of 90 loans ordinary collateral was reclassified as neutral. By the end of the subject period the **ordinary collateral portfolio** consisting of mortgage loans increased to **35,906 items**, loans were covered by 104,409 real estate collaterals.

The number of **neutral items** was **429**, which comprises **1.2%** of the entire mortgage loan portfolio.

As regards to refinancing, a total of 194 independent lien contracts were repurchased in 2004, which repurchases referred to 14,612 real estates attached to 12,496 loan agreements. Due to amendments following the purchases (easement and replacement of collateral, change in the person of the mortgage obligator, etc.) **415 changes affecting the purchased independent lien** occurred in the subject period.

At the end of the fourth quarter in 2004 the net value of ordinary collateral amounted to **HUF 713,112 million**, indicating a **31.6 % increase of the sum of ordinary collateral portfolio** as of 31 December 2003 (HUF 541,735 million).

Net value of the assets group being collateral as of 31 December 2004 was as follows (in thousand Forints)

Outstanding mortgage bonds in circulation	
face value:	366,332,210
interest:	211,649,442
total:	577,981,652
Ordinary collateral value	
principal:	370,958,866
interest:	342,153,154
total:	713,112,020
Value of assets involved as supplementary collateral (government securities)	
principal:	0
interest:	0
total:	0

The Bank continuously complied with the collateral requirements provided in the Act on Mortgage Loan Companies and Mortgage Bonds.

4.8 Liquidity management

The Bank's liquidity position was continuously stable during the year 2004. As regards the opening balance of the Forint position in 2004 it showed a position of net borrower of HUF 3 billion, and at the end of the year it demonstrated a net lending position of HUF 21.47 billion. In the second half of 2004 the Bank established the conditions for foreign exchange denominated lending and continuously ensured the liquidity of foreign exchange. As regards the foreign exchange liquidity position, the Bank was in a borrowing position on the last day of the year. Converted to Forints, this extent amounted to HUF 1.839 billion (calculated with the last-day NBH fixings), to the year-end adjusted position meant a total of HUF 19.631 billion.

The first two months of 2004 were characterized by a moderate liquidity position. The Bank adapted itself to the loan outflow slowed down due to the changes in the conditions of the subsidy scheme and adjusted the volume of mortgage bond issues accordingly.

For the purpose of establishing the necessary liquidity for the purchase of the portfolio held by the partner banks for refinancing and ensuring financing, the Bank carried out the issue of two mortgage bond series of a higher nominal value on the first days of April and May.

In the beginning of the third quarter the Bank realized an issue of a nominal value of 100 million Euros on favorable conditions. With respect to the asset-side source demand and to the introductory phase of foreign exchange-based lending, the inflowing source was entirely converted into Forints with a swap transaction attached to the issue in Euros.

The last quarter was characterized by the **improvement of the maturity structure**. For this purpose, the Bank kept on monitoring when the market conditions and the investor demands would offer a good opportunity for another exchange of mortgage bonds. From the privately placed series issued in the month of November with a nominal value of 50 million Euros and maturity in 2010, taking into account the liquidity aspects the Bank exchanged the nominal value of 5 million Euros connected with a swap transaction - considering the foreign exchange-based loan outflow - to Swiss Franks, the remaining 45 million Euros were converted into Forints. In parallel - with due regard to the extent of the liquidity position - mortgage bond repurchases were effected in November and December in order to improve the maturity structure.

During the year the Bank continuously kept its position within the limits.

The temporary free sources covering monthly financing were kept in short-term interbank placements. Also during this year the extension of financing possibilities and the upgrade of liquidity safety was an important aspect, therefore the Bank extended its **revolving credit limit** agreements concluded with two banks in the preceding year. In the course of the extension of each of these credit limits the Bank pursued to create the conditions for serving source demands arising in various foreign exchanges. As a result this credit limit agreement was extended in a multi-foreign exchange form.

Connected to the asset-side foreign exchange activity, in the first half year the selection of the nostro account-holding banks for Euro and Swiss Frank, the signing of the account contracts and the opening of the accounts were realized.

4.9 Capital investments

As of 31 December 2003 the Bank disposed over gross investment assets of HUF 2,176 million, with 60% (HUF 1,307 million) in intangible assets and 40% (HUF 869 million) in fixed assets necessary for rendering activities as a credit institution. During the year 2004 the gross amount of intangible assets decreased by HUF 374 million and that of fixed assets increased by HUF 191 million. Depreciation written off on invested assets decreased from the HUF 1,418 million early in the year to HUF 875 million by the end of December. As a balance of these items, **the net value of intangible assets amounted to HUF 557 million and that of fixed assets amounted to HUF 561 million as of 31 December 2004.**

During 2004 the Bank completed several capital investments started earlier and launched important new investments:

- The Bank started the implementation of a complex **document management IT system** practically in 2004, which project will be completed in 2005. Following the termination of IT development, the digitalizing of the Bank's existing and new documents and the secure electronic management of documents will be realized.
- The introduction of software for the purposes of **risk management** and **Front Office** (Inforex and Varitron) were successfully completed in 2004. With the help of the new systems the electronic position management, the on-line control of partner limits and the effective support of asset-source management were enabled.
- In the latter half of 2004 the Bank – following a tendering procedure by invitation – started the elaboration of a **planning and analytical controlling system**. The planning system was completed by December 2004; the Bank's financial plan for the year 2005 was already prepared with the assistance of the new tool. The analytical system enabling the monitoring of the actual data and comparison thereof with the planned data will be handed over in the first quarter of 2005.

Beside the capital investments highlighted above, the Bank continued to develop its basic transaction systems and infrastructure in accordance with the business requirements and the changing legal environment.

4.10 Organizational restructuring, staff figures

Several changes were effected as to the **executive officers** during the last year. The new members of the Bank's Board of Directors and the Supervisory Board (Dr. Ádám Terták, Dr. Gábor Borsányi, Mr. Károly Salamon, Mr. Pablo Arnoldo Fritz Sepulverda and Mr. Attila Kéri) elected on the Annual General Meeting for the year 2003 received their authorization from the State Supervision of Monetary Organizations to become an executive on 10 May 2004. Dr.

Lajos Oláh resigned from his position in the Board of Directors as of 1 November 2004, and Mrs. Koltai Ágnes Nádházi, Dr. Miklós Szőke and Attila Kéri retired from their membership in the Supervisory Board effective as of 11 November 2004, 21 April 2005 and 22 April 2005 respectively. The Annual General Meeting for the year 2004 has called back Zsuzsanna Ács and Zoltán Egressy from the Board of Directors as of 22 April 2005 and elected Ferenc Karvalits and Dr. Gyula Czok as new members as of 5 May 2005, and Dr. Gábor Csányi as of 28 May 2005 for a five year period. A General Meeting also called back Tibor Nagy Husszein from the Supervisory Board as of 22 April 2005 and elected for a five year period Péter Heim as of 22 April 2005 and Mónika Kék, Kata Orsolya Molnár and Éva Baranyi as of 5 May 2005.

Some **major organizational changes** were carried out in the Bank during 2004. In the first quarter a separate unit was established in the form of a division integrating distribution by agents with the aim of widened motivation of the currently extensive range of agents and the quantitative and qualitative development of agent distribution. In June 2004 the Treasury Back Office Department was established within the Financial and Banking Directorate. In the fourth quarter of 2004, in order to increase the effectiveness of the Bank's operation, including especially the own distribution channels, product development and own distribution networks, the Loan Division was established within the Business Directorate as a successor of the former Retail Loan Division; the performance of tasks related to business marketing was also transferred to the Business Directorate.

The Bank's **head count** as of 31 December 2003 amounted to 197 persons, on 31 March and 30 June 2004 it was 202, on 30 September 194 and as of 31 December 199. The statistical average head count in 2004 was 198.8 compared to 198.6 at the end of 2003. The share of active employees in the total staff is 99.5 %, the level of full-time staff is also 99.5 %. Fluctuation among the staff was negligible also in 2004 (1.5 %).

5 Account of FHB Service Company

FHB Service Company is in 100 % ownership of FHB Land Credit and Mortgage Bank.

In the second half of 2003 the Bank set a new objective for its subsidiary, according to which FHB Service Company must be prepared for the competence of performing agent's tasks for the Bank. As first step of the process an acquiring agent's agreement was signed between the parties. In order to fulfil the task FHB Service Company ensured labour force required for pursuing the activity by employing the staff, furthermore FHB Service Company uses the assets of the Bank on contractual basis that are necessary for the performance.

FHB Service Company performed acquiring agent's tasks in a businesslike way also in year 2004, within the frame whereof employees of FHB Service Company inform clients about loan products, render assistance to clients in preparing their applications and carry out admission of the same.

In year 2004 FHB Service Company realized a total **income of HUF 224,521 thousand**, out of which the income of base activity amounted to HUF 220,298 thousand.

Expenses and expenditures amounted totally to **HUF 202,665 thousand** on annual level, their decisive elements are the staff costs amounting to HUF 159,443 thousand and material-type costs amounting to HUF 38,202 thousand. In 2004 average head count of FHB Service Company included 36 persons.

As a result, FHB Service Company realized a profit in value of **HUF 21,856 thousand** in year 2004, that is at the same time also its **after-tax profit**, in view of the fact that pre-tax profit is not subject to payment obligation of corporation tax due to losses of former years to be taken into consideration at tax assessment.

As of 31 December 2004 **balance-sheet total** of FHB Service Company amounted to **HUF 83,590 thousand**.

Value of shareholders' equity amounted to HUF 68,768 thousand - considering also the after-tax profit of the subject year -, which shows a significant increase by 47 % compared to the figure of the preceding year.

Basically as a result of its effective management in year 2004 the shareholders' equity of FHB Service Company exceeded its subscribed capital by HUF 3,768 thousand.

6 Important events during the period of balance-sheet preparation

On basis of the authorization implied in Resolution No. 14/2004 (04.07.) passed by the Ordinary General Meeting of 7 April 2004, in compliance with the decision of the Board of Directors of the Corporation for planned implementation of its share option program and business strategy on 15 February 2005, the Corporation purchased 3,500 pcs of equity share of "A" series at an average price of HUF 13,039 per share at the stock exchange with collaboration of Concorde Értékpapír Ltd. as investment service provider.

7 Financial analysis according to HAS figures

The consolidated financial account of the Bank Group implies the data generated subsequent to the consolidation procedure of the account of the Bank as well as that of FHB Service Company - being in the Bank's 100 % ownership and operating as the Bank's agent - carried out according to the provisions of the Accountancy Act. Amendments due to activity of FHB Service Company did not have a significant effect on the main data of the account of the Bank.

7.1 Balance sheet structure

As of 31 December 2004 balance-sheet total of the Bank Group amounted to HUF 416,2196 million, by 34.2 % higher than in year 2003. The annual increase in total assets was generated in 70.4 % by extension of loan portfolio and in 24.5 % by extension of securities and interbank portfolio. The increase of the mortgage bond portfolio contributed by 83.4 % to the increase of liabilities during 12 months.

Data in million HUF

DESCRIPTION	31 Dec 2003 Actual	31 Dec 2004 Plan	31 Dec 2004 Actual	2004 Actual / 2003 Actual	2004 Actual / 2004 Plan
Assets					
Interest earning assets (net value)	304,239	409,058	404,616	133.0%	98.9%
- Retail loans	104,998	121,556	130,953	124.7%	107.7%
- Other loans	204	207	83	40.9%	40.3%
- Refinanced loans	192,538	265,833	241,080	125.2%	90.7%
- Securities/interbank	6,499	21,462	32,499	500.1%	151.4%
Own assets and investments	764	2,140	1,154	151.0%	53.9
Other assets	5,146	4,002	10,427	202.6%	260.6%
Total assets	310,149	415,200	416,196	134.2%	100.2%
Liabilities					
Interest bearing liabilities	283,906	387,206	375,322	132.2%	96.9%
- Mortgage bonds	277,906	387,206	366,332	131.8%	94.6%
- Interbank loans	6,000	0	8,989	149.8%	-
Other liabilities	14,038	10,262	23,199	165.3%	226.1%
Shareholders' equity and provisions	12,205	17,732	17,676	144.8%	99.7%
Total liabilities	310,149	415,200	416,196	134.2%	100.2%

Interest earning assets

By 31 December 2004 the interest earning assets of the Bank Group increased from HUF 304,239 million as of the end of year 2003 by 33.0 % to HUF 404.616 million. Retail loan portfolio - distributed by the Bank through its own branch offices, agency network and syndicate partners - increased by 24.7% compared to base year, thus amounting to HUF 130,953 million. At the end of last year consumer loans represented 32.4% of the net interest earning assets.

As of 31 December 2004 **mortgage loan portfolio** altogether amounted to HUF 372,116 million, by 25.0 % (HUF 74,375 million) higher compared to the base year.

At the end of 2004 the equity claim of HUF 373,374 million towards clients was covered by real estates of a collateral value amounting to HUF 936,351 million. **The average loan-to-value ratio (LTV)** was **39.6 %** as of 31 December 2004, as against the value of 41.3 % by the end of 2003.

Own assets

The joint portfolio of **tangible and intangible assets** amounting to HUF 763 million as of 31 December 2003 accrued by the end of 2004 to HUF 1,154 million.

Other assets

Among other assets Bank Group indicates by 59.1 % higher accrued and deferred assets than in 2003, the liquid assets and other accounts receivable exceeding those of the base year by HUF 4,253 million as well as inventories portfolio amounting to HUF 15 million.

Interest bearing liabilities

Mortgage bond portfolio

As of 31 December 2004 the amount of interest bearing liabilities was almost entirely covered (in 97.6 %) by the mortgage bond portfolio issued by the Bank ensuring long-term financing of mortgage loans.

As of 31 December **mortgage bond** portfolio issued by the Bank amounted to HUF 366,332 million that represented an increase of 31.8 % compared to the same period of the preceding year and is generated as the balance of newly issued mortgage bonds in value of HUF 121,33 billion and repurchase amounting to HUF 32,35 billion as well as principal repayment in value of HUF 200 million.

Interbank liabilities

The **interbank portfolio** of a value of HUF 8,989 million as of end of December 2004 did not play a significant role among the interest bearing liabilities, it has been generated entirely from revolving credit facilities. The Bank handles revolving credit facilities as supplementary funding options, which promotes and makes the liquidity of the Bank safer. By the end of the year the Bank disposed over funds of such type in total amount of about HUF 8 billion, out of which the part equivalent to EUR 16 million may be drawn in foreign currencies i.e. in HUF, EUR or CHF. As of 31 December 2004 the portfolio called from the credit limit of more foreign currencies amounted to 10.0 million Swiss francs, 1 million Euro and 4.2 billion Hungarian Forints.

Other liabilities

Portfolio of other liabilities of the Bank Group increased within a year by more than 50 % to HUF 23,199 million. In that liability group in the records mostly deferred accrued expenses are appearing; 88% of other liabilities are generated by accrued interests after mortgage bonds and by their accrued gains.

Shareholders' equity

As of 31 December 2004 the value of the **shareholders' equity** of the Bank Group amounted to HUF 17,345 million, which increased by 50.4% compared to the value of HUF 11,529 million a year before. 12.2% of the increment was generated by the increase of the general reserve by HUF 711 million, its 51.1% was due to the increase of the profit reserve by HUF 2,972 million, while almost 37% of the increase was caused by surplus of the profit and loss according to balance-sheet by HUF 3,462 million compared to 2003. Decrease of the daughter company's equity by HUF 9 million did not play a significant role in the change of Bank Group's shareholders' equity.

Value of risk-weighted assets and off-balance-sheet assets increased by 31 December 2004 from HUF 103,999 million of the base period by 26.2 % to HUF 131,295 million. By the end of 2004 the **adjusted capital** of the Bank accrued from HUF 11,248 million as of 31 December 2003 by 51.7% to HUF 17,061 million.

As of 31 December 2004 the **capital adequacy ratio** was 13.0% – with previous imputation of the annual audited profit and dividend payment – which exceeded the ratio of 10.82% as of the end of 2003 by 20.1%.

Off-balance-sheet items

In off-balance-sheet items Bank characteristically indicates the amount of the already contracted, but so far not disbursed loans among the floating liabilities.

Derivative market transactions are the most important items of future liabilities. Beside interest rate swap for hedging purpose, foreign currency swaps linked to Euro denominated mortgage bond issues have appeared from the third quarter. As of 31 December 2004 the Bank had four such transactions, the value of liabilities generated by them exceeded HUF 37 billion.

7.2 Profit & Loss structure

Data in million HUF

DESCRIPTION	31 Dec 2003 Actual	31 Dec 2004 Plan	31 Dec 2004 Actual	2004 Actual / 2003 Actual	2004 Actual / 2004 Plan
Net interest income	9,694	11,047	14,951	154.2%	135.3%
Net commission and fee income	699	2,062	853	122.0%	41.3%
Net result of financial operations	675	158	-1,036	-	-
Gross operating income	11,068	13,267	14,767	133.4%	111.3%
Operating expenses	-5,721	-5,895	-5,203	91.0%	88.3%
Other revenues, expenditures	-368	-387	-623	169.2%	161.1%
Net operating income	4,978	6,985	8,940	179.6%	128.0%
Net provisions and write-off for losses	-26	-199	-130	505.3%	65.1%
General risk provision	0	0	-329	-	-
Extraordinary incomes/expenditures	-6	0	-103	1.695.2%	-
Pre-tax profit	4,947	6,786	8,378	169.4%	123.5%
Tax payable	-920	-1,086	-1,242	135.0%	114.1%
After-tax profit	4,026	5,700	7,136	177.2%	125.2%
General provision	-403	-570	-711	176.3%	124.7%
Dividend	-660	-570	,1320	200.0%	231.6%
Profit as per balance sheet	2,963	4,560	5,105	172.3%	111.9%

The **consolidated after-tax profit** of the Bank Group for the year 2004 was **HUF 7,136 million**, which is 77.2% higher than the previous year's figure. The 2004 Annual General Meeting decided in its 7/2005 (04.22.) no. resolution to pay HUF 200 of dividend for all of the shares of series „A” and „B” from the profit of 2004. The profit as per balance sheet also taking the dividend payment into account is HUF 5.105 million.

The gross operating income of the Bank Group **amounted to HUF 14,767 million by the end of 2004**, which increased by 33.4 % compared to the base as of 31 December 2003 and by 11.3 % compared to plan. The sum of interest income having a decisive weight in the gross financial result increased by 54.2 % compared to 2003. The operation of last year was debited by **costs of a total value of HUF 5,203 million**, which is **only 91.0 % of those incurred in 2003**.

Net interest income

The **net interest income** of year 2004 **amounting to HUF 14,951 million** was generated as balance of the interest income in value of 46,877 million (an increase by 80.2 % compared to end of 2003) and the interest expenditure amounting to HUF 31,927 million (an increase by 95.7 %). Interests payable were almost entirely generated by the interest expenditure payable for mortgage bonds (96.6 % as in December 2003 and 93.8 % as by the end of last year).

Within **interest income** in 2004 the ratio of interest income from clients was 19.4 %, four-fifth part of the ratio of the preceding year. Interest income generated by securities and interbank placements increased to HUF 2,734 million from the amount of HUF 847 million of year 2003;

consequently its share within interest income accrued from 3.3 % to 5.8 %, as well. The income of swap transactions resulted in 1.1 % of total interest income. Out of total interest income the share associated with refinancing amounted to almost HUF 25 billion in 2004, its decisive part was created from liability side interest subsidies channeled to partner banks. State interest subsidies remaining with the Bank amounted to HUF 9.622 million that generated one-fifth of total interest income.

Interests payable were almost entirely generated by the interest expenditure payable for mortgage bonds (96.6 % as in December 2003 and 93.8 % as by the end of last year).

Average net interest margin (NIM) was 4.54 % as of 31 December 2003 and **3.97 %** as of 31 December 2004. Interest margin slowly but improved from its bottom of 3.66 % as of March 2004 from quarter to quarter, which was partly generated by increase of the loan portfolio of own disbursement and partly by the improvement of the funding costs of mortgage bonds.

Net commission and fee income

The share of net commission and fee income was getting increasingly marginal within the Bank Group's gross operating profit: while by the end of 2003 it resulted in 6.3 % of the gross profit, it was only 5.8 % by the end of last year. During year 2004 the Bank realized a **commission fee in value of HUF 1,456 million** (by a third less than in base year), against which a **fee expenditure amounting to HUF 603 million** incurred (41.0 % of the preceding year's data). Fee and commission income is mostly made up of property valuation fees and commissions for managing state subsidies, while almost half of fees and commissions paid is related to the commissions paid for mortgage bond issues.

The decrease of fee incomes and paid fees compared to base is due to the lower level of credit requirement admissions and contract conclusions compared to 2003. In income column the amount of appraisal fees, while in expense column that of paid acquiring agent's commissions decreased. The higher decrease of paid fees compared to incomes was generated furthermore by the quantitative and specific decrease of fees paid after issue of mortgage bonds.

Net result of financial operations

The amount of HUF 1,036 million incurred by end of year 2004 as negative net result of financial operations was generated by the net loss of mortgage bonds and the repurchases of mortgage bonds aiming at the improvement of the maturity structure of the Bank's liabilities. However, the loss incurred by the end of last year functioned as a price of future profit increase as non-recurrent expenditure - by improving the maturity structure and funding costs.

Operating expenses

Data in million HUF

DESCRIPTION	31 Dec 2003 Actual	31 Dec 2004 Plan	31 Dec 2004 Actual	2004 Actual / 2003 Actual	2004 Actual / 2004 Plan
General administrative expenses	5,332	5,507	4,899	91.9%	89.0%
Personnel expenses	2,393	2,351	2,399	100.3%	102.0%
Other administrative expenses	2,939	3,156	2,501	85.1%	79.2%
- within this special mortgage bank expenses	1,639	1,496	930	56.7%	62.2%
Depreciation	388	388	304	78.3%	78.3%
TOTAL OPERATING EXPENSES	5,721	5,895	5,203	91.0%	88.3%

During year 2004 the Bank Group pursued unchanged **well-considered and cost-reducing management**: operational costs amounted to HUF 5,203 million thus being **by 9.0 % lower** than in base year and exhausted merely 88.3 % of planned cost margin. Ratio of the operational costs compared to the gross financial result (cost/income ratio) demonstrated a substantial improvement of cost effectiveness that improved from 51.7 % to 35.2 % during a year by 31 December 2004. Also in international comparison this cost effectiveness increase may be regarded as significant.

Personnel expenses and associated contributions jointly amounted to HUF 2,399 million thus generating 46.1 % of total costs. **Consolidated head count** of the Bank Group included 228 persons by end of 2004, representing a decrease by 3.4% compared to year 2003. In year 2004 **other expenses** decreased by 14.9 % and 20.8 % compared to base year and to plan, respectively. Ratio of **mortgage bank specific expenses** dropped significantly within other administration expenses - collaterally with slowing-down of business increment - : while in 2003 it amounted to 55.8 %, its proportion decreased to 37.2 % by year 2004. The value of **depreciations** was almost by one-fourth lower last year than as in year 2003 as well as in the plan, due to deferred investments.

Provisions

As in year 2004 the Bank Group accounted an amount of HUF 130 million as value loss and provisions. This figure was by 34.9 % lower than the value planned. Increment compared to preceding year was generated by the increase of the loan portfolio and within this by the increase of the ratio of general mortgage loans.

Bank Group amended its accounting policy in the fourth quarter, in which it decided to create **general risk provisions** from year 2004. The Bank shall achieve the maximum extent determined in law within 3 years in a way that it shall replenish the provisions up to 20 % in 2004, up to 60 % in 2005 and up to 100 % in 2006. In 2004 it generated an expenditure amounting to HUF 328 million in addition to annual plan.

8 Risk factors

FHB Land Credit and Mortgage Bank Co. has **developed its risk management strategy** with the aim of **minimizing risks and taking into consideration all prudential rules and regulations**.

The Board of Directors approves the fundamental framework and methodological principles which determine the methods of risk management. The Board of Directors based on regular reports and effective internal rules and regulations controls the operation of the Bank, and within that the risk management activities, and also orientates itself of all the risks taken.

The **risk management activities are clearly separated from the business units**, it is supervised by the Chief Executive Officer, professional and limit decisions belong to the competence of the Asset Liability Committee.

Risk management is segmented to four important steps by the Bank:

- Risk identification
- Risk measurement
- Risk management
- Control and feedback

Identification means the disclosure of all relevant risks related to the business process, deals and day-to-day operations. In order to measure the risks revealed the Bank applies various indicators, statistics, analysis and tests. During the development of the methodology the Bank seeks to choose a toolset which can provide the best results to measure the real extent of the risks. Regular review of the methods is a crucial element of the successful risk management activity.

Effective risk management ensures that taking a risk is a conscious management decision in the interest of business success. The process covers the **identification of the acceptable risk levels** necessary to achieve business success, the **construction of a limit system** to comply with the acceptable levels, and the selection of the **applicable tools** for active risk management.

In case of all types of risk the analysis of the efficiency of the actions and deals completed as part of the risk management activity is extremely important. The Bank applies statistics and repeated measurement of risk exposure for the analysis. The purpose of the feedback in the short term is to find the risk management method that suits the best to the particular risk potential, while in the long term it is the way to increase risk management efficiency through organizational learning.

The Bank **identified as relevant risk factors the risks originating from the changes in the international and domestic macroeconomic situation**, which influence on the one hand the loans that can be disbursed by FHB and the quality of the portfolio, on the other hand the demand for and the cost of the regularly issued (or to be issued) mortgage bonds in the domestic and international capital markets.

FHB is basically specialized on housing loans and as such is influenced by the trends of the real estate market and within that the residential real estate market. Changes in prices of homes influence the demand for the Bank's loan products, and also the coverage of the loans with adequate collateral.

The housing policy of the government and the complex system of the state subsidies is decisive on the development of the housing loan market, and on the profit achievable on the housing loans by the intermediary banks (FHB and its partners).

The **regulatory risks in general can significantly influence the Bank's operation and profitability**. Within this the regulatory change of the liability side state subsidy linked to mortgage bond issue and the exclusive rights of mortgage banks to issue mortgage bonds can have especially relevant effect.

Risk factors related to market competition: intensification of market competition by the entry of new mortgage banks or banks providing mortgage services, conservation, enlargement, concentration of the refinancing partners, and maintenance of the level of co-operation.

The rating of the credit rating institution – currently Moody's – issuing official rating for the Bank and its mortgage bonds has decisive influence on the funding cost of FHB's mortgage bonds, on the range of the available investors, on their demand and on the market value of the Bank's shares. The Bank's financial strength supporting its stable operation and its ownership structure has an extremely important role in the rating.

The Bank develops its business strategy and business policy by taking into consideration the above mentioned risk factors.

The Bank's **operative risk management principles** by the various risk types:

Credit risk

The fundamental activity of FHB Land Credit and Mortgage Bank Co. is providing loans, insured by mortgage lien established on property, independent lien purchase or state guarantee.

Lending activity is concentrated on housing loans. Credit risk emerges from risk of customers taking the loans, from collateral risk and from independent lien purchase based partner risk of refinancing partners.

During product development standardized loan products are developed which provide the possibility of simplifying credit risk management. Customer portfolios related to these standardized products are characterized by diversification, meaning the high number of customers and the low amount of individual loans. This reduces the risk ratio compared to the size of the portfolio.

The Bank applies a simple and complex debtor qualification system prior to providing the loan. The Bank has established and applies a 'scoring system' for credit rating. For qualification of its accounts receivable, the Bank applies the qualification classes and provisioning limits set forth in its internal regulations and the relevant rules of law.

The Bank applies strict rules for the range of acceptable collaterals, for the method of their valuation and for the collateral coverage. The valuation of the real estates is performed by FHB for the refinanced loans as well.

The risk towards the partner banks is kept at a low level by the contractual clauses between the Bank and the partners, and the grant of the refinanced portfolio defined by the law.

The Bank assumes partner risk in the course of its money market and capital market activities only against market players rated by the Bank and having a limit.

Market and liquidity risk

FHB has a special asset-liability structure within the Hungarian banking sector deriving from its mortgage banking activity and the special legal regulation. Interest rate risk is constantly monitored based on gap analysis and indicators. The Bank aims to manage market risk using natural hedge, however 100% match of assets and liabilities is not achievable. Deficiencies of natural hedge is compensated by active interventions such as mortgage bonds repurchases, swap deals and increasing the maturity of mortgage bonds.

The specialized banking institutional form of FHB is significantly limiting the scope of activities, which may result in foreign exchange risk, moreover the Bank intends to keep the risk originating from FX mismatch at a low level according to its business policy.

Ensuring liquidity is a fundamental element of the banking activity. The Bank can ensure its liquidity by matching the maturities of its assets and liabilities. In addition to ensuring its solvency at all times, in the interest of profitability of the Bank, FHB will apply a maturity transformation of an extent regulated by specific limits.

Operational risk

Managing of operational risk principally consists of the improvement of internal rules and regulations, proper training of employees participating in the work-flow, and further development of the built-in control mechanism. Feedback, control of the efficiency of the actions taken to eliminate risk has an extremely important role according to the management of the Bank.

9 FHB Land Credit and Mortgage Bank Company's business policy envisioned for 2005

The Bank forecasts a **16% growth of the mortgage loan portfolio** for 2005 considering the dynamics of housing loan market and the strong role of FX lending. This results in similar growth of the balance sheet by the end of the year. The Bank maintains its market share both in terms of mortgage lending and mortgage bond issues. The Bank places stronger emphasis on the development of its distribution channels during the year. Refinancing still plays a major role in lending, however its share is expected to decrease in 2005. Refinancing and own lending is expected to have similar share in 2005.

The mortgage bond portfolio providing the funds for the mortgage loans will increase by 17% in 2005 according to the financial plan. International issues will prevail unless domestic yields and premiums decrease. Shareholder's equity will grow by 27% in one year.

Besides the expansion of the business activities **the Bank will maintain its excellent cost efficiency**, cost income ratio will stay below 40%. The increase in operating expenses serves the growth of the Bank, significant investments are planned in the distribution channels to service the expansion.

The Bank calculates with **a HUF 10 billion pre-tax profit** by the end of 2005, this results in a 21% increase compared to 2004. After-tax profit will grow by 8% due to the creation of general risk reserve and the extra corporate tax for banks.

Major financial indicators (HAS)	31 Dec 2004 Actual	31 Dec 2005 Plan	2005 Actual / 2004 Plan
Balance sheet total (million HUF)	416.196	480.000	115,3%
Mortgage loan portfolio (million HUF)	372.116	431.279	115,9%
Mortgage bonds outstanding (million HUF)	366.332	429.857	117,3%
Shareholder's equity (million HUF)	17.345	23.642	126,7%
Adjusted capital (million HUF)	17.061	22.880	134,1%
Capital Adequacy Ratio	13,0%	14,5%	111,9%
Pre-tax profit (million HUF)	8.378	10.090	120,4%
After-tax profit (million HUF)	7.136	7.713	108,1%
CIR (operating expenses/gross operating income)	35,2%	36,4%	103,2%
EPS (HUF)	1.081	1.169	108,1%
ROAA (return on average assets)	1,9%	1,7%	89,9%
ROAE (return on average equity)	45,9%	34,1%	74,1%

10 Consolidated report of FHB Land Credit and Mortgage Bank prepared in accordance with the Hungarian Accounting Standards

10.1 Auditor's report



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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of FHB Földhitel- és Jelzálogbank Rt. and its subsidiary

We have audited the accompanying consolidated balance sheet of FHB Földhitel- és Jelzálogbank Rt. as at December 31, 2004, which shows a balance sheet total of HUF 416,196,439 thousand and a profit for the year of HUF 5,104,697 thousand, the consolidated related profit and loss account for the year then ended and the notes included in the Company's 2004 consolidated annual financial statements. The consolidated annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with that presented in the consolidated financial statements.

We issued an unqualified report on the Bank's consolidated annual financial statements as at 31 December 2003 on March 12, 2004.

We conducted our audit in accordance with Hungarian National Audit Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. Our work regarding the consolidated business report was limited to these areas and did not include the examination of other information which do not derive from the Bank's and its subsidiaries' audited accounting records. We believe that our audit provides a reasonable basis for our opinion.

We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of FHB Földhitel- és Jelzálogbank Rt. in accordance with national audit standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the accounting law and with generally accepted accounting principles. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of FHB Földhitel- és Jelzálogbank Rt. as at December 31, 2004 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, March 16, 2005

except for the dividend payment of HUF 1,320,000 thousand for the year ended December 31, 2004,

as to which the date is

April 22, 2005

Ernst & Young Kft.
Registration No. 001165

Hergovits Mariann
Registered Auditor
Chamber membership No. 004648

10.2 Consolidated balance sheet

Consolidated audited Balance Sheets of FHB Land Credit and Mortgage Bank Co. for 2003 and 2004 prepared according to the Hungarian Accounting Rules

Assets		Data in '000 HUF		
No.	Description of the item	31 December 2003	31 December 2004	Change (%)
1.	1. Liquid assets	25,021	174,393	697.0%
2.	2. Government securities	3,447,149	3,764,969	109.2%
3.	a) for trading	3,447,149	3,764,969	109.2%
4.	b) for investment			
5.	3. Receivables from credit institutions	195,590,602	269,814,195	137.9%
6.	a) sight	12,202	64,100	525.3%
7.	b) other receivables from financial services	195,578,400	269,750,095	137.9%
8.	ba) short term	13,619,243	42,494,261	312.0%
9.	of which: - from associated enterprises			
10.	- from enterprises with participating interest			
11.	- from NBH		10,000,000	
12.	bb) long term	181,959,157	227,255,834	124.9%
13.	of which: - from associated enterprises			
14.	- from enterprises with participating interest			
15.	- from NBH			
16.	c) from investment services			
17.	of which: - from associated enterprises			
18.	- from enterprises with participating interest			
19.	4. Receivables from customers	105,202,193	131,036,394	124.6%
20.	a) from financial services	105,202,193	131,036,394	124.6%
21.	aa) short term	6,960,679	8,216,664	116.8%
22.	of which: - from associated enterprises			
23.	- from enterprises with participating interest			
24.	ab) long term	98,241,514	122,909,730	125.1%
25.	of which: - from associated enterprises			
26.	- from enterprises with participating interest			
27.	b) from investment services			
28.	of which: - from associated enterprises			
29.	- from enterprises with participating interest			
30.	ba) receivables from stock market investment services			
31.	bb) receivables from OTC investment services			
32.	bc) receivables from customers deriving from investment services			
33.	bd) receivables from clearing houses			
34.	be) receivables from other investment services			
35.	5. Debt securities, including fixed interest securities			
36.	a) securities issued by local governments and other agencies of state administration (excluding state securities)			
37.	aa) for trading			
38.	ab) for investment			
39.	b) securities issued by other issuer			
40.	ba) for trading			
41.	of which: - from associated enterprises			
42.	- from enterprises with participating interest			
43.	- own- issue repurchased			
44.	bb) held for investment			
45.	of which: - from associated enterprises			
46.	- from enterprises with participating interest			
47.	6. Shares and other securities with variable yield			
48.	a) shares and participations for trading			
49.	of which: - from associated enterprises			
50.	- from enterprises with participating interest			
51.	b) securities with variable yield			
52.	ba) for trading			
53.	bb) for investment			
54.	7. Shares and participations for investment	3		

Assets

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004	Change (%)
55.	a) shares and participations for investment	3		
56.	of which: - participation in credit institutions	3		
57.	b) value adjustment of shares and participations for investment			
58.	of which: - participation in credit institutions			
59.	8. Shares and participations in associated enterprises			
60.	a) shares and participations for investment			
61.	of which: - participation in credit institutions			
62.	b) value adjustment of shares and participations for investment			
63.	of which: - participation in credit institutions			
64.	c) capital consolidation difference			
65.	- from subsidiary, jointly managed enterprise			
66.	- from associated with enterprises			
67.	9. Intangible assets	298,693	557,178	186.5%
68.	a) intangible assets	298,693	557,178	186.5%
69.	b) value adjustment of intangible assets			
70.	10. Tangible assets	464,313	596,431	128.5%
71.	a) tangible assets for financial and investment services	464,313	596,431	128.5%
72.	aa) real estate	136,857	143,537	104.9%
73.	ab) technological equipment, machines, appliances and vehicles	322,378	417,873	129.6%
74.	ac) investments	5,078	14,964	294.7%
75.	ad) advances given to investments		20,057	
76.	b) tangible assets not directly held for financial and investment services			
77.	ba) real estate			
78.	bb) technological equipment, machines, appliances and vehicles			
79.	bc) investments			
80.	bd) advances given to investments			
81.	c) value adjustment of tangible assets			
82.	11. Own shares			
83.	12. Other assets	3,623,834	7,869,392	217.2%
84.	a) inventories	23,176	15,147	65.4%
85.	b) other receivables	3,600,658	7,854,245	218.1%
86.	of which: - from affiliated enterprises			
87.	- from enterprises with participating interest			
88.	c) receivables for corporate tax (calculated) from consolidation			
89.	13. Accrued income and deferred expenditures	1,497,648	2,383,487	159.1%
90.	a) accrued income	587,219	1,491,054	253.9%
91.	b) deferred costs and expenditures	910,429	892,433	98.0%
92.	c) deferred expenditures			
93.	TOTAL ASSETS	310,149,456	416,196,439	134.2%
	of which: CURRENT ASSETS (1+2a+3a+3ba+3c+4aa+4b+5aa+5ba+6a+6ba+11+12)	27,688,128	62,493,779	225.7%
	INVESTED ASSETS (2b+3bb+4ab+5ab+5bb+6bb+7+8+9+10)	280,963,680	351,319,173	125.0%

Liabilities

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004	Change (%)
94.	1. Liabilities to credit institutions	6,000,000	8,989,330	149.8%
95.	a) sight			
96.	b) accounts payable for a definite term, deriving from financial services	6,000,000	8,989,330	149.8%
97.	ba) short term	6,000,000	8,989,330	149.8%
98.	of which: - from associated enterprises			
99.	- from enterprises with participating interest			
100.	- from NBH			
101.	bb) long term			
102.	of which: - from associated enterprises			
103.	- from enterprises with participating interest			
104.	- from NBH			
105.	c) from investment services			
106.	of which: - from associated enterprises			
107.	- from enterprises with participating interest			
108.	2. Liabilities to customers	201,549	258,015	128.0%
109.	a) savings deposits			
110.	aa) sight			
111.	ab) short term			
112.	ac) long term			
113.	b) other liabilities from financial services	201,549	258,015	128.0%
114.	ba) sight	201,549	258,015	128.0%
115.	of which: - from associated enterprises			
116.	- from enterprises with participating interest			
117.	bb) short term			
118.	of which: - from associated enterprises			
119.	- from enterprises with participating interest			
120.	bc) long term			
121.	of which: - from associated enterprises			
122.	- from enterprises with participating interest			
123.	c) from investment services			
124.	of which: - from associated enterprises			
125.	- from enterprises with participating interest			
126.	ca) liabilities from stock market investment services			
127.	cb) liabilities from OTC market investment services			
128.	cc) liabilities deriving from investment services			
129.	cd) liabilities to clearing houses			
130.	ce) liabilities from other investment services			
131.	3. Liabilities from securities issued	277,906,290	366,332,210	131.8%
132.	a) bonds issued	277,906,290	366,332,210	131.8%
133.	aa) short term	200,000	7,866,000	3.933.0%
134.	of which: - from associated enterprises			
135.	- from enterprises with participating interest			
136.	ab) long term	277,706,290	358,466,210	129.1%
137.	of which: - from associated enterprises			
138.	- from enterprises with participating interest			
139.	b) other debt securities issued			
140.	ba) short term			
141.	of which: - from associated enterprises			
142.	- from enterprises with participating interest			
143.	bb) long term			
144.	of which: - from associated enterprises			
145.	- from enterprises with participating interest			
146.	c) debt instruments treated as securities from an accounting aspect but not classified as securities under the Securities Act			
147.	ca) short term			
148.	of which: - from associated enterprises			
149.	- from enterprises with participating interest			
150.	cb) long term			
151.	of which: - from associated enterprises			
152.	- from enterprises with participating interest			
153.	4. Other liabilities	1,186,959	1,966,624	165.7%

Liabilities

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004	Change (%)
154.	a) short term	1,186,959	1,966,624	165.7%
155.	of which: - from associated enterprises			
156.	- from enterprises with participating interest			
157.	- for credit institutions operating as cooperatives, other contribution of members			
158.	b) long term			
159.	of which: - from associated enterprises			
160.	- from enterprises with participating interest			
161.	c) tax liabilities originating from consolidation			
162.	5. Accrued expenditures and deferred income	13,324,027	20,974,069	157.4%
163.	a) passive accrual of income	1,830,416	2,434,049	133.0%
164.	b) accrued costs and expenditures	11,493,611	18,540,020	161.3%
165.	c) deferred income			
166.	6. Provisions	2,034	331,470	16.296.5%
167.	a) provision for pension and severance payment			
168.	b) risk reserve for pending and certain future liabilities	2,034	3,233	158.9%
169.	c) general risk reserve		328,237	
170.	d) other reserves			
171.	7. Subordinated obligations			
172.	a) subordinated loan capital			
173.	of which: - from associated enterprises			
174.	- from enterprises with participating interest			
175.	aa) capital consolidation difference			
176.	- from subsidiary, jointly managed enterprise			
177.	b) for credit institutions operating as cooperatives, other property contribution of members			
178.	c) other subordinated liabilities			
179.	of which: - from associated enterprises			
180.	- from enterprises with participating interest			
181.	8. Subscribed capital	6,600,001	6,600,001	100.0%
182.	of which: - repurchased ownership share at face value			
183.	9. Subscribed and not yet paid-up capital (-)			
184.	10. Capital reserve	1,145,594	1,145,594	100.0%
185.	a) the outstanding balance between the face value of the participation and its placement value (premium)	1,145,594	1,145,594	100.0%
186.	b) other			
187.	11. General reserve	446,109	1,157,536	259.5%
188.	12. Profit reserve (±)	382,853	3,354,981	876.3%
189.	13. Fixed reserve			
190.	14. Valuation reserve			
191.	15. Profit as per balance sheet (±)	2,962,725	5,104,697	172.3%
192.	16. Changes of equity of subsidiaries and enterprises under joint management (±)	-8,685	-18,088	208.3%
193.	17. Changes through consolidation (±)			
194.	- from debt consolidation difference			
195.	- from interim profit difference			
196.	18. Participation of external members (other owners)			
197.	TOTAL LIABILITIES	310,149,456	416,196,439	134.2%
198.	of which: - SHORT TERM LIABILITIES (1.a.+1.ba+1.c.+2.aa+2.ab+2.ba+2.bb+2.c+3.aa+3.ba+3.ca+4.a+4.c)	7,588,508	19,079,969	251.4%
199.	- LONG TERM LIABILITIES (1.bb+2.ac+2.bc+3.ab+3.bb+3.cb+4.b+7)	277,706,290	358,466,210	129.1%
200.	- SHAREHOLDER'S EQUITY (8-9+10+11±12+13+14±15±16±17±18)	11,528,597	17,344,721	150.4%

Consolidated audited Profit and Loss Statements of FHB Land Credit and Mortgage Bank Co. for 2003 and 2004 prepared according to the Hungarian accounting rules

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004	Change (%)
1.	1. Interest and interest type revenues received	26,006,866	46,877,083	180.2%
2.	a) interest received due on fixed interest debenture securities	215,371	347,822	161.5%
3.	of which: - from associated enterprises			
4.	- from enterprises with participating interest			
5.	b) other interest and interest type revenues received	25,791,495	46,529,261	180.4%
6.	of which: - from associated enterprises			
7.	- from enterprises with participating interest			
8.	2. Interest paid and interest type payments:	16,313,362	31,926,520	195.7%
9.	of which: - from associated enterprises			
10.	- from enterprises with participating interest			
11.	INTEREST DIFFERENCE (1-2)	9,693,504	14,950,563	154.2%
12.	3. Revenues from securities	1		
13.	a) revenues from shares and participations for trading (dividend, participation)			
14.	b) revenues from participations in associated enterprises (dividend, profit sharing)			
15.	c) revenues from other participations (dividend, profit sharing)	1		
16.	4. Commission and fee revenues received (due)	2,170,982	1,455,932	67.1%
17.	a) revenues from other financial services	2,170,982	1,455,932	67.1%
18.	of which: - from associated enterprises			
19.	- from enterprises with participating interest			
20.	b) from revenues of investment services (with the exception of revenues from trading activity)			
21.	of which: - from associated enterprises			
22.	- from enterprises with participating interest			
23.	5. Commission and fees paid payable	1,471,921	603,244	41.0%
24.	a) from expenditures of other financial services	799,898	396,984	49.6%
25.	of which: - from associated enterprises			
26.	- from enterprises with participating interest			
27.	b) from expenditures of investment services (with the exception of expenditures of trading activity)	672,023	206,260	30.7%
28.	of which: - from associated enterprises			
29.	- from enterprises with participating interest			
30.	6. Profit on financial transactions (6.a - 6.b + 6.c - 6.d)	674,790	-1,036,493	
31.	a) from revenues of other financial services	813,508	1,091,729	134.2%
32.	of which: - from associated enterprises			
33.	- from enterprises with participating interest			
34.	b) from expenditures of other financial services	124,336	2,128,456	1,711.9%
35.	of which: - from associated enterprises			
36.	- from enterprises with participating interest			
37.	c) from the revenues of investment service (revenue of trading activity))		234	
38.	of which: - from associated enterprises			
39.	- from enterprises with participating interest			
40.	- reversal of impairment on securities for trading			
41.	d) from the expenditures of investment services (expenditure of commercial activity)	14,382		
42.	of which: - from associated enterprises			
43.	- from enterprises with participating interest			
44.	- impairment on securities for trading			
45.	7. Other revenues from business activities	205,217	139,054	67.8%
46.	a) revenues from non-financial and investment services	8,821	6,152	69.7%
47.	of which: - from associated enterprises			
48.	- from enterprises with participating interest			
49.	b) other revenues	196,396	132,902	67.7%
50.	of which: - from associated enterprises			
51.	- from enterprises with participating interest			

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004	Change (%)
52.	- reversal of impairment on inventories			
53.	ba) Consolidation difference resulting from debt consolidation, increasing the profit			
54.	8. General administrative costs	5,332,321	4,899,492	91.9%
55.	a) personnel expenses	2,392,922	2,398,964	100.3%
56.	aa) wage cost	1,352,096	1,575,193	116.5%
57.	ab) other personal type disbursements	329,630	245,064	74.3%
58.	Including: - social security costs	98,310	103,485	105.3%
59.	- costs associated with pension	89,286	94,573	105.9%
60.	ac) contribution after wages	711,196	578,707	81.4%
61.	Including: - social security costs	628,513	496,767	79.0%
62.	- costs associated with pension	378,483	297,651	78.6%
63.	b) other administrative costs (material type costs)	2,939,399	2,500,528	85.1%
64.	9. Depreciation and amortization	388,199	303,866	78.3%
65.	10. Other expenditures from business activities	573,717	762,464	132.9%
66.	a) expenditures on non-financial and investment services			
67.	of which: - from associated enterprises			
68.	- from enterprises with participating interest			
69.	b) other expenditures	573,717	762,464	132.9%
70.	of which: - from associated enterprises			
71.	- from enterprises with participating interest			
72.	- impairment on inventories			
73.	ba) consolidation difference from debt consolidation, decreasing the profit			
74.	11. Value loss on receivables and risk provision from pending and certain (future) liabilities	185,943	629,425	338.5%
75.	a) value loss on receivables	184,190	295,592	160.5%
76.	b) risk reserve for pending and certain (future) liabilities	1,753	333,833	19,043.5%
77.	12. Reversal of value loss on receivables and risk provision	160,200	170,441	106.4%
78.	a) reversal of value loss on receivables	158,546	166,044	104.7%
79.	b) utilization of risk reserve for pending and certain (future) liabilities	1,654	4,397	265.8%
80.	13. Value loss on debt securities held as investments, shares and participations in affiliated and other associated enterprises			
81.	14. Reversal of value loss on debt securities held as investments, shares and participations in affiliated and other associated enterprises	7	17	242.9%
82.	15. OPERATING (BUSINESS) PROFIT	4,952,600	8,481,023	171.2%
83.	Including: - PROFIT FROM FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7.b-8-9-10.b-11+12-13+14)	4,943,779	8,474,871	171.4%
84.	- PROFIT FROM NON-FINANCIAL AND INVESTMENT SERVICES (7.a-10.a)	8,821	6,152	69.7%
85.	16. Extraordinary revenues			
86.	17. Extraordinary expenditures	6,075	102,982	1,695.2%
87.	18. Extraordinary profit (16 - 17)	-6,075	-102,982	1.695.2%
88.	19. Pre-tax profit (± 15± 18)	4,946,525	8,378,041	169.4%
89.	20. Tax liability	920,230	1,241,917	135.0%
90.	a) outstanding balance of corporation tax deriving (calculated) from consolidation			
91.	21. Profit after taxes (± 19-20)	4,026,295	7,136,124	177.2%
92.	22. General reserve and its involvement	403,570	711,427	176.3%
93.	23. Approved dividend and profit sharing	660,000	1,320,000	200.0%
94.	24. Profit on balance sheet (± 21 ± 22 - 23)	2,962,725	5,104,697	172.3%

Audited Cash-flow Statements of FHB Land Credit and Mortgage Bank Co. for 2003 and 2004 prepared according to the Hungarian accounting rules

Data in '000 HUF

No.	Description of the item	31 December 2003	31 December 2004
01.	Interest received	26,006,866	46,872,909
02.	+ Income from other financial services	2,984,490	2,547,661
03.	+ Other incomes (without use of provision and writing back of surplus provision)	196,396	132,853,
04.	+ Income from investment services		234
05.	+ Income from services other than financial or investment ones	8,821	35,107
06.	+ Dividend received	1	0
07.	+ Extraordinary income		0
08.	- Interest paid	-16,313,362	-31,926,520
09.	- Expense on other financial services	-924,234	-2,718,979
10.	- Other expenses (without creation of provision)	-606,927	-1,608,147
11.	- Expenses on investment services	-686,405	-206,260
12.	- Expenses on services other than financial and investment ones		
13.	- Costs on financial and investment services	-5,332,321	-4,757,561
14.	- Extraordinary expenses (without tax payable in the subject year)	-6,075	-102,982
15.	- Tax payable in the subject year	-920,230	-1,241,917
16.	- Dividend paid	-660,000	1,320,000
17.	Operating cash flow (lines 01-16)	3,747,020	5,706,398
18.	± Changes in portfolio of accounts payable	179,466,710	92,248,897
19.	± Changes in portfolio of accounts receivable	-193,625,680	-104,425,157
20.	± Changes in portfolio of inventories	81,447	8,029
21.	± Changes in portfolio of securities indicated as current assets	-1,000,744	-317,820
22.	± Changes in portfolio of financial investments	30	20
23.	± Changes in portfolio of investments (including advances)	58,726	-29,943
24.	± Changes in portfolio of intangible assets	-76,737	373,965
25.	± Changes in portfolio of tangible assets (without investments)	-160,638	-191,254
26.	± Changes in portfolio of accruals	-241,498	-885,809
27.	± Changes in portfolio of deferrals	9,259,180	,7658,128
28.	+ Issue of shares at selling price	2,500,004	
29.	+ Funds received without return according to relevant rules of law		
30.	+ Funds handed over without compensation according to relevant rules of law		
31.	- Nominal value of withdrawn own shares or property bonds		
32.	NET CASH FLOW (lines 17-29)	7,820	145,454
	Out of which: - changes in cash (both HUF and foreign exchange)	928	472
	- changes in bank money (accounting and other sight deposits with National Bank of Hungary)	6,892	144,982

10.3 Notes to accounts

I. GENERAL PART

I.1. Brief presentation of the FHB Land Credit and Mortgage Bank Group

FHB Land Credit and Mortgage Bank Company Limited (FHB Rt.) was established on 21 October, 1997. It carries out its activity as a specialized credit institution.

FHB Rt. purchased 100% of Mortgage Credit Institution Preparation Company Limited (under its current corporate name FHB Servicing Company Limited) on 15 December, 1997, creating thereby the FHB Land Credit and Mortgage Bank Group.

The Bank's performance continued to have a decisive importance in the bank group's 2004 performance, in which the portfolio of receivables against credit institutions has a high-priority importance, and the portfolio of receivables and liabilities against customers and the considerable increase thereof in comparison with the preceding period represent a considerable proportion too. The Servicing Co. Ltd. complemented the Bank's activity by the provision of banking agent's services as of half-year II 2003.

With the cumulations screened out, the consolidated accounts present the economic, financial and property situation of the parent bank and its subsidiary in the aggregate.

I.2. The Bank Group's accounting policy in brief

It is the aim of the accounting policy of FHB Land Credit and Mortgage Bank Group to lay down the collectivity of the accounting processes, methods and evaluations, whose purpose is to ensure the preparation of the consolidated annual accounts.

The consolidated accounts will be prepared mainly for the owners and the executives of the bank group; their aim is to present the group's true property, profitability and financial situation, by eliminating the business relations within the bank group.

The consolidated annual accounts consist of

- the consolidated balance-sheet,
- the consolidated profit/loss statement,
- the consolidated complementary annex,
- the consolidated business report.

The bank group's accounting policy specifies the evaluation of assets and liabilities, the rules of qualification of the assets and the substantial constituents of the profit/loss statement.

The statement date of the balance-sheet is 31 December of the subject year.

According to the accounting policy the date of preparation of the balance-sheet is 15 February of the year following the subject year.

Evaluation of assets and liabilities

The rules and methods of evaluation follow the provisions of the Act and the Decree.

The Bank shows the assets at purchase value, at acquisition value in the consolidated balance-sheet, in the course of the evaluation of assets.

The basis of evaluation of the liabilities is the book value, which is identical in both the individual accounts and the consolidated accounts.

Off-balance-sheet items

In account class „0“ the bank group shows the suspense and future liabilities, which may affect its future economic management.

I.3. Methods and principles of consolidation

In comparison with the Bank's registered capital of HUF 6.6 bn the registered capital of HUF 65 mn of FHB Servicing Co. Ltd. is not considerable.

The members of the bank group keep their books according to the rules of double-entry book keeping. In case of the individual accounts the parent company (the Bank) prepares its annual accounts according to Government Decree No. 250/2000 on the Features of the Credit Institutions' and Financial Undertakings' Obligations of Preparing Annual Accounts and Bookkeeping", while FHB Servicing Co. Ltd. prepares the annual accounts prescribed for the undertakings, in which the profit/loss statement is prepared with the total cost procedure type „A“.

When preparing the consolidated annual accounts FHB Servicing Co. Ltd. causes, in the course of the preparation, its balance-sheet and profit/loss statement to correspond to the relevant lines of the Bank's accounts of credit institution, securing thereby the **principle of substantial identity**.

The bank group fulfils the **principle of standard evaluation** by the fact that the group's members determined identically the procedures and methods reserved for the undertaking's decision in Act C [100] of 2000 on Accounting, and applied them in an identical manner.

When preparing the consolidated accounts the Bank merges the Bank's and the Servicing Company's individual accounts into a single preparatory balance-sheet and profit/loss statement.

In the course of **capital consolidation** it takes into consideration the value of the share, due to the parent company, in the amount falling on the ownership portion from the subsidiary's equity. The applied method is the **full-scale consolidation**, in the course of which the equity of the undertaking involved in the consolidation is screened out against the Bank's investments. The Bank carried out the first consolidation with the method of the book value. There is a single-level relation between the Bank and the Servicing Co. Ltd.

The Servicing Co. Ltd. **does not own any shares in the Bank** or any repurchased treasury shares, therefore its equity may be taken fully into consideration in the course of the consolidation.

In the course of debt consolidation the receivables and payables of the two undertakings against each other are taken out from the preparatory (preliminary) balance-sheet.

Upon the consolidation of expenditures and revenues the costs and price revenues resulting from performances against each other are screened out from the preparatory balance-sheet.

I.4. Guiding information

◆ Main data characterizing the parent company's business management

1. Information related to owners having a considerable interest and an interest-securing majority influence

Under Act CXLIV of 1997 on Business Associations ÁPV Rt. (head office: 1133 Budapest, Pozsonyi út 56) disposes over an influence-securing **majority** control (53.2%).

2. Information relating to the assumption of high risk by the Bank

Section 79 of Act CXII of 1996 on Credit Institutions and Financial Undertakings provides that the risk assumption shall qualify as high risk assumption if the magnitude of the total risk assumed by the Bank for one customer or for one group of customers exceeds ten percent of the credit institution's guarantee capital. On 31 December, 2004 the Bank had **no** customer, which would qualify as **high risk** under the above section.

3. The Bank's compliance with the prescriptions of mortgage lending

- Upon the conclusion of the loan agreements **the proportion of the mortgage credits with a minimum expiry of five years** is, within the Bank's full credit portfolio, 99.87%, as compared to the minimum 80% under Section 5(1) of Act XXX of 1997.
- The **portfolio** of the Bank's total **principal receivables** resulting from mortgage credits does not exceed **seventy** percent (according to Section 5(3) of Act XXX of 1997) of the **aggregate value, underlying the credit extension, of the real estates serving as collateral**. This proportion is **39.57%** on 31 December, 2004.

4. The Bank's compliance with the provisions relating to the issuance of mortgage bonds

- On 31 December, 2004 the Bank has a principal receivable with ordinary cover (minus loss in value) **in excess of** the non-amortized nominal value of the outstanding mortgage bonds (HUF **366,332,210 thousand**), having a value of **HUF 370,958,866 thousand** at the end of the subject period, **exceeding thereby the prescription** of Section 14(1),(2a) of Act XXX of 1997.
- On 31 December, 2004 the Bank has an interest falling on the principal receivable with ordinary cover, minus loss in value, in a value **exceeding** the interest of the non-amortized nominal value of the outstanding mortgage bonds (**HUF 211,649,442 thousand**), whose

value is **HUF 342,153,154 thousand** at the end of the subject period, **exceeding** thereby the **prescription** of Section 14(1), (2b) of Act XXX of 1997.

No involvement of **additional cover** under Section 14(11) of Act XXX of 1997 took place as at 31 December 2004.

5. Information related to the issued mortgage bonds

- The aggregate amount of the **collateral value of the real estate covers** in the background of the ordinary covers was **HUF 931,643,053 thousand on 31 December, 2004**.
- From among the Bank's existing liabilities resulting from the issuance of mortgage bonds, **the value of the mortgage bonds** of own issue, with a remaining expiry **in excess of five years** amounted to **HUF 210,243,370 thousand** on 31 December, 2004.
- In the course of the year 2004 the Bank repurchased from among its outstanding mortgage bonds in the framework of several auctions. The nominal value of the **repurchase** totals is **HUF 32,351,080 thousand**. As part of the **active asset-liability management** the Bank improved thereby successfully the harmony of maturities, it attenuated the peaks of amortization of 2008 and 2013, and it reduced materially its costs of financing, as a result of the increasingly favorable yield margins and commission structures.

6. Information relating to the qualification linked to the activity of credit institution, relating to accounting for loss in value and to the formation of provision

The Bank performed the rating of receivables and liabilities. **The portfolio of outstanding receivables and commitments** to be qualified, which contains the receivables against customers, the off-balance-sheet suspense liabilities, the receivables against credit institutions, as well as the invested financial assets, totaled in **HUF 397,565,011 thousand** on 31 December, 2004. As a result of the rating carried out on the basis of the Decree of the Ministry of Finance and the internal regulations based thereon, **99.1%** of the aggregate portfolio as a whole is of **„no problem“**, **0.55%** of **„to monitor separately“**, **0.08%** of **„sub-average“** and **0.27%** of **„doubtful“** qualification.

The Bank records a total of **HUF 374,147 thousand**, as **loss in value** accounted for, and a **risk provision of HUF 3,233 thousand** on the liabilities made suspense on 31 December 2004.

7. Information relating to the general risk provision

As of the year 2004 the Bank returned to the system of the formation of general risk provision, with regard to the fact that the Bank's strategy had changed considerably in comparison with the earlier decision. Clean lending became of decisive importance and came to the foreground, and the Bank became the refiner of certain commercial banks. The increase involves a risk, which cannot be measured and identified at present. In the Bank's judgement the operational and administrative risk has increased and it will, along with the change in the course of business, continue to increase.

As of year-end the Bank disposes over 20% of the general risk provision to be formed for the year-end corrected balance-sheet total, **HUF 328,237 thousand**, in the manner specified in accounting policy.

8. Loss in value related to other receivables

As at 31 December, 2004 the Bank does not record any loss in value under such title.

9. Information related to the shares in the Bank

- The Bank entrusted KELER Rt. with keeping the share register in conformity with the legal rules.
- The payment of dividend due on the year 2003 was also made by KELER Rt. in the course of the year. The **non-paid dividend** of 2003 amounts to **HUF 43,326 thousand** at the reference date of the balance-sheet.
- Based on an authorization granted by the General Meeting the Bank's Supervisory Board laid down – by the set deadline – in a regulation the detailed rules of a two-year **share grant programme** without consideration, relating to the members and managing directors of the Board of Directors and the senior executives of the Bank. In the framework of the programme no more than 20 thousand pieces per year may be granted to each manager indicated above from series „A“ ordinary shares issued and repurchased or to be newly issued, provided the stock exchange performance will develop as described in the regulation. The first period under the regulation is the time elapsed between 8 April 2004 and the General Meeting closing the year 2004.
- A **syndicate (shareholders') agreement** was entered into between the holders of series „B“ voting preference shares and the Bank in December 2004, in order to secure that the holders of these shares are able to exercise their influence with due efficiency and successfully even after the Bank's privatization. The agreement lays down the rights and obligations of the preference holders, among other things the cases and rules of the transfer of shares, as well as the rules applicable in respect of certain senior officers.

10. Futures

- On 31 December 2004 the Bank records the following off-the-counter futures concluded for the purpose of hedging:
 - interest swap deal, whose starting date is 14 May 2008, expiry is 14 May 2013 and the value of the future liability undertaken amounts to **HUF 2,885,000 thousand**.
 - FX swap deal, whose starting date is 8 July, 2004, maturity is 8 July, 2009 and its value is **HUF 25,005,000 thousand** under the contract.
 - FX swap deal, whose starting date is 12 November, 2004, expiry is 10 November, 2010 and its value is **HUF 11,025,000 thousand and CHF 7,622.5 thousand** under the contract.

11. Other information about the banking trade

- **The value of the interest made suspense** under the relevant Government Decree – which is **0.7%** of the interest due on the receivables against customers, accounted for in the course of the year 2004 – amounts to **HUF 51,323 thousand** on 31 December, 2004,

while the value of the commissions in the nature of interest, made suspense, amounts to **HUF 5,103 thousand**. From the interest made suspense prior to the subject year, HUF 37,407 thousand were received in the course of the subject year, of which HUF 22,995 thousand was deferred in the 2003 accounts.

- The assumptions of **joint and several suretyship received** from the customers (private individuals), to be found in the background of the receivables against customers, amount to **HUF 41,851,921 thousand**, the joint and several suretyship undertaken by the state amounts to **HUF 2,885,518 thousand**.
- A **simple suretyship exists for the Bank's benefit** on behalf of the credit institution acquiring the deal, relating to the portfolio of credit deals financed jointly with partner banks and savings co-operatives in the framework of consortium co-operation, amounting to **HUF 7,776,114 thousand** on 31 December, 2004. In the course of the enforcement of simple suretyship the partner bank's commitment will exist up to a definite extent of the Bank's receivable, which cannot be reimbursed in any other way whatsoever and has been written off as credit loss.
- On 31 December, 2004 **53 execution proceedings** are pending at the Bank's request, of which **9** are proceedings of execution by **auction**.

In the subject period **43 execution proceedings were completed**, of which 3 claims have been enforced by the Bank in the framework of successful auction proceedings, 27 claims in the framework of execution proceedings with no auction, and 13 claims have been sold. HUF 3,466 thousand were generated as a difference between the result of the completed proceedings of auction and the receivables from mortgage loans, existing against the customers, who had participated in the proceedings of auction.

- By 31 December, 2004 the **principal amortization of mortgage loans** in the subject year amounted to **HUF 26,091,804 thousand**, of which the amount of the principal amortization of the mortgage loans against customers was HUF 9,343,561 thousand, and the amortization amount of the refinancing credits against credit institutions was HUF 16,748,243 thousand.
- According to the provisions of the Government Decree relating to the Bank, **the amount, due in the year following the subject year**, of the receivables and liabilities shall be taken out from the receivables and payables with an original maturity over one year in the course of the preparation of the balance-sheet, and they have to be rearranged among the short-term receivables and liabilities. The Bank rearranged, according to the aforementioned legal title, **HUF 8,126,664 thousand from the receivables** against customers with a maturity over one year, and **HUF 13,824,261 thousand** from the receivables against credit institutions among the receivables with a maturity within one year. It rearranged **HUF 2,866,000 thousand from the long-term liabilities** existing due to the issued mortgage bonds among the liabilities mature within one year.
- From the HUF 3,764,969 thousand indicated in the row **„Government Bonds“** of the Bank's balance-sheet of 31 December 2004, the book value of the portfolio listed at the stock exchange amounts to **HUF 3,747,689 thousand**.
- The Bank has recorded **purchased stocks** in a value of **HUF 14,986 thousand** among the stocks, on 31 December, 2004.
- The lines **„Expenditures of investment service“** of the profit/loss statement contain the expenditures linked to the issued mortgage bonds and connected to the sales in a value of HUF 206,260 thousand, while the lines **„Revenues of investment service“** contain the

price gain accounted for upon charge-off on the own securities in an amount of HUF 234 thousand.

- On 31 December, 2004 the Bank has a receivable of **HUF 2,739,338** against its subsidiary, **FHB Servicing Co. Ltd.**, at the same time the Bank records a liability of **HUF 23,422,647** against its subsidiary due to the use of services, at the year-end reference date. In the course of the consolidation **HUF 193,898 thousand** was taken out from the Bank's expenditures of other financial services, **HUF 28,955 thousand** from the revenues of non-financial services, and **HUF 26,400 thousand** from the other administrative costs, as a result of the year's activity.

12. Other information

- Early 2004 the Tax and Financial Control Office Directorate of Priority Taxpayers of Pest County and the Capital City carried out an audit relating to the years 2000-2001-2002, in order to post-examine the tax returns in each type of tax. In respect of an issue the Bank addressed the Metropolitan Court. Its 2004 accounts contain in full the effect exercised by the decision of appellate instance on the result, as well as the self-checks carried out in connection with the findings. The cumulative effect thereof is significantly below the Bank's error limit affecting materially the true picture, and below the values of non-material error limits.
- Making use of the opportunities provided by the Film Act and the Act on Corporate and Dividend Tax, amended mid-year, the Bank entered, in 2004, into an agreement with the producer of the film entitled „**Fateless**” for subsidizing the film. According to the agreement the Bank will subsidize the producer of the film with no more than HUF 125 mn. In relation to the year 2004 the Bank made a payment of HUF 88,884 thousand, as first installment of the subsidy, accounted for as exceptional expenditure, which reduced the pre-tax profit. The use of the tax base benefit and tax benefit corresponding to the amount of subsidy was made, with reference to Section 4(36), Section 8(1)(nf) and Section 22(1) of the Act on Corporate and Dividend Tax, on the basis of a certificate of subsidy issued by the National Film Bureau. The subsidy accounted for increased the Bank's after-tax profit by HUF 14,220 thousand.
- **Persons entitled** to represent FHB Land Credit and Mortgage Bank as an undertaking and **to sign the accounts:**

Dániel GYURIS

General Director

6795 Bordány, Dudás u. 89

Jenő SIKLÓS

Deputy General Director

3100 Salgótarján, Móricz Zsigmond u. 6

**Changes in own equity
31 December 2004**

Data in thousand HUF

DESCRIPTION	Subscribed capital	Capital reserve	General reserve	Profit reserve	Fixed reserve	Balance Sheet profit	Changes in equity of subsidiary and company under joint management	Total own equity
31 December 2003	6,600,001	1,145,590	446,109	382,853		2,962,725	-8,685	11,528,597
Creation of general reserve			711,427					711,427
Accounted depreciation of formation value								
2003 profit				2,972,128		-2,962,725		9,403
Effect of consolidation								
2004 profit						5,104,697	-9,403	5,095,294,
31 December 2004	6,600,001	1,145,594	1,157,536	3,354,981		5,104,697	-18,088	17,344,721

SPECIFIC PART

Changes in gross values of intangible and tangible assets 31 December 2004

Data in thousand HUF

Description	Balance sheet line	Changes in gross values					
		Opening balance 1/1/2004	Transfer From opening balance	Increase in the year	Internal sale	Decrease in the year	Closing balance 12/31/2004
I. Intangible assets :							
a/ Valuable rights		7,873		25			7,898
b/ Intellectual products		595,394		543,284		213,466	925,212
c/ Value of formation / reorganization		703,809				703,809	0
Total intangible assets	9.	1,307,076		543,309		917,275	933,110
II. Tangible assets of financial services							
a/ Land and buildings	10. aa)	171,934		24,598		10,573	185,959
b/ Plant, machinery, installations, vehicles,	10. ab)	697,008		288,734		111,505	874,237
c/ Investments	10. ac)	5,078		321,774		311,888	14,964
d/ Advances on investments	10. ad)	0		34,546		14,489	20,057
Total tangible assets of financial services	10. a)	874,020		669,652		448,455	1,095,217
III. Tangible assets of non-direct financial services :							
a/ Land and buildings	10. ba)						
b/ Plant, machinery, vehicles	10. bb)						
c/ Investments	10. bc)						
d/ Advances on investments	10. bd)						
Total tangible assets of non-direct financial services	10. b)						

Changes in accumulated depreciation of intangible and tangible assets 31 December 2004

Data in thousand HUF

Description	Balance sheet line	Changes in depreciation					Closing balance 12/31/2004
		Opening balance 1/1/2004	Transfer From opening balance	Increase in the year	Internal sale	Decrease in the year	
I. Intangible assets :							
a/ Valuable rights		5,528		1,158			6,686
b/ Intellectual products		299,046		133,336		63,136	369,246
c/ Value of formation / reorganization		703,809				703,809	
Total intangible assets	9.	1,008,383		134,494		766,945	375,932
II. Tangible assets of financial services							
a/ Land and buildings	10. aa)	35,077		10,093		2,748	42,422
b/ Plant, machinery, installations, vehicles	10. ab)	374,630		159,279		77,545	456,364
c/ Investments	10. ac)						
d/ Advances on investments	10. ad)						
Total tangible assets of financial services	10. a)	409,707		169,375		80,293	498,786
III. Tangible assets of non-direct financial services :							
a/ Land and buildings	10. ba)						
b/ Plant, machinery, vehicles	10. bb)						
c/ Investments	10. bc)						
d/ Advances on investments	10. bd)						
Total tangible assets of non-direct financial services	10. b)						

Changes in net values of intangible and tangible assets 31 December 2004

Data in thousand HUF

Description	Balance sheet line	Changes in net values	
		Opening balance 1/1/2004	Closing balance 12/31/2004
I. Intangible assets :			
a/ Valuable rights		2,345	1,212
b/ Intellectual products		296,348	555,966
c/ Value of formation / reorganization		0	0
Total intangible assets	9.	298,693	557,178
II. Tangible assets of financial services			
a/ Land and buildings	10. aa)	136,857	143,537
b/ Plant, machinery, installations, vehicles	10. ab)	322,378	417,873
c/ Investments	10. ac)	5,078	14,964
d/ Advances on investments	10. ad)	0	20,057
Total tangible assets of financial services	10. a)	464,313	596,431
III. Tangible assets of non-direct financial services			
a/ Land and buildings	10. ba)		
b/ Plant, machinery, vehicles	10. bb)		
c/ Investments	10. bc)		
d/ Advances on investments	10. bd)		
Total tangible assets of non-direct financial services	10. b)		

Changes in depreciation of intangible and tangible assets in the subject year 31 December 2004

Data in thousand HUF

Description	Planned depreciation	Over-plan depreciation, refuse
I. Intangible assets		
1/ Valuable rights	1,157	
2/ Intellectual products	133,336	12,003
3/ Value of formation / reorganization		
Total intangible assets:	134,493	12,003
II.1. Tangible assets of financial services		
1/ Land and buildings	10,093	7,584
2/ Plant, machinery, installations, vehicles	155,186	5,385
3/ Investments		
Total tangible assets of financial services:	165,279	12,969
II.2. Tangible assets of non-direct financial services		
1/ Land and buildings		
2/ Plant, machinery, installations, vehicles		
Total tangible assets of non-direct financial services:		
III. Depreciation of tangible and intangible assets of a value below HUF 50,000 each accounted in a sum	4,094	
Total :	303,866	24,972

Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2004

Data in thousand HUF

Description	Balance sheet line	Portfolio as on 31 December 2004	Portfolio of 31 December 2004 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and 1 year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More than 15 years
		1 = 2+...+7	2	3	4	5	6	7
Accounts receivable from credit institutions:								
- Other short term	3. ba)	42,494,261	32,143,562	10,350,699				
- Long term	3.bb)	227,255,834			60,370,524	74,778,225	57,187,433	34,919,652
Accounts receivable from customers:								
- Short term	4. aa)	8,126,664	2,180,458	5,946,206				
- Long term	4. ab)	123,283,877			32,922,737	45,150,679	28,162,078	17,048,383
- Accounted value loss	From 4. ab)	-374,147						
Total:		400,786,489	34,324,020	16,296,905	93,293,261	119,928,904	85,349,511	51,968,035

**Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)
31 December 2004**

Data in thousand HUF

Description	Balance sheet line	Portfolio as on 31 December 2004	Items of 31 December 2004 broken down by residual times to maturity					
			Within three months	Between 3 months and 1 year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More than 15 years
		1 = 2+...+7	2	3	4	5	6	7
Accounts payable to credit institutions:								
- Short term	1. ba)	8,989,330	8,989,330					
- Long term	1.bb)							
Accounts payable to customers :								
- Short term	2. ab) + 2. bb)							
- Long term	2. ac) + 2. bc)							
Accounts payable due to issued securities :								
- Short term	3. aa)	7,866,000	5,200,000	2,666,000				
- Long term	3. ab)	358,466,210			148,222,840	181,017,120	29,226,250	
Subordinated accounts payable:	7.							
Total:		375,321,540	14,189,330	2,666,000	148,222,840	181,017,120	29,226,250	

Changes in provisions

Data in thousand HUF

	Description	Opening balance	Writing off of loan losses	Loss on sale of receivables	Creation of provision	Writing back of provision	Closing balance
1.	Provision for securities						
2.	Provision for accounts receivable						
3.	Provision for inventories						
4.	Provision for financial investments						
5.	Provision for off-balance-sheet items	2,034			5,596	4,397	3,233
6.	Provision for general risks				328,237		328,237
7.	Other provisions						
	Total provisions: (1. - 7.)	2,034			333,833	4,397	331,470

Changes in value losses

Data in thousand HUF

	Description	Opening balance	Writing back of value losses of previous year	Writing back of value losses in subject year	Value losses accounted in subject year	Closing balance
1.	Value loss of accounts receivable from credit institutions					
2.	Value loss of accounts receivable from customers	248,065	169,510	138,613	434,205	374,147
3.	Value loss of shares for investment purposes	17	17			0
4.	Value loss of accounts receivable					
5.	Value loss of inventories					
	Total value losses: (1. - 5.)	248,082	169,527	138,613	434,205	374,147

Maturities of major items of accrued interests and deferred costs and expenses 31 December 2004

Data in thousand HUF

Description	Balance sheet line	Items of 31 December 2004 broken down by maturities				Items of 31 December 2004
		Within 3 months	More than 3 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years	
		1	2	3	4	= 1+2+3+4
Accrued interests:	From 13. a)					
- Accrued interests on redeemed own securities		37,278	49,909			87,187
- Accrued interests from accounts receivable from customers		456,747				456,747
- Accrued interests from credit institutions from refinancing loans		208,411				208,411
- Accrued interests of interbank deposits		121,099				121,099
- Deferred interest on hedge transactions			519,771			519,771
- Commission for arrangement of state subsidies		94,648				94,648
Deferred costs and expenses:	From 5. b)					
- Deferred interest on issued mortgage bonds		6,020,435	11,121,118			17,141,553
- Deferred interest on hedge transactions			1,319,916			1,319,916
- Deferred interest on interbank loans		4,913				4,913

**Assets and liabilities in foreign currencies
31 December 2004**

Data in thousand HUF

Assets	Amount in Balance Sheet	Of which in foreign currency, value in HUF	Liabilities	Amount in Balance Sheet	Of which in foreign currency, value in HUF
3.a. Receivables from credit institutions - sight	64,100	57,511	1.b. Liabilities towards credit institutions from financial services and fixed for a predetermined term	8,989,330	1,839,330
3.b. Other receivables from financial services	269,700,095	7,067	2.b. Other liabilities to customers from financial services	258,015	3,280
4.a. Receivables from customers from financial services	131,036,394	3,034,189	3. Liabilities from securities issued	366,332,210	36,889,500
12.b. Other receivables	7,854,844	11,917	4-a. Other liabilities falling due within one year	658,421	2,459
13.a. Accrued income	1,490,839	527,803	5.b. Accrued costs and expenditures	18,539,563	529,778
13.b. Deferred costs and expenditures	892,165	67,769			

INFORMATIVE PART

Informative data on enterprise involved in consolidation 31 December 2004

Data in thousand HUF

Description	Name of the Enterprise	Registered office	Share in property	Enterprise's				Registered value of the investment
				Own equity	Subscribed capital	Reserves	2004 profit	
Participations in enterprises involved in consolidation	FHB Service Ltd.	Budapest, 1132. Váci u. 20.	100%	68,768	65,000	-18,088	21,856	65,000

**Total consolidated emoluments payable to members of Board of Directors and
Supervisory Board on business year
31 December 2004**

Description	Parent company		Subsidiary	
	Number of persons receiving emoluments	Amount of emoluments payable (thousand HUF)	Number of persons receiving emoluments	Amount of emoluments payable (thousand HUF)
Board of Directors	8	18,168		
Supervisory Board	9	17,783		
Total:	17	35,951		

Total consolidated emoluments payable to Management

Description	Parent company		Subsidiary	
	Number of persons receiving emoluments	Amount of emoluments payable (thousand HUF)	Number of persons receiving emoluments	Amount of emoluments payable (thousand HUF)
Management	3	142,810	1	648

**Loans granted to members of Board of Directors, Management and Supervisory Board of the Bank
31 December 2004**

Data in thousand HUF

Description	Paid	Re-paid	Principal to be re-pad	Essential conditions, interests-bearing
Internal loans				
- Board of Directors	88,477	3,715	84,762	Structure according to announcement
- Management	18,500	10,537	7,963	50% of Central Bank base interest
	30,000	458	29,542	Structure as set out in announcement under preferential conditions
- Supervisory Board	5,015	395	4,620	Structure as set out in announcement under preferential conditions
Total:	141,992	15,105	126,887	

**Average statistical personnel staff broken down by staff groups (enterprises involved in consolidation)
31 December 2004**

Period	Average statistical personnel staff / no. of persons /		
	Blue collar	White collar	Total
2002		216	216
2003		235	235

Book value and nominal value of own securities 31 December 2004

Data in thousand HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	901,630	914,720
b) Treasury Bills	2,860,779	3,050,000
c) MNB bonds	2,560	2,560
d) Re-deemed own shares (repurchased by the Bank)		
Total current assets:	3,764,969	3,967,280
II. Financial investments, interests in other enterprises participations in other enterprises		
Total financial investments:	0	0

Incomes broken down by major activities

Data in thousand HUF

Description of items generating incomes	31 December 2004
Interests received	46,877,083
Income from financial services	2,547,661
Income from operations other than primary ones	139,289
Total:	49,564,033

Off-balance sheet items

Data in thousand HUF

Description	31 December 2003	31 December 2004
Pending obligations		
- Available credit facility on credits extended	139,040	167,709
- Loans committed in contract but not yet extended	7,065,901	5,243,325
- Commitment to extend a loan		
- Credit to be purchased from partner bank (consortium loans)	461,390	41,719
Future obligations	2,885,000	40,129,569
Total:	10,551,331	45,582,322

11 Financial analysis according to IFRS figures

Financial data presented in this chapter are based on the balance sheet and profit and loss statement as of 31 December 2004 prepared according to International Financial Reporting Standards (IFRS) and audited by FHB's. Difference between IFRS and HAS figures are described in the Notes, number 25.

11.1 Profit & Loss Structure³

Data in million HUF

DESCRIPTION	31 Dec 2003	31 Dec 2004	Dec 2004/ Dec 2003
Net interest income	9,648	14,926	154.7%
Net fee and commission income	-793	239	-
Gain less losses from securities / FX	152	-925	-
Other operating income / expense	1,341	347	25.9%
Operating income	10,348	14,587	141.0%
Losses/provision on loans and advances	-102	-158	154.2%
Operating expenses	-5,928	-5,697	96.1%
Profit before tax	4,318	8,732	202.2%
Taxation expense	-894	-1,209	135.3%
Profit for the period	3,424	7,523	219.7%

The success of the Banks' strategy to increase profitability is well proven by the fact that the IFRS **pre-tax profit has been doubled** in the recent year and reached HUF 8.7 billion. The Bank Group's operating income has increased to HUF 14,587 million by the end of 2004, which shows a 41% growth compared to the base year. The net interest income having a decisive effect on the operating income increased by 50% in twelve months. The operation of the last year were supported by HUF 5,697 million of operating expenses, which is slightly below the 2003 figure.

Net interest income

The **net interest income** of year 2004 **amounting to almost HUF 15 billion** was generated as balance of the interest income in value of 46,847 million (an increase by 80.5% compared to end of 2003) and the interest expenditure amounting to HUF 31,921 million (an increase by 95.7 %). 51.7% of interest income was produced by refinanced loans, 42.6% by the retail loan portfolio. The share of interest income from interbank placements and securities was not significant. Interests payable were almost entirely (99.8%) generated by the interest expenditure payable for mortgage bonds.

³ Audited, consolidated data according to IFRS

Net fee and commission income

In 2003 fees and commissions paid were HUF 793 million higher than fee income, while in 2004 **fee income** was almost quarter of a billion higher (**HUF 848 million**, 32.3% more than the base year) than **fees and commissions paid** totaling **HUF 609 million** (42.5% of the 2003 figure). Net fees and commissions income turned to positive due to the 54.1% increase of the commissions received for managing state subsidies, but the reduction of the commissions paid to refinancing partners and for mortgage bond issues played a significant role.

Net result of securities and FX transactions

The result of the FX transactions contributed with HUF 34.2 million to the operating income in 2004, the HUF 960 million loss incurred on the securities transactions is related to **mortgage bond repurchases** in order to improve the maturity structure of the bond portfolio.

Loan loss provisions

80% of the HUF 157.7 million loss on provisions at the end of 2004 is **caused by the yearly change of provisions**, while loans sold contributed 13.7% to the total amount. In 2003 loss on provisions was HUF 102.3 million, one quarter of this was generated by the changes in provisions, while almost 60% was covered by write-down of loans.

Operating expenses

The Bank Group's **operating expenses** according to IFRS was HUF 5,928 million in 2003, while **in 2004** it reached only 96.1% of the previous year's figure totaling **HUF 5.697 million**. **Personnel expenses**, a dominant element in the cost structure made up 40.4% of the total costs in 2003, this ratio increased to 42.1% by the end of this year. Composition of other administrative expenses has changed on several rows during the last 12 months: property valuation fees – aligned with the trends in the business activity – dropped from 18.6% of total costs in the base year to 7.7% in 2004, the share of marketing and advertising expenses was almost doubled (from 5.3% to 10.4%), the ratio of advisory fees decreased by 8 basis points to 8.4%, taxes paid made up 4.3% of the total expenses in 2003, while in 2004 this was already 6.8%. Operating expenses decreased by 3.9% in one year, this was supported by the decline of property valuation fees from HUF 1,104 million to HUF 440 million, the reduction of advisory fees by more than HUF 100 million and the decrease of other expenses from HUF 77 million to HUF 10 million. In 2004 marketing costs have shown the highest growth (88.7%), however significant increase was registered in case of the taxes paid (53.7%).

11.2 Balance Sheet structure⁴

Data in million HUF

MEGNEVEZÉS	2003.12.31.	2004.12.31.	2004.12.31. / 2003.12.31.
Interest earning assets	305,148	405,856	133,0%
- Due from NBH	17	10,163	58,975,4%
- Interbank loans	3,055	18,744	613,5%
- Available for sale securities	3,490	3,854	110,4%
- Refinance loans	192,538	241,080	125,2%
- Loans	106,047	132,015	124,5%
Non-interest earning assets	4,162	9,803	235,5%
- Cash	5	2	40,3%
- Fixed assets	763	1,134	148,6%
- Other assets	3,394	8,677	255,3%
Total assets	309,310	415,659	134,4%
Liabilities	297,536	396,950	133,4%
- Interbank deposits	6,000	8,989	149,8%
- Mortgage bonds	278,526	367,279	131,9%
- Other liabilities	13,010	20,682	159,0%
Shareholder's equity	11,774	18,709	158,9%
- Subscribed capital	6,600	6,600	100,0%
- Share premium	1,709	1,709	100,0%
- General reserve	446	1,158	259,5%
- Cash-flow hedge reserve	0	72	-
- Retained earnings	3,019	9,170	303,8%
Total liabilities	309,310	415,659	134,4%

Balance sheet total according to International Financial Reporting Standards **increased by 34.4%** in 2004 from HUF 309,310 million to HUF 415,659 million. The increase – HUF 106,349 million – was primarily (70.1%) generated by the growth of the refinanced and retail loan portfolio, while placements to NBH (having a low base) accounted for 9.5% of the increase. Growth of interbank loans contributed with 14.7%, while other assets with 5.0% to the overall expansion in total assets last year.

Interest earning assets increased by one third in twelve months, the most significant component is the loan portfolio which showed 25% growth (HUF 74,510 million). Within the retail loan portfolio (disbursed via the Bank's own channels) the portfolio of building loans (37.4% increase) and other mortgage loans (29.5% increase) registered above average growth.

Tangible and intangible assets increased by almost 50% from HUF 763 million at the end of 2003 to HUF 1,134 million at the end of last year. The 155.3% growth of **other assets** was mainly generated by HUF 4 billion increase of the receivables related from the Hungarian State and the HUF 858 million increase of accrued interests.

⁴ Audited, consolidated data according to IFRS

The **liability is dominated by the mortgage bond portfolio** funding the loans (in 2003 90.0% of liabilities were mortgage bonds, in 2004 it reached 88.4%). Shareholder's equity made up 3.8% of total liabilities in the base year, this ratio increased to 4.5% by the end of 2004.

The **HUF 106,349 million increase** of liabilities and shareholder's equity was contributed by the growth of the mortgage bond portfolio by 83.5%, other liabilities by 7.2% and the increase of retained earnings by 5.8%. **Shareholder's equity** increased by 58.9% and totaled HUF 18,709 million by the end of 2004.

12 Consolidated report of FHB Land Credit and Mortgage Bank prepared in accordance with the International Financial Reporting Standards

Financial Statements for the period 1 January 2004 to 31 December 2004

12.1 Report of Independent Auditors

	■ Ernst & Young Kft. H-1132 Budapest, Váci út 20. 1399 Budapest 62 Pf. 632 Hungary	■ Tel: +36 1 451-8100 Fax: +36 1 451-8199 E-mail: mailbox.ey@hu.ey.com www.ey.com Cg. 01-09-267553
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Report of Independent Auditors

We have audited the accompanying consolidated balance sheet of FHB Földhitel- és Jelzálogbank Rt. and Subsidiary ("the Group") as of 31 December 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group at 31 December 2004, and of the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.


Ernst & Young
Budapest, Hungary
21 March 2005

12.2 Consolidated Statement of Income

	Notes	2004. year ended 31 December	2003. year ended 31 December
Interest income	4	46,846,974	25,954,989
Interest expense	4	(31,920,697)	(16,307,414)
Net interest income		<u>14,926,277</u>	<u>9,647,575</u>
Fee and commission income		847,764	640,928
Fee and commission expense		(608,709)	(1,433,608)
Gain less losses from dealing in foreign currencies		34,202	
Gain less losses from securities		(959,967)	151,673
Other operating income	5	566,993	1,457,728
Other operating expense		(219,790)	(116,331)
Operating income		<u>14,586,770</u>	<u>10,347,965</u>
Losses/provision on loans and advances	12	(157,744)	(102,294)
General and administration costs	5	(5,697,267)	(5,927,812)
Profit before tax		8,731,759	4,317,859
Taxation expense	7	(1,209,246)	(893,619)
Profit for the period		<u><u>7,522,513</u></u>	<u><u>3,424,240</u></u>
<i>Earnings per share (HUF 1,000 nominal amount)</i>			
ordinary shares (in HUF)		1,031.98	577.04
Diluted shares (in HUF)		1,031.98	577.04
	Notes	2004 3 months ended 31 December	2003 3 months ended 31 December
Interest income	4	13,344,922	8,460,847
Interest expense	4	(9,115,897)	(5,559,295)
Net interest income		<u>4,229,025</u>	<u>2,901,552</u>
Fee and commission income		264,607	190,560
Fee and commission expense		(181,134)	(545,285)
Gain less losses from dealing in foreign currencies		25,301	
Gain less losses from securities		(1,045,465)	56,708
Other operating income	5	190,895	343,911
Other operating expense		(200,665)	(51,623)
Operating income		<u>3,282,564</u>	<u>2,895,823</u>
Losses/provision on loans and advances	12	(24,969)	40,906
General and administration costs	5	(1,395,282)	(1,876,140)
Profit before tax		1,862,313	1,060,589
Taxation expense	7	(120,213)	(315,361)
Profit for the period		<u><u>1,742,100</u></u>	<u><u>745,228</u></u>
<i>Earnings per share (HUF 1,000 nominal amount)</i>			
ordinary shares (in HUF)		243.85	77.52
diluted shares (in HUF)		243.85	77.52

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

12.3 Consolidated Balance Sheet

	Notes	2004. 31 December	2003. 31 December
Assets			
Cash		1,924	4,777
Due from National Bank of Hungary	8	10,162,635	17,232
Placements with other banks	9	18,743,934	3,055,215
Available for sale securities	10	3,854,179	3,490,256
Refinancing of mortgage loans	11	241,080,095	192,538,401
Loans	12	132,015,233	106,046,648
Property and equipment	13	1,133,552	763,006
Other assets	14	8,667,119	3,394,471
Total Assets		<u>415,658,671</u>	<u>309,310,006</u>
Liabilities			
Deposits from banks	15	8,989,330	6,000,000
Mortgage bond liabilities	16	367,278,862	278,525,898
Other liabilities	17	20,681,641	13,010,245
Total Liabilities		396,949,833	297,536,143
Shareholders' Equity			
Share capital	18	6,600,001	6,600,001
Share premium		1,709,014	1,709,014
General reserve	19	1,157,536	446,109
Cash-flow hedge reserve		72,462	
Retained earnings		9,169,825	3,018,739
Total Shareholders' Equity		<u>18,708,838</u>	<u>11,773,863</u>
Total Liabilities and Shareholders' Equity		<u>415,658,671</u>	<u>309,310,006</u>

Budapest, 21 March, 2005

Gyuris Dániel
Chief Executive Officer

Siklós Jenő
Deputy General Director

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

12.4 Consolidated Statement of Cash Flows

	2004. 31 December	2003. 31 December
Cash flows from operating activities		
Net profit	7,522,513	3,424,240
Non cash adjustments to net income to net cash from operating activities:		
Depreciation	303,866	247,823
Provision for losses	127,281	25,743
Loss on sale of fixed assets	163,199	1,336
	<u>8,116,859</u>	<u>3,699,142</u>
Operating profit before changes in operating assets		
(Increase) decrease in operating assets:		
Refinancing of mortgage loans	(48,541,694)	(151,361,818)
Loans	(26,094,667)	(40,855,468)
Accrued interest receivable	(858,714)	(201,336)
Other assets	(4,413,934)	(2,273,742)
Increase (decrease) in operating liabilities:		
Due to other banks	2,989,330	4,000,000
Accrued interest payable	7,166,707	7,756,262
Other liabilities	(71,922)	364,626
Net cash used in operating activities	<u>(61,708,035)</u>	<u>(178,872,334)</u>
Cash flows from investing activities		
Increase in available for sale investments	(363,923)	(1,333,198)
Proceeds from sale of property and equipment	28,916	10,013
Purchase of property and equipment	(866,527)	(223,209)
Net cash used in investing activities	<u>(1,201,534)</u>	<u>(1,546,394)</u>
Cash flows from financing activities		
Capital increase	-	2,500,001
Share premium received	-	4
Repayment of subordinated debt	-	(1,500,000)
Sale of treasury shares	-	913,420
Installment from mortgage bonds	(15,949,830)	(13,980,000)
Proceeds from issue of mortgage bonds	104,690,668	191,592,247
Net cash from financing activities	<u>88,740,838</u>	<u>179,525,672</u>
Net increase in cash and cash equivalents	25,831,269	(893,055)
Cash and cash equivalents at beginning of year	3,077,224	3,970,279
Cash and cash equivalents at end of period	<u>28,908,493</u>	<u>3,077,224</u>
Cash and cash equivalents comprises of:		
Cash	1,924	4,777
Due from Central Bank	10,162,635	17,232
Placements with other banks, with a maturity of less than 90 days	18,743,934	3,055,215
Cash and cash equivalents at end of period	<u>28,908,493</u>	<u>3,077,224</u>
<i>Supplemental information:</i>		
Interest received	46,017,455	25,920,917
Interest paid	(24,753,990)	(8,551,152)
Tax paid	(1,215,577)	(868,624)

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

12.5 Consolidated Statement of Shareholders' Equity

	Share Capital	Treasury Shares	Share Premium	General reserve	Cash-flow hedge reserve	Retained earnings (deficit)	Shareholders' Equity
31 December 2002	4,100,000	(350,000)	1,145,590	42,539		(1,931)	4,936,198
Share capital increase	2,500,001	-	4	-	-	-	2,500,005
Sale of treasury shares	-	350,000	563,420	-	-	-	913,420
Transfer to general reserve	-	-	-	403,570	-	(403,570)	-
Profit for the period	-	-	-	-	-	3,424,240	3,424,240
31 December 2003	6,600,001	-	1,709,014	446,109	-	3,018,739	11,773,863
Dividend declared	-	-	-	-	-	(660,000)	(660,000)
Cash-flow hedge reserve	-	-	-	-	72,462	-	72,462
Transfer to general reserve	-	-	-	711,427	-	(711,427)	-
Profit for the period	-	-	-	-	-	7,522,513	7,522,513
31 December 2004	6,600,001	-	1,709,014	1,157,536	72,462	9,169,825	18,708,838

12.6 Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

FHB Földhitel - és Jelzálogbank Rt. ("Land Credit and Mortgage Bank Ltd", "FHB" or "the Bank"), was established by the Hungarian State on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion. The Bank provides mortgage-banking services through its Head Office and seven regional representative offices located within the Republic of Hungary. The Bank also uses the branch network of other Hungarian commercial banks to offer its products to the retail sector. The Bank also refinances mortgage loans provided by commercial banks to their customers. The address of the Bank's registered office is Váci út. 20. H-1132 Budapest, Hungary.

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

On 31 October 2003 the Hungarian Financial Supervisory Authority granted permission for Land Credit and Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange. Following a public and private placement of the Bank's shares, a total of 900,000 ordinary shares were sold in the context of public offering along with an additional 1,324,899 ordinary shares sold to institutional investors in the context of private placement. A total of a further 588,570 voting preference shares were sold to the Bank's priority strategic partners in the context of private placement. The ordinary shares were listed on the Budapest Stock Exchange on 24 November 2003.

2. BASIS OF PRESENTATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. *Currency of presentation*

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

3.2. *Consolidation*

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2004. The Bank and the entities, which it controls, are referred to collectively as "the Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority

of the members of the Board of Directors. The effects of all material intercompany balances and transactions are eliminated. The fully owned subsidiary FHB Szolgáltató Rt. ("Service Company"), registered in Hungary, has been consolidated into the accounts of the Bank.

3.3. *Property and equipment*

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

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

3.4. *Revenue recognition*

Interest income (both from customers and from the Hungarian State as interest subsidy) and expense are recognised on a time proportionate basis and reflect the amount of outstanding principal and the applicable interest rate. Loan interest that is overdue at the balance sheet preparation date is excluded from income until it is received in cash. Upfront loan origination fees are accrued for future periods to maturity and are based on the annual average remaining maturity of the total loan portfolio. Other fees receivable or payable are recognised when earned.

3.5. *Deferred taxation*

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

3.6. *Available for sale investments*

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

Any gain or loss arising from a change in fair value of available for sale investments and which is part of an effective hedging relationship is recognised directly in the statement of income to the extent of the changes in fair value being hedged.

Premiums and discounts on investments designated as available for sale are amortised on a systematic basis to maturity and taken to statement of income.

3.7. Loans and advances

Loans and advances are stated at the principal amount outstanding. Loans are placed on non-accrual status in after 60 days in arrears with repayment. When a loan is placed on non-accrual status, interest accrued but not received is reversed against interest income. Subsequent payments by borrowers are applied first to outstanding penalty and loan interest, and only thereafter to the underlying principal amount. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due are paid.

Non-performing loans are determined based on the Bank's loan rating system and includes all loans which have been in arrears of more than 30 days and exceed HUF 10,000.

3.8. Refinanced loans

As part of the refinancing arrangements, partner banks sell the mortgage-rights, which are used as security of housing loans, to the Bank. The Bank in turn refinances the long-term housing loans granted by the partner banks to their customers. Parallel with the refinancing contract, the mortgage-rights are then repurchased by the partner banks with a delay in payment that reflects the principal repayment schedule specified in each housing loan agreement.

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

3.9. Allowance for Losses

The allowance for losses is a reserve for estimated credit losses from retail and commercial loans and advances and balances due from other banks to reduce all impaired loans, advances and balances due from other banks to their expected realizable value.

The allowance takes into account the present value of future cash flows of impaired assets discounted at the original effective interest rate, and is based on the Bank's assessment of the credit portfolios, previous loss experience, known and inherent risks in the credit portfolios, the estimated value of any underlying collateral, adverse situations that may affect a borrower's ability to repay, and current economic conditions.

3.10. Cash and cash equivalents

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

3.11. Treasury shares

Treasury shares represents the cost of shares of the Bank repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent

disposal are credited and debited respectively directly to retained earnings. According to Hungarian regulations, any premiums arising are available for distribution.

3.12. Pensions

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

3.13. Off Balance Sheet items

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

3.14. Derivatives

The Bank enters into derivative instruments including swaps in the capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income.

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

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

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

3.15. Contingencies

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

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

3.16. Estimates

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

3.17. Subsequent Events

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

3.18. New IFRS standards

The International Accounting Standards Board (IASB) introduced many changes to the International Financial Reporting standards and issued new standards and interpretations during 2003 and 2004 that will be valid from 1 January 2005 or later. Therefore, it is possible that the IFRS financial statements for the year ended 31 December 2005 or later will contain comparative data for the year 2004 that will differ from the data presented in these financial statements. The Company is currently assessing the impact that new or revised standards will have on the Group accounting policies and financial data presented.

4. INTEREST INCOME AND EXPENSE

	2004 year ended 31 December	2003 year ended 31 December
<i>Interest income:</i>		
Loans	19,934,539	13,593,095
Refinancing of mortgage loans	24,247,348	11,591,188
Placements with banks	2,387,626	634,267
Securities	277,461	136,439
	<u>46,846,974</u>	<u>25,954,989</u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
<i>Interest income:</i>		
Loans	5,830,845	3,961,698
Refinancing of mortgage loans	6,642,401	4,290,861
Placements with banks	785,369	166,712
Securities	86,307	41,576
	<u>13,344,922</u>	<u>8,460,847</u>
	2004 year ended 31 December	2003 year ended 31 December
<i>Interest expense:</i>		
Mortgage bonds	31,842,874	16,046,208
Deposits from banks	72,241	184,872
Subordinated loan	-	67,202
Other interest paid	5,582	9,132
	<u>31,920,697</u>	<u>16,307,414</u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
<i>Interest expense:</i>		
Mortgage bonds	9,105,058	5,440,798
Deposits from banks	10,237	109,365
Subordinated loan	-	-
Other interest paid	602	9,132
	<u>9,115,897</u>	<u>5,559,295</u>

Interest income for 2004 includes HUF 31,079 million interest subsidies from the Hungarian State (2003: HUF 17,735 million). Interest on non-accrual loans, which was not received up to the time of the preparation of the financial statements, totaling HUF 51 million (2003: HUF 61 million) has been suspended.

Interest subsidy

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

Mortgage bond interest subsidy

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

- (i). If the loan has been disbursed prior to 16 June 2003, and is still within the first five years of maturity, the calculation for the first five years is based on the original Decree;
- (ii). If the loan has been disbursed between 16 June and 22 December 2003 and the remaining maturity of loans referred to in (i) above, the calculation is based on the first amendment as of 16 June, 2003;
- (iii). For all loans disbursed after 22 December 2003, the calculation is based on the second amendment as 22 December 2003.

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

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

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

Additional interest subsidy

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

5. GENERAL AND ADMINISTRATIVE COSTS

	2004 year ended 31 December	2003 year ended 31 December
Staff costs (Note 6)	2,398,963	2,392,922
Valuation fees	440,068	1,104,378
Advertising	593,087	314,250
Administrative costs	247,553	212,946
Rental fee	372,354	305,014
Depreciation and amortisation (Note 13)	303,866	247,823
Consultancy fees	476,808	580,951
Maintenance costs	84,113	64,095
Other taxes paid	389,499	253,473
Insurance expenses	318,320	314,288
Information system costs	62,385	60,914
Other	10,251	76,758
	<u>5,697,267</u>	<u>5,927,812</u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
Staff costs (Note 6)	779,980	942,134
Valuation fees	120,458	227,722
Advertising	60,115	84,255
Administrative costs	67,183	57,168
Rental fee	85,790	78,999
Depreciation and amortisation (Note 13)	104,000	62,183
Consultancy fees	107,758	232,477
Maintenance costs	28,492	22,189
Other taxes paid	111,810	82,464
Insurance expenses	(48,408)	43,583
Information system costs	14,243	16,544
Other	(36,139)	26,422
	<u>1,395,282</u>	<u>1,876,140</u>

Valuation fees include amounts that were paid to independent valuers for the appraisal of real estate. These fees are recharged to customers and hence corresponding amounts of HUF 553 million for 2004 (2003: HUF 1,336 million) are included within valuation fees and recorded as other operating income.

6. STAFF COST

	2004 year ended 31 December	2003 year ended 31 December
Wages and salaries	1,575,193	1,352,096
Social security costs	555,504	711,196
Other personal payments	268,266	329,630
	<u>2,398,963</u>	<u>2,392,922</u>
	<u><u>2,398,963</u></u>	<u><u>2,392,922</u></u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
Wages and salaries	505,247	414,924
Social security costs	161,116	362,593
Other personal payments	113,617	164,617
	<u>779,980</u>	<u>942,134</u>
	<u><u>779,980</u></u>	<u><u>942,134</u></u>

Social security is payable by the Bank based on the gross level of wages and salaries payable to employees. The average number of persons employed by the Bank during the period was 235 (2003: 216).

7. TAXATION EXPENSE

	2004 year ended 31 December	2003 year ended 31 December
Current tax expense	1,241,917	920,230
Deferred tax benefit	<u>(32,671)</u>	<u>(26,611)</u>
	<u>1,209,246</u>	<u>893,619</u>
	<u><u>1,209,246</u></u>	<u><u>893,619</u></u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
Current tax expense	150,376	313,509
Deferred tax (benefit)/expense	<u>(30,163)</u>	<u>1,852</u>
	<u>120,213</u>	<u>315,361</u>
	<u><u>120,213</u></u>	<u><u>315,361</u></u>

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

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

	2004 year ended 31 December	2003 year ended 31 December
Profit before tax	8,731,760	4,317,859
Tax expense (16%) (2003:18%)	1,397,082	777,215
Statutory tax base items	(5,749)	28,769
Unrecognised deferred tax on establishment costs	-	(25,268)
Profit on sale of Treasury shares	-	101,416
Effect of change in tax rate	(37,188)	9,794
Loss of Service Company	(3,497)	1,693
Release of general risk provision	(52,518)	-
Tax allowance	(88,884)	-
	<u>1,209,246</u>	<u>893,619</u>
	2004 three months ended 31 Dec.	2003 three months ended 31 Dec.
Profit before tax	1,862,343	1,060,589
Tax expense (16%) (2003:18%)	297,971	190,906
Statutory tax base items	2,858	10,097
Treasury share transaction	-	101,416
Change in tax	(37,188)	9,794
Loss of Service Company	(2,026)	3,148
Release of general risk provision	(52,518)	-
Tax allowance	(88,884)	-
	<u>120,213</u>	<u>315,361</u>

In 2004 the Bank signed an agreement for the sponsorship of a Hungarian film taking advantage of its favorable effect on taxation. Based on the tax regulations the Bank is entitled to a tax allowance in the amount of HUF 88,884.

Deferred tax assets and deferred tax liabilities as of 31 December 2004 and 31 December 2003 are attributable to the items detailed in the table below:

Item	31 December 2004			31 December 2003		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Statutory temporary differences		(1,199)	(1,199)		(539)	(539)
Mark to market value (securities)		(4,524)	(4,524)	5,733		5,733
Loan origination fee	116,750		116,750	73,162		73,162
Net tax asset	116,750	(5,723)	111,027	78,895	(539)	78,356

8. DUE FROM NATIONAL BANK OF HUNGARY

Of the amount due from the National Bank of Hungary at period end HUF 10,000 million is short term deposit placed at the NBH. The remaining amount of 163 million represents nostro accounts held at the NBH (2003: 17 million HUF).

9. PLACEMENTS WITH OTHER BANKS

	2004 31 December	2003 31 December
Nostro accounts	73,934	15,215
Term placements	18,670,000	3,040,000
	<u>18,743,934</u>	<u>3,055,215</u>

10. AVAILABLE FOR SALE SECURITIES

	2004 31 December	2003 31 December
State bonds	912,664	213,215
Treasury bills	2,938,955	3,274,478
NBH bonds	2,560	2,560
Other investments		3
	<u>3,854,179</u>	<u>3,490,256</u>

11. REFINANCING MORTGAGE LOANS

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

The Bank signed contracts with the 9 major commercial banks in Hungary to refinance mortgage loans; hence the mortgage loans are available in more than 800 outlets. The balance as at 31 December 2004 includes loans disbursed to 53,117 individual retail customers (2003: 41,640).

12. LOANS

	2004 31 December	2003 31 December
Real estate purchase	77,926,819	65,225,482
Real estate construction	33,079,401	24,078,175
Real estate reconstruction	1,723,925	1,417,984
Real estate extension	12,616,740	10,047,581
Other loans secured by real estate	6,063,657	4,681,037
Employees	978,838	844,455
	<hr/>	<hr/>
Loans, gross	132,389,380	106,294,713
comprising: Retail loans	132,305,070	106,073,734
Other	84,310	220,979
Loan loss provision	(374,147)	(248,065)
Loan, net	<u>132,015,233</u>	<u>106,046,648</u>

Movement in provision for loan losses:

	2004 31 December	2003 31 December
Provision as at 1 January	248,065	222,421
Charge for the period	434,205	486,760
Release during the period	(308,123)	(461,116)
	<hr/>	<hr/>
Provision as at end of period	<u>374,147</u>	<u>248,065</u>
	<hr/>	<hr/>
Net effect of charge and release	126,082	25,644
Loans written off	3,466	59,250
Loss/(profit) on loans sold	21,673	14,539
Loss on terminated loans	5,324	2,762
Charge/(release) for commitments	1,199	99
	<hr/>	<hr/>
Losses on loan and advances	<u>157,744</u>	<u>102,294</u>

The aggregate amount of non-performing loans amounted to HUF 3,465 million at 31 December 2004 (2003: HUF 2,619 million).

Within the total balance of mortgage loans 99.87% have maturity over 5 years (2003: 99.89%). Total outstanding mortgage loan balance does not exceed the 70% of collateral value of real estates as it is required by the Act on Mortgage Banks (at the end of 2004 this ratio is 39.57%; 2003: 41.34%). Total collateral value of real estates backing the outstanding loan portfolio is HUF 931,643 million (2003: 710,911 million).

13. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Office equipment	Computer Software	Intangible assets	Total
Cost					
Opening balance	171,934	702,086	595,394	7,873	1,477,287
Additions	24,598	298,620	543,284	25	866,527
Disposals	(10,573)	(111,505)	(213,466)		(335,544)
Closing balance	185,959	889,201	925,212	7,898	2,008,270
Depreciation					
Opening balance	35,077	374,	299,046	5,528	714,281
Charge for the period	10,093	159,	133,336	1,158	303,866
Disposals	(2,748)	(77,€	(63,136)		(143,429)
Closing balance	42,422	456,	369,246	6,686	874,718
Net book value 31.12.2004	143,537	432,	555,966	1,212	1,133,552
Net book value 31.12.2003	136,857	327,	296,348	2,345	763,006

14. OTHER ASSETS

	2004 31 December	2003 31 December
Accrued interest	1,325,465	466,751
Prepayments	247,557	69,987
Taxes reclaimable	31,704	10,601
Deferred tax asset (Note 7)	111,026	78,356
Settlements with the Hungarian State	6,499,295	2,522,583
Sundry receivables	139,239	138,336
Reimbursed insurance fees	172,817	71,514
Derivatives (Note 21)	72,462	-
Other	67,554	36,343
	8,667,119	3,394,471

15. DEPOSITS FROM BANKS

Deposits from banks comprise short-term borrowings from Hungarian commercial banks.

16. MORTGAGE BOND LIABILITIES

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

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

	31 December 2004.	31 December 2003
Outstanding Mortgage bonds	366,332,210	277,906,290
Nominal value of ordinary collateral	370,958,866	293,896,088

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

	31 December 2004.	31 December 2003
Interest on outstanding mortgage bonds	211,649,442	168,270,856
Interest on the nominal value of ordinary and additional collaterals	342,153,154	247,838,936

Within total outstanding mortgage bonds as at 31 December, 2004 HUF 210,243 million has maturity exceeding 5 years (2003: 155,302 million).

	31 December 2004		31 December 2003	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Non-listed mortgage bonds				
Fixed	152,898,148	152,335,250	77,756,310	77,752,500
Floating	5,600,000	5,600,000	5,600,000	5,600,000
Listed mortgage bonds				
Fixed	192,695,438	192,047,780	179,124,000	178,204,610
Floating	16,085,276	16,349,180	16,045,588	16,349,180
	<u>367,278,862</u>	<u>366,332,210</u>	<u>278,525,898</u>	<u>277,906,290</u>

17. OTHER LIABILITIES

	2004 31 December	2003 31 December
Accrued interest payable	18,467,856	11,301,150
Accrued loan origination fee	486,456	457,261
Taxes payable	307,046	283,858
Creditors	261,488	221,132
Accrued expenses	502,752	192,462
Provision for commitments	3,233	2,034
Customer loan prepayments	258,015	201,549
Derivatives (Note 21)	316,705	328,831
Other	78,090	21,968
	<u>20,681,641</u>	<u>13,010,245</u>

18. SHARE CAPITAL

Authorised, issued and fully paid ordinary shares comprise 5,800,001 shares at par value of HUF 1,000 each as at 31 December 2004. Authorised, issued and fully paid preference shares comprise 800,000 shares at par value of HUF 1,000 each as at 31 December 2004.

The ownership structure of the Bank as at 31 December 2004 and 31 December 2003 is as follows:

Owner's name	31 December 2004		31 December 2003	
	Percentage Owned	Share of Capital	Percentage owned	Share of Capital
Ordinary shares (Class A)				
Hungarian State	50.00%	3,300,001	50.00%	3,300,001
Hungarian enterprises	3.29%	217,437	13.69%	903,476
Foreign enterprises	33.09%	2,184,092	12.33%	814,031
Private individuals	1.49%	98,471	11.86%	782,493
	87.88%	5,800,001	87.88%	5,800,001
Voting preference shares (Class B)				
Hungarian State	3.2%	211,430	3.2%	211,430
Domestic enterprises	8.92%	588,570	8.92%	588,570
	12.12%	800,000	12.12%	800,000
Total shares	100.00%	6,600,001	100.00%	6,600,001

Earning per share is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares. There were no potentially dilutive securities in existence at 31 December 2004 and 31 December 2003. For the calculation of the weighted average number of share it has been assumed that all HUF 100,000 nominal value shares are converted into shares of HUF 1,000 value each.

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

	2004	2003
	31 December	31 December
Net income	7,522,514	3,424,240
Transfer to general reserve	<u>(711,427)</u>	<u>(403,570)</u>
Net attributable profit	6,811,087	3,020,670
Weighted average number of ordinary shares on issue	6,600,001	5,234,755

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

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

19. GENERAL RESERVE

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

20. COMMITMENTS

Off-balance sheet commitments comprise of non-revocable commitments to extend credit of HUF 5,453 million (2003: HUF 7,666 million).

21. DERIVATIVES

In the ordinary course of business the bank enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments may include forwards, futures, swaps and options.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For 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.

Derivatives held or issued for non-trading purposes

The bank uses derivative instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The bank uses interest rate swaps to hedge interest rate risk.

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

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

Loans and Refinancing mortgage loans: Estimated fair value of loans and refinancing mortgage loans represents the discounted amounts of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair values. The estimated market rates are determined by reference to the Hungarian state bonds interest rates with similar remaining maturities as at 31 December 2004, and are increased by additional basis points spread reflecting the nature and type of the loans. The fair value calculation is based on the assumption that all loans will be repriced latest by 31 December 2009 (31 December 2008 in the assumption for 2003).

	31 December 2004		31 December 2003	
	Carrying value	Fair value	Carrying value	Fair value
Refinancing mortgage loans	241,080,095	254,203,002	192,538,401	189,497,840
Customer loans (not-matured)	132,015,233	141,240,090	106,046,648	108,544,637

Mortgage bonds liabilities: The estimated fair values of the mortgage bonds are shown below. The fair value of non-listed mortgage bonds are calculated based on the Hungarian State Bond reference rates as at 31 December 2004 and 31 December 2003 respectively, and increased

by a further 50 basis points in case of bonds of 2-3 years duration; and by 60-80 basis points in case of bonds with longer duration. The Budapest Stock Exchange market prices were used to determine the fair value of the Bank's listed mortgage bonds.

	31 December 2004		31 December 2003	
	Carrying value	Fair value	Carrying value	Fair value
Non-listed mortgage bonds				
Fixed	152,898,148	164,364,115	77,756,310	77,754,238
Floating	5,600,000	5,654,100	5,600,000	5,544,000
Listed mortgage bonds				
Fixed	192,695,438	191,127,751	179,124,000	168,999,620
Floating	16,085,276	16,605,074	16,045,588	16,153,102
Total	<u>367,278,862</u>	<u>377,751,040</u>	<u>278,525,898</u>	<u>268,450,960</u>

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

Fair value of derivative instruments:

	31 December 2004		31 December 2003	
	Contracted value	Fair value reserve	Contracted value	Fair value reserve
I. Cross-currency swap	25,005,000	147,243	-	-
II. Cross-currency swap	11,025,000	(74,781)	-	-
Total		<u>72,462</u>		

23. RISK MANAGEMENT

Overview

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

Credit risk

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

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

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

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

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

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

Property risk: the values of properties offered as collateral are assessed based on statutory criteria and on the Bank's relevant policies. The Bank has access to the records of the Hungarian Property Duty Office for comparative purposes. The Bank's property supervisor also conducts independent reviews of collateral valuations obtained on a test basis.

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

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

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

Interest rate risk

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

The Bank's management constantly monitors its most important limit, being the interest mismatch over 1 year, where the policy of the Bank regulates that the difference between assets and liabilities (with repricing over 1 year) cannot exceed 1.5 times of the previous month's loan withdrawals.

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

	31 December 2004		31 December 2003	
	Average balance	Average interest rate %	Average balance	Average interest rate %
Interest bearing assets				
Placements with other banks and the NBH	21,532,334	11.01%	7,619,928	8.32%
Refinancing of mortgage loans	226,400,079	10.70%	116,356,772	10.10%
Available for sale investments	3,336,821	10.59%	2,554,352	8.30%
Loans	119,153,278	16.07%	83,774,073	15.89%
Total interest bearing assets	370,422,512	12.44%	210,305,125	12.32%
Interest bearing liabilities				
Deposits from banks	1,039,507	8.00%	1,904,055	9.65%
Mortgage bond liabilities	342,169,567	9.20%	188,437,084	8.57%
Subordinated debts			636,986	10.55%
Total interest bearing liabilities	343,209,074	9.20%	190,978,125	8.59%

The Bank's interest mismatch calculation at 31 December 2004 is presented in the following table:

	Data is in million HUF		
	Loans	Mortgage bonds	Assets-Liabilities
Portfolio maturing/repricing within 1 year	37,606	28,129	9,477
Portfolio maturing/repricing over 1 year	335,860	338,563	(2,703)
Total	373,466	366,692	6,774

Liquidity Risk

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

The following table shows banking assets and liabilities by maturity dates as at 31 December 2004:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 Years	Over 15 years	Total
Banking Assets								
Cash	1,924							1,924
Placements with other banks	73,934	18,670,000						18,743,934
Due from Central Bank	162,635	10,000,000						10,162,635
Available for sale securities		1,234,406	2,602,493	17,280				3,854,179
Refinancing of loans		3,473,562	10,350,699	60,370,525	74,778,225	57,187,433	34,919,651	241,080,095
Loans (gross)	241,667	1,951,289	5,984,082	33,164,856	45,458,989	28,388,044	17,200,453	132,389,380
Total Banking Assets	480,159	35,329,256	18,937,275	93,552,661	120,237,214	85,575,477	52,120,104	406,232,146
Banking Liabilities								
Deposits from banks		8,989,330						8,989,330
Mortgage bonds (nominal)		5,200,000	2,666,000	148,222,840	181,017,120	29,226,250		336,332,210
Total Banking Liabilities		14,189,330	2,666,000	148,222,840	181,017,120	29,226,250		375,321,540
Net position	480,159	21,139,926	16,271,275	(54,670,179)	(60,779,906)	56,349,227	52,120,104	30,910,606
Cumulative position	480,159	21,620,086	37,891,360	(16,778,819)	(77,558,724)	(21,209,497)	30,910,606	

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

As at 31 December 2003:

	Demand	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years	Total
Total Banking Assets	297,520	8,277,087	15,560,875	74,733,817	97,180,574	66,651,884	42,698,837	305,400,593
Total Banking Liabilities	-	6,000,000	200,000	122,404,275	155,302,015	-	-	283,906,290
Net position	297,520	2,277,087	15,360,875	(47,670,458)	(58,121,441)	66,651,884	42,698,837	21,494,303
Cumulative position	297,520	2,574,607	17,935,482	(29,734,976)	(87,856,417)	(21,204,533)	21,494,303	

24. RELATED PARTY TRANSACTIONS

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

	2004 31 December	2003 31 December
Loans to directors	<u>141,992</u>	<u>98,715</u>

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

	2004 31 December	2003 31 December
Total Shareholders' Equity per Hungarian Statutory Financial Statements	18,664,721	12,188,596
Loan origination fee	(486,456)	(457,261)
General reserve	328,237	-
Cash-flow hedge reserve	72,462	-
Deferred tax asset	111,026	78,356
Mark to market of available for sale investments	18,848	(35,828)
Total Shareholders' Equity per IFRS Financial Statements	<u>18,708,838</u>	<u>11,773,863</u>

	2004 31 December	2003 31 December
Profit per Hungarian Statutory Financial Statements	7,136,124	4,026,294
Release of depreciation of establishment costs	-	140,376
Loan origination fee	(29,196)	(167,263)
Deferred tax benefit	32,671	26,611
General reserve	328,237	-
Profit on sale of treasury shares	-	(563,420)
Mark to market of available for sale investments	54,677	(38,358)
Profit per IFRS financial statements	<u>7,522,513</u>	<u>3,424,240</u>

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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

13 Annexes

13.1 Data forms relating to the financial reports

13.1.1 PK1. General information on the financial figures

	Yes	No	
Audited	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Consolidated	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Accounting principles	Hungarian <input checked="" type="checkbox"/>	IFRS <input checked="" type="checkbox"/>	Other <input type="checkbox"/>
Other:			

13.1.2 PK2. Business enterprises subject to consolidation

Name	Equity / Share capital (thousand HUF)	Ownership ratio (%)	Voting ratio (%)	Classification ¹
FHB Service Ltd.	65,000	100.00	100.00	L

¹ Full (L); Joint management (K); Affiliated (T)

Name: FHB Land Credit and Mortgage Bank Co.
 Address: 1132 Budapest, Váci út 20.
 Sector code: 6522
 Period of reporting: 01.01.2003 – 31.12.2003

Phone: (1) 452 - 9100
 Fax: (1) 320 - 4152
 E-mail: patakis@fhb.hu
 Investor relations: Sándor Pataki

13.2 Data forms relating to ownership share structure and owners

13.2.1 RS1. Ownership structure, ownership share and votes

Owner group	Full owners' equity				Series listed ¹					
	Beginning of reporting period (01.01.2004)		End of reporting period (31.12.2004)		Beginning of reporting period (01.01.2004)			End of reporting period (31.12.2004)		
	% ²	pcs	% ²	pcs	% ²	% ³	pcs	% ²	% ³	pcs
Resident institutional/corporate	22.61	1,491,944	12.20%	805,906	15.58	13.70	903,374	3.75%	3.29%	217,336
Non-resident institutional/corporate	12.33	814,031	33.09%	2,184,092	14.04	12.33	814,031	37.66%	33.09%	2,184,092
Resident private person	7.67	506,204	1.34%	88,621	8.72	7.67	506,204	1.52%	1.34%	88,621
Non-resident private person	0.01	347	0.00%	0	0.01	0.01	347	0.00%	0.00%	0
Employees and officers	4.17	275,943	0.16%	9,850	4.75	4.17	275,943	0.17%	0.16%	9,850
Own property	0.00	0	0.00%	0	0.00	0.00	0	0.00%	0.00%	0
Budgetary entity owner ⁴	53.21	3,511,531	53.21%	3,511,532	56.90	50.00	3,300,101	56.90%	50.00%	3,300,102
International Development Institutions ⁵	0.00	0	0.00%	0	0.00	0.00	0	0.00%	0.00%	0
Other	0.00	0	0.00%	0	0.00	0.00	0	0.00%	0.00%	0
TOTAL	100.00	6,600,000	100.00%	6,600,001	100.00	87.88	5,800,000	100.00%	87.88%	5,800,001

¹ No need to specifically fill in case the series listed is equivalent to the full amount of owners' equity provided the fact is indicated. If several series are listed on the Stock Exchange the ownership structure should be specified for each series.

² Ownership share

³ Right to vote enabling the owner to participate in the decision making process at the Issue's General Meeting. If the ownership share coincides with the voting right, only the ownership share column should be filled and submitted/announced provided the fact is indicated.

⁴ Pl.: ÁPV Rt., Social Security, Local Authority, companies fully owned by the State, etc.

⁵ Pl.: EBRD, EIB, etc.

13.2.2 RS2. Number of shares owned by the Bank in the period of reporting

	1 January	31 March	30 June	30 September	31 December
FHB Rt.	0	0	0	0	0

13.2.3 RS3/1. List and presentation of Owners holding a share exceeding 5% (at the end of the period) regarding the listed series

Név	Nationality ¹	Activity ²	Quantity (pcs)	Share (%) ³	Voting rights (%) ^{3,4}	Notes ⁵
ÁPV Rt.	B	Á	3,300,001	56.90	50.00	

¹ Resident (B), Non-resident (K)

² Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)

³ The voting right assuring participation in decision making in the General Shareholder's Meeting of Issuer.

⁴ E. g.: strategic investor, financial investor, etc.

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13.2.4 RS3/2. List and presentation of Owners holding a share exceeding 5% (at the end of the period) regarding the owners' entire equity

Name	Nationality ¹	Activity ²	Quantity (pcs)	Share (%) ³	Voting rights (%) ^{3,4}	Notes ⁵
ÁPV Rt.	B	Á	3,511,431	53.20	53.20	

¹ Resident (B), Non-resident (K)

² Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)

³ The voting right assuring participation in decision making in the General Shareholder's Meeting of Issuer.

⁴ E. g.: strategic investor, financial investor, etc.

13.2.5 RS4. The Bank's security structure

1.

Registered capital at issue	HUF 3,100,000,000
Name of security:	FHB Mortgage Bond FJ06ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ06ZF01 001-080 (80 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 400,000,000 (partial amortization)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

2.

Registered capital at issue	HUF 3,100,000,000
Name of security:	FHB Mortgage Bond FJ06ZV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ06ZV01 001-124 (124 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,240,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

3.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ07ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ07ZF01 001-100 (100 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

4.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ07ZV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ07ZV01 001-050 (50 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 500,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

5.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ08ZV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ08ZV01 001-100 (100 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

6.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ05ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ05ZF01 001-151 (151 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,510,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

7.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ07ZV02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ07ZV02 001-142 (142 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,420,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

8.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ06ZF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ06ZF02 001-115 (115 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,150,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

9.

Registered capital at issue	HUF 3,600,000,000
Name of security:	FHB Mortgage Bond FJ07ZV03
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ07ZV03 001-010 (10 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 100,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

10.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ06ZF03
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ06ZF03 001-075 (75 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 750,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

11.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08ZV02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ08ZV02 001-026 (26 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 260,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

12.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ07NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	2001.04.03.
Series and number	FJ07NF01 000001-630468 (630,468 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 6,304,680,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

13.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ11ZV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ11ZV01 001-108 (108 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 1,080,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

14.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ09NV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	12.09.2001
Series and number	FJ09NV01 000001-473929 (473,929 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 4,739,290,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

15.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ07NF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	10.10.2001
Series and number	FJ07NF02 000001-800000 (800,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 8,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

16.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	13.02.2002
Series and number	FJ08NF01 000001-940000 (940000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 5,859,310,000 (repurchase two times)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

17.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ12NV01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	13.03.2002
Series and number	FJ12NV01 000001-1160989 (1,160,989 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 11,609,890,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

18.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ09NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	14.08.2002
Series and number	FJ09NF01 000001-1000000 (1,000,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 10,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

19.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ13NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	11.09.2002
Series and number	FJ13NF01 000001-499999 (499,999 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 4,999,990,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

20.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	16.10.2002
Series and number	FJ08NF02 000001-950000 (950.000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 5,948,760,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

21.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF03
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	13.11.2002
Series and number	FJ08NF03 000001-1000000 (1,000,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 10,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

22.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ07ZF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ07ZF02 000001-650000 (650,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 6,500,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

23.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF04
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	11.02.2002
Series and number	FJ08NF04 000001-1000000 (1,000,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 9,235,960,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

24.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF05
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	15.01.2003
Series and number	FJ08NF05 000001-1399995 (1399995 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 9,932,110,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

25.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ10NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	12.02.2003
Series and number	FJ10NF01 000001-1500000 (1,500,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 14,117,800,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

26.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ10NF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	12.03.2003
Series and number	FJ10NF02 000001-1599999 (1,599,999 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 15,410,440,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

27.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ08NF06
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	16.04.2003
Series and number	FJ08NF06 000001-1400000 (1.400.000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 11,645,730,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

28.

Registered capital at issue	HUF 4,100,000,000
Name of security:	FHB Mortgage Bond FJ13NF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	14.05.2003
Series and number	FJ13NF02 000001-2500000 (2,500,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 25,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

29.

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ13ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	
Series and number	FJ13ZF01 000001-2004 (2,004 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 20,040,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

30.

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ13NF03
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	10.09.2003
Series and number	FJ13NF03 000001-1600000 (1,600,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 16,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

31.

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ06NF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	Yes
Year of listing (if St.Exch. security)	15.10.2003
Series and number	FJ06NF01 000001-1000000 (1.000.000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 10,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

32.

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ08ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ08NF04 000001-1300000 (1,300,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 13,000,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

33.

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ13ZF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ13ZF02 000001-3320250 (3,320,250 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 16,601,250,000 (repurchase)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

34

Registered capital at issue	HUF 6,600,000,000
Name of security:	FHB Mortgage Bond FJ09ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 500,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ09ZF01 001-011 (11 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 5,500,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

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Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

35.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ12ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ12ZF01 00000001-01970625 (1.970.625 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 19,706,250,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

36.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ12ZF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 12,125,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ12ZF02 00001-01500 (1,500 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 19,125,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

37.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ19ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ19ZF01 00000001-01262500 (1,262,500 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 12,625,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

38.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ11ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ11ZF02 0001-0503 (503 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 5,030,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

39.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ05ZF02
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ05ZF02 001-050 (50 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 500,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

40.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ09NF03
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	EUR 50,000
Stock Exchange security (Y/N)	Yes (Luxembourg)
Year of listing (if St.Exch. security)	08.07.2004
Series and number	FJ09NF03 00001-02000 (2,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	EUR 100,000,000 (HUF 25,005,000,000)

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name:	FHB Land Credit and Mortgage Bank Co.	Phone:	(1) 452 - 9100
Address:	1132 Budapest, Váci út 20.	Fax:	(1) 320 - 4152
Sector code:	6522	E-mail:	patakis@fhb.hu
Period of reporting:	01.01.2003 - 31.12.2003	Investor relations:	Sándor Pataki

41.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ10ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	EUR 50,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ10ZF01 00001-01000 (1,000 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	EUR 50,000,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

42.

Registered capital at issue	HUF 6,600,010,000
Name of security:	FHB Mortgage Bond FJ16ZF01
Kind of security ¹	Mortgage Bond
Type of security ²	Registered
Method of production ³	Dematerialised
Nominal value	HUF 10,000
Stock Exchange security (Y/N)	No
Year of listing (if St.Exch. security)	-
Series and number	FJ16ZF01 00000001-01660125 (1,660,125 pcs)
Rights attached to the security	Owner of the Mortgage Bond are entitled to the interest earned by the Mortgage Bond at the time of interest payment, and to a specific amount from the nominal value of the Mortgage Bond at the time of capital repayment.
Check line (total nominal value of security series)	HUF 16,601,250,000

¹ Ordinary share, share with voting preference, share with dividend payment preference, bond, etc.

² Bearer's or registered

³ Physical, immobilized, dematerialised

Name: FHB Land Credit and Mortgage Bank Co.
 Address: 1132 Budapest, Váci út 20.
 Sector code: 6522
 Period of reporting: 01.01.2003 – 31.12.2003

Phone: (1) 452 - 9100
 Fax: (1) 320 - 4152
 E-mail: patakis@fhb.hu
 Investor relations: Sándor Pataki

13.3 Data sheets related to the Issuer's organisation an operation

13.3.1 TSZ1. General Company data

Date of Statues in force	14.11.2003
Place of last registration by Court of Registration	Budapest Metropolitan Court as Court of Registration
Date of last registration by Court of Registration	04.12.2003
Number of last registration by Court of Registration	Cg.01-10-043638
Own equity at closing date of financial year	HUF 6,600,001,000
Duration of Issuer	Indefinite
Financial year of Issue	Coincides with calendar year
Name of Issuer's auditor	Ernst & Young Kft.
Address of Issuer's auditor	1132 Bp., Váci út 20.
Announcements published in	Magyar Hírlap, Népszabadság
Scope of business (based on TEÁOR codes) ¹	65.22'03 65.23'03 67.13'13

¹ Issuer's most typical activity should be ranked first.

13.3.2 TSZ2. Full-time staff (persons)

	Beginning of financial year (01.01.2004)	End of Q1 (31.03.2004)	End of Q2 (30.06.2004)	End of Q3 (30.09.2004)	End of financial year (31.12.2004)
Bank	197	202	202	194	199
Consolidated	236	242	239	226	228

13.3.3 TSZ3. Officers and (key) employees influencing the Issuer's operation

Type ¹	Name	Position	Commencement	Termination/cessation	Shares owned (pcs)
IT	Dr. Márton Vági	Chairman	2002.07.26	2007.07.26	0
IT	Zsuzsanna Ács	Member	2002.09.06	2007.09.06	0
IT	Zoltán Egressy	Member	2002.07.26	2007.07.26	0
IT	Dániel Gyuris	Member, CEO	1999.01.11.	2007.03.14.	0
IT	László Harmati	Member, Deputy CEO	2002.07.26.	2007.07.26.	0
IT	Dr. Zoltán Szedlacskó	Member	2003.05.23	2008.05.23	0
IT	Ádám Terták	Member	2004.06.07	2009.06.07	0
FB	Róbert Somfai	Chairman	2002.07.26	2007.07.26	500
FB	Ágnes Koltai Nádházi	Member	2002.09.06	2004.11.14	0
FB	Nagy Huszein Tibor	Member	2003.05.23	2008.05.23	0
FB	Dr Miklós Szőke	Member	2002.09.06	2007.09.06	0
FB	Ágnes Winkler	Member	2002.07.26	2007.07.26	0
FB	dr. Gábor Borsányi	Member	2004.04.07	2009.04.07	0
FB	dr. Károly Salamon	Member	2004.04.07	2009.04.07	0
FB	Pablo Arnoldo Fritz Sepulverda	Member	2004.04.07	2009.04.07	0
FB	Attila Kéri	Member	2004.04.07	2009.04.07	0
SP	Jenő Siklós	Deputy CEO	1997.10.21	indefinite	3.081
TOTAL number of shares owned (pcs):					3.581

¹ Key employee (SP), Member of the Board of Directors (IT), Member of the Supervisory Board (FB)

Statement

The FHB Land Credit and Mortgage Bank Rt. hereby declares that the data and representations contained in this Annual Report are true and no fact or information has been withheld which might be significant for the assessment of the Issuer's position.

The FHB Land Credit and Mortgage Bank Rt. as Issuer assumes full and exclusive responsibility for the contents of this Annual Report.

Budapest, 28 April 2005

Dániel Gyuris
CEO

Jenő Siklós
Deputy CEO