FHB MORTGAGE BANK PLC

CONSOLIDATED ANNUAL REPORT FOR YEAR 2014
ACCORDING TO IFRS

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Budapest, April 1, 2015.

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1 OVERVIEW OF FHB GROUP

1.1 FHB MORTGAGE BANK PLC.

FHB Mortgage Bank Public Limited Company ("FHB", "Mortgage Bank" 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 provided mortgage banking services through its Head Office and regional representative offices located in Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

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

On 31 October 2003 the Hungarian Financial Supervisory Authority (HFSA) granted permission for FHB Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange. The ordinary shares were listed on the Budapest Stock Exchange on 24 November 2003.

In 2014 FHB Mortgage Bank Plc. had solely series "A" ordinary shares listed on Budapest Stock Exchange. Majority (61.3%) of FHB shares is owned by domestic institutional investors.

FHB Group's shareholder structure as of 31 December 2014:

Investor category	31 December 2013		31 December 2014	
	Number of shares	Ownership share	Number of shares	Ownership share
Domestic institution/company	38,040,017	57.64%	40,475,017	61.33%
Foreign institution/company	14,297,742	21.66%	14,297,742	21.66%
Domestic and foreign individuals	5,136,154	7.78%	5,136,154	7.78%
MNV Ltd.	4,724,833	7.16%	4,832,225	7.32%
FHB Mortgage Bank Plc.	53,601	0.08%	253,601	0.38%
Other investors	3,747,663	5.68%	1,005,271	1.53%
Total	**66,000,010**	**100.00%**	**66,000,010**	**100.00%**

The Board of Directors of the Bank accepted a strategic plan in February 2006 focusing on the expansion of the banking activity and branch network as a midterm target. In the framework of this, the Bank set up several new subsidiaries, including FHB Commercial Bank Ltd. widening significantly the range of provided services. FHB Mortgage Bank is the parent company of the Group. (The Bank and its subsidiaries are jointly referred to as the Group or Banking Group.)

The Strategic Plan for the business years 2013-2015 was adopted by the Board of Directors of FHB Mortgage Bank in 2012. The new strategy was built on the results achieved with the previous plans, the possible advantages from the strategic partnership with Allianz and the commitment of the employees of the Group and identified regarding the development of the Group. FHB would like to become a customer- and service-driven medium bank based on the previously adopted conception of "The bank of the families" providing customer based service supported by an organisational culture where the achievement of the common goals is reached with the strong co-operation of the employees.

In 2013, FHB Mortgage Bank managed several acquisition, there through broadened the banking group and the range of activities.

The Bank signed a contract in July 2013 to buy close to 100% of ordinary shares of the Diófa Alapkezelő Zrt. (Diófa Asset Management Ltd.). The specified contractual conditions required for the effective transfer of the shares were satisfied by the parties on September 2, 2013, so close to 100% of ordinary shares of Diófa Asset Management went to the ownership of FHB Mortgage Bank.

As a result of several months of negotiations, FHB has signed first a letter of intent, and then on 10 July 2013, a purchase agreement with the shareholders of Díjbeszedő Holding Ltd. (DBH), to the business shares of Díjbeszedő Üzemeltetési és Szolgáltatási Kft. (in English: Díjbeszedő Operational and Service Llc.; hereinafter DÜSZ) that come into being after a demerge from DBH. In course of the demerge DÜSZ own 51% of the shares of Díjbeszedő Faktorház Ltd. (DBF), 75% of the shares of DíjNET Ltd. and 50% of the shares of Díjbeszedő Informatikai Llc (DBIT).

Related to the transaction of the business shares, FHB and the Magyar Posta (Hungarian Post) entered into a strategic cooperation, and in the scope of that they cooperate in the ownership and control of FHB Invest Befektetési és Ingatlankezelő Kft. (in English: FHB Invest Investment and Real Estate Management Llc.; hereinafter: FHB Invest; previously DÜSZ), DBH and the jointly controlled companies, furthermore in course of the harmonization of the business activities of FHB Invest Llc. and the members of the DBH Group.

Based on the Agreement between FHB Group and Magyar Posta, FHB Invest Llc. acquired 50% of shares of Magyar Posta Befektetési Zrt. (Hungarian Post Investment Services Ltd., hereinafter MPBSZ Ltd.) in December, 2013.

According to the Syndicate Agreement the subsidiaries of the FHB Invest Llc. (DBF, DíjNET, DBIT and MPBSZ) are joint venture subsidiaries of FHB and Magyar Posta, which means 50% effective impact on these companies independently of the ownership. From the subsidiaries mentioned above the FHB Invest (DÜSZ), DBF and MPBSZ are under consolidated supervision according to the NBH resolution received on 24 January 2014.

At the beginning of 2014 FHB Mortgage Bank Plc. acquired 25% shares in Magyar Takarék Asset Management Ltd. by capital increase, through which FHB Mortgage Bank obtained (during the year, in two steps) 13,76% indirect qualifying holding in Bank of Hungarian Savings Cooperatives Co. Ltd. after the permission of National Bank of Hungary.

On 29 December 2014 the purchase of FHB Life Annuity Ltd.'s 175 ordinary shares, which represents 100% of share capital closed successfully. In the transaction the two parties was FHB Mortgage Bank Plc. as vendor and National Asset Management Ltd, as buyer (who acting on behalf of Hungarian State).

Ownership structure of FHB Group members as at 31 December 2014:

Group members	Shareholders								
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	FHB Real Estate Leasing Ltd.	Diófa Asset Management Ltd.	FHB Invest Llc.	Díjbeszedő IT Llc.	Magyar takarék Investment Ltd.	Total
FHB Commercial Bank Ltd.	51.000%	-	-	-	-	-	-	-	51.00%
FHB Real Estate Ltd.	100.00%	-	-	-	-	-	-	-	100.00%
Káry-Villa Ltd.	-	-	100.00%	-	-	-	-	-	100.00%
Wodomus 54 Ltd.	-	-	100.00%	-	-	-	-	-	100.00%
Diófa Asset Management Ltd.	99.70%	-	-	-	-	-	-	-	99.70%
Diófa Real Estate Management Llc.	-	-	-	-	100.00%	-	-	-	99.70%
FHB Invest Llc.	100.00%	-	-	-	-	-	-	-	100.00%
FHB Real Estate Lease Ltd.	-	-	-	-	-	100.00%	-	-	100.00%
CEC d.d.	-	-	-	100.00%	-	-	-	-	100.00%
FHB DWH Ltd.	-	-	-	100.00%	-	-	-	-	100.00%
Díjbeszedő Faktorház Ltd.	-	-	-	-	-	51.00%	-	-	51.00%
DíjNET Ltd.	-	-	-	-	-	51.00%	-	-	51.00%
Díjbeszedő IT Llc.	-	-	-	-	-	50.00%	-	-	50.00%
Díjbeszedő Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	24.975%

Group members	Shareholders								
	FHB Mortgage Bank Plc	FHB Bank Ltd.	FHB Real Estate Ltd.	FHB Real Estate Leasing Ltd.	Diófa Asset Management Ltd.	FHB Invest Llc.	Díjbeszedő IT Llc.	Magyar takarék Investment Ltd.	Total
Magyar Posta Investment Ltd.	-	-	-	-	-	50.00%	-	-	50.00%
Hungarian Card Service Plc.	-	50.00%	-	-	-	-	50.00%	-	50.50%
MATAK Ltd.	25.10%	-	-	-	-	-	-	-	25.10%
Takarékbank Ltd.	-	-	-	-	-	-	-	54.82%	13.76%

As parent company of FHB Group, the Mortgage Bank exercises proprietary supervision over the Group companies.

1.2 FHB COMMERCIAL BANK LTD.

In line with the midterm strategic plan for the years 2006-2010, Board of Directors of FHB Mortgage Bank decided to establish FHB Commercial Bank Ltd. (FHB Commercial Bank or Commercial Bank) in February 2006. FHB Commercial Bank Ltd. was established from HUF 5,996 million equity including HUF 3,996 million capital reserve and HUF 2,000 million registered capital. At the beginning, 90% of the shares of the Bank were owned by FHB Mortgage Bank and 10% by FHB Services Ltd. After receiving its licence, banking operation started on 5 December 2006 in the Central Branch in Budapest. In 2007, the Bank broadened its branch network and gradually took over the distribution of retail and corporate loans from the Mortgage Bank and started funding activity due to continuously developing account and bank card services. In 2008 the Bank launched its SME business line, and then in 2010 its investment services business line.

As a result of the merge of Allianz Bank into FHB Commercial Bank as of 1 April 2011, the number of employees, number of branches and financial assets boosted significantly; the product portfolio broadened.

The Commercial Bank provides agency services for Mortgage Bank and other group members, according to which Commercial Bank sells FHB Mortgage loans handles credit portfolio and has got credit care and qualified credit management function.

In September 2014, FHB Mortgage Bank Co. Plc. and Magyar Posta Zrt. contracted on the purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd. The closing of the transaction – after the National Bank of Hungary gave the necessary permission to Hungarian Post to get influence – took place on 30 September 2014. Before the purchase of the share package, the General Meeting of FHB Commercial Bank decided on approximately HUF 20 billion capital increase and entitled the FHB Mortgage Bank to takeover the new shares, which was fully implemented by the Mortgage Bank. The capital increase was registered in the company register on 1 October 2014.

The Commercial Bank's total assets in accordance with Hungarian Accounting Standards (HAS) amounted to HUF 521.3 billion as of 31 December 2014, which decreased by 1.8% the previous year figure (HUF 530.9 billion). Gross loan portfolio of Commercial Bank amounted to HUF 223.2 billion according to HAS, representing 0.3% decrease since the end of the year 2013. The Bank's deposit portfolio increased by 34.2% (298.3 billion) over the past year. At the end of 2014 the Commercial Bank had 42 branches countrywide. On 31 December 2014 Commercial Bank managed almost 184 thousand retail and more than 11 thousand corporate current accounts to which 143 thousand retail and 6.9 thousand corporate cards belonged - both current accounts and the number of cards increased compared to the previous year.

FHB Commercial Bank’s balance sheet profit was HUF 11.1 billion losses in 2014, its shareholders’ equity at year end was HUF 39.3 billion and capital adequacy ratio (according to HAS) was 13.38% as at 31 December 2014.

1.3 FHB REAL ESTATE LTD.

FHB Real Estate Ltd. was established on 7 February 2006 based with a share capital of 100 million HUF. At the beginning, 95% of the shares of the Bank were owned by FHB Mortgage Bank and 5% by FHB Services Ltd. FHB Real Estate Ltd. received its licence on 8 May 2006 and started its operation on 1 December 2006. Since 2009 FHB Mortgage Bank is the sole owner of the company.

FHB Real Estate Ltd. was established for the purpose of promoting the implementation of the tasks laid down in FHB Mortgage Bank Plc.'s strategy, specifically to undertake real estate collateral valuation, real estate investment, sales and management services, and as a real estate valuation agent for FHB Group. In addition to Group companies, FHB Real Estate Ltd. provides real estate related services to external customers.

The Company closed the year 2014 with HUF 4 million profits. The Company's registered capital was HUF 70 million and shareholders' equity HUF 181 million at the end of the year.

1.4 FHB REAL ESTATE LEASE LTD.

The private limited company FHB Real Estate Lease Ltd. was established on 15 December 2004. The company started business on 28 August 2005 with an initial capital of HUF 50 million consisting solely of cash contributions. The company is a financial enterprise. Based on the application of the Company, in December 2014, the National Bank of Hungary permitted new activities. Number of the modified licence is H-EN-I-825/2014. According to the NBH license, the Company is authorised to provide financial leasing services without any limitation and to provide cash loans limited to consumer loan products.

The company joined FHB Group in 2009; its sole shareholder was FHB Services Ltd. On 17 November 2011 FHB Services Ltd sold its share in FHB Real Estate Leasing Ltd. to FHB Life Annuity Ltd. FHB Life Annuity Ltd. sold the Company on November 24, 2014, to FHB INVEST Ltd. (Formerly known as Díjbeszedő Business and Service Ltd.).

FHB Real Estate Lease Ltd. is 100% owner of the shares of Central European Credit d.d. and FHB DWH Services Ltd. The former one is a financial company registered in Croatia, while FHB DWH Ltd. main activities are data processing and web hosting services.

As at 31 December 2014, the consolidated loan volume of FHB Real Estate Lease Ltd. reached HUF 7.5 billion. In 2014, lease financing disbursement amounted to HUF 1,203 million. Leasing portfolio reached HUF 4.1 billion as of 31 December 2014 representing 19.7% increase compared to the data of HUF 3.4 billion at the end of 2013.

FHB Mortgage Bank decided to increase company's capital two times in 2014. Total capital increase amounted to HUF 1,190 million. The Company closed the year 2014 with HUF 823 million losses. Shareholder's equity of the Company according to HAS amounted to HUF 229.8 million as at 31 December 2014; registered capital was HUF 125 million and capital reserves amounted to HUF 2.475 billion.

1.5 DIÓFA ASSET MANAGEMENT LTD.

Diófa Asset Management Ltd. had been established by Évgyűrűk Pension Fund in February 2009. On 8th July 2013, FHB Mortgage Bank signed a contract to buy almost 100% of the ordinary shares of the Diófa Asset Management Ltd. After the change in ownership, Diófa Asset Management is a fully consolidated member of FHB Group and belongs to common supervision since September 2013.

Before joining to FHB Group, Diófa Asset Management was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients. After the acquisition Diófa Asset Management Ltd. still sustains its former focus areas, in addition new retail funds have been launched in the branch network of FHB Banking Group. Sales volume of FHB Forte Short Bond Fund, FHB Money Market Fund and FHB Absolute Yield Fund surpassed HUF 13.2 billion.

The Company started two new funds at the beginning of 2014, which was sold initially by Magyar Posta Befektetési Zrt. through the network of Magyar Posta. The net value of assets of Real Estate Fund almost reached HUF 30.6 billion at the end of the year, while market value of Hungarian Post Money Market Fund amounted to HUF 2.1 billion. From the spring of 2014 the Hungarian Post Takarék Real Estate Fund is sold in the network of FHB Bank, and from 1 October also in the network of Takarékbank (Bank of Hungarian Savings Cooperatives Co. Ltd.).

Total net value of assets under management increased to HUF 338.7 billion from HUF 26.1 at December 31, 2013.

Asset Management Ltd. closed with HUF 196.7 million profit after tax the year 2014 (after HUF 60 million capital increase by FHB Mortgage Bank); subscribed capital amounted to HUF 195.4 million and shareholders' equity HUF 300.7 million.

1.6 FHB INVEST INVESTMENT AND REAL ESTATE MANAGEMENT LLC

The DÜSZ was established by demerge from Díjbeszedő Holding Ltd. on 30 September 2013. In course of the demerge DÜSZ own 51% of the shares of Díjbeszedő Faktorház Ltd., 75% of the shares of DíjNET Ltd. and 50% of Díjbeszedő Informatikai Ltd. In December 2013, DÜSZ Ltd. acquired 50% share of Magyar Posta Befektetési Zrt (Hungarian Post Investment Services Ltd.).

From 2014, DÜSZ Ltd. is the subsidiary of FHB Group dealing with facility management and with real estate rental. The Board of Directors of FHB Mortgage Bank (who exercising ownership rights) decided at 16 December 2014, that the new company name of DÜSZ is FHB INVEST Investment and Real Estate Management Llc.

The company's subscribed capital and shareholder's equity according to HAS was HUF 636 million and HUF 3.5 billion, respectively, and profit after tax of the year was HUF 2.2 billion as of 31 December 2014.

1.7 JOINTLY CONTROLLED AND ASSOCIATED COMPANIES

Profit after tax of the Díjbeszedő Faktorház Ltd. (DBF) realised HUF 8,712 million profit after tax in 2014. Pre-tax profit according to the purchased receivables before maturity in 2014 was HUF 775 million, while pre-tax profit from purchased expired receivables amounted to HUF 10,174 million according to IFRS. Shareholder's equity of the Company amounted to HUF 16.4 billion at the end of fourth quarter 2014.

The main activity of DíjNET Ltd. is operation and development of an electronic bill presentment and payment system. In 2014, profit after tax (according to HAS) reached HUF 10.8 million. Subscribed capital amounted to HUF 5 million, while shareholder's equity was HUF 106 million at 31 of December 2014.

Díjbeszedő IT Llc. (DBIT), which provides services related to the IT activities of companies belonging to the Díjbeszedő Group, realised HUF 45 million losses in full year 2014. Subscribed capital amounted to HUF 670 million, while shareholder's equity amounted to HUF 571 million at the end of December 2014.

By the end of December 2014, Magyar Posta Investment Services Ltd. opened more than 19,500 securities and long-term investment accounts; the securities portfolio managed on accounts was HUF 48.9 billion at the end of 2014, compared to HUF 4.6 billion at the end of December 2013. MPBSZ closed 2014 with HUF 558.3 million loss (according to HAS). The company's shareholder's equity was HUF 406.9 million and total assets amounted to HUF 2.0 billion.

Associated companies owned by FHB Invest Llc. are jointly managed by FHB and Magyar Posta according to the syndicate agreement.

FHB Mortgage Bank owns 25.1% of shares in Magyar Takarék Asset Management (MATAK) Ltd. The contribution of MATAK to the consolidated results was not significant yet.

2 MACROECONOMIC AND MARKET ENVIRONMENT IN 2014

2.1 HUNGARIAN ECONOMY IN 2014[1]

Figures	2012	2013	2014
GDP growth (%)	-1.5%	1.5%	3.5%
Industrial production growth (%)	-1.5%	0.9%	7.6%
Consumer prices (%)	5.7%	1.7%	0.2%
Unemployment rate (%)	11.0%	10.2%	7.7%
Budget deficit (billion HUF)	-692	-933	-826
Current balance of payments (million EUR)	1,873	4,162	3,086
National Bank of Hungary base rate (%, end of the year)	5.75%	3.00%	2.10%
EUR exchange rate (end of the year)	291.3	296.9	314.9

Source: NSA, National Bank of Hungary, Ministry for National Economy

The Hungarian economy in 2014 grew beyond preliminary expectations, at a rate of 3.5%, which is particularly remarkable in light of the external demand was not supportive: the euro zone economy grew by less than 1%. The engine of growth in consumption was the investment market: with almost 15% increase the rate of investment rose to close to 20% after many years again. However, retail consumption remained subdued, despite the improvement in the labor market and the significant increase in real wages, increased by just 1.5%. On the production side, the structure of growth has become more balanced: growth in agriculture and construction was outstanding again, and the industry and most of the service sector could catch up with that rate.

The employment expanded significantly in 2014, which also meant that the unemployment rate dropped to a multi-year bottom, close to 7% by the end of the year.

In addition to the good economic performance the improvement continued in the real balancing processes. The general government deficit remained below 3% of GDP, while net financing capacity of external liabilities (current account and the capital account surplus combined) exceeded 8% of GDP. The sharp decline in yield environment has played a major role in the improvement since the payment of interest fell seriously relating to both the existing public and foreign debt. The level of stock-type variables are still quite critical (as a result of depreciation of the forint the public debt declined only slightly and continued to exceed 75% of the GDP, the gross foreign debt stood at over 100% of GDP), but their trend is still improving, so the Hungarian economy's external vulnerability has eased significantly in 2014.

Not the external demand, but the external financing environment has been very supportive during the year. Although the Fed in the role of central bank of America, had stopped the quantitative easing last year, the monetary conditions used were maintained, while in Europe, the ECB continued easing with interest rate cuts and the announcement and introduction of new asset purchase programs. The low inflation which was due to the weak economic environment enhanced with the plummeting of the price of energy in the second half of the year caused by the fall of both supply and demand, actually risked a developing deflationary spiral. Therefore, with the exception of some countries, yields across Europe hit historically-low points, including Hungary. Although the NBH closed in the middle of the year the interest rate cuts started in August 2012 (which under the base rate overall was down by 490 basis points and stood at 2.1% at the end of the year), but with raising the budget of the Lending for Growth Scheme tried to give further impetus to the slowly intensifying lending activity. The 12-month inflation rate moved in the negative territory for almost the entire year and showed an average in 2014 of 0.2%, while the annual value of the more expressing core inflation fell below 1% by the end of the year.

[1] Based on reports and statistics of NBH and HCSO (Hungarian Central Statistical Office), and on analysis of Bank of Hungarian Savings Cooperatives Co. Ltd.

The number of dwelling construction permits issued and new housing constructions showed significant growth in 2014. 9,633 residential building permits were issued in 2014, 27.8% more than in 2013. Building permits issued in the county seats were only up by 25.4% to 2,662. The number of new homes planned in Budapest increased by 28.3% to 1,834 similarly to the yearly average-change and almost reaching the 2012 data.

The number of new homes built increased to 8,358 from 7,293 in 2013, but this number is barely one fifth of the 2008 data. The best areas were towns and villages (24 and 21% increase), in the county seats the growth was 3%. In Budapest the increase was 13%, which is slightly lower than the average.

2.2 THE BANKING SECTOR IN 2014[2]

Total assets of credit institutions amounted to HUF 32,866 billion at the end of 2014, 5.4% higher than at the end of 2013. According to preliminary data, the cumulative pre-tax loss was HUF 369 billion in 2014, significantly worse than the HUF 155 billion profit of 2013. The 2013th year's positive result is mainly due to the unique exceptional items, the majority of the sector is still closed at a loss in 2013 too. The pre-tax loss of the joint-stock credit institutions was HUF 355.7 billion and of co-operative credit institutions was HUF 2.7 billion. Credit institution branches made HUF -15.2 billion and the three specific specialized credit institutions made HUF 4.6 billion pre-tax profit.

Gross loan portfolio of credit institutions decreased by 0.7% in 2014. Lending of joint-stock credit institutions declined 2.6% year-on-year. Volume of household's loans decreased continuously during the year, representing 0.7% fall. The volume of housing loans increased by 0.7% during the year.

11.6% (HUF 919.8 billion) of total HUF loan portfolio (HUF 7,924 billion) was past due more than 90 days. Quality of HUF loan portfolio (loans to household's and non-financial corporations) improved in 2014, share of loans past due was 17.1% (at the end of 2013 was 19.6%) and share of loans past due more than 90 days decreased to 11.6% from 12.0% in 2013. 14.6% of total FX loan portfolio was past due more than 90 days, which also represents decline compared to 15.8% at the end of 2013. The proportion of all past due loans among FX loan portfolio was 22.1% as of 31 December 2014, at the end of 2013 it was 26.4%.

The restructured loans amounted to HUF 2,962.4 billion at the end of the year that exceeded 1.2% of the 2013th year-end level. The restructured HUF loan portfolio rose by 0.4%, and restructured FX loans grew by 1.4% in 2014.

The share of deposits of the funding of the sector grew in 2014 (48.8% from 47.8% in 2013) amounted to – with a massive growth - HUF 16,045 billion. Household's deposits represented 42.9% of total deposits.

2.2.1 Retail savings

According to the statistics of National Bank of Hungary, households' financial savings were HUF 37.015 billion as of December 31, 2014, which is 8.1% more (HUF 2,771 billion higher) than a year ago. The structural rearrangement of savings - thanks to declining deposit interest rates - has intensified over the year: households preferred securities instead of savings deposits. Accordingly, the ratio of deposits in the structure of savings deposits changed from 22.2% to the end of the year 2014, 20.5%. The investment funds and other securities present the 24.1% of total savings, compared with the 22.7% of at year-end 2013. Volume of deposits increased by 0.1% in 2014; while investment funds grew by 21.4% and other securities increased by 9.2%.

Within the deposits, the volume of current account deposits increased dynamically, by 25.4% year on year; as a result its proportion rose to nearly 39%. Other deposits reduced by 11.2% to HUF 4.664 billion. The share of HUF deposits of retail deposits was 86.7%, and FX deposit was 13.3% at the end of 2014 representing the same distribution as one year ago.

[2] Based on reports and statistics of NBH.

2.2.2 Retail mortgage lending

Although the disbursement of retail mortgage loans shows slight increase quarter-on-quarter, the total disbursement did not reach HUF 300 billion. This volume (HUF 290.4 billion) is significantly higher than in 2013 (HUF 199.4 billion), the increase is 45.7%.

2.2.2.1 Mortgage loan volumes

Based on data published by National Bank of Hungary, volume of retail mortgage loans amounted to 5,443 billion HUF as at 31 December 2014. Volume decreased by HUF 53 billion compared to year-end data of 2013 (5,495 billion HUF). Volume of FX loans fell by 2.0%, but HUF denominated loans increased owing to growing disbursement of subsidized loans by 0.7%, total volume of mortgage loans decreased by 1.0%.

Volume of housing loans amounted to HUF 3,341 billion as of 31 December 2014, representing yearly increase of HUF 500 million. HUF loans grew by HUF 18 billion while FX housing loans fell down by HUF 17 billion.

General-purpose mortgage loans amounted to HUF 2,101 billion as of 31 December 2014 with a HUF 53 billion year-on-year decline. Decrease of HUF-denominated general-purpose loans was HUF 4 billion, at the same time FX-based general-purpose loans were down by HUF 49 billion.

As a combined effect of revaluation of FX loans and repayments, proportion of FX mortgage loans decreased from 61.8% in 2013 to 61.2% as of 31 December 2014.

2.2.2.2 Home protection measures

The problem of foreign currency loans was also a priority issue in 2014. There were significant changes in the home protection frame during the year. After the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions, the Parliament approved the act on the Resolution of certain issues related to consumer loan agreements (Settlement Rules Act), decided about the HUF conversion of FX loans and approved the Fair-bank act. In conjunction with these the opportunity to give in applications to participate in FX rate protection scheme ceased from 6 December 2014.

Exchange rate protection scheme

Based on the Act LXXV of 2011, on "the fixation of the instalments' exchange rate of loans denominated in foreign currencies and the rules for the forced sale of properties" and the governmental order 57/2012 (III.30) debtors with FX loans not overdue of more than 90 days are eligible to participate in the new scheme offering payment of instalments at reduced rates. The period for the participation in the buffer accounts scheme is limited (5 years but latest the due date of the last instalment before 30 June 2017).

During this period only the differences between the market spot rate and the fixed rate on the principal part of the instalment will be transferred to the buffer. Whereas the State and the Bank share the loss on the interest repayments due to the off-market fixed exchange rate on a 50%-50% basis when exchange rates moves in 180-270 CHF/HUF or 250-340 EUR/HUF or 2.5-3.3 JPY/HUF band. In the event of exchange rate levels exceeding 270 CHF/HUF, 340 EUR/HUF and 3.3 JPY/HUF, respectively, exchange rate risks are entirely borne by the State.

The processing of applications dated before 6 December 2014 and the conversion of loans was managed.

Act LXXVII of 2014 on the settlement of certain issues related to the change in the foreign currency denomination of household loans and interest rate rules (Forint Conversion Act) entered into force at 6 December 2014, and on the basis of these new applications to participate in Exchange rate protection scheme can not be accepted.

At the end of 2014, the Bank registered all together 3,338 buffer accounts related to the foreign exchange rate protection scheme.

National Asset Management Ltd.

Among the steps of the 'Home Protection Action Plan' can be found the establishment of the National Asset Management Ltd (NET). to purchase the properties of the most indigent debtors. The related Act CLXX of 2011 provides details about the criteria and the process of the purchase of the properties ensuring residence to the indigent debtors by

NET. After 20 June 2012 the properties can be offered for theNET without marked as available for forced sale. The purchase price of the properties is determined by the NET as 35-55% of the original market value depending on the size of the town.

Government assumed to ensure the background for NET to buy 25,000 properties until the end of 2014 Thanks to the modifications of the Act CLXX of 2011 in December 2012, and July 2013, since 1 January 2013 and October 2013; the number of the entitled customers was expanded.

The initiation to get the entitled customers in the program is continuous, but in the fourth quarter of 2014 there was perceptible that the number of real estates to be offered further decreased according to the incoming declarations of intent. Until 31 December 2014 666 real estates have been offered for the NET, and behind them there were 1,362 transactions. The NET has paid the purchase price of 495 real estates (982 loans).

Settlement Rules Act, Forint Conversion Act and Fair Bank Act

Act XXXVIII of 2014 on the Settlement of certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions (hereinafter Curia act), which was proclaimed on 18 July 2014. The act was decided in connection with the Civil Law Uniformity Decision No. 2/2014 of the Curia, which was taken on 16 June 2014.

The Parliament accepted the Act XL of 2014 on the Rules of Settlement laid down in Act XXXVIII of 2014 certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions, and other particular provisions (hereinafter Settlement Rules Act), and on the basis of this act the financial institutions must repay to their consumers any overpayments arising from them. There were two reasons of overpayments: unilateral amendments and the exchange rate gap which was declared as null.

The Settlement Rules Act clarified the prescriptions of the Curia act, and prescribes the detailed regulation of settlements required due to the invalid provisions in loan agreements. The scope of the act – in line with the Curia act – covers only consumer loan contracts. Credit cards, current account credits and state-subsidized housing loans in HUF are not covered by this law. Furthermore the amount which will be repaid to the customers can be reduced by the amount of Bank’s discounts.

The Act LXXVII of 2014 on the settlement of issues related to the change in the foreign currency denomination of certain household loans and interest rate rules (hereinafter Forint Conversion Act) was also proclaimed, which decides the Forint conversion of the foreign exchange and foreign exchange based consumer mortgage loan agreements (on 1 February 2015).

The Act LXXVIII of 2014 (the so called Fair Bank Act) on the amendment of Act CLXII of 2009 on Consumer Credit (Consumer Credit Act.) specifies the new contractual conditions on the consumer loan agreements not affected by the settlement and all new loan agreements, and the Forint Conversion Act specifies the same for agreements affected by the settlement.

The Fair Bank Act prescribes the legal technique, rules of procedure and conditions of the forint conversion, how the consumer loan agreements affected by the forint conversion shall change to applying the new contractual conditions specified in the Fair Bank Act, and it also specifies the starting level of interest rate following the forint conversion.

The amendment set forth in the Fair Bank Act concerns the key issues as follows:

- making the obligation of creditors to provide information of consumers prior to the conclusion of loan agreement more effective;
- new provisions on the amendment of loan agreements;
- regulations on the termination of a loan agreement by the borrower without having to pay any fees or costs;
- special regulations on foreign exchange based loans;
- regulations on the adoption of new contractual conditions;
- provisions on the amendment of Act XL of 2014 on the Rules of Settlement.

The Bank made estimation about the expected loss, which arises from the FX and HUF settlement and from the HUF conversion and generated HUF 23.6 billion provisions for this.

FHB Mortgage Bank participated the NBH's tenders in October and November 2014. FHB has executed the EUR-HUF transaction with the NBH and covered its entire FX need resulting from the loan conversion into HUF. On the same day as the EUR-HUF conversion, FHB has also closed its EUR-CHF position on the interbank market.

2.2.3 Other retail loans

Consumer loans of households have been decreasing in 2014, as well. The 4.7% volume decrease was generated mainly by declining FX loans, but HUF denominated consumer loans fall also by 1.7% last year. Concerning total consumer loan portfolio, home equity loans representing majority of the volume with 78.1% share; contribution of personal loans reached 12%.

2.2.4 Corporate loans and deposits

Loans granted by credit institutions to non-financial corporations increased in 2014, the year-end closing stock of HUF 6,760 billion, 1.1%. Within the total stock of loans foreign currency loans decreased by 0.9% to HUF loans grew by 3.1%, thanks to the Funding for Growth Scheme.

The Central Bank of Hungary announced the Funding for Growth Scheme in April 2013, with the total of HUF 750 billion. The first two pillars of the program were designed for small and medium-sized enterprises to facilitate access to HUF loans and thereby strengthen financial stability.

From October 2013, the program continued. Under the Funding for Growth Scheme II total amount of HUF 2,000 billion is at disposal of credit institutions, but 90% of the allocation of the first HUF 500 billion could only be used to provide new loans. In the second stage stock increase was hardly more than HUF 29 billion by the end of 2013, so in 2014 its availability has been extended (lending for primary producers/farmers and family businesses, increasing the maximum amount of credit per customer, subsidizing for-profit property development, engaging financial institutions).

In the second phase of the Scheme until 31 December 2014 credit institutions reported contracts, amounting HUF 584.2 billion to the NBH, which is linked to 20,019 units and 13,813 transactions.

Corporate deposits grew 4.2% year over year to HUF 5,229 billion. 63% is the ratio of current account deposits. The share of foreign currency deposits of corporate deposits is 29.8% at 31 December, 2014.

3 REPORT ON THE BUSINESS ACTIVITIES IN 2014

3.1 MAJOR FINANCIAL INDICATORS

iin HUF billion	31/12/2013	31/12/2014	Change
Balance sheet total	737.5	769.4	4.3%
Book value of loans	491.7	474.0	-3.6%
Mortgage bonds issued	172.8	179.6	3.9%
Bonds issued	99.5	112.2	12.8%
Deposits	222.5	298.8	34.3%
Shareholders' equity	76.1	88.0	15.7%
Capital adequacy ratio (IFRS, %)	13.82%	13.86%	0.0%-pt
Profit before tax	-5.0	-17.3	243.9%
Profit/loss after tax	-4.7	-16.2	247.2%
Profit/loss after tax excluding special banking tax and one-offs	-0.6	3.8	-
Average net interest margin (NIM, %)	2.51%	2.74%	0.2%-pt
Cost/income ratio (CIR, %)	91.2%	452.2%	-
EPS (HUF)	-70.9	-223.2	214.7%
ROAA (return on average assets, %)	-0.63%	-2.15%	-1.5%-pt
ROAA excluding special banking tax and final repayment (%)	-0.17%	-1.77%	-1.6%-pt
ROAE (return on average equity, %)	-6.1%	-19.7%	-13.7%-pt
ROAE excluding special banking tax and final repayment (%)	-1.6%	-16.3%	-14.7%-pt

FHB Group's consolidated balance sheet total calculated according to International Financial Reporting Standards (IFRS) was HUF 769.4 billion as of 31 December 2014, which was 4.3% and HUF 31.9 billion more than a year before. In the last year, primarily the volume changes of refinanced and own loans generated the increase of the growth of interbank funds. Net amount of loans decreased by HUF 18.5 billion or 4.1% in one year, of which decline in refinanced loans exceeded 13%.

On the liability side volume of issued interbank funds decreased significantly, but it was compensated by 34% raise in deposits.

Consolidated profit after tax for 2014 was HUF 16.2 billion losses; net interest income amounted to HUF 20.6 billion. Net interest margin on average assets was 2.74%, by 23 basis points up year-on-year.

The Group's cost to income ratio was 452.2% (or 54.4% calculated without special banking tax and one off items) compared to 90.1% in the reference period of 2013. The adjusted cost / income ratio improvement was due to an increase in revenue of more than HUF 9.3 billion.

The shareholders equity increased 15.7% to 188.0 billion during the year. The Bank according to IFRS standards records subordinated Tier 1 capital with nominal value of EUR 112 million as an element of shareholders' equity. The accumulated losses amounted to HUF -14.7 billion. The capital adequacy ratio was 13.86% at the end of the year.

3.2 RETAIL AND CORPORATE LENDING

The volume of gross loans of FHB Group amounted to HUF 357.8 billion as of 31 December 2014. Year-on-year decrease was 0.1%. Decrease was due to lower figures in disbursements and maturity of existing loans despite of participation of Funding for Growth Scheme (NHP) of National Bank of Hungary.

The rate of FX loans of total outstanding loan portfolio was 49.3% as of 31 December 2014, which is lower than the 51.2% figure in previous year, thus the Funding for Growth Scheme started by the NBH. The share of FX loans in retail loans was 57.3% which actually shows no change to the previous year.

Retail loans continued to dominate within the loan portfolio with a contribution of 76.2% (78.3 % on 31 December 2013). Changes in the composition of the loan portfolio are a result of the retail loan portfolio showed decrease of HUF 27.3 billion (-2.7%) year on year, while the volume of corporate loans grew by 9.3%, increasing by nearly HUF 8.5 billion.

The composition of the loan portfolio of 31 December 2014:

in HUF million	31/12/2013	31/12/2014	Change
Retail loans	**280,228**	**272,759**	**-2.7%**
Housing loans	141,480	134,237	-5.1%
Other mortgage loans	128,305	127,589	-0.6%
Consumer loans	6,471	6,365	-1.6%
Loans for employees	1,568	1,523	-2.9%
Retail leasing	2,404	3,045	26.7%
Corporate loans	**77,776**	**84,992**	**9.3%**
Corporate loans	76,788	83,907	9.3%
Corporate leasing	988	1,085	9.8%
Total own lending, gross	**358,004**	**357,751**	**-0.1%**
Impairment	-37,933	-38,669	1.9%
Loans, net	**320,071**	**319,082**	**-0.3%**
Refinanced loans	133,692	116,182	-13.1%

During 2014, HUF 4.7 billion retail and HUF 7.6 billion corporate loan disbursements occurred, due to loans disbursed under the Lending for Growth Scheme. Bank placed in the program a total of HUF 7 billion to corporate clients. Within the retail loan disbursement, contribution of subsidized loans exceeded 17.4%.

In terms of residential mortgage loans disbursement FHB increased its market share in all segments, including outstanding 4.8% market share in case of subsidized loans (after 12.7% in 2013), while market share of the Group from the full-year mortgage loan disbursements reached 5.2% (compared to 5.0% in 2013).

3.3 REFINANCING

To 31 December 2014 consolidated volume of refinanced loans dropped by 13.1% in one year to HUF 116.2 billion. Decrease arises from contractual amortization of the stock the volume of new transactions was negligible.

3.4 CUSTOMER DEPOSITS, BANK ACCOUNT SERVICES

At the end of 2014 the Commercial Bank had 42 branches countrywide. There are 15 branches in Budapest, the others located in other county seats and major cities. The number of retail and corporate accounts managed by the Commercial Bank was close to 183.7 thousand and 11.0 thousand, respectively, to which belonged 143.1 thousand retail and 6.9 thousand corporate cards – both number of current accounts and number of cards increased compared to the previous year. The number of accounts collected in the Hungarian Post offices reached nearly HUF 24 thousand at the end of the year.

Volume of retail deposits increased by 28.4%, while corporate deposits grew by 38.9% compared to 2013. Total volume of deposits increased by 34.3% year-on-year and amounted to HUF 298.8 billion as at 31 December 2014. Volume of retail sight deposits reached HUF 37.2 billion, while corporate sight deposits amounted to HUF 55.4 billion, respectively at the end of the year, reach 31% share of sight deposits from total deposits.

Under the agreement between FHB Mortgage Bank and the Magyar Posta Zrt., the Company signed an order contract with Magyar Posta Zrt. for certain financial mediation services. Under the agreement, the Hungarian Post Office network sells from the beginning of December 2013, an expanding range of products on retail term deposits and retail accounts. The deposit volume sold by post offices exceeded HUF 25 billion for the end of 2014.

3.5 INVESTMENT SERVICES

FHB Bank investment services business continued to grow in 2014. Due to successful customer acquisitions the term and long-term investment account openings showed a significant increase. The favourable market environment was beneficial for the sale of mutual funds and private bonds, which contributed to private and business customers registered accounts stocks market value exceeded HUF 59 billion by the end of the year 2014 (more than 43% growth compared to 31 December 2013).

In The securities segments, in addition to its own specially issued debt securities to retail investors, mutual funds played an important role in the product portfolio. These volumes at the end of the year exceeded HUF 26.5 billion, representing a 44.9% stake in the managed assets compared to 44% at year-end of 2013. Among the private debt securities bonds have the largest portion with HUF 12.1 billion, the value of sold shares more than doubled to HUF 10.9 billion compared to the 2013 data. The interest for mortgage bonds slightly strengthened, the stock was HUF 3.7 billion at the end of the year.

For bonds and covered bonds issued by FHB Mortgage Bank, FHB Bank carries out continuously secondary market quotations on both sides, for both corporate and retail clients, which significantly increases the liquidity of the securities issued by the Bank Group.

Concerning the funds managed by Diófa Asset Management, by the end of December 2014, sales volume of FHB Money Market Fund neared to HUF 8.0 billion, while FHB Forte Bond Fund volume reached HUF 4.6 billion. Net asset value FHB Absolute Yield Fund managed on client accounts exceeded HUF 550 million. The Bank also distributes the investment units of the Hungarian Post Takarék Real Estate Funds, these stocks held by FHB customers nearly amounted HUF 3.8 billion.

3.6 SECURITY ISSUES

3.6.1 Mortgage and Senior bond issues

In 2014 FHB Bank issued 13 distinct series, it was all issue compared to and the 27 transactions in 2013.

In 2014, the Bank has HUF 43.8 billion (euro funds calculated in the issuance of euro exchange rate) new capital market funds. The face value of issued bonds amounted to HUF 6.1 billion as of mortgage bonds; HUF 35.5 billion and EUR 3.5 million unsecured bonds were issued.

At the end of December 2014, the three national mortgage banks' aggregated mortgage bond volume amounted to HUF 1,030 billion, share of FHB represented 19.4% of that.

3.6.2 Mortgage bond coverage[3]

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

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

The net collateral value of real estate covering mortgage bonds issued by the Bank was HUF 393.6 billion (HUF 276.9 billion capital + HUF 116.7 billion interest) as of 31 December 2014, 15% less than the figure as of 31 December 2013 (HUF 463.4 billion).

[3] Non-consolidated data of FHB Mortgage Bank Plc. only, according to HAS

Value of mortgage bonds and assets involved as collateral as of 31 December 2014

in HUF million	31/12/2013	31/12/2014	Change
Outstanding mortgage bonds in circulation			
Face value	225,601	199,488	-11.6%
Interest	53,899	38,804	-28.0%
Total	**279,500**	**238,292**	**-14.7%**
Value of the regular collateral			
Principal	308,444	276,905	-10.2%
Interest	154,922	116,722	-24.7%
Total	**463,366**	**393,627**	**-15.1%**

As of 31 December 2014, the present value of ordinary collateral was HUF 314.9 billion and the present value of mortgage bonds was HUF 230.3 billion, thus the present value of collateral exceeded that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 136.8% in the same period.

As of 31 December 2014 net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 138.8%, and the net ordinary and supplementary collateral principal to the unpaid interest on mortgage bonds in circulation was 300.8%.

4 LIQUIDITY MANAGEMENT

In accordance with the Group's strategy the Mortgage Bank ensures the entire Group's liquidity through regular business relations with other Group companies. Liquidity of the Group was stable throughout 2014. The Mortgage Bank always made funds available to Group members as needed. The Bank supported the management in making quantitative and scheduling decisions related to short-term and long-term financing with continuous liquidity planning during the entire period.

NBH bonds were ceased by the Central Bank from 1 August 2014, and this two week instrument transformed (similar to the period before 2008) into NBH deposits. The nostro accounts closed with HUF 5.1 billion. The amount of margin deposits in HUF was HUF 4.0 billion at the end of 2014. The Bank had a EUR HUF 15.1 billion interbank net lending position, margin deposits amounted to EUR 45.3 million (approximately HUF 14.2 billion).

Beside of two-weeks NBH bonds showing 50% decrease year-on-year, as of 31 December 2014, consolidated securities portfolio (due to liquidity and risk management) contained government bonds (HUF 46.8 billion and EUR 13.6 million), treasury bills (HUF 23.4 billion) and other securities guaranteed by the state (HUF 7 billion and EUR 24.5 million). Free liquid securities amounted to HUF 137.7 billion in addition to the NBH bonds.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

An important task in 2014 was to integrate the enlarged banking group, the members of consolidated supervision into the risk management system. Risk management identifies, evaluates and analyses the exposure of the Group and its members. It processes the information gained and develops risk guidelines and acceptable exposure limits, and operates risk management systems.

The Group is basically exposed to credit, liquidity, market and operational risks.

In respect of credit risk one of the main goal was to improve the quality of the portfolio in 2014, in order to manage the problem loans with intensive use of all available means. The other main target set by the FHB is, circumspect, prudent risk taking by the increase in stock of the exposures.

Liquidity risk management after the concerning policy is made by regular liquidity planning, liquidity buffer and holding a diversified resource structure with the assumption of several scenarios. In 2014 according to the strategic cooperation FHB intensively used the Hungarian Post Office network for collecting resources and providing investment services.

Relating to market risks, (interest rate and foreign exchange risks) the goal was to limit the interest rate and currency exchange rate risk exposures to mitigate adverse impact on the result.

The objective of operational risk management is to prevent the Group's losses arising from operational risk and reducing the amount of loss.

5.2 CREDIT RISK

In the management of credit risk in 2014 - over the daily tasks - the following task performed by the Bank Group can be highlighted:

The first quarter of 2014 the corporate sector lending limit system has been revised, which resulted in the formulation of risk-taking directions and differentiated sectorial strategy. The company revised monitoring procedures entered into force in January, which changed its extraordinary review of the debtor rating rules, sharing of responsibilities and deadlines. To lower the amount of corporate risk-taking the Bank led in the use of simplified sample submission.

The yearly validation of customer and partner rating systems has finished. From 1 April FHB calculates the capital requirement after the internal rating method concerning the retail bank overdrafts, and the residential mortgage loans received from Allianz Bank.

The Bank reviewed the risk parameters and documentation of non-residential mortgage loans and changes were put in place to simplify them.

In the fourth quarter FHB revised its internal regulations as regards of retail lending reasonable income, proper documentation and calculation of the limit in respect of the regulations of the National Bank of Hungary.

5.3 LIQUIDITY AND MATURITY RISK

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

FHB Group seeks to diversify its sources by the type of resources and distribution channel. In addition to the issue of capital market instruments addressing institutional investors, deposits are collected and securities sold in the branch network as well as in the network of Hungarian Post.

The Group's liquidity plans, financial position are prepared along scenarios based on different assumptions, which take into account the effects of stress situations. The stock of liquid assets is constantly high.

To the HUF conversion of retail foreign currency loans – using the NBH facilities – FHB covered its open foreign exchange position both in, terms of exchange rate and liquidity.

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK, EXCHANGE RATE RISK

Interest rate risk stems from interest rate changes, which affect the value of financial instruments. The Bank is also exposed to interest rate risk when the amounts of assets, liabilities and derivative instruments maturing or re-priced in a particular period are not in harmony.

The Bank assesses interest rate risk on a continuous basis with the help of Gap analysis, VaR calculations and sensitivity analysis. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as repurchase of mortgage bonds, swap transactions as well as mortgage bond maturities and interest rates suited to assets are involved in order to ensure the harmony between assets and liabilities. The Bank manages interest rate and exchange rate risks through derivative transactions.

5.6 OPERATING RISK

The Bank manages operational risks by developing and improving internal rules and regulations, by providing appropriate training to the staff involved in the workflows and by creating built-in control mechanisms. The management devotes important role to feedback, verifying the efficiency of the measures to mitigate risks. The operational risk loss data and key risk indicators are collected and analysed.

As a result of the annual self-evaluation of potential operational risk factors arising from the activities the Group put together and update operational risk map, and identify rare events with high losses, which events' impacts were assessed by the scenario analysis.

Significant steps have been made in the integration of newly acquired companies to operational risk management system: After the training we started collecting the operational risk loss data and carried out the first self-evaluations about these activities.

6 ORGANIZATIONAL CHANGES AND HEADCOUNTS

In 2014 several organizational changes occurred in the Banking Group, in case of Commercial Bank and Mortgage Bank, as well which aims to increase the efficiency of the affected areas.

As of December 31, 2014, the consolidated full-time headcount was 812.3; by 38.8 (5.0%) more than headcount of 773.5 as of December 31, 2013.

Headcounts (FTE, year-end) of the Group companies were as follows:

	31/12/2013	31/12/2014	Change
FHB Mortgage Bank Plc.	172.2	180.7	5.0%
FHB Commercial Bank Ltd.	567.0	584.2	3.0%
FHB Life Annuity Ltd.	5.8	0.0	-100.0%
FHB Real Estate Ltd.	7.4	8.9	20.3%
FHB Real Estate Leasing Ltd.	9.8	12.3	25.6%
Diófa Asset Management Ltd.	11.4	18.8	65.1%
Diófa Real Estate Management Llc.	-	3.0	-
FHB Invest Llc.	-	1.1	-
Hungarian Card Service Plc.	-	3.3	-
FHB Group Total	**773.5**	**812.3**	**5.0%**

7 FINANCIAL ANALYSIS[4]

7.1 BALANCE SHEET STRUCTURE

in HUF million	31/12/2013	31/12/2014	Change
Cash on hand	2,039	2,348	15.2%
Due from banks & NBH	32,739	177,680	-
Securities held for trading	41,950	34,596	-17.5%
Financial assets available for sale	151,873	75,377	-50.4%
Investment in associates (jointly controlled companies)	6,158	6,932	12.6%
Derivate financial assets	3,579	2,547	-28.8%
Refinanced mortgage loans	133,692	116,182	-13.1%
Loans and advances to consumers	358,004	357,772	-0.06%
Impairment and provision	-37,933	-38,669	1.9%
Investment property	11,312	0	-100.0%
Tangible assets	5,625	6,733	19.7%
Goodwill and other intangible assets	11,373	8,326	-26.8%
Deferred tax asset	7,421	9,363	26.2%
Other assets	9,682	10,250	5.9%
Total assets	**737,514**	**769,437**	**4.3%**
Due to banks	116,847	43,036	-63.2%
Issued securities	228,851	255,344	11.6%
Mortgage bonds	143,250	156,386	9.2%
Bonds	85,601	98,958	15.6%
Deposits from customers	222,501	298,762	34.3%
Derivative financial liabilities	15,365	12,736	-17.1%
Financial liabilities at fair value through profit or loss	61,460	36,501	-40.6%
Finance lease liabilities	9,292	5,772	-37.9%
Reserve for annuity payments	2,463	0	-100.0%
Current tax liability	6	145	-
Deferred tax liability	503	0	-100.0%
Provisions	1,142	25,204	-
Other liabilities	3,012	3,889	29.1%
Subordinated debt	0	0	-
Total liabilities	**661,443**	**681,389**	**3.0%**
Share capital	6,600	6,600	0.0%
Share premium	1,709	1,709	0.0%
Treasury shares	-29	-207	-
Subordinated Tier 1 capital	31,749	31,749	0.0%
Cash-flow hedge reserve	0	0	-
Other reserves	380	33	-91.3%
Retained earnings	40,340	39,133	-3.0%
Minority interest		23,717	-
Balance sheet profit	-4,677	-14,685	214.0%
Total shareholders' equity	**76,072**	**88,048**	**15.7%**
Total liabilities and shareholders' equity	**737,514**	**769,437**	**4.3%**

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

As of 31 December 2014, the Bank's consolidated balance sheet total by IFRS amounted to HUF 769.4 billion; by HUF 31.9 billion or 4.3% above the balance sheet total as of 31 December 2013. The decline on the assets side was the joint result of interbank deposits (due from banks) multiplied by over four times, refinanced loans dropped by 13.1% and impairment and provision increased by 1.9%.

Liabilities increased by 3.0% compared to the reference figures of 2013. Mortgage bonds and senior bonds[5] issued showed significant increase (9.2% and 15.6%, respectively), while interbank borrowings rose by 68.1%. Deposits grew by more than 34.3% year-on-year.

Shareholders' equity increased by HUF 12.0 billion or 15.7% year-on-year; in one hand as a result of the 49% sale of the Commercial Bank, in the other hand loss of HUF 14.7 billion realised.

7.1.1 Interest earning assets

The Group's interest earning assets increased from HUF 719.4 billion as of 31 December 2013 to HUF 763.3 billion as of 31 December 2014. Interest earning assets contributed 99.2% to the balance sheet total.

The In the case of those mortgage covered loans, which are concerned by the HUF conversion, the Bank evaluates FX loans, related loss in value and interests, and generated provisions at the exchange rate of HUF conversion. Accordingly, those consumer loan agreements which are concerned by the HUF conversion appeared in the balance sheet at the 256,47 HUF/CHF and 308,97 HUF/EUR exchange rate, while those FX or FX based loans which are not concerned are evaluated at the balance sheet date's NBH exchange rate.

Interbank lending

NBH and other interbank lending increased from HUF 32.7 billion HUF as of 31 December 2013 to HUF 177.7 billion as of 31 December 2014. The item contributed 23.3% to interest earning assets as of 31 December 2013, significantly increasing to a year before.

Securities

The value of Bank's securities available-for-sale decreased from HUF 151.9 billion as of 31 December 2013 to HUF 75.4 billion as of 31 December 2014. Contribution of securities available-for-sale to interest earning assets was 19.9%. From the stock of securities available for sale discount treasury bills amounting to HUF 7.5billion and government bonds amounting to HUF 46.6 billion and other bank and corporate bonds for sale amounting to HUF 21.3 billion. As of 31 December 2014, the Bank held a portfolio of securities for trading (HUF 34.6 billion), which contributed 4.5% to interest earning assets.

Loans

As of 31 December 2014, the volume of loans showing a decrease by 0.06%, so remained essentially unchanged. Impairment to cover loan losses increased from HUF 37.9 billion as of 31 December 2013 to HUF 38.7 billion as of 31 December 2014.

Volume of refinanced loans dropped by 13.1% to HUF 116.2 billion in one year. As of 31 December 2014, the contribution of refinanced loans and gross own lending was 62.1% in total assets; the same ratio was close to 68.3%.a year before.

The collateral value of real estate covering ordinary collaterals amounted to HUF 808.6 billion as of 31 December 2014, 7.5% down compared to 31 December 2013 (HUF 874.6 billion). The LTV ratio applicable for ordinary collateral was 34.3% as of 31 December 2014, lower than the 35.1% LTV as of 31 December 2013.

Portfolio quality

The ratio of non-performing loans decreased compared to the previous year. Volume of non-performing loans was 1% down compared to the end of 2013.

[5] Volume of items measured at amortised cost and at fair value together.

NPL ratio has been shrinking from 20.4% by 31 December 2013 to 20.2% as of 31 December 2014, influencing also by decrease in total loan volume. Coverage of non-performing loans was 53.4%, which increased by 1.5% points compared to the end of December 2013.

In 2014, FHB Group paid special attention to prevent further deterioration of the loan portfolio and cleaning of the portfolio, as well. Beside participation in the Government's home protection programs, the Bank also aimed to decrease volume of NPL through individual customer agreements.

Offering real estates of entitled clients to NET continued. Since the beginning of the program, more than 1.566 properties were offered by the Group for NET. Majority of that were purchased by NET and 971 loan contracts were closed in 2014.

7.1.2 Other assets

Tangible assets amounted to HUF 5.6 billion as of 31 December 2013 and increased by HUF 1.1 billion year-on-year to HUF 6.7 billion as of 31 December 2014. As of 31 December 2014, intangibles amounted to HUF 8.3 billion, by HUF 3 billion or 26.8% down year-on-year The decrease stems from the lower cost relative to the previously calculated of leased IT services recorded among intangible assets as financial leases.

Value of investment in jointly controlled companies consolidated by equity method amounted to HUF 9 billion as of 31 December, 2014

Other assets amounted to HUF 10.2 billion as of 31 December 2014, increasing by 5.8% (HUF 565 million) year-on-year. Deferred tax assets reached HUF 9.4 billion while value of receivables represented HUF 3.6 billion in other assets.

7.1.3 Interest bearing liabilities

Interest bearing liabilities HUF 639.4 billion as of 31 December 2014, remained essentially unchanged compared to last year representing approximately 83.1% to the balance sheet total. Issued securities and customer deposits gave major part of interest bearing liabilities.

Interbank funds

As of 31 December 2014, interbank funds amounted to HUF 43 billion showing 68.1% up year-on-year. Contribution of interbank borrowings to interest bearing liabilities was 6.7% as of 31 December 2014.

CMBs and Bonds issued

The contribution of covered mortgage bonds – measured at amortised cost and at fair value – to the Bank's interest bearing liabilities was 28.1% as of 31 December 2014, higher than a year before. HUF 179.6 billion value of mortgage bonds as of 31 December 2014 was 3.9% up from figures of 31 December 2013 (HUF 172.8 billion). Decrease in the value of the CMB portfolio was HUF 6.8 billion year-on-year.

The book value of bonds (both measured at amortised cost and at fair value) was HUF 112.2 billion as of 31 December 2014. The year-on-year increase was 12.8% or HUF 12.7 billion.

Deposits

As of 31 December 2014, deposits amounted to HUF 298.8 billion increasing by 34.3% year-on-year. In the last year volume of corporate and retail deposits increased, as well. As retail deposits grew by 28.4%, corporate deposits increased by 38.9%. From the middle of 2013 retail deposits lost its dominant position among FHB Group's consolidated deposits as share of corporate deposits was around 58.1% at the end of the period. The sight deposit ratio grew from 28.1% to 31.0% in a year.

7.1.4 Other liabilities

The Bank reported among other liabilities the volume of liabilities generated in conjunction with settlements before due date with the amount of HUF 677.8 million; accounts payable of HUF 565 million as well as accruals with the volume of HUF 524.1 million. Deferred tax liabilities amounted to HUF 61 thousand, while volume of provisions stood at HUF 25.2 billion, from which HUF 24.0 billion was formed to cover the Group's losses related to the HUF conversion of foreign currency loans.

7.1.5 Shareholders' equity

Within one year, shareholders' equity increased by 15.7% to HUF 188 billion as of 31 December 2014. In line with IFRS, the Bank reported the EUR 112 million Tier 1 subordinated bond as part of shareholder's equity. Balance sheet profit/loss was HUF -14.7 billion.

7.2 PROFIT &LOSS STRUCTURE

in HUFmillion	2013	2014	Change
Interest income	66,175	55,100	-16.7%
Interest expense	-47,464	-34,458	-27.4%
Net interest income	**18,711**	**20,642**	**10.3%**
Fee and commission income	5,060	6,354	25.6%
Fee and commission expense	-734	-1,001	36.4%
Net fee and commission income	**4,326**	**5,353**	**23.7%**
Profit/(Loss) from FX transactions	1,223	658	-46.2%
Change in fair value of financial instruments	-2,072	-1,062	-48.8%
Gains from securities	966	4,923	-
Profit/(Loss) from investment services	16	258	-
Net trading result	**133**	**4,777**	**-**
Other operating income	1,462	1,326	-9.3%
Other operating expense	-4,705	-31,778	-
Net income of associated companies	0	3,350	-
Operating income	**19,927**	**3,669**	**-81.6%**
Provision for impairment on loan losses	-6,789	-4,382	-35.5%
General and administrative expense	-18,171	-16,599	-8.7%
Profit/(Loss) before tax	**-5,034**	**-17,311**	**243.9%**
Income tax benefit/(expense)	369	1,115	201.8%
Profit/(Loss) for the period	**-4,664**	**-16,196**	**247.2%**

The Bank's consolidated loss for the year by IFRS amounted to HUF 16.2 billion in 2014 by almost 250% higher compared to 2013. Beside HUF 2.8 billion of special banking tax and payment obligation, not-shifted financial transaction levy and losses of HUF 708 million related to the exchange rate protection scheme, the result from the Commercial Bank partial and Life Annuity total sale (HUF +2.4 billion), the sale of assets of Díjbeszedő Faktorház (HUF 3.3 billion) as far as the provisioning for expected losses from the implementation of Curia act and other dependent or future obligation (HUF 24 billion) had negative impact on the result as extraordinary (one-off) items. Ignoring all these items, the adjusted consolidated profit after tax amounted to HUF 3.8 billion profit.

7.2.1 Net interest income

Compared to net interest income of HUF 18.7 billion in 2013, the Banking Group realised higher by 10% net interest income of HUF 20.6 billion in 2014. The net figure emerged as a balance of HUF 55.1 billion interest income (16.7% down from the figure of 2013) and HUF 34.5 billion interest expense (27.4% less than in 2013).

Reduction of interest income was generated by fall in interest rates realised on loans (related to sloping yield curve and declining volume) and lower interest incomes from securities. Fall of interest expenses was due to lower interest expenses from issued securities, deposits and repayment of subordinated capital at the beginning of the year.

Net interest margin on average assets was 2.74% in 2014, showing 23 basis points increase compared to previous year.

Distribution of interest income and expenses shows the following table:

	2013	2014	Change
Interest income			
Loans	37.9%	44.3%	*6.4%-pt*
Refinancing	10.8%	9.0%	*-1.8%-pt*
Mortgage bond interest subsidy	14.1%	14.2%	*0.0%-pt*
Supplementary interest subsidy	1.4%	1.2%	*-0.1%-pt*
Securities and interbank activities	13.2%	11.7%	*-1.5%-pt*
Swap transactions	22.5%	19.6%	*-2.9%-pt*
Interest expenses			
Bonds issued	53.1%	58.2%	*5.0%-pt*
Interbank activities	10.9%	2.8%	*-8.0%-pt*
State loan	0.0%	0.0%	*0.0%-pt*
Customer deposits	14.9%	17.1%	*2.2%-pt*
Swap transactions	19.0%	19.9%	*0.9%-pt*
Other interest expense	2.2%	2.1%	*-0.1%-pt*

7.2.2 Net fees and commissions

Net fees reached HUF 5.4 billion in 2014, representing close to 23.7% increase compared to 2013. In 2014, 11.0% of fee and commission income (HUF 6,354 million) contributed by loans related fees (18.1% in 2013) and 32.6% by accounts and card related banking charges (in 2013: 33.7%). Fee income related to the Strategic Cooperation Agreement with Allianz Insurance Company represented 6.2% of total fee income (10.4% in 2013). Also dynamically grew the volume of guarantee related fee income reaching close to HUF 214 million in the whole year.

On the expense side (HUF 1,001 million), agents' fees contributed 26.2% (in 2013: 12.3%), card related fees were 37.4% (52.2 % in 2013). Contribution of fees related to bond issues and investment services represented 4.1%.

Net fees and commissions without income related to financial transaction levy represented 68.6% growth compared to net fees a year before.

7.2.3 Net trading result

In 2014 the balance of financial transactions was approximately HUF 4.8 million profit that are lower by HUF 4.6 billion than in the same period of 2013.

Exchange rate volatility in the reported period and the effect of short term currency swaps resulted in HUF 658 million profit, which is lower than the result of 2013 (HUF 1.2 billion profit).

Changes in the fair value of financial instruments reported at fair value against earnings were HUF 1.1 billion loss, which is by HUF 1.1 billion better than the loss of HUF 2.1 billion in 2013.

In 2014, transactions of securities resulted in HUF 4.9 billion profit. The figure emerged as a balance of foreign exchange gains and losses on CMBs and bonds issued and repurchased during the year as well as that on bonds kept for sale. The net trading result was influenced also by the impact of sales of FHB Commercial Bank's shares and FHB Life Annuity's shares.

7.2.4 Other income and expenses

In 2014, the balance of other operating income and expenditure was HUF 30.5 billion net expenditure; arising from HUF 1.326 million incomes and HUF 31.8 billion expenditure. Other results are down by HUF 27 billion than a year before.

In 2014, real estate related income contributed HUF 296.7 million to other operating income (real estate rent, sales) in which the sold assets of Life Annuity are also included.

Extraordinary increase in other expenses was due to provisions amounted to HUF 23.6 billion generated by the Bank following the approval of the act on the Resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions. The Bank generated additional HUF 143.3 million provisions for payback the additional charges of financial transaction levy due to the NBH decision and separated HUF 275 million provision for cancelling the accrued incomes connected to derecognition of FX loans to be converted to HUF.

Special banking tax amounted to HUF 2,828 million in 2014; the financial institutions levy was HUF 1,135 million. Among other expenses, HUF 847 million extraordinary expense came from goodwill impairment related to investment in Díjbeszedő Faktorház.

Net income of associated companies contributed HUF 3,350 million to consolidated figures in 2014 full year, which mainly resulted from the HUF 4,443 million (proportional) profit of DBF, which contains significant one-off revenue from sales of factored receivables package.

7.2.5 Operating expenses

Operating costs amounted to HUF 16.6 billion in 2014 which is 3.5% higher than in 2013. Growth was mainly generated by the increase in personal and operating expenses.

Cost-to-income ratio (CIR) was 452.2% in 2014 (as opposed to 90.1% in 2013). Adjusting special banking tax and other one-off items, CIR was 54.5% in 2014, while 75.6% in 2013.

The contribution of personnel expenses to total operating costs was 38.1% in 2014, 2.2%-points higher than in 2013 (35.9%).

Administrative expenses in 2014 (HUF 6.835 million) decreased minimal year-on-year (-1.0%). Expenses of business activity show significant change year-on-year. HUF 916 million expenses in 2014 are 14.1% higher than a year before (HUF 803 million).

Other taxes paid reported among operating costs amounted to HUF 63 billion in 2014, compared to HUF 51 million in 2013. Compared to the last year it is a methodological difference, that the previously in the operating costs recognised financial Institution levy and the financial transaction tax expenditures were reclassified to other expenses.

7.2.6 Impairment and loan losses

In 2014 impairment and loan losses amounted to HUF 4.4 billion, which is 35.5% less than last year data. Close to HUF 2.4 billion decrease is primarily a result of slightly declining non-performing loan portfolio and decreasing level of expected losses.

The amount of generated provision was taken into consideration during the calculation of corporate tax base as tax base increasing item. The Bank didn’t account provision reducing (provision which was generated because of the settlement obligation of consumer loan contracts) tax demand.

7.3 CAPITAL POSITION

On 1 January 2014 regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) came into effect. The new regulation defines new prudential requirements not only in case of capital adequacy, but also for liquidity, financial stability and leverage, as well. Most important elements of the new regulation are the different methodology of calculation of own funds and more strict requirements on the level of Tier 1 capital.

CRR includes transitional provisions, reports, reviews and amendments in favour of continuous convenience, some of these rules have to appointed by the competent authorities, in our case by National Bank of Hungary as financial supervisory. NBH appointed this rules in regulation No. 10/2014. (IV. 3.).

Value of the Bank's own funds was HUF 72.8 billion at 31 December 2014. The capital adequacy ratio was 13.86% (one year ago – calculated according to existing regulations of that period – 13.82%). CET1 ratio stood at 13.39% as of 31 December 2014.

8 POST-BALANCE SHEET DATE EVENTS

On January 15, 2015 the Swiss central bank ceased the 1.2 exchange rate limit of Swiss Franc against to Euro which earlier arrested the further strengthening of the CHF. Parallel with this step decreased the base reference rate to the -1.25% and -0.25% level. Since that time the CHF exchange rate decreased continuously from the parity level and actually balances around 285 HUF/CHF.

As part of Government's home protection measures adopted since 2010, in November 2014, the Monetary Council of NBH decided to ensure approximately EUR 9 billion for the Banks to cover the source of HUF conversion.

FHB has executed the EUR-HUF transaction with the NBH and covered its entire FX need resulting from the loan conversion into HUF. On the same day as the EUR-HUF conversion, FHB has also closed its EUR-CHF position on the interbank market.

Apart from limited trading positons, FHB – as a matter of policy – had no open FX positions before the above mentioned transaction with the NBH and that is still the case following the conversion. Trading positions are and always were negligible relative to the bank's balance sheet, measures of the Swiss Central Bank has no material impact on the position and profitability of FHB Group.

The National Bank of Hungary made a comprehensive Group inspection (from January 16, 2015) at FHB Mortgage Bank and at some of those subsidiaries, which are under consolidated prudential supervision, including FHB Commercial Bank Ltd, FHB Real Estate Lease Ltd. and Díjbeszedő Faktorház Ltd. The on-the-spot inspection took place between 2 February and 6 March 2015, the next phase of the procedure is still in process.

Banking Group has started the settlements related to FX denominated consumer loan agreements based on Curia Act with the value date of February 1, 2015. Bank will manage the settlements and providing information to customers in line with the regulatory deadlines.

On 31 January 2015 Gábor Gergő Soltész resigned from his positions held at FHB Mortgage Bank as deputy chief executive officer, and held at FHB Bank as chief executive officer and member of the Board of Directors. At the same date he resigned from his other positions fulfilled at FHB Group companies as well, namely from Supervisory Board membership of FHB Real Estate Ltd. and Board of Director membership of FHB Real Estate Leasing Ltd.

From 1 February 2015 the position of deputy chief executive officer at FHB Mortgage Bank is held by Márton Oláh, who was also elected as member of the Board of Directors by FHB Bank's general meeting. The appointment and election of Márton Oláh were permitted by the Hungarian National Bank in advance.

Budapest, April 1, 2015

FHB Jelzálogbank Nyrt. FHB BANK 1082 Budapest, Üllői út 48.

Dr. Zoltán Spéder
Chairman of the Board of Directors

Gyula Köbli
Chief Executive Officer

FHB Mortgage Bank PLC.

Consolidated Financial Statements
in accordance with International
Financial Reporting Standards
as adopted by the European Union
and Independent Auditor’s Report

December 31, 2014

FHB Mortgage Bank Public Limited Company

Consolidated Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2014

Consolidated Financial Statements in Accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2014

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Chairman of the Board of Directors

Dr. Zoltán Spéder

External Members of the Board of Directors

Dr. Christian Riener
Gabriella Balogh
Ákos Starcz

Internal Members of the Board of Directors

Gyula Köbli
Tamás Foltányi
Gábor Gergő Soltész

Chief Executive Officers

Gyula Köbli (Chief Executive Officer)
Tamás Foltányi (Banking and IT Deputy Chief Executive Officer)
Gábor Gergő Soltész (Deputy Chief Executive Officer until 31/01/2015)
Oláh Márton (Deputy Chief Executive Officer from 01/02/2015)

Large Shareholders Liaison Officer and Secretary

Beáta Lendvai

Small Shareholders Liaison Officer

Béla Kappéter

Auditor

Deloitte Ltd.

Seat of the Bank, central office

Budapest.
Üllői út 48.
1082

Deloitte.

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

To the shareholders and Board of Directors of FHB Mortgage Bank Plc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of FHB Mortgage Bank Plc. (the "Bank") and its subsidiaries for the year 2014, which financial statements comprise the consolidated statement of financial position as at December 31, 2014 – which shows total assets of HUF 769,437 million –, and the related consolidated statement of profit or loss and consolidated statement of other comprehensive income – which shows a net loss for the year of HUF 16,196 million –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of FHB Mortgage Bank Plc. and its subsidiaries as at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Reporting Obligation: Report on the Consolidated Business Report

We have examined the accompanying consolidated business report of FHB Mortgage Bank Plc. for the year 2014.

Management is responsible for the preparation of this consolidated business report in accordance with the Hungarian Accounting Act.

Our responsibility is to assess whether the accounting information in the consolidated business report is consistent with that contained in the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to assessing the consistence of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the consolidated business report of FHB Mortgage Bank Plc. for the year 2014 corresponds to the figures included in the consolidated financial statements of FHB Mortgage Bank Plc. for the year 2014.

Budapest, April 1, 2015

....	....
Kornél Bodor	Tamás Horváth
Deloitte Auditing and Consulting Ltd. 1068 Budapest, Dózsa György út 84/C. 000083	registered statutory auditor 003449

Consolidated Statement of Profit or Loss for the year ended 31 December 2014

	Notes	2014	2013
Interest income	4	55,100	66,175
Interest expense	4	(34,458)	(47,464)
Net interest income		**20,642**	**18,711**
Fee and commission income	5	6,354	5,060
Fee and commission expense	5	(1,001)	(734)
Net fee and commission income		**5,353**	**4,326**
Profit/(loss) from foreign exchange transactions		658	1,223
Change in fair value of financial instruments	38	(1,062)	(2,072)
Gains from securities		4,923	966
Share of profit/(loss) of joint ventures and associates		3,350	-
Net result from investment services		258	16
Net trading result		**8,127**	**133**
Other operating income	6	1,326	1,462
Other operating expense	7	(31,778)	(4,705)
Operating income, net		**3,670**	**19,927**
Provision for impairment on loan losses	19	(4,382)	(6,789)
General and administrative expenses	8	(16,599)	(18,171)
Loss before tax		**(17,311)**	**(5,033)**
Income tax benefit/(expense)	11	1,115	369
Loss for the year		**(16,196)**	**(4,664)**
Attributable to: loss of shareholders of the Bank		(14,880)	(4,664)
Attributable to: non-controlling interests		(1,316)	-
Earnings per share (HUF 100 face value)	34		
Basic earnings per share (HUF)		**(223.20)**	**(70.92)**
Diluted earnings per share (HUF)		**(223.20)**	**(70.92)**

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2014

	Notes	2014	2013
Loss for the year		(16,196)	(4,664)
Other comprehensive income			
Change in fair value of financial assets available-for-sale		(170)	459
Foreign currency translation reserve		(15)	(2)
Deferred tax effect for other comprehensive income		32	(87)
Other comprehensive income/(loss) for the period net of taxes	12	(153)	370
Total comprehensive loss for the year, net of income taxes		**(16,349)**	**(4,294)**
Attributable to: loss of shareholders of the Bank		(15,033)	(4,294)
Attributable to: non-controlling interests		(1,316)	-

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2014

	Notes	31 December 2014	31 December 2013
Assets			
Cash on hand		2,348	2,039
Balances with the National Bank of Hungary	13	158,616	11,469
Due from banks	14	19,064	21,270
Securities held for trading	15	34,596	41,950
Financial assets available-for-sale	16	75,377	151,873
Shares in associates and joint ventures	29	6,932	6,158
Derivative financial assets	38	2,547	3,579
Refinanced mortgage loans	18	116,182	133,692
Loans and advances to customers	19	319,103	320,071
Investment property	21	-	11,312
Tangible assets	22	6,733	5,625
Goodwill and other intangible assets	20,23	8,326	11,373
Deferred tax asset	11	9,363	7,421
Other assets	24	10,250	9,682
Total assets		**769,437**	**737,514**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2014

	Notes	31 December 2014	31 December 2013
Liabilities			
Due to banks	25	43,036	116,847
Deposits from customers	28	298,762	222,501
Derivative financial liabilities	38	12,736	15,365
Issued securities	26	255,344	228,851
Financial liabilities at fair value through profit or loss, except derivatives	27	36,501	61,460
Finance lease liabilities	30	5,772	9,292
Reserve for annuity payments	31	-	2,463
Current tax liability		145	6
Deferred tax liability	11	-	503
Provisions	32	25,204	1,142
Other liabilities	33	3,889	3,012
Total liabilities		**681,389**	**661,442**
Shareholders' equity			
Share capital	34	6,600	6,600
Treasury shares	34	(207)	(29)
Retained earnings		24,448	35,664
Other reserve	34	33,490	33,837
Non-controlling interest	34	23,717	-
Total shareholders' equity		**88,048**	**76,072**
Total liabilities and shareholders' equity		**769,437**	**737,514**

Budapest, 1 April 2015

FHB Jelzálogbank Nyrt.
FHB BANK
1082 Budapest, Üllői út 48.

Gyula Köbli
CEO

Márton Oláh
Business Deputy-CEO

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Cash Flows for the year ended 31 December 2014

	2014	2013
Cash flow from operating activities		
Loss for the year	(16,196)	(4,664)
Non-cash adjustments to net loss from:		
Depreciation and amortization (Note 22,23)	2,452	2,533
Decrease in fair value of Investment property	-	184
Revaluation of investment properties	(166)	57
Provision/(release) of provision for losses	24,798	1,554
Gain on tangible assets derecognized	52	25
Loss on intangible assets derecognized	-	(2)
Capitalized interest on loans and advanced to customers	(1,138)	(840)
Fair value adjustment of derivatives (Note 38)	(1,597)	(7,054)
Fair value adjustment on financial liabilities through profit or loss, except derivatives	(1,043)	(1,448)
Change in annuity reserve	-	361
Change in foreign currency translation reserve	(15)	(2)
Change in investment in associates	(774)	-
Operating loss before change in operating assets	**6,373**	**(9 296)**
Decrease/(Increase) in operating assets:		
Securities held for trading	7,354	(34,135)
Financial assets available-for-sale	76,358	7,347
Refinanced mortgage loans	17,510	31,298
Loans and advances to customers	1,370	14,767
Other assets	(2,848)	(1,380)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	76,261	70,295
Due to banks	(91,314)	24,263
Other liabilities	2,028	(1,088)
Net cash flow from operating activities	**93,092**	**102,071**

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Consolidated Statement of Cash Flows for the year ended 31 December 2014- continued

	2014	2013
Cash flow from investing activities		
Proceeds from sales of tangible assets	56	6
Purchase of tangible and intangible assets	(2,857)	(696)
Purchase of investment property	-	(409)
Sale of investment property	-	319
Paid from reserves on life annuity business	-	(308)
Change in goodwill above net cash flow	-	(1,054)
Net cash flow from acquisition of subsidiaries (Note 17)	-	(5,254)
Net cash flow from sale of subsidiaries (Note 17)	12,626	-
Net cash outflow from investing activities	**9,825**	**(7,396)**
Cash flow from financing activities		
Proceed from issued securities	90,883	77,184
Principal repayment on issued securities	(70,326)	(174,488)
Repurchased treasury shares	(178)	-
Repayment of long term loans	(557)	(510)
Long term loan borrowings	78	683
Finance lease liabilities movement	(1,284)	(1,737)
Change in non-controlling interests	23,717	-
Issue of Capital Securities (additional tier 1 capital)	-	2,826
Net cash outflow from financing activity	**42,333**	**(96,042)**
Net increase/(decrease) in cash and cash equivalents	145,250	(1,367)
Opening balance of cash and cash equivalents	34,778	36,145
Closing balance of cash and cash equivalents	**180,028**	**34,778**
Breakdown of cash and cash equivalents:		
Cash on hand	2,348	2,039
Balances with the National Bank of Hungary	158,616	11,469
Due from banks with a maturity of less than 90 days	19,064	21,270
Closing balance of cash and cash equivalents	**180,028**	**34,778**
Supplementary data		
Income tax paid	*(1,139)*	*(960)*
Interest received	*56,680*	*65,168*
Interest paid	*(37,326)*	*(52,281)*

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2014

	Notes	Share capital	Treasury shares	Share premium	General reserve	Additional tier 1 capita	Change in fair value of fin. assets available-for-sale	Foreign currency translation reserve	Retained earnings	Non-controlling intererest	Share-holder's equity
1 January 2013		**6,600**	**(29)**	**1,709**	**181**	**28,923**	**(216)**	**31**	**40,341**	**-**	**77,540**
Change of general reserve	36				13				(13)		-
Loss for the year									(4,664)		(4,664)
Other comprehensive income	12						372	(2)			370
Additional tier 1 capital						2,826					2,826
1 January 2014		**6,600**	**(29)**	**1,709**	**194**	**31,749**	**156**	**29**	**35,664**	**-**	**76,072**
Change of general reserve	36				(194)				194		-
Loss for the year									(14,880)	(1,316)	(16,196)
Other comprehensive income	12						(138)	(15)			(153)
Purchase/(Sale) of treasury shares			(178)								(178)
Change in non-controlling interests									3,470	25,033	28,503
31 December 2014		**6,600**	**(207)**	**1,709**	**-**	**31,749**	**18**	**14**	**24,448**	**23,717**	**88,048**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE BANK

FHB Mortgage Bank Public Limited Company ("FHB" or "the Bank") was established by the Hungarian State on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion.
The Bank provided mortgage-banking services through its Head Office and regional representative offices located within the Republic of Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

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

On 31 October 2003 the Hungarian Financial Supervisory Authority (HFSA) granted permission for FHB Mortgage Bank to issue a prospectus to introduce its shares to the Budapest Stock Exchange.

The Bank introduced its New Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries, among them the FHB Commercial Bank Ltd., thereby significantly expanding the range of services provided by FHB Group. FHB Mortgage Bank Plc. is the parent company of the group. (The Bank and its subsidiaries are jointly referred to as the Group, Bank Group or FHB Group.)

The Strategic Plan for the business years 2013-2015 was adopted by the Board of Directors of FHB Mortgage Bank in 2012. The new strategy was built on the results achieved with the previous plans, the possible advantages from the strategic partnership with Allianz and the commitment of the employees of the Group, defining clear targets for the development of the Group. FHB would like to become a customer- and service-driven medium bank based on the previously adopted conception of "The bank of the families" providing customer based service supported by an organisational culture where the achievement of the common goals is reached with the strong co-operation of the employees.

In 2013, FHB Mortgage Bank managed several acquisitions, there through broadened the Banking Group and the range of activities.

The Bank signed a contract in July 2013 to buy 99,9% of ordinary shares of the Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.). The specified contractual conditions required for the effective transfer of the shares were satisfied by the parties on 2 September 2013, so 100% of ordinary shares of Diófa Asset Management went to the ownership of FHB Mortgage Bank.

As a result of several months of negotiations, FHB has signed first a letter of intent, and then on 10 July 2013, a purchase agreement with the shareholders of Díjbeszedő Holding Ltd. ("DBH"), to the business shares of FHB Invest Ltd. (former Díjbeszedő Operational and Service Limited Liability Company; hereinafter the "DÜSZ") that come into being after a demerge from DBH. In course of the demerge DÜSZ owns 51% of the shares of Díjbeszedő Faktorház Co. Plc., 75% of the shares of DíjNET Ltd. and 50% of the shares of Díjbeszedő Informatikai Llc ("DBIT").

Related to the transaction of the business shares, FHB and the Magyar Posta (Hungarian Post) entered into a strategic cooperation, and in the scope of that they shall cooperate in the ownership and control of

FHB Invest Ltd. (former DÜSZ), DBH and the jointly controlled companies, furthermore in course of the harmonization of the business activities of FHB Invest and the members of the DBH Group.

Based on the Agreement between FHB Group and Magyar Posta, FHB Invest acquired 50% of shares of Magyar Posta Befektetési Zrt. (Hungarian Post Investment Services Ltd., hereinafter the "MPBSZ Ltd.").

At the beginning of 2014 FHB Mortgage Bank Plc. acquired 25% shares in Magyar Takarék Asset Management Ltd. by capital increase, through which FHB Mortgage Bank obtained 13,76% indirect qualifying holding in Bank of Hungarian Savings Cooperatives Co. Ltd. after the permission of National Bank of Hungary.

In September 2014, FHB Mortgage Bank Co. Plc. and Magyar Posta Zrt. (Hungarian Post Ltd.) contracted on the purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd. The closing of the transaction – after the National Bank of Hungary gave the necessary permission to Hungarian Post to get influence – took place on 30 September 2014. Before the purchase of the share package, the General Meeting of FHB Commercial Bank decided on approximately HUF 20 billion capital increase and entitled the FHB Mortgage Bank to takeover the new shares, which was fully implemented by the FHB Mortgage Bank Plc.

At the end of December 2014 the sale of FHB Life Annuity Ltd.'s 175 ordinary shares, which represents 100% of share capital closed successfully. In the transaction the two party was FHB Mortgage Bank Plc. as vendor and National Asset Management Ltd, as buyer (who acting on behalf of Hungarian State).

As parent company of FHB Group, the Mortgage Bank exercises its rights over the Group companies.

The consolidated financial statements for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 1 April 2015. The final approval on the consolidated financial statements is provided by the General Meeting.

2. ACCOUNTING POLICIES

2. 1. *Basis of preparation*

The consolidated financial statements have been prepared on a historical cost basis, except for financial investments available-for-sale and held for trading, investment property, derivative financial instruments and financial liabilities measured at fair value through profit or loss as well as reserves for annuity payment, that have been measured at fair value.

Statement of compliance

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

2. 2. *Change in accounting policies*

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2014

The new and revised Standards and Interpretations effective from the current period

The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **IFRIC 21 "Levies"** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at 1 April 2015 (the effective dates stated below is for IFRS in full):

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements" -** Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" -** Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -** Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 27 "Separate Financial Statements" -** Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.
According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.
The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements except of the application of IFRS 9 which might have significant impact on the Group Consolidated Financial Statements, the Group will analyse the impact after the adoption of the standard by EU.

2.3 Currency of the consolidated financial statements

Unless otherwise stated, the consolidated financial statements are presented in million of Hungarian forint (HUF), the Hungarian forint is the functional and presentation currency used by Bank and each of its subsidiaries with registered office in Hungary. The functional currency of the Croatian companies belonging to the Bank is the Croatian kuna (HRK). The functional currency of the German branch of FHB Commercial Bank Ltd. is the Euro (EUR).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries as at 31 December 2014.

Notes to the Consolidated Financial Statements

Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss the majority of the members of the Board of Directors.
Consolidation involves all of the subsidiaries as of the day of acquisition of control. Consolidation of the subsidiaries ceases when the Company loses control of the subsidiaries. Control achieved when the Bank has power over the investee, is exposed, or has rights, to variable returns from its involvement with investee, and has the ability to use its power to affect its return.
The effects of all material intercompany balances and transactions are eliminated. In 2014 the Bank had eight (including the branch) fully owned (directly and indirectly) subsidiaries, seven of them registered in Hungary and one branch in Germany (FHB Commercial Bank Ltd. Niederlassung Frankfurt). The FHB Group acquired the DÜSZ Group and the Diófa Alapkezelő Ltd. and founded the FHB Kártyaközpont Ltd. in 2013. The expanding of FHB Group continued in 2014 with the Magyar Takarék Befektetési es Vagyongazdálkodási Ltd., the associated company, and its subsidiary Magyar Takarékszövetkezeti Bank Ltd (Bank of Hungarian Saving Corporates, ”MTB”). MTB has 4 subsidiaries and 113 controlled companies (controlled by MTB and Integration of Savings Cooperatives).

The list of the subsidiaries, joint ventures (joint control with Hungarian Post Ltd.) and associates of the Bank as at 31 December 2014 is the following:

Companies included in the consolidation	Main shareholder	Core business	Relation-ship *
FHB Commercial Bank Ltd.	FHB Mortgage Bank Plc. 51%	Universal banking services	S
FHB Real Estate Ltd.	FHB Mortgage Bank Plc. 100%	Real estate valuation services primarily in conjunction with the Group's business; real estate agency and sales	S
FHB Invest Befektetési és Ingatlankezelő Ltd. (former Díjbeszedő Üzemeltetési és Szolgáltatási Ltd.)	FHB Mortgage Bank Plc. 100%	Real estate management on group level	S
Diófa Alapkezelő Ltd.	FHB Mortgage Bank Plc. 99.70%	Fund and property management	S
Magyar Kártya Szolgáltató Ltd. (former FHB Kártyaközpont Ltd.)	FHB Commercial Bank Ltd. 50% Díjbeszedő Informatikai Ltd. 50%	Providing services related to bank cards, and electronic payment systems	S
FHB Ingatlanlízing Ltd	FHB Invest Befektetési és Ingatlankezelő Ltd. 100%	Lending and leasing	S
Central European Credit d.d. (Croatia)	FHB Ingatlanlízing Ltd. 100%	Lending	S

All figures in tables are in HUF million except otherwise noted

Companies included in the consolidation	Main shareholder	Core business	Relation-ship *
FHB DWH Ltd.	FHB Ingatlanlízing Ltd. 100 %	Data processing and web-hosting	S
Diófa Ingatlankezelő Ltd. (former Hitelunio Ltd.)	Diófa Alapkezelő Ltd. Ltd. 100 %	Real estate management	S
Kary-villa Real Estate Investment Ltd.	FHB Real Estate Ltd. 100%	Sale of own properties	S
"Wodomus 54" Real Estate Investment Ltd.	FHB Real Estate Ltd. 100%	Sale of own properties	S
Díjbeszedő Faktorház Ltd.	FHB Invest Befektetési és Ingatlankezelő Ltd. 51%	Purchasing, handling and collection receivables of retail customers	JV
Díjbeszedő Informatikai Ltd.	FHB Invest Befektetési és Ingatlankezelő Ltd. 50%	Providing IT services primarily to the members of Díjbeszedő Group	JV
Díjbeszedő Kártyaközpont Ltd.	Díjbeszedő Informatikai (IT) Ltd. 49,95%	Providing services related to bank cards, and electronic payment systems	JV
DÍJNET Ltd.	FHB Invest Befektetési és Ingatlankezelő Ltd. 51%	Providing electronic bill payment services	JV
Magyar Posta Befektetési Szolgáltató Ltd	FHB Invest Befektetési és Ingatlankezelő Ltd. 50%	Selling investment products	JV
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.	FHB Mortgage Bank Plc. 25,099 %	Property and real estate management	A
Magyar Takarékszövetkezeti Bank Ltd.	Magyar Takarék Befektetési és Vagyongazdálkodási Ltd. 54,82%	Credit institution, the central bank of the integration of Savings Cooperatives	A

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Companies included in the consolidation	Main shareholder	Core business	Relation-ship *
Takarék Alapkezelő Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 100%	Fund and property management	A
Takarék Faktorház Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 100%	Providing full factoring services	A
Takarékszövetkezeti Informatikai Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 52,38% SZHISZ** 47,62%	The leading IT service provider of the integration of Savings Cooperatives – as outsourced activity – primarily provides IT system operation and system integration services in the field of banking IT	A
Banküzlet Vagyonkezelő és Hasznosító Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 48,99% Saving Cooperatives shares 29,92% SZHISZ** 29.01%	Debt collection, debt recovery, intermediation of financial services	A
MTB Ingatlan Ltd.	Magyar Takarék-szövetkezeti Bank Ltd. 100%	Sale of properties	A

*** "SZHISZ" = Integration of Savings Cooperatives*

Joint ventures according to the strategic cooperation with Hungarian Post Ltd., without the ownership of FHB

Companies included in the consolidation	Main shareholder	Core business	Relation-ship *
Díjbeszedő Nyomda Ltd.	Magyar Posta Ltd. 100%	Supplying post production and printing	JV
Díjbeszedő Holding Ltd	Magyar Posta Ltd. 100%	Providing fee collection, bill delivery, purchasing receivables, printing and IT development services related to the billing for utilities, banking and telecommunication sector players with large retail customer base	JV

***Relationship: "S"=subsidiary, "JV"= joint venture;"A"=associate**

All figures in tables are in HUF million except otherwise noted

Controlled companies of MTB and Integration of Savings Cooperatives (SZHISZ), without the ownership of FHB, where MTB and SZHISZ have significant influence

Companies included in the consolidation	Shareholder	Core business
ABAÚJ TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
AGRIA Bélapátfalva Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Alsónémedi és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bácska Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bak és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bakonyvidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Balaton-felvidéki Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Balmazújváros és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bátaszék és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Boldva és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bóly és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Borotai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
BORSOD TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bükkalja Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Cserhátvidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Dél-Zalai Egyesült Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Drégelypalánk és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Dunaföldvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Dunakanyar Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Eger és Környéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Endrőd és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Ercsi és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Érd és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Érsekvadkert és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Észak Tolna Megyei Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Fegyvernek és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Felsőzsolca és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Fókusz Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
FONTANA Credit Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Forrás Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Főnix Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Füzes Takarék Szövetkezeti Hitelintézet	owners outside the scope of consolidation	Savings Cooperative
Gádoros és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Gyöngyös-Mátra Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Gyulai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hajdú Takarék Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Hajdúdorog és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hajós és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hartai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hatvan és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hévíz és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hodász-Porcsalma Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hungária Takarék Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Jászárokszállás és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Jász-Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kápolnásnyék és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kaposmenti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kéthely és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kevermes és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kinizsi Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
KISKUN Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kis-Rába menti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kiszombor és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kondorosi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Környe-Bokod Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kunszentmárton és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Lakiteleki Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Lébény-Kunsziget Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Lövő és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
MECSEK TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Mohácsi Takarék Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
Nagyecsed és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nagykáta és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nagyréde és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nemesnádudvar és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nyírbélteki Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nyúl és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Örkényi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pannon Takarék Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
Pannonhalma és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Partiscum XI Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pátria Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pilisvörösvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pillér Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Rábaközi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rajka és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rakamaz és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Répcelak és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rétköz Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Ricse és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rónasági Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Rum és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Sajóvölgye Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Sárbogárd és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
SAVARIA Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Somogy Takarék Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szabadszállás és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szabolcs Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szarvas és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szatmár-Beregi Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szatymaz és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szécsény és Környéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szeghalom és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

Companies included in the consolidation	Shareholder	Core business
Szegvár és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szendrő és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szentesi Hitelszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szentgál és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szentlőrinc-Ormánság Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szerencs és Környéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Szigetvári Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Téti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Tiszafüred és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Tiszántúli Első Hitelszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Tiszavasvári Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Tompa és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Turai Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Újszász és Vidéke Körzeti Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Vámosgyörk és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Veresegyház és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zalavölgye Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zemplén Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zirci Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Zomba és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

2.5 Rounding

When rounding to thousands, anything above the midpoint of HUF 500 is rounded up and anything below and including the midpoint is rounded down. When rounding to millions, anything above the midpoint of HUF 500,000 is rounded up and anything below and including the midpoint is rounded down.

2.6 Summary of significant accounting policies

a) Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents

- Financial assets at fair value through profit or loss:
    - Securities held for trading
    - Derivatives classified as held for trading

- Loans and receivables:
    - Balances with the National Bank of Hungary
    - Due from banks
    - Refinanced mortgage loans
    - Loans and advances to customers

- Finance lease receivables

- Financial assets available-for-sale

The Bank groups the recognised financial liabilities as follows:

- Financial liability instruments at fair value through profit or loss:
    - Derivatives
    - Financial liabilities designated at fair value through profit or loss

- Financial liabilities measured at amortised cost:
    - Due to banks
    - Customer deposits
    - Government loans
    - Issued bonds
    - Finance lease liabilities

- Off-balance sheet liabilities

b) Cash and cash equivalents

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

c) *Securities held for trading*

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and loans to customers that have been acquired principally for the purpose of selling or repurchasing in the near term depending on the market price.

d) *Financial assets available-for-sale*

The Bank reports the debt securities as available-for-sale that are not purchased for a pre-determined period as it does not intend to trade them nor hold them until maturity but may sell them any time depending on the market, with a view to improving liquidity.

The Bank measures financial assets available-for-sale at fair value. In cases where the market value is not available the fair value of securities is reported as the discounted present value of estimated future cash payments. In cases where the unrealised gains and losses resulting from remeasurement are reported in equity in the other comprehensive income item.

At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset available-for-sale is impaired. If the impairment test shows a potential significant loss or that is expected to prevail over a long term, the Bank derecognizes loss from the other comprehensive income and reports it directly in the statement of profit or loss. If the market value of financial assets available-for-sale recovers in the coming years, the impairment will be reversed, depending on the type of instrument (in profit or loss or in other comprehensive income it is distinqusihed by debt and eguity instruments).

Interest on financial assets available-for-sale is determined by using the effective interest rate method (see in detail later 2.6 dd)). Changes in the carrying amount of available-for-sale monetary financial assets relating to foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity instruments are recognised in consolidated statement of profit or loss. Derecognition of financial assets available-for-sale is based on the FIFO method.

e) *Refinanced mortgage loans*

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, partner banks sell independent and separated liens (which are used as collateral for housing loans) to the Bank. The independent and separated lien is then sold back to the partner banks such way that the repurchase of the independent lien is scheduled to mirror the principal repayment schedule of the particular mortgage loan of the partner bank's customer. The instalment from the partner banks is due irrespective of whether or not the partner bank receives repayments from its customer.

The individual mortgage loans of the partner banks' customers that are refinanced are in conformity with the relevant statutory requirements (being that these loans are performing). The classification is made, impairment is reported and recivables from the clients is reported for these individual loans by the partner banks. Refinanced mortgage loans are classified as performing because by purchasing the independent and separated lien the Bank gives a long-term loan to the partner commercial bank and the client risk is entirely borne by the partner banks, the risk the Bank bear is the credit risk of the partner banks.

Refinanced mortgage loans are presented at amortized cost less impairment losses (if any).

f) Loans and advances to customers

Loans provided directly to customers are reported as loans and advances to customers and are measured at amortized cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.
All loans and advances are recognized upon their disbursement.

g) Restructuring of loans

In cases of serious default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions.

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
Most of the lease contracts are restructured loans and therefore the provision is set up the same way as at a restructured loan. In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the new State program, see note 2.9) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

h) Impairment on loan losses

On the balance sheet date the Bank group assesses loans and advances to clients and determines whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment on a particular loan or a group of similar loans is recognized if their book value is greater than the estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The impairment for significant loans is assessed individually. For those loans that are of insignificant in their individual amounts the Bank assesses impairment on a portfolio basis, taking into consideration the type and the classification of the loan, non-performance history and losses.
The Bank writes off loss on loans and advances when borrowers are unable to fulfil their obligations to the Bank and when relevant evidence has been obtained through the appropriate legal proceedings.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The impairment of loans and advances are recognized as credit loss expenses. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

i) Leases

Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyzes agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets.

The Bank as lessee
In the context of operative lease schemes the lessor does not essentially transfer the Bank all risks and benefits associated with ownership. Lease payments pursuant to an operative lease transaction are recognized in the expenditure item on a straight-line basis throughout the terms of the lease. Contingent lease fees are settled as they are incurred.

Asset held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

The Bank as lessor
Leases where the Group transfers substantially all the risks and rewards incident to ownership of the asset to the lessee are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payment using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in interest income in the statement of profit or loss.

j) Acquisitions and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized assets) and liabilities (including contingent liabilities) of the acquired business at fair value. A negative difference is recognised directly in the earnings for the year of the acquisition. Goodwill is measured as the excess of the sum of the consideration transferred the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
Initially goodwill is measured at cost. Following initial recognition, the Bank runs an impairment test annually and measures goodwill at cost less any accumulated impairment.
Identifiable asset can be the portfolio value, which represents the business potential of the loans of the acquired subsidiaries at acquisition date.
If the subsidiaries acquired are later disposed of, the difference between the selling price and the net assets plus cumulated translation difference and goodwill is recognized in the statement of profit or loss.

k) Investment property

Investment properties are residual real estates for which longlife annuity payment contracts are signed. Original owners of these investment properties have lifelong use and usufruct, thus the sale of these properties is limited.
Investment properties are initially reported at cost, taking transaction costs into consideration. Cost includes purchase price and any other direct expense related to the transaction. Direct expenses include, for instance, fees paid for legal services, property transfer tax and other transaction costs. Subsequent to initial recognition investment properties are remeasured at fair value.

l) Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any. Depreciation is charged to the statement of profit or loss in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Real estate	2%
Leasehold improvement	6%
Equipment and furniture	9% - 33%
Software	10% - 33%
Rights representing assets	3.5% - 16.7%
Agency cooperation	5% - 7%
Hardware	33% - 50%
Vehicles	20% - 33%
Other fixed assets	9% - 14.5%

Intangible assets have a definite useful life, excluding goodwill.

m) Impairment of non-financial assets

On the balance sheet date the Bank assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Bank estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators.
Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

All figures in tables are in HUF million except otherwise noted

n) Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, settled in a future date and no or low initial investment.

Derivatives are recorded at fair value and carried as assets when their fair value is positive, or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.

Derivatives include forwards, futures, swaps and options. From the second half of 2009 the Bank has had embedded options in structured deposits as well as purchased option to cover the risks of the embedded option. Derivatives embedded in other financial instruments are treated either as separate derivatives and recorded at fair value in the trading portfolio with changes in the fair value recognised in the statement in profit or loss, or together with the host financial instrument, taking the relevant part of IAS 39, Recognition and Measurement.

o) Hedge transactions

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

Upon concluding the hedge contract the Bank drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets forth the method of measuring hedge effectiveness.
Once the hedge is established, the Bank assesses whether the hedge transaction is expected to be effective in the long term in meeting the fair value attributable to the risk hedged or in offsetting cash flow changes. Hedges are reviewed by the responsible banking department on a quarterly basis. A hedge transaction is considered effective if, as a result, the fair value attributable to the risk hedged or the cash flow change offset by the hedge is within a range of 80-125% in the period to which the hedge refers.

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

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

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

There are no net investment hedges in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Other Comprehensive Income Statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective portion of the hedge is charged directly to the Consolidated Statement of Profit or Loss.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized

initially in the other comprehensive income item. The gains or losses on effective cash flow hedges recognized initially in other comprehensive income are either transferred to the statement of profit or loss in the period in which the hedged transaction affects the statement in the profit or loss, or are included in the initial measurement of the cost of the non-financial related asset or liability. The ineffective portion is recognized in the statement of profit or loss.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net profit/loss for the period.

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

The following lines in the profit or loss statement contain the gains or losses in connection with the hedging instruments of hedges (swaps):
(a) Interest income or interest expense
(b) Gains or losses from foreign exchange transactions
(c) The remaining change from fair value adjustment in Change in fair value of derivatives

p) Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The rates applied are in accordance with the provisions of the Hungarian taxation law.

q) Deferred taxes

Deferred tax is provided on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. All deferred tax liabilities are recognized. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which it can be utilized. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current taxes liabilities and the deferred tax relate to the same company and the same tax authority.

r) Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

s) Financial liabilities carried at amortized cost

The Bank has the following financial liabilities to finance its business: issued mortgage bonds, issued bonds, loans from the Hungarian state, interbank loans and customer deposits.
Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortized cost. At initial measurement, they are recognized at fair value. After initial measurement, they are carried at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

t) Financial liabilities carried at fair value other than derivatives

On initial recognition the management designates the financial liabilities into financial liabilities designated at fair value through profit or loss category. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- the liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks). Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Change in fair value of derivatives'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR).

Included in this classification are mortgage bonds and bonds issued which are managed on a fair value basis, where the nominal value represents the contractually required payments. The change in fair value other than movement in portfolio or currency represents credit risk.

u) Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when it is due in accordance with terms of a debt instrument.
Financial guarantee contracts are initially recognised in the financial statements within 'Provisions' at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Credit loss expense'.

v) Derecognizing of financial instruments

A financial asset (or a part of a financial asset or a group of financial assets) is derecognized when

- the rights under contract related to the cash flows from the financial asset cease; or
- the rights under contract related to the cash flows from the financial asset are transferred; or an obligation is undertaken by virtue of a transfer agreement to pay the cash flows from the financial asset to third parties; and
- the Bank has transferred substantially all risks and rewards of the asset; or
- the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has transferred control of the asset.

If the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has retained control of the financial asset, it continues to recognize the transferred asset in proportion to its continuing involvement. The rate of continuing involvement in a transferred asset is the Bank's rate of exposure to the risks associated with changes in the value of the transferred asset.

When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.

A financial liability (or a part of a financial liability) is derecognized when it ceases, is executed or matured. Exchange or partial exchange of existing financial liabilities or a part thereof with significantly different terms and conditions or significant modification of its terms and conditions is also considered as cessation of the financial liability and is reported as a new financial liability, taking the relevant part of IAS 39. The difference between the book value of, and the consideration paid for financial liabilities (or a part thereof) that ceased or have been transferred to third parties is reported in the profit or loss.

w) Repurchase and reverse repurchase transactions

The Bank purchases securities under agreements to resell at a specified future date, these securities are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Due from banks', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the effective interest rate.

The Bank does not report securities provided to repo as a separate item in the balance sheet, only in the Notes.

x) Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expense relating to lending provision is a net part of provision for impairment on loan losses expense, on provision for contingent liabilities related to business combinations is recognized in other operating expense.

y) Short term employee benefits

Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

z) Long term employee benefit plans- pensions

In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions (mandatory contribution) and other personnel expenses (voluntary contribution). The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

aa) Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. Treasury shares are accounted for at weighted average cost. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss.

bb) Share-based payment

The Bank has developed a share option scheme to remunerate its Directors, executives and specific managers for their services. The scheme involves transfer of treasury shares at a discount.

The Bank reports share option benefits extended in shares at the fair value on the day the benefit was approved by the Annual General Meeting (AGM), calculated by means of the methodology described in Note 35, in accordance with IFRS 2, Share-base Payment. The fair value of shares involved in the share option scheme but not yet delivered is recognized as expenditure (other personnel costs) as a separate line item against share option reserve under shareholders' equity for the period the benefit is earned.

The cumulative expenditure on share option is based on the period earned until the balance sheet date and the Bank's estimate regarding the number of shares earned. In the case of treasury shares provided with market terms the Bank recognizes proceeds received from a party who meets all other requirements of earning irrespective of whether the market requirement is met or not.
Regarding the share-based payments from 2013 in 2013 and 2014 the following rules come into force. The entitled person may exercise his option in the period of 3 years from the general meeting closing the business year given. In the first year of the entitlement the person shall be entitled to draw maximum 60% of the option, and one year after the first drawing, the person shall be entitled to draw maximum 20%, and after another year, the person shall be entitled to draw the 20% of the option left.

cc) Annuity payment reserve

An annuity contract is an insurance contract for regular annuity payments. In accordance with IFRS 4 the Bank sets up a reserve for the calculated value of future payments under annuity contracts (calculated at present value and in consideration of death statistics). The value of the reserve is determined on a monthly basis by using the actuary method. The change in the reserve is reported in the statement of profit or loss (in other operating expense or income). Annuity payments made are recognized as expenditure. All fees, expenses and cost of funds with respect to the beneficiary of annuity contract or the real estate involved in the annuity contract are recognized as 'General and administrative expense' in the period they emerge.

dd) Income and expenditure

Interest income and interest expenditure (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees directly related to loans are reported in the calculation of effective interest rate. Fees referring only to a particular period are accrued. Fees attached to particular deliveries are considered as a lump sum once the criteria are met.

ee) Interest subsidy

State interest subsidy

Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy).

Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

A new Hungarian legislation became effective from 1 January 2007 under which a 5% withholding tax is to be paid for the interest income on subsidized mortgage loans. This additional tax is reported in 'General and administrative expenses'.

Mortgage bond interest subsidy

The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

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

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

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

ff) Contingent liabilities / contingent assets

Consequent to the Group's business, contingent liabilities are not recognized in the financial statements but are presented in the Notes. They are disclosed unless the possibility of an outflow of resources embodying financial gains is remote. Contingent liabilities are reported in the balance sheet when it becomes probable.

Likewise, a contingent asset is not recognized in the financial statements but disclosed when an inflow of financial gains is probable.

gg) Post balance sheet events

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

hh) Segment information

An operating segment is a component of an entity:
(a) that engages in business activities from which it may earn revenues and incur expenses;
(b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
(c) for which discrete financial information is available.
Operating segments can engage in business activities that have not yet generated income; for instance foundation related transactions can be pre-income operating segments.

The Bank takes the following factors into consideration when determining whether services are interconnected: nature of services, type or group of clients buying the services, methods applied in the course of service provision, and the regulatory environment. The Bank presents each segment whose contribution to (internal and external) revenue, earnings or balance sheet total is material, in consideration of other material provisions of IFRS 8 (Note 54). The data related to the business segments of own lending and refinancing, are separated in the balance sheet (under Notes 18 and 19) and in the statement of profit or loss (under Note 4).
Geographical segmentation has also been analyzed. Since the revenue, earnings or balance sheet total of the German branch office and the Croatian subsidiaries are under 10%, no presentation of geographical segmentation has been made.

ii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

jj) Foreign currency translation

The reporting currency of the Bank is HUF referred to 2.3.

The Bank and its subsidiaries recognize initially currency transactions in their functional currency valid on the transaction day. Monetary assets and liabilities denominated in currencies other than the company's functional currency are converted to the functional currency at the exchange rate on the balance sheet date. Any difference is reported in the profit or loss. Items other than monetary reported at cost are converted at the rate on the initial day of the transaction. Non-monetary items reported at fair value are converted at the rate on the date fair value was determined.

In the course of consolidation, assets and liabilities of foreign companies are converted to HUF on the reporting date at the NBH rate on the balance sheet date. Items of the profit or loss statement are converted at the annual weighted NBH rate. The currency difference is reported in other comprehensive income. The currency difference is released from other comprehensive income and transferred to profit or loss when the foreign company is dissolved or sold.

kk) Trade date and settlement date accounting

A regular purchase or sale of a financial asset is recognized on the date of delivery. Exemptions are derivatives where recognition of purchase is done on the day when the deal is contracted. The date of settlement is the day on which the Bank Group takes possession of the asset. A regular sale or purchase transaction is a transaction where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

ll) Bank tax

In August 2010 the Hungarian Parliament approved an Act called the "bank tax". Each financial institution that already had a closed financial year and related financial statements on 1 July 2010 was subject to assessment and payment of this bank tax in 2010.

For 2014 and 2013 the basis and rates are uniformly based on statutory reported financial data of the reporting entity as at and for the period ended 31 December 2009.

The amount of Bank tax does not include any decreasing items in 2014 and 2013.

The Bank tax is presented as other operating expense in the Consolidated Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

2.7 Significant accounting judgements and estimates

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

Going concern

The Bank's management assessed the Bank's capabilities to continue operation and found that the Bank has the resources necessary for continued operation in the foreseeable future. Furthermore, the management is not aware of any significant uncertainty that might raise serious doubts in respect of the Bank's ability to exist as a going concern.

Fair value of financial instruments

In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 38)

Share-based payment

When establishing the fair value of shares involved in the share option scheme the Bank assesses the allocation condition, the allocation price, and compliance with the trading and profit objectives. (Note 35)

Annuity payment reserve

The Bank sets up a reserve for the calculated value of future payments under annuity contracts (calculated at current value and in consideration of death statistics).

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 11)

Loan impairment test and its result

The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.

For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of other assets

The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.

When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.

Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.
For more details see Notes 22 and 23.

Investment property marked to market
Investment properties are initially reported at cost, taking transaction costs into consideration. The Bank prepares a yearly assessment based on a mainly statistical basis using comparable market prices to assess the market value of that part of the investment property portfolio that was not recognised during the current period. Based on the assessment the difference between the carrying amount and the assessed market value of the real estates in the portfolio is determined. In case the average variance on the tested portfolio specimen is less than 10%, the assessed market value is not recognised in the statement of profit or loss. In case the average variance of the tested portfolio specimen exceeds 10%, the variance in the carrying amount of the real estate is recognised against the statement of profit or loss for solely those investments where the variance is individually greater than 10%. Revaluation is always done by qualified and experienced experts.

2.8 Reclassification and error

After the balance sheet date of the consolidated financial statements of 2013 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

2.9 Changes in the legal and regulatory environment and its effect on the financial statements of the Group

Act XXXVIII of 2014

on the Settlement of certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions (effective: 19.07.2014., 26.07.2014.)

As a first step to legally settle the matters related to consumer loans (hereinafter consumer loans are uncovered consumer loan and covered retail – mortgage and mortgage backed – loans, excluding SME loans), the Hungarian Parliament adopted the Act XXXVIII of 2014 on the Settlement of certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions (***Curia act)***. The provisions of the Civil Law Uniformity Decision No. 2/2014[1] of the Curia were incorporated into established law and were generalized by this act. Accordingly, the exchange rate gap was declared as zero and void, and the unfairness of unilateral amendment option was presumed, and the financial institutions are obliged to settle payments.

Credit cards, current account credits and state-subsidized housing loans in HUF are not covered by this law.

[1] The provision in the foreign exchange based consumer loan agreement, accordingly the foreign exchange rate risk – in return of having a favorable interest rate – shall be undertaken by the consumer without any limitation, is a contractual provision in the scope of the principal service, and its unfairness may not be examined as a general rule.

Act XL of 2014

on the Rules of Settlement laid down in Act XXXVIII of 2014 certain issues concerning the Uniformity Decision of the Supreme Court (Curia) related to consumer loan agreements provided by financial institutions, and other particular provisions (effective: 15.10.2014., 01.11.2014.)

The ***Settlement Rules Act*** prescribes the detailed regulation of settlements required due to the invalid provisions in loan agreements. Because the exchange rate gap was declared as null and void by Act XXXVIII of 2014, and the unilateral amendment option was declared as invalid by the court, the financial institutions must repay to their consumers any calculated overpayments arising from them in compliance with law.

The scope of the act – in line with the provisions of the Civil Law Uniformity Decision No. 2/2014 of the Curia, and the Act XXXVIII of 2014 – covers only consumer loan contracts. Credit cards, current account credits and state-subsidized housing loans in HUF are not covered by this law.

The act – in addition to specifying the general rules of settlement – authorizes the National Bank of Hungary (MNB) to specify all details and the methodology for calculating the amount of the settlement in a decree.

Act LXXVII of 2014

on the settlement of issues related to the change in the foreign currency denomination of certain household loans and interest rate rules (effective: 06.12.2014., 01.02.2015.)

The ***Forint Conversion Act*** terminates the foreign exchange rate risk in the retail mortgage loan agreements by converting the retail foreign exchange and foreign exchange based loan portfolios, and it aims at ending foreign exchange loans and foreign exchange based loans.

The Act LXXVIII of 2014 (Fair Bank Act) on the amendment of Act CLXII of 2009 on Consumer Credit (Consumer Credit Act.) specifies the new contractual conditions on the consumer loan agreements not affected by the settlement and all new loan agreements, and the Forint Conversion Act specifies the same for agreements affected by the settlement.

The act prescribes the legal technique, rules of procedure and conditions of the forint conversion, how the consumer loan agreements affected by the forint conversion shall change to applying the new contractual conditions specified in the Fair Bank Act, and it also specifies the starting level of interest rate following the forint conversion.

According to the act – under certain conditions and on request of the borrowers – borrowers may remain in the previous foreign exchange or foreign exchange based loan agreements (FX-based or FX consumer loans not converted to forint), and the upper limit of interests and margins applicable by the creditor are also specified. Such groups of retail clients may have this option available, who have a regular income in foreign exchange, and are permitted to take out a foreign exchange loan from a Hungarian financial institution in compliance with the new regulation on the rules of payment-to-income ratio and loan-to-value ratio, or the period left till the maturity of their foreign exchange or foreign exchange based loan is short, or the forint conversion and the related conditions on interests may be higher in case of the forint loan than the starting level of their interests.

Credit cards, current account credits and state-subsidized housing loans in HUF are not covered by this law.

The obligation of forint conversion covers the foreign exchange and foreign exchange based consumer mortgage loan agreements. According to the law, the regulations prescribed for the consumer mortgage loan agreements shall also be applied to financial leasing agreements on real estate.

Borrowers, who do not wish to keep their agreements under the amended conditions, by law, are entitled to terminate the agreement without notice and without having to pay any fees or costs.

Act LXXVIII of 2014

on the amendment of Act CLXII of 2009 on providing loans for consumers and other related acts (effective: 06.12.2014., 01.02.2015.)

Because the consumer loans are special, the European legislator – in order to have a unified European consumer protection civil law – regulates the consumer loan agreements in Directive 2008/48/EC.

The Hungarian legislator adopted the provisions of this Directive to the Hungarian law by Act CLXII of 2009 (Consumer Credit Act). Based on the practice related to consumer loans before the Hungarian and European courts, Act LXXVIII of 2014 (***Fair Bank Act***) was adopted as the amendment of the Consumer Credit Act in order to increase the protection of the interests of borrowers in consumer loan agreements.

The amendment set forth in the Fair Bank Act concerns the key issues as follows:

- making the obligation of creditors to provide information of consumers prior to the conclusion of loan agreement more effective;
- new provisions on the amendment of loan agreements;
- regulations on the termination of a loan agreement by the borrower without having to pay any fees or costs;
- special regulations on foreign exchange based loans;
- regulations on the adoption of new contractual conditions;
- provisions on the amendment of Act XL of 2014 on the Rules of Settlement.

The effect of legal changes on the financial statements of the Group

The Group estimated the future loss due to the settlement in foreign and local currency (HUF) and the conversion of the retail foreign exchange or foreign exchange based loan portfolio to HUF. For the expected amount of losses – HUF 23,440 million – the Group has recognized a provision, most of it is related to the unilateral contract modifications.

In case of the mortgage loans which have to be converted to HUF the Group valued the loan portfolio, the related impairment and the generated provision at the fixed FX rates prescribed in the ***Forint Conversion Act:*** 256.47 HUF/CHF, 308.97 HUF/EUR. The not involved foreign exchange and foreign exchange based loan portfolio and the same related portfolios were revalued at the NBH rate on the balance sheet date in the Books. Because of the difference between the fixed FX rates and the NBH rates on 31 December 2014 the Group accounted HUF 3,127 million FX loss on gross loan portfolio, HUF 525 million FX gain on impairment, and HUF 350 million FX gain on the generated provision (in total HUF 2,252 million FX loss). In connection of the derecognition of the FX loans to be converted to HUF according to IFRS, the Group also made a provision in HUF 273 million for the write off the accrued initial costs of the amortized loans.

In the calculation of the current income tax the amount of the generated provision considered as an increasing item. The Group did not recongize any deferred tax asset on provision generated in relation with the settlement obligation of the consumer loans.

For the expected loss due to "the settlement and the Forint conversion" and the coverage of the FX positions the Group entered into spot and swap transanctions with NBH. The FHB Mortgage Bank Plc. participated on the tenders in October and November 2014 of NBH in order to cover the FX positions of the Group.

Decree No. 32/2014. (10.IX.) of the National Bank of Hungary (MNB)

on the rules of payment-to-income ratio and loan-to-value ratio (effective: 01.01.2015.)

To prevent an over-indebtedness and a newer increase in foreign exchange lending, the rules on debt-brake effective from 1 January 2015 have basically two main pillars. The payment-to-income ratio (PTI) limits the amount of installments may be undertaken by the client when obtaining a new loan considering the regular and legal income of the clients, and by that, it moderates the indebtedness of the clients. The loan-to-value (LTV) limits the borrowable amount in the ratio of the collaterals (value of the property) in case of covered loans (e.g. mortgage loans).

3. CHANGE IN ESTIMATES

There are not any significant areas, where there is any material change in estimates.

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2014	2013
Interest income		
Loans and advances to customers	28,272	29,677
Refinanced mortgage loans	9,575	12,843
Due from banks	1,479	557
Interest income on assets carried at amortised cost	*39,326*	*43,077*
Securities held for trading	1,339	2,083
Financial assets available-for-sale	3,636	6,109
Interest on derivative transactions	10,799	14,906
Interest income on assets carried at fair value	*15,774*	*23,098*
Total	**55,100**	**66,175**

Accrued interest receivable on impaired loans amounted to HUF 1,527 million (2013: HUF 1,276 million).

	2014	2013
Interest expense		
Mortgage bonds	12,007	14,412
Due to banks	969	4,335
Interest paid on deposits	5,885	7,064
Interest on bonds	5,229	5,032
Interest expense on leases	719	1,028
Interest expense on liabilities carried at amortised cost	*24,809*	*31,871*
Interest on derivative transactions	6,841	9,000
Mortgage bonds	1,637	2,484
Due to banks	0	816
Interest on bonds	1,171	3,293
Interest expense on liabilities carried at fair value	*9,649*	*15,593*
Total	**34,458**	**47,464**

The interest income from loans and refinanced mortgage loans includes HUF 7,808 million interest subsidy in 2014 (2013: HUF 9,356 million).

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	2014	2013
Fee and commission income		
Mortgage loans of the Bank	624	591
Refinanced mortgage loans	172	228
Handling commission	129	157
Real estate appraisal fee	139	120
Deposit business	2,222	1,562
Agency fee income	625	599
Card business	922	979
Investment services	755	241
Postal giro (PEK) commission	385	295
Other	381	288
Total	**6,354**	**5,060**

	2014	2013
Fee and commission expense		
Investment services	148	79
Agency fees and commissions	272	91
Card business	374	383
Fees and commissions to banks and to clearing house	166	155
Surety / guarantee fee	17	18
Other	24	8
Total	**1,001**	**734**

6. OTHER OPERATING INCOME

	2014	2013
Fair value change of the investment properties	-	71
Income from sold property	193	8
Income from sold inventory	241	452
Income from damages compensations received	495	184
Rental income on property	137	123
Invoiced expenses and services	50	135
Reversal of provision	47	5
Reversal of impairment on inventory	-	71
Income from expired liabilities	-	202
Other	163	211
Total	**1,326**	**1,462**

All figures in tables are in HUF million except otherwise noted

7. OTHER OPERATING EXPENSE

	2014	2013
Bank tax (detailed in Note 7 below)	5,723	3,414
Annuity payments	384	395
Impairment of non financial assets	212	-
Provision for expected liabilities (Note 32)	23 908	-
Change in annuity reserve (Note 31)	191	296
Change in the effect of the recognition of the fair value of the investment property	255	-
Donation	33	48
Tax penalty, late penalty	149	134
Supervisory and other fees	296	89
Other	627	329
Total	**31,778**	**4,705**

The amount of Bank tax booked for 2014 by group members is detailed in the following table:

	2014
FHB Mortgage Bank Plc.*	2,429
FHB Commercial Bank Ltd.**	3,256
FHB Ingatlanlízing Ltd.	35
Diófa Alapkezelő Ltd.	3
Total	**5,723**

*Include the contribution payable by credit institutions, based on the Paragraph 4/B. of Act LIX. of 2006.
**Include the contribution payable by credit institutions, based on the Paragraph 4/B. of Act LIX. of 2006 and the obiligation of financial transaction levy, based on the Act CXVI. of 2012.

All figures in tables are in HUF million except otherwise noted

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2014	2013
Staff costs	9	6,332	5,752
Marketing and advertising		796	686
General and administrative costs		2,013	1,968
Rental fee	10	903	927
Depreciation	22	490	495
Amortisation	23	1,962	2,038
Consultancy fees		857	897
Maintenance costs		2,477	2,518
Other taxes (Note 7)		63	2,181
Insurance fees		51	107
Database system usage		196	147
Other		459	455
Total		**16,599**	**18,171**

9. STAFF COSTS

	2014	2013
Wages and salaries	4,490	4,126
Social security contribution	1,366	1,242
Other personnel related payments	476	384
Total	**6,332**	**5,752**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The consolidated full time head count of the Bank in the end of the reporting was 812 (2013: 774).

All figures in tables are in HUF million except otherwise noted

10. RENTAL FEE (OPERATING LEASE)

Non-cancellable operating leases

The operating lease agreement of the registered office expires on 31 December 2019.

	31 December 2014	31 December 2013
	Minimum lease payments	Minimum lease payments
Within 12 month	826	789
Between 1 and 5 years	2,944	973
Over 5 years	669	713
Total	**4,439**	**2,475**

	Minimum lease payments	Contingent rents	Sublease payments	Total
Expense in the period 2014	935	-	(19)	916
Expense in the period 2013	897	45	(15)	927

11. INCOME TAX

	31 December 2014	31 December 2013
Current income tax	**1,296**	**877**
Corporate income tax	238	3
Local business tax	921	758
Innovation contribution	137	116
Deferred tax benefit	**(2,411)**	**(1,246)**
Total	**(1,115)**	**(369)**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
As of 1 January 2011 the tax rate is 10% up to HUF 500 million tax base and 19% above.
In 2011 the Hungarian Parliament accepted the modification of the Corporate Tax Act and the planned decrease of the corporate income tax rate was cancelled, the rule for the calculation remained the same, up to HUF 500 million the tax rate is 10%, above HUF 500 million the tax rate is 19%. Based on this information the Group calculated the deferred tax with the 19% tax rate in 2014 and 2013.

Based on the business plans of the Management the profit of the Group in the foreseeable future will cover the accumulated deferred tax assets from tax loss carry forward. Based on the assumption the recognition of the deferred tax benefits is reasonable.

All figures in tables are in HUF million except otherwise noted

	31 December 2014	31 December 2013
Loss before tax	*(17,311)*	*(5,033)*
Calculated corporate income tax (19%)	(3,289)	(956)
Local business tax and innovation contribution	1,058	876
Effect of local business tax and innovation contribution to the corporate income tax	(201)	(166)
Items modifying the Hungarian tax base	1,870	(40)
Items modifying because of investments accounted for using the equity method	(209)	(5)
Subsidiaries' tax losses not to be carried forward	36	181
Reversal of general risk provision	2	-
Effect of other modifications	(382)	(259)
Total income tax (benefit)/expense	**(1,115)**	**(369)**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Deferred tax position

	31 December 2014				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	1,434	-	1,434	485	-
Revaluation of annuity related investment property	21	-	21	1,045	-
Annuity costs	-	-	-	(521)	-
Derivatives	186	-	186	72	-
Impairment	(940)	-	(940)	(112)	-
Suspended interest	(1,878)	-	(1,878)	(517)	-
Acquisition	(98)	-	(98)	8	-
Tax loss carried forward	11,457	-	11,457	1,659	-
Effect of consolidation	(1,020)	-	(1,020)	93	-
AFS securities	73	-	73	112	32
Finance leases	58	-	58	67	-
Deferred tax of foreign subsidieries	70	-	70	20	-
Net deferred tax position	**9,363**	**-**	**9,363**	**2,411**	**32**

All figures in tables are in HUF million except otherwise noted

	31 December 2013				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	949	-	949	757	-
Revaluation of annuity related investment property	-	(1,024)	(1,024)	11	-
Annuity costs	-	521	521	129	-
Derivatives	114	-	114	430	-
Impairment	(828)	-	(828)	(151)	-
Suspended interest	(1,362)	-	(1,362)	(477)	-
Acquisition	(106)	-	(106)	5	-
Tax loss carried forward	9,798	-	9,798	300	-
Effect of consolidation	(1,113)	-	(1,113)	230	-
AFS securities	(71)	-	(71)	(18)	(87)
Finance leases	(9)	-	(9)	30	-
Deferred tax of foreign subsidieries	49	-	49	-	-
Net deferred tax position	**7,421**	**(503)**	**6,918**	**1,246**	**(87)**

All figures in tables are in HUF million except otherwise noted

12. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2014	31 December 2013
Other comprehensive income		
Financial asset available-for-sale	(170)	459
including: change in fair value	(503)	376
including: reclassification to profit or loss	333	83
Foreign currency translation	(15)	(2)
Deferred tax effect	32	(87)
Total	**(153)**	**370**

Deferred tax effects relating to other comprehensive income

	31 December 2014			31 December 2013		
	Before tax amount	Deferred tax	Net of tax amount	Before tax amount	Deferred tax	Net of tax amount
Other comprehensive income						
Cash-flow hedge reserve	-	-	-	-	-	-
Financial assets available-for-sale	(170)	32	(138)	459	(87)	372
Foreign currency translation	(15)	-	(15)	(2)	-	(2)
Total	**(185)**	**32**	**(153)**	**457**	**(87)**	**370**

All figures in tables are in HUF million except otherwise noted

13. BALANCES WITH THE NATIONAL BANK OF HUNGARY

Under the Decree No. 10/2005. (11. June) of the National Bank of Hungary (NBH) banks are required to reserve deposit in the NBH, based on the balance/level of their customer deposits and other liabilities/sources which falls under the reserve requirements at a rate of 2-5% (optional). In May 2014, the Bank has requested an increase in its own reserve ratio, the reserve ratio of 31 December 2014 to 5%.

	31 December 2014	31 December 2013
Short term deposits	145,979	8,500
Nostro account at National Bank of Hungary	12,590	2,955
Accrued interest for the period	47	14
Total	**158,616**	**11,469**

14. DUE FROM BANKS

	31 December 2014	31 December 2013
Nostro accounts	2,684	1,808
Term deposits	16,371	19,448
Accrued interest for the period	9	14
Total	**19,064**	**21,270**

15. SECURITIES HELD FOR TRADING

	31 December 2014	31 December 2013
Hungarian Government bonds	10,982	5,436
Hungarian Treasury bills	16,318	35,356
National Bank of Hungary bonds, and treasury bills	-	200
Hungarian Development Bank bonds	4,544	-
Mortgage bonds	225	10
Investment notes	204	410
Student Loan Centre Ltd. bond	1,378	268
Bonds issued by MOL Plc.	-	270
Foreign bonds	945	-
Total	**34,596**	**41,950**

All figures in tables are in HUF million except otherwise noted

16. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2014	31 December 2013
Hungarian Government bonds	46,571	19,197
Hungarian Discount Treasury bills	7,541	107,992
National Bank of Hungary bonds	-	10,304
Domestic issued bonds	12,372	12,260
Investment funds	473	358
Foreign bank bonds	7,537	901
Equity investments	883	861
Total	**75,377**	**151,873**

Equity investments include shares of BIF Ltd. for HUF 850 million (2013: HUF 826 million), shares of Garantiqa Creditgurantee Ltd. for HUF 30 million (2013: HUF 30 million) as well as SWIFT (2014: HUF 3 million; 2013: HUF 5 million). The investment in BIF Ltd. represents 10% stake, the other investments represent less than 1% stake in the companies. Shares of Garantiqa, SWIFT and Visa measured at cost according to IAS 39.46 (c).

17. SALE AND PURCHASE OF SUBSIDIARIES, CHANGE IN THE GROUP OWNERSHIP INTEREST IN SUBSUDIARIES

Purchase of subsidiaries

On 2 September 2013 FHB Mortgage Bank Plc purchased 99,9% of the shares of Diófa Fund Manager Ltd. for cash and took over control on the company. The acquisition was authorised by the Hungarian Financial Supervisory Authority (successor NHB). Diófa Fund Manager Ltd. provides fund and property management services.

The book value represents the fair value of Diófa Fund Manager as at 2 September 2013 under IFRS, which is the date of acquisition.

	Fair value	Book value
Assets		
Dues from banks	12	12
Fair value of assets held-for-trading	18	18
Tangible assets	16	16
Intangible assets	21	21
Deferred tax asset	3	3
Other assets	79	79

All figures in tables are in HUF million except otherwise noted

	Fair value	Book value
Liabilities		
Provisions	5	5
Other liabilities	15	15
Net assets	**129**	**129**

Acquisition related cost have been excluded from consideration transferred and have been recognised as an expense in consolidated other comprehensive income. Consideration paid in cash and goodwill on 2 September 2013 are as follows:

Goodwill arising on acquisition	
Consideration transferred	281
Less: fair value of identifiable net asset acquired	(129)
Goodwill arising on acquisition	**152**

Goodwill has been arisen in the acquisition because the consideration paid effectively included the amount of the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible asset.

Cash outflow	
Acquired cash	12
Consideration paid	(281)
Net cash outflow	**(269)**

On 29 November 2013 FHB Mortgage Bank Plc purchased 100% of FHB Invest Ltd (former "DÜSZ") shares for cash and contingent payment and took over control on the company. The acquisition was authorised by the Hungarian Financial Supervisory Authority. DÜSZ has real estate manager activities and was the owner of Díjbeszedő Faktorház Ltd. (total stake of 51%), DÍJNET Ltd. (total stake of 75%), and Díjbeszedő Informatika Ltd. (total stake of 50%) at the date of acquisition.

The book value represents the fair value of DÜSZ as at 29 November 2013 under IFRS, which is the date of acquisition:

	Fair value	Book value
Assets		
Due from banks	265	265
Investment in joint venture companies	526	526
Net assets	**791**	**791**

All figures in tables are in HUF million except otherwise noted

Acquisition related cost have been excluded from consideration transferred and have been recognised as an expense in consolidated other comprehensive income. Consideration paid in cash and goodwill on 29 November 2013 as follows:

Goodwill arising on acquisition	
Consideration transferred*	5,974
Less: fair value of identifiable net asset acquired	(791)
Goodwill arising on acquisition	**5,183**

*Consideration transferred includes the consideration paid in cash and the contingent consideration arrangement. The Group is required to pay additional amount in 2015 if certain performance criteria of the companies are met. The contingent consideration amount represents the estimated fair value of this obligation at the acquisition date.

Goodwill has been arisen in the acquisition because the consideration paid effectively included the amount of the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible asset.

Cash outflow	
Acquired cash	265
Consideration paid	(5,250)
Net cash outflow	**(4,985)**

Sale of subsidiaries

At the end of December 2014 one subsidiary (FHB Life Annuity and Real Estate Investment Ltd.) were sold to buyer outside of the Group. The assets of FHB Life Annuity and Real Estate Investment Ltd. were not reclassified as non-current assets held for sale at 31 December 2014, because the transaction was terminated before the year end.
The sale caused the following cash movements from Group point of view:

	Net book value 30 December 2014
Assets	
Due from banks	158
Investment properties	10,637
Other assets	10
Liabilities	
Due to banks	10,500
Reserve for annuity payment	2,719
Other liabilities	10
Net assets	**(2,424)**

All figures in tables are in HUF million except otherwise noted

	Net book value 30 December 2014
Consideration received	**1**
from this amount: cash	1
Cashflow	
Sold cash and cash equivalents balance	(2,424)
Received cash	1
Net cash flow	**(2,423)**

Change in the Group's ownership interest in a subsidiary

During the year, the Group disposed of 49 % of its interest in FHB Commercial Bank Ltd., reducing its continuing interest to 51%. The proceeds on disposal were received in cash. An amount of HUF 25,030 million (being the proportionate share of the carrying amount of the net assets of FHB Commercial Bank Ltd.) has been transferred to non-controlling interest (Note 34). The difference of HUF 3,470 million between the increase in the non-controlling interests and the consideration received has been credited to retained earnings.

18. REFINANCED MORTGAGE LOANS

Act L of 2001, which amended other acts providing for financial organizations, introduced substantial changes to Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, modifying the role of commercial banks in the provision of mortgage loans. The substance of the amendment was, that the self-lien backed receivables appeared as collateral for mortgage bonds, parallel the modified act allowed the sale and purchase of these self-liens themselves. Thus mortgage banks are able to refinance the mortgage loans of commercial banks.

The Bank signed contracts with several major Hungarian commercial banks to refinance mortgage loans; hence state subsidized the mortgage loans are available through the entire network of these commercial banks. The balance as at 31 December 2014 includes loans disbursed to 44,413 customers (2013: 48,632). The refinanced mortgage loans are provided to eight partner institutions.

All figures in tables are in HUF million except otherwise noted

19. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2014	31 December 2013
Housing loans	133,856	138,853
General purchase mortgage loans	124,320	125,923
Customer loans and overdrafts	6,365	6,471
Loans to employees	1,523	1,568
Finance lease to retail customers	3,045	2,404
Finance lease to companies	1,085	988
Loans to companies	78,378	71,289
Exchange difference of forein currency loans to convert HUF at a fixed rate	(3,062)	-
Loans gross subtotal	**345,510**	**347,496**
Fair value adjustment of hedged items	333	(594)
Accrued part of disbursed loans under Funding of Growth Scheme*	5,539	5,499
Accrued interest	13,574	10,164
Amortized origination cost	(7,184)	(4,561)
Loans gross total	**357,772**	**358,004**
Loan impairment	(38,669)	(37,933)
Loan portfolio reported	**319,103**	**320,071**

Loan impairment based on individual rating: HUF 12,813 million (2013: HUF 12,724 million), based on portfolio rating: HUF 25,856 million (2013: HUF 25,187 million).

*The disbursed loans under Funding for Growth Scheme started in June 2013. Related to Pillar 1 and Pillar 2, the Group contracted for outplacement of HUF 30 billion, of which 28 billion was disbursed till the end of the year 2013. The Bank booked these disbursed loans and the liabilities to NBH at fair value at initial recognition, and accrued the difference between fair value and contractual value until the end of maturity in line with IAS 39 AG76.

Changes in impairment for credit losses:

	31 December 2014	31 December 2013
Impairment as at 1 January	37,933	37,348
Provision for impairment in the period	8,664	15,139
Exchange rate change of impairment	1,962	92
Reverse of impairment for the period	(8,646)	(13,245)
Derecognition due to sale of assets	(1,244)	(1,401)
Impairment as at end of period	**38,669**	**37,933**

All figures in tables are in HUF million except otherwise noted

Breakdown of the credit loss expense for the period

	31 December 2014	31 December 2013
Change of impairment in the period	18	1,893
Entries due to consolidation	(10)	496
Losses from the repayment of the loans at a fixed rate	24	6
Written-off loans	1,329	491
Loss on loans sold	2,855	3,801
Loss on terminated loans	47	13
Charge for commitments	119	89
Credit losses on loans and advances	**4,382**	**6,789**

The aggregate amount of non-performing loans was HUF 73,148 million as of 31 December 2014 (31 December 2013: HUF 73,727 million).
Within the total balance of mortgage loans 98.98% have maturity over five years (2013: 98.99%), exceeding the minimum level of 80% that is required by the Section 5(1) of Act XXX of 1997 on Mortgage Loan companies.

The total outstanding mortgage loan principle does not exceed 70% of the aggregate collateral value of real estate determined at loan disbursement that is required by the Section 5(3) of Act XXX of 1997 on Mortgage Loan Companies. As of 31 December 2014, loan to value is 38.93% (31 December 2013: 39.08%).

Finance Lease

	31 December 2014	31 December 2013
Gross investment in the lease	5,655	4,940
Minimum lease payments	5,655	4,940
Net investment in the lease	3,444	2,566
Unearned finance income	**2,211**	**2,374**
Impairment on finance leases	(403)	(448)

All figures in tables are in HUF million except otherwise noted

The minimum lease payments receivable at 31 December 2014 for the following periods

	Within 12 month	Between 1 and 5 years	Over 5 years
Gross investment in the lease	303	1,212	4,140
Net investment in the lease	147	678	2,619
Unearned finance income	**156**	**534**	**1,521**

The minimum lease payments receivable at 31 December 2013 for the following periods

	Within 12 month	Between 1 and 5 years	Over 5 years
Gross investment in the lease	310	1,213	3,417
Net investment in the lease	100	464	2,001
Unearned finance income	**210**	**749**	**1,416**

20. GOODWILL

	31 December 2014	31 December 2013
Gross value		
Opening balance	152	-
Increase	-	-
Purchased through acquisition	-	152
Decrease	-	-
Closing balance	**152**	**152**
Impairment		
Opening balance	-	-
Increase	-	-
Closing balance	-	-
Net value	**152**	**152**

The goodwill is attributable to Diófa Fund Management Ltd.

HUF 5.183 million goodwill and HUF 847 million goodwill impairment, which one is attributable to FHB Invest Ltd. is classified among shares in associates and joint ventures (Notes 17).

All figures in tables are in HUF million except otherwise noted

21. INVESTMENT PROPERTY

Investment properties are reported in conjunction with the Bank's annuity services.

	31 December 2014	31 December 2013
Gross value		
Opening balance	6,326	6,294
Increase	-	483
Decrease	(6,326)	(451)
Closing balance	**-**	**6,326**
Revaluation adjustment		
Opening balance	4,986	5,169
Increase	92	112
Decrease	(5,078)	(295)
Closing balance	-	4,986
Net value	**-**	**11,312**

The methods and significant assumptions applied in determining the fair value of investment properties were supported by market evidence, therefore they have been categorized as Level 2 instruments, as the Bank used similar assets' prices for valuation base from market obtainable inputs. FHB provides property price index to compare similar real estates in the market and the investment properties were revalued independently by relevant professional experts as at 31 December 2013. According to this valuation, it does not need any additional fair value modification – which might be relevant for non-financial instruments – on the investment properties (Note 2.7). FHB group sold FHB Life Annuity and Real Estate Investment Ltd. in December 2014, the investment property which one connected this company was sold too (Note 17.)
The following direct operating expenses were recognized from investment properties that do not generate rental income during 2014 and 2013, respectively:

	31 December 2014	31 December 2013
General and administrative expense		
• fee of property valuation	1	1
• general and administrative expenses	4	-
• maintenance expenses	13	17
• insurance fees	6	6
• information expenses	-	-
• other	-	-
Total	**24**	**24**

All figures in tables are in HUF million except otherwise noted

22. TANGIBLE ASSETS 31 December 2014

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	6,301	4,433	10,734
Increase	1,607	409	2,016
Decrease	(16)	(127)	(143)
Closing balance	**7,892**	**4,715**	**12,607**
Depreciation			
Opening balance	1,174	3,477	4,651
Annual depreciation	186	304	490
Decrease	(1)	(37)	(38)
Closing balance	**1,359**	**3,744**	**5,103**
Impairment			
Opening balance	447	11	458
Increase	-	313	313
Closing balance	**447**	**324**	**771**
Net value	**6,086**	**647**	**6,733**

TANGIBLE ASSETS 31 December 2013

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	6,252	4,335	10,587
Increase	69	123	192
Decrease	(20)	(25)	(45)
Closing balance	**6,301**	**4,433**	**10,734**
Depreciation			
Opening balance	1,009	3,159	4,168
Annual depreciation	168	327	495
Decrease	(3)	(9)	(12)
Closing balance	**1,174**	**3,477**	**4,651**
Impairment			
Opening balance	447	11	458
Increase	-	-	-
Closing balance	**447**	**11**	**458**
Net value	**4,680**	**945**	**5,625**

All figures in tables are in HUF million except otherwise noted

23. INTANGIBLE ASSETS 31 December 2014

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	17,220	714	645	18,579
Increase	643	196	-	839
Decrease	(1)	(3)	-	(4)
Closing balance	**17,862**	**907**	**645**	**19,414**
Amortisation				
Opening balance	6,841	424	93	7,358
Annual amortisation	1,890	30	42	1,962
Decrease	-	(3)	-	(3)
Closing balance	**8,731**	**451**	**135**	**9,317**
Impairment				
Opening balance	-	-	-	-
Increase	1,923	-	-	1,923
Reversal	-	-	-	-
Closing balance	**1,923**	**-**	**-**	**1,923**
Net value	**7,208**	**456**	**510**	**8,174**

INTANGIBLE ASSETS 31 December 2013

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	16,904	524	645	18,073
Increase	316	190	-	506
Decrease	-	-	-	-
Closing balance	**17,220**	**714**	**645**	**18,579**
Amortisation				
Opening balance	4,854	402	64	5,320
Annual amortisation	1,987	22	29	2,038
Decrease	-	-	-	-
Closing balance	**6,841**	**424**	**93**	**7,358**
Impairment				
Opening balance	-	-	-	-
Increase	-	-	-	-
Reversal	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**
Net value	**10,379**	**290**	**552**	**11,221**

All figures in tables are in HUF million except otherwise noted

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2014. It was established that each project relating to intangible assets is progressing according to plan. Use of the products that are the expected outcome of the projects is certain, and none of the projects will be terminated without generating the expected outcome. In 2013 no impairment was reported on intangible assets.

24. OTHER ASSETS

	31 December 2014	31 December 2013
Prepaid expenses	530	216
Reclaimable taxes	484	914
Settlements with the Hungarian State	1,021	1,975
Repossessed collateral	1,389	1,358
Properties held for sale	-	332
Debtors	3,625	1,622
Deposits	1,676	1,122
Receivables from investment services	16	43
Other	1,509	2,100
Total	**10,250**	**9,682**

The balance of settlements with the Hungarian State includes three month's interest subsidy due from the State and not yet settled as of 31 December 2014 (two months in 2013).
Significant part of the deposits was provided to ensure the turnover on cards to Card companies.

In case of properties held for sale and repossessed collaterals the Group endeavours to sell the properties as soon as possible.

25. DUE TO BANKS

	31 December 2014	31 December 2013
Long term loans received	22,692	22,847
Short term loans received	14,143	86,807
Accrued part of disbursed liabilities under Funding of Growth Scheme*	6,195	6,139
Accrued interest	6	1,054
Total	**43,036**	**116,847**

* See Notes 19.

All figures in tables are in HUF million except otherwise noted

26. ISSUED SECURITIES

The Group reports mortgage bonds and bonds that are recognised at amortised cost on 'Issued securities' line in the statement of financial position.

	31 December 2014		31 December 2013	
	Net book value	Face value	Net book value	Face value
Non-listed mortgage bonds				
Fixed interest	29,343	29,226	29,370	29,226
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	121,587	118,224	108,881	107,257
Floating interest	-	-	-	-
Total mortgage bonds	**150,930**	**147,450**	**138,251**	**136,483**
Non-listed bonds				
Fixed interest	33,696	33,649	29,377	29,369
Floating interest	13,678	14,337	7,100	7,043
Subordinated bonds	-	-	-	-
Listed bonds				
Fixed interest	44,264	50,053	39,538	42,458
Floating interest	4,174	6,696	6,712	6,715
Total bonds	**95,812**	**104,735**	**82,727**	**85,585**
Accrued interest (*mortgage bonds*)	5,456	-	4,999	-
Accrued interest (*bonds*)	3,146	-	2,874	-
Total issued securities	**255,344**	**252,185**	**228,851**	**222,068**

Mortgage bonds

All figures in tables are in HUF million except otherwise noted

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

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

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

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

In addition to assessment of the nominal value of the cover for mortgage bonds the Mortgage Loans Act also provides for assessment of mortgage bonds cover at present value. The fair value of collateral exceeded the present value of mortgage bonds outstanding not yet repaid throughout the period.

Bonds

From 2007 the Group launched bonds for the first time in addition to mortgage bonds.

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

Bonds incorporate the Group's direct, unconditional, non-subordinate unsecured liabilities. Bonds are equal in rank to the Group's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, EXCEPT DERIVATIVES

The Group reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position. (Description is included in Point 26 of Notes.)

Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than movement in portfolio or currency represents credit risk.

	31 December 2014		31 December 2013	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	23,230	20,300	18,332	16,963
Floating interest	-	-	11,246	11,327
Total mortgage bonds	**23,230**	**20,300**	**29,578**	**28,290**
Non-listed bonds				
Fixed interest	-	-	-	-
Listed bonds				
Fixed interest	13,271	12,734	13,887	12,511
Total bonds	**13,271**	**12,734**	**13,887**	**12,511**
Due to banks	-	-	17,995	18,000
Total due to banks	**-**	**-**	**17,995**	**18,000**
Total Financial liabilities at fair value through profit or loss, except derivatives	**36,501**	**33,034**	**61,460**	**58,801**

28. DEPOSITS FROM CUSTOMERS

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

	31 December 2014	31 December 2013
Current accounts	92,577	62,538
Term deposits	205,017	159,503
Accrued interest	1,168	460
Total	**298,762**	**222,501**

All figures in tables are in HUF million except otherwise noted

29. SHARES IN ASSOCIATES AND JOINT VENTURES

	31 December 2014	31 December 2013
Opening balance	6,159	-
Increase from joint venture acquistion	-	951
Goodwill arising on acquisition (Note 17)	-	5,183
Increase from associates*	253	-
Share of profit of joint ventures and associates	1,367	25
Impairment on goodwill	(847)	-
Closing balance	**6,932**	**6,159**

*This increase from associates include only the direct interest of MATAK
**The Group has made an annual impairment calculation/test on goodwill of FHB Investment Ltd., according to this HUF 847 million impairment was written off.

FHB Mortgage Bank acquired direct interest amounting to 25% in Magyar Takarék Befeketési és Vagyon gazdálkodási Ltd. (Magyar Takarék Asset Management “MATAK”) Ltd. through a share capital increase in February 2014.

The National Bank of Hungary authorized with its decision dated 9 May 2014, that MATAK Ltd. – standing in close links with FHB Mortgage Bank – shall gain a direct interest amounting to 50% and FHB through MATAK Ltd. shall gain an indirect, more than 10%, but less than 20% qualifying interest in Bank of Hungarian Savings Cooperatives Co. (MTB) Ltd. through share purchase. Closing of the transaction took place in two steps on 30 May 2014 and on 5 August 2014. As a result MATAK Ltd. acquired 54.82% direct interest, and FHB through MATAK Ltd. has 13.71% indirect interest in MTB Ltd.

30. FINANCE LEASE LIABILITIES

In the Group structure FHB Services Ltd. owned all of the IT assets and software which were used by the related parties. On 1 December 2011 after the sale of the FHB Services Ltd. the Group entered a lease contract with Exo-BIT Ltd. (the former FHB Services Ltd.) regarding the lease of the IT assets and software. The maturity of the contract is 7 years and there are no suspended rental fees, renewing conditions and options for purchase the leased assets included in the contract.

The book value of the leased assets is the following:

	31 December 2014		31 December 2013	
	Tangible assets	Intangible assets	Tangible assets	Intangible assets
Book value	277	5,534	717	9,214

All figures in tables are in HUF million except otherwise noted

The structure of the leasing payment and payable amounts can be found in the table below.

	31 December 2014		31 December 2013	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 12 month	1,879	1,879	2,834	2,435
Between 1 and 5 years	4,197	4,197	8,165	5,628
Over 5 years	-	-	-	-
Total	6,076	6,076	10,999	8,062
Less amounts representing finance charges	-	-	(2,937)	-
Present value of minimum lease payments	6,076	6,076	8,062	8,062

The present value of minimum lease payments is calculated by the Bank on a cash flow basis discounted by the valuation yield curve. This amount represents the present value of the minimum lease payments.
In 2014 there were no subleasing contracts and suspended rental fees regarding the leased assets.

31. RESERVE FOR ANNUITY PAYMENTS

	31 December 2014	31 December 2013
Opening balance	2,463	2,410
Increase	50	67
Change in fair value	(150)	(14)
Decrease	(2,363)	-
Closing balance	**-**	**2,463**

32. PROVISIONS

Provisions are set up mainly for current and contingent liabilities. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense (Note 19) or in other operating expense (Note 7).

All figures in tables are in HUF million except otherwise noted

2014	Loan risk provision	Contingent liabilities	Other provision	Expected costs of legal cases	Total
Opening balance	251	874	-	17	1,142
Increase in the period	1,155	9	23,756	158	25,078
FX movement	2		49	-	51
Utilization in the period	(1,048)	-	-	(19)	(1,067)
Closing balance	**360**	**883**	**23,805**	**156**	**25,204**

The loan risk provision in 2014 is attributable to the off balance sheet items.
The Group estimated the future loss due to the settlement in foreign and local currency (HUF) and the conversion of the retail foreign exchange or foreign exchange based loan portfolio to HUF (see note 2.9), the estimated 23,5 billion HUF is booked amongs the other provision.

2013	Loan risk provision	Contingent liabilities	Expected costs of legal cases	Total
Opening balance	150	-	23	173
Increase in the period	759	-	7	766
Increase from acqusition	-	874	-	874
Utilization in the period	(658)	-	(13)	(671)
Closing balance	**251**	**874**	**17**	**1,142**

Contingent liabilities is attributable to the acquisition in 2013.

33. OTHER LIABILITIES

	31 December 2014	31 December 2013
Taxes payable	851	678
Creditors	565	404
Accrued expenses	524	305
Liability from investments services	519	88
Customer loan prepayments	678	766
Refinancing accounts	32	108
Cash in transit	-	20
Other	720	643
Total	**3,889**	**3,012**

All figures in tables are in HUF million except otherwise noted

34. SHARE CAPITAL

As of 31 December 2014 the Bank's share capital consists of 66,000,010 authorized, issued and fully paid ordinary shares of HUF 100 par value each.

The ownership structure of the Bank as at 31 December 2014 and 31 December 2013 was as follows:

	31 December 2014		31 December 2013	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares (Series "A")				
Domestic institutional investors	61.33	40,475,017	57.64	38,040,017
Foreign institutional investors	21.66	14,297,742	21.66	14,297,742
Private investors	7.78	5,136,154	7.78	5,136,154
Hungarian National Asset Management Ltd.	7.32	4,832,225	7.16	4,724,833
Treasury shares	0.38	253,601	0.08	53,601
Other	1.53	1,005,271	5.68	3,747,663
	100.00	***66,000,010***	***100.00***	***66,000,010***

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

	31 December 2014	31 December 2013
Loss of shareholders of the Bank	(14,880)	(4,664)
Change of general reserve	194	(13)
Attributable profit	**(14,686)**	**(4,677)**
Weighted average number of shares	65,793,020	65,946,409

Earnings per share ratio 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. For the diluted earnings per share figure the profit attributable to shareholders and the weighted average number of shares outstanding needs to be adjusted by all of the potentially diluting securities. For the normal earnings per share figure the profit attributable to shareholders means the result for the year decreased by the amount of the general reserves which is divided by the number of the shares excluding the number of the treasury shares by the Bank. Shares to managers on the context of the share-based payment are allocated from Treasury shares and require no new issues and thus have no diluting effect on EPS. Based on the contractual conditions the Capital Securities issued at 20 December 2012 does not dilute the EPS. The Bank has no dilutive potential ordinary shares. Earnings per share figure therefore equals to the diluted earnings per share figure.

All figures in tables are in HUF million except otherwise noted

b) Treasury shares purchased

	31 December 2014	31 December 2013
Opening balance	29	29
Purchase	178	-
Used for acquisition	-	-
Share-based payments	-	-
Closing balance	207	29

c) Other reserves

	Note	31 December 2014	31 December 2013
Share premium		1,709	1,709
General reserves	36	-	194
Additional tier 1 capital	34	31,749	31,749
Change in fair value of financial assets available-for-sale	34	18	156
Foreign currency translation reserve		14	29
Total other reserves		**33,490**	**33,837**

Other reserve includes the Capital Securities issued by the Bank in 2013 and 2012. On May 16 2013 the Bank tapped the series of Euro-denominated perpetual floating rate bonds – which was issued with a total face value of EUR 102 million on 20 December 2012 – in an aggregate nominal amount of EUR 10 million in a private placement for non-Hungarian investors. The rate of interest on the bonds is linked to the 5-year-euro swap rate as reference rate. The non-cumulative interest on the bonds is payable annually in arrear and cancellable in the discretion of the Bank. The Capital Securities constitutes additional tier 1 capital and unsecured obligations of the Bank. The Capital Securities are redeemable after five years by the Bank and in certain cases they converted into ordinary shares, but do not have dilutive effects.

Due to the conditions described above, the Capital Securities was accounted as equity instrument and therefore any payment is accounted as equity distribution paid to the holders of the Capital Securities.

d) Financial assets available-for-sale reserve

	31 December 2014	31 December 2013
Opening balance	156	(216)
Net unrealised gains on available-for-sale assets	(503)	377
Net realised losses on available-for-sale assets	333	82
Deferred tax	32	(87)
Closing balance	**18**	**156**

All figures in tables are in HUF million except otherwise noted

e) Non-controlling interest

	31. December 2014.
Opening balance	-
Additional non-controlling interest arising on disposal of interest in FHB Commercial Bank Ltd.	25,033
Share of profit of the year	(1,316)
Closing balance	**23,717**

35. SHARE-BASED PAYMENTS

Share options are granted to employees and also others providing similar services, it is difficult to estimate the fair value of those benefits that are coming from these services, therefore the Group measures the fair value by reference to the fair value of the equity instruments granted.
The Group has a two-year share based incentive scheme for 2013 built on four IFRS measured criteria for both 2013 and 2014: increase of the owner's equity, decrease of the proportion of the non-performing loans and increase in ROA and ROE. For all of these indicators there are minimum levels quantified by the General Meeting, every criterion is deemed to be met if the actual KPI exceeds the minimum level (in case of the proportion of the non-performing loans the actual KPI should be less). At least three out of the four criteria have to be met to be entitled to the share based payment. If the share option is realised, the payment will depend on the individual performance evaluations, so only a specific proportion of the total distributable volume will be paid. The preferential price of drawing the option is 25% of the average price on the Budapest Stock Exchange between 1 January of the subject year and the date of the General Meeting closing the business year in prior of the subject year weighted by the turnover. The share option regarding both years can be realised in the following 3 years based on the following rates 60%-20%-20%.
The expense recognised for share based payments during 2014 and 2013 is zero.

36. GENERAL RESERVE

In accordance with statutory requirements, the Bank and other credit institutions within the Group are required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF zero as at 31 December 2014.

All figures in tables are in HUF million except otherwise noted

37. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Group:

	31 December 2014	31 December 2013
Guarantees	16,151	15,905
Undrawn commitments	49,581	44,267
Total	**65,732**	**60,172**

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments stated at amoritzed cost: 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 due from banks and with the National Bank of Hungary as well as deposits.

The value of the HUF 33 million (2013: HUF 35 million) SWIFT and VISA membership share and shares of Garantiqua Creditguarantee Ltd. shares disclosed under investment are reported at cost, and the value of HUF 850 million BIF Ltd. shares disclosed (2013: HUF 826 million) under investment are reported at fair value.

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

a) Loans and advances to customers and refinanced mortgage loans:

The Bank calculates the fair value of loans and advances to customers and refinanced loans at amortized cost on an individual basis.

All figures in tables are in HUF million except otherwise noted

The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions
- The interest and interest type revenues until maturity, including the interest subsidies of the loans and their unique legal regulation;
- In addition, the loans qualifying for subsidy based on the rules valid before 16 June 2003 and between June 16 and 22 December 2003 according to the Law are treated by the model as practically non re-priced for 20 years due to the fix interest ceiling of 5-6%;
- The subsidy cash flows related to the loans have been calculated until maturity of the loans but for a maximum of 20 years;
- In case of loans re-priced the model treats the loans as matured at the date of re-pricing, therefore the Bank does not calculate with interest or subsidy further on.

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

	31 December 2014		31 December 2013	
	Gross book value	Fair value	Gross book value	Fair value
Refinanced mortgage loans	116,182	139,053	133,692	162,717
Loans and advances to customers	357,772	334,650	358,004	394,506

Gross book value do not include the decreasing effect of impairment.

b) Fair value of mortgage bonds and bonds carried at amortised cost

The fair value of mortgage bonds and bonds is calculated by the Bank on a cash flow basis. In the calculations the Bank identifies the cash flows of the mortgage bonds discounted by the valuation yield curve. This is considered as the fair value of mortgage bonds.

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

For the valuation yield curve the Bank calculates the yield of own securities – denominated in Hungarian forint and Euro taking into account secondary market quotations, the yields of the secondary deals and the spreads regarding to the issues on primary markets. Based on these yields the Bank position management system calculates the yield curves for the different currencies and bond types (mortgage bond and several unsecured bonds).

The change in fair value is mainly due to the changes in market conditions. Based on this the change in fair value attributable to credit risk is not material.

All figures in tables are in HUF million except otherwise noted

	31 December 2014		31 December 2013	
	Net book value	Fair value	Net book value	Fair value
Non-listed mortgage bonds				
Fixed interest	30,374	35,226	30,401	34,599
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	126,014	131,047	112,851	118,253
Total mortgage bonds	**156,388**	**166,273**	**143,252**	**152,852**
Non-listed bonds				
Fixed interest	35,485	36,746	31,176	33,246
Floating interest	13,693	13,890	7,121	7,108
Subordinated bonds	-	-	-	-
Listed bonds				
Fixed interest	45,566	48,620	40,488	40,132
Floating interest	4,212	4,621	6,814	6,792
Total bonds	**98,956**	**103,877**	**85,599**	**87,278**
Total issued security	**255,344**	**270,150**	**228,851**	**240,130**

Gross value also includes the accrued interests.

c) Fair value of other items in the statement of financial position

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.

d) Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Derivatives designated as cash-flow hedges				
Positive fair value of cash flow hedges	-	179	-	6,164
Including: CCIRS	-	179	-	6,164
Swap deals classified as HFT				
Positive fair value of trading swaps	2,159	3,231	101,616	48,270
Including: CCIRS	2,155	2,870	100,830	41,580
Including: IRS	-	348	-	5,000
Including: FXS	4	13	786	1,690
Fair value hedge				
Positive fair value of CCIRS fair value hedge	-	166	-	6,712
Options				
Positive fair value of options	13	-	1,148	-
Forward deals				
Positive fair value of forward deals	375	3	20,189	69
Total derivative financial assets	**2,547**	**3,579**	**122,953**	**61,215**
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Swap deals classified as HFT				
Negative fair value of trading swaps	(5,295)	(11,187)	302,047	131,795
Including: CCIRS	(3,633)	(9,989)	180,946	70,787
Including: IRS	(583)	(755)	28,223	17,454
Including: FXS	(1,079)	(443)	92,878	43,554
Fair value hedge				
Negative fair value of CCIRS fair value hedge	(7,422)	(4,159)	70,226	64,994
Options				
Negative fair value of options	(13)	-	1,148	-
Forward deals				
Negative fair value of forward deals	(6)	(19)	327	548
Total derivative financial liabilities	**(12,736)**	**(15,365)**	**373,748**	**197,337**

All figures in tables are in HUF million except otherwise noted

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the derivatives are broken down to elementary cash flows and the present value is calculated.
The present value of the future cash flows of fixed interest rate deals is calculated by the Bank using the zero-coupon swap yield curve corresponding to the appropriate currency. The fair value of swap deals is the difference of the present value of the two series of cash flows not yet due (incoming and outgoing).

In the case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal payments are discounted to present value using the multi-level yield curve (forward yield curve, and discounting curve). The fair value of the deal is the aggregate of the present values.

Before 2010 the Bank has not used corrections to the valuation yield curves to evaluate swaps. However, since the economic crisis erupted, the currencies of developing markets have been added a significant risk premium, including HUF as well. Since this risk premium is significant and permanent from 2010, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

Cash flow hedge transactions as defined by IAS 39 have been performed in order to eliminate the risk of foreign currency in case of EUR denominated mortgage bond issuances, thus the cash-flow in currency of booking can be fixed. The main conditions of these swap contracts (maturity, notional amount, currency, interest rate and payment dates, etc.) and consequently the cash flows are identical to those of the underlying hedged instruments.

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

In case of the valuation of forward security deals the used yield curves are consistent with the nature of the paper in the forward deal (for example in case of government bonds the Bank uses the yield curve of the government bonds).

e) Fair value hedge transactions

The Bank has various rate loans denominated in CHF and EUR currencies. These loans are exposed to fair value risk changes of foreign exchange risk. In order to hedge in foreign exchange risk the Bank entered into CCIRS swap transactions, when the risk of the payments from the loans are swapped to payments linked CHF Libor, EURIBOR resulting in a decrease in the foreign exchange rate fair value exposure of the loans to customers.

Due to the fact that the Bank introduced a new model, which one is able to calculate the hedge effectiveness from 1 July 2012 the gain or loss from these swap items are accounted the same method as the hedged items.

31 December 2014

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
CCIRS	loans and advances to customers	(7,422)	60,552	928	(928)

31 December 2013

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
CCIRS	loans and advances to customers	(3,933)	67,420	594	(594)

f) Fair value of financial instruments carried at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All figures in tables are in HUF million except otherwise noted

The following table shows an analysis of financial instruments carried at fair value.

	31 December 2014		
	Level 1	Level 2	Level 3
Assets			
Securities held for trading	34,596	-	-
Financial assets available-for-sale	75,377	-	-
Derivative financial assets	-	1,933	614
Total assets carried at fair value	**109,973**	**1,933**	**614**
Liabilities			
Derivative financial liabilities	-	1,703	11,033
Financial liabilities at fair value through profit or loss, except derivatives	-	36,501	-
Reserve for annuity payments (Note 31)	-	-	-
Total liabilities carried at fair value	**-**	**38,204**	**11,033**

	31 December 2013		
	Level 1	Level 2	Level 3
Assets			
Securities held for trading	41,950	-	-
Financial assets available-for-sale	151,873	-	-
Derivative financial assets	-	709	2,870
Total assets carried at fair value	**193,823**	**709**	**2,870**
Liabilities			
Derivative financial liabilities	-	5,376	9,989
Financial liabilities at fair value through profit or loss, except derivatives	-	61,009	-
Reserve for annuity payments (Note 31)	-	-	2,463
Total liabilities carried at fair value	**-**	**66,385**	**12,452**

g) Movement in Level 3 derivative instruments measured at fair value

According to the risk management policies the FHB Mortgage Bank and FHB Commercial Bank hold CCIRS portfolio both classified as held for trading and designated as fair value hedge, to hedge its foreign currency open position. The basis swap spread speculation caused previously unexpected high range in the bid-offer quotations and also volatility obtained in the market, which significantly differed from spreads

All figures in tables are in HUF million except otherwise noted

on which the Bank could execute or terminate deals and therefore market quotations cannot be used for measuring the fair value of the Bank CCIRS portfolio.
For the above mentioned reasons, the Bank has classified these deals to Level 3 from Level 2 in the valuation of the financial instruments in IFRS, and applied non-market observable inputs as well, which resulted a more transparent presentation of CCIRSs and a more reliable valuation of them.

Sensitivity
The key risk factor for these deals is the spread. The net present value impact of ±10 basis point change of cross currency swap spreads on the EUR/HUF CCIRS portfolio, and ±5 basis point change of cross currency swap spreads on the CHF/HUF CCIRS portfolio are summarized in the table below:

	EUR		CHF
Fair value (PV)		**Fair value (PV)**	
Net fair value based on estimated inputs	700	Net fair value based on estimated inputs	1,091
Sensitivity (dPV)		**Sensitivity (dPV)**	
+10 bp	(1)	+5 bp	4
-10 bp	1	-5bp	(4)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial derivative assets and liabilities which are recorded at fair value:

	Opening balance as at 31 December 2013	Transfer as at 1 January 2014	Movement of CCIRS (matured, entered. closed, revalued)	Closing balance as at 31 December 2014	Total gain as at 31 December 2014
Positive fair value of CCIRSs	2,870	-	(2,256)	614	(2,256)
Financial assets measured at fair value total	**2,870**	-	**(2,256)**	**614**	**(2,256)**
Negative fair value of CCIRSs	(9,989)	-	(1,044)	(11,033)	(1,044)
Financial liabilities measured at fair value total	**(9,989)**	-	**(1,044)**	**(11,033)**	**(1,044)**

h) Reserve for annuity payment

Reserve for annuity payment by contract is reported in liabilities in 2013. During 2014 FHB Life Annuity and Real Estate Investment Ltd. were sold to buyer outside of the Group, so the reverse of annuity payment is zero at December 31 2014.

All figures in tables are in HUF million except otherwise noted

The present value of open contracts is individually determined at the end of each month. When assessing the present value the calculated age of contracted clients at the time of assessment is taken into consideration, which is used in the internal demographic model for establishing the probability of mortality for each month. The demographic model applies the mortality statistics of the Central Statistical Office but also takes into consideration the deviation of contracted clients from the average Hungarian population (selectivity effect) as well as the expected future increase in life expectancy. The review of the demographic parameters performed in 2013 resulted that there is no need for any adjustments. Exchange rates do not affect the fair value assessment process.

There is some insurance risk associated with the reserve for annuity payment: the mortality risk (i.e. the length of the period of the contracts) and the risk of the future inflation perspective.

The annuities due in the future (not yet paid) are adjusted by the probability of mortality per contract. (In the case of inflation-linked annuities, which represent 44.5% of the total portfolio, the timeline is adjusted by the hypothetical inflation rates.) The fair value is the cumulative discounted cash flow of the expected annuities payable. Discount relies on the swap yield curve, which in the month of assessment is adjusted with the premium applied in the month when the amount of annuity was determined.

The Bank has made a stress test to estimate the effect of one base point increase in the yield curve. The test shows that the reserve for annuity payment decreases by HUF 1.3 million in 2013, if the yield curve is increased by one base point.

The Bank has recalculated the stress test to estimate the effect of ± 25 base point increase/decrease in the yield curve. The test shows that the reserve for annuity payment decreases by HUF 33 million if the yield curve is increased by 25 base point, and increases by HUF 34 million if the yield curve is decreased by 25 base point at 31 December 2013.

39. RISK MANAGEMENT

a) Overview

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

Risk management identifies, evaluates and analyses the exposure of the Bank and its subsidiaries which are in the scope of prudential consolidation. It processes the information gained and develops risk guidelines and acceptable exposure limits, and operates risk management systems. The Group is exposed to credit-, liquidity-, market- and operation risks.

In respect of the credit risk the main aim of 2014 was the improvement of the portfolio quality. In favor of the management of the non-performing loans all disposable tool was applied. Other aim of the Bank was to increase the portfolio of exposures with prudent and careful risk-taking.

To maintain a diversified liability structure in 2014 FHB obtained sources from the capital markets several times through security issue, which replaced the maturing liabilities with long term liabilities. The Bank expanded the investor structure to the retail customers with the securities issued through the branch offices and influenced the volume and maturity composition of the deposits with active pricing strategies. The bank disposed of significant amount of liquid assets during the year, mainly in form of government securities.

40. RISK MANAGEMENT STRUCTURE

Board of Directors

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

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

Supervisory Board

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

Group Assets and Liabilities Management Committee (GALCO)

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

Department of Risk Management

Risk Management is responsible for determining the requirements necessary for the Group's prudent operation. It develops the risk guidelines and manages lending and operating risk for the Group as a whole and for each company belonging to the Group.

Department of Risk Analysis and Control

The Department is responsible for independent lending risk control. In this context it undertakes tasks related to the development, supervision, validation and review of customer and partner rating systems. Furthermore, it evaluates and estimates risk parameters. It sets the liquidity, interest and exchange rate exposure limits for the Group, monitors compliance with the limits, prepares models and calculations about the capital requirement of the operational risk.

Treasury

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

Internal Audit

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank's and the group members' all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

Risk management processes are audited annually by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Supervisory Board and the Management.

Property supervisor

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

Risk evaluation and reporting system

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

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

As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure. GALCO evaluates the report on credit risk on a monthly basis. It reviews the reports on compliance with liquidity management limits and assets and liabilities management limits. Reports on risk from operation risk are submitted on a quarterly basis. The Board of Directors evaluates the risk reports every quarter and exercises professional control over all components of the system through demanding reports from Management. The Supervisory Board evaluates the reports on risks on a quarterly basis. It exercises its function of ongoing control through the Internal Audit Department under its professional supervision.

41. RISK MITIGATION

Interest rate and exchange rate risks

To minimize the risk of interest- and foreign exchange rate risks the Bank manages its asset and liability structure – economical hedging deals – and also enters into derivative contracts.

Credit risk

Credit risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation to the Bank.

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

Retail product development gave rise to standardized loan schemes, which allows simplification of lending risk management. The client portfolios of the resulting products are characterized by large numbers of clients and small amounts of individualized loans. This diversification reduces (diversify also) the credit risk compared to the portfolio size.

Corporate lending is based on individual assessment and the continuous monitoring is in focus.

The Group applies strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio. The collateral value of real estate covering mortgage loans is established by the Bank also for the refinanced loans portfolio.

Risks towards partner banks are minimized by means of bilateral agreements and the assignment of the refinanced loan portfolio as prescribed by law.

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

Maximum credit risk exposure based on gross outstanding balances:

	31 December 2014	31 December 2013
Balances with the National Bank of Hungary	158,616	11,469
Dues from banks	19,064	21,270
Securities held for trading	34,596	41,950
Financial assets available-for-sale	75,377	151,873
Shares in associated and joint venture companies	6,932	6,165
Derivative financial assets	2,547	3,579
Refinanced mortgage loans	116,182	133,692
Loans and advances to customers	357,772	358,004
Other assets	10,250	9,682
Total	**781,336**	**737,684**
Off-balance sheet commitments	70,366	60,172
Total	**70,366**	**60,172**
Total credit risk exposure	**851,702**	**797,856**

42. CREDIT RISK

The following tables present the Group's receivables and commitments.

	Neither past due nor impaired	Past due or individually impaired	Assessed under collective impairment rules	Total
	31.12.2014	31.12.2014	31.12.2014	31.12.2014
Dues from banks and refinanced mortgage loans	270,660	-	-	270,660
Loans, commitments and guarantees	244,962	95,412	78,466	418,840
To corporate customers	117,466	20,372	-	137,838
To retail customers	127,496	75,040	78,466	281,002
Total	**515,622**	**95,412**	**78,466**	**689,500**

All figures in tables are in HUF million except otherwise noted

The amount of the non-performing loans (Note 19) differs from the amount of the portfolio of past due or individually impaired loans (see above) because the latter contains loans which are due less than 90 days and are not terminated.

	Neither past due nor impaired	Past due or individually impaired	Assessed under collective impairment rules	Total
	31.12.2013	31.12.2013	31.12.2013	31.12.2013
Dues from banks and refinanced mortgage loans	154,563	-	-	154,563
Loans, commitments and guarantees	241,594	94,126	76,619	412,339
To corporate customers	107,096	16,317	-	123,413
To retail customers	134,498	77,809	76,619	288,926
Total	**396,157**	**94,126**	**76,619**	**566,902**

Lending risk exposure of the Bank in terms of internal risk classification

Class *	***Historic default rate 31.12.2014 (%)***	***Uncovered 31.12.2014 HUF million***	***Total 31.12.2014 HUF million***
Class 1	0.00	226,047	226,047
Class 2	0.00	11,256	11,256
Class 3	0.02	10,243	95,741
Class 4	0.33	806	92,928
Class 5-7	9.57	46,724	303,460
Class	***Historic default rate 31.12.2013 (%)***	***Uncovered 31.12.2013 HUF million***	***Total 31.12.2013 HUF million***
Class 1	0.00	155,557	155,557
Class 2	0.00	8,214	8,214
Class 3	0.01	14,816	107,708
Class 4	0.15	821	69,035
Class 5-7	9.03	54,409	330,348

* The above showed table from 2014 does not include the effect of ***Curia, Settlement Rules and Forint Conversion acts.*** After the settlements and forint conversions in 2015 the above mentioned value will change both in proportion and in volume.

The table shows the Bank gross outstanding loans portfolio (dues from banks, refinanced mortgage loans and other mortgage and unsecured loans and bonds).
In the calculation of risk capital, in accordance with its risk management policy, the Bank classifies its loan portfolio and its weighted off-balance items in different rating categories. Consolidated data based on the Hungarian accounting standards are used in the classification. Retail customers are rated into seventeen categories (classes). Other partners (mainly credit institutions) are rated into seven categories. The classes

are determined base on customer rating policy. The Bank consolidated the two sets of classes in the above table, in this way the historical default rates of the entire portfolio are combined and broken down in terms of rating classes.
The effectiveness of rating systems is reviewed annually. Appropriateness of classification is reviewed on a quarterly basis.

Age analysis of loans past due but not impaired

	5-90 days	5-90 days
	2014	2013
Dues from banks and Refinanced mortgage loans	-	-
Loans	3,418	4,962
Corporate customers	726	606
Retail customers	2,692	4,356
Total	**3,418**	**4,962**

As of 31 December 2014 the Company has HUF 9,569 million collateral value for loans past due unimpaired (2013: HUF 12,461 million).

According to the internal policy of the Bank, it is mandatory to set up provision for impairment for transactions that have been past due for at least 90 days. Collaterals are also included in the calculation of impairment.
In accordance with the Group's internal rules and regulations transactions under HUF 10 thousand and past due for less than five days are considered transactions in technical non-default.

Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor or the Group's initiative, basically based on the fact that the borrower is considered to the unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor's financial difficulties and significant deterioration of ability to pay. Furthermore buffer account loans granted within the framework of the FX rate protection scheme are qualified as forborne as loans, as well as ones concerning to the buffer account loan has been opened.

In comparison with the original term and conditions, essentially more favourable conditions are arising for clients by modification of contract.
Modifications of the terms and conditions can be the following:

- rescheduling the payment
- modification of foreign exchange
- forbearing from collaterals
- capitalization of interest

All figures in tables are in HUF million except otherwise noted

Rating of forborne loans:

1. If the loans are classified as forborne loans the classification category can not be better than it was before.
2. The forborne loans are classified as "to-be- monitored" if the original loan was classified as "problem-free" or "to-be- monitored" and following the forbearance, the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 180 days without break.
3. The forborne loans are possible to be classified as "problem free" after one year of the forbearance if the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 365 days without break.

An analysis of forborne gross loan portfolio by loan types as 31 December 2014 and 2013

Loan type	31 December 2014	31 December 2013
Individual loans	92,985	87,692
Fx rate protection scheme (original loan)	*59,221*	*50,765*
Fx rate protection scheme (buffer account)	*2,078*	*497*
Corporate loans	3,317	3,481
Total	**96,302**	**91,173**

An analysis of impaired forborne loan portfolio by loan types as 31 December 2014 and 2013

Loan type	31 December 2014	31 December 2013
Individual loans	91,889	86,864
Fx rate protection scheme (original loan)	*58,483*	*50,280*
Fx rate protection scheme (buffer account)	*2,065*	*485*
Corporate loans	3,317	3,386
Total	**95,206**	**90,250**

An analysis of forborne loan portfolio by loan types and risk classes as 31 December 2014

Loan type	Not past due	1-30 DPD	31-60 DPD	61-90 DPD	91-360 DPD	360+DPD	Total
Individual loans	49,738	6,762	2,252	1,371	6,657	26,205	92,985
allowance	*473*	*169*	*182*	*298*	*2,873*	*14,091*	*18,086*
Corporate loans	1,318	491	-	-	1,365	143	3,317
allowance	*272*	*123*	*-*	*-*	*518*	*107*	*1,020*
Total capital of loans	**51,056**	**7,253**	**2,252**	**1,371**	**8,022**	**26,348**	**96,302**
Total allowance	***745***	***292***	***182***	***298***	***3,391***	***14,198***	***19,106***

All figures in tables are in HUF million except otherwise noted

An analysis of forborne loan portfolio impaired and not impaired by loan types and risk classes as 31 December 2014

Loan type	Not past due			Past due			Total
	Impaired	Not impaired	Total	Impaired	Not impaired	Total	
Individual loans	48,957	1,096	50,053	42,932	-	42,932	92,985
allowance	*473*	-	*473*	*17,613*	-	*17,613*	*18,086*
collateral	*68,936*	*1,919*	*70,855*	*47,427*	*23*	*47,450*	*118,305*
Corporate loans	1,318	-	1,318	1,999	-	1,999	3,317
allowance	*272*	-	*272*	*748*	-	*748*	*1,020*
collateral	*1,198*	-	*1,198*	*2,310*	-	*2,310*	*3,508*
Total capital of loans	**50,275**	**1,096**	**51,371**	**44,931**	**-**	**44,931**	**96,302**
Total allowance	***745***	***-***	***745***	***18,361***	***-***	***18,361***	***19,106***
Total collateral	***70,134***	***1,919***	***72,053***	***49,737***	***23***	***49,760***	***121,813***

An analysis of forborne loan portfolio by type of forbearance as 31 December 2014 and 31 December 2013

	31 December 2014		31 December 2013	
	capital	allowance	capital	allowance
Retail loans	92,985	18,085	70,444	10,526
bridge loan	24,680	11,768	*33,065*	*7,833*
Fx rate protection scheme (original loan)	59,221	3,364	*28,479*	*133*
Fx rate protection scheme (buffer account)	2,078	595	*95*	*5*
Fx housing loan converted to HUF	1,651	737	*2,070*	*881*
other	5,355	1,621	6,735	1,674
Corporate loans	3,317	1,021	3,533	967
Total	**96,302**	**19,106**	**73,977**	**11,493**

All figures in tables are in HUF million except otherwise noted

Changes in impairment of forborne loan portfolio

	31. December 2014.
Impairment as at 1 January	17,789
Provision for impairment in the period	3,711
Reverse of impairment for the period	(429)
Derecognition due to sale of assets	(1,965)
Impairment as at end of period	**19,106**

43. COLLATERALS AND OTHER MEANS FOR IMPROVING THE LOANS PORTFOLIO

Collaterals for lending risk applied by the Bank:

Real estate collateral

The Group accepts as collateral mortgages, independent or separated liens established mainly on such real estate that is registered in Hungary and have long live stable value and purchase mortgage loans and independent liens with the same conditions. There are some mortgaged real estates registered in Croatia due to the operation of a subsidiary. During the financial leasing the Group finances Hungarian marketable real estates.

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

State guarantee

All instances of State guarantee accepted by the Bank involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions. The Bank applies this type of collateral in the following cases:

- Loans provided to private individuals employed in the public sector; and
- Housing loans extended to young clients partially covered by State guarantee,
- Loans denominated in foreign currency with buffer accounts (to this type of loans relates also simple guarantee /joint and several guarantee by third party).

Deposit

Deposit can take the form of cash, bank deposit or securities (Government bonds, debt securities issued by a credit institution or equity securities).

Other

In addition to the above the Bank also accepts joint and several guarantee by third party (where the third party is other than the Hungarian State). Before the entry in force of the new Civil Code – 15/03/2014 – the Bank accepted assigned claims, lien on claims, home savings assigned to the Bank; insurance (for example property and life insurance) assigned to the Bank, and lien, surety or option on holding or share possessed by the borrower giving the right to participate in company capital. After this date the Bank applies lien on claims (savings, insurances), immaterial goods, chattels, shares.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals in 2014 and 2013:

	31 December 2014	31 December 2013
Mortgage	1,149,655	1,298,926
Warrant	20,763	12,278
Guarantee	35,365	31,204
Other collaterals	17,162	17,619
Total	**1,222,945**	**1,360,027**

The above detailed collaterals cover fully the amount of the loans and refinanced mortgage loans.

Among the collaterals the value of mortgage represents the collateral value allocated to the mortgage at disbursement (market value less discount factor) in case of Customer loans. In case of refinanced mortgage loans, mortgage is the lower of the collateral value or the receivable. All other items are valued at their own value (for example the assignment is valued at the amount which was assigned). The category of other collaterals contains the insurances.

44. MARKET RISK

Due to the nature of its business as a mortgage bank and to the special legal regulation relating to it, FHB has distinctive assets and liabilities structure within the Hungarian banking system as its assets and liabilities are essentially long-term and raise most of its funds in the capital market.
Regarding the liquidity- and market risk the Bank is responsible for raising the necessary funding sources and for the risk management both on Group level and on individual entity level. The Bank maintains low the maturity-, interest rate- and foreign exchange rate risk derive from the asset, liability and off balance sheet commitments.

45. INTEREST RATE RISK

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

All figures in tables are in HUF million except otherwise noted

Average portfolio of interest earning assets and interest bearing liabilities of the Group in the period:

	31 December 2014		31 December 2013	
	Average net A/L	Average interest rate %	Average net A/L	Average interest rate %
Interest earning assets				
Dues from banks and Balances with the National Bank of Hungary	87,241	1.64	32,031	1.18
Securities held for trading and available-for-sale	154,258	3.34	184,043	4.49
Refinanced mortgage loans	124,709	7.68	148,733	8.64
Loans and advances to customers	355,173	7.84	359,675	8.42
Total interest earning assets	**721,381**	**6.10**	**724,482**	**7.15**
Interest bearing liabilities				
Due to banks	58,748	1.47	147,582	2.98
Deposits	273,519	2.16	181,992	3.94
Issued securities and Financial liabilities at fair value through profit or loss, except derivatives	291,086	6.57	308,593	6.80
Total interest bearing liabilities	**623,353**	**4.15**	**638,167**	**5.10**

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

	Sensitivity of interest income 2014 *	Sensitivity of equity (2014)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	7.6	(0.3)	2.8	(2.6)	(10.8)	(10.9)
EUR	2.7	0.5	(1.2)	2	7.5	8.8
CHF	3.8	(3.9)	(1)	5.9	57.3	58.3

	Sensitivity of interest income 2013	Sensitivity of equity (2013)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	(4.9)	(0.7)	(3.6)	(12.9)	(11.1)	(28.2)
EUR	5.6	(0.6)	0.3	6.2	7.4	13.2
CHF	5.7	(1.3)	(1.1)	5.9	53.2	56.7

* The above showed table from 2014 does not include the effect of ***Curia, Settlement Rules and Forint Conversion acts.*** After the settlements and forint conversions in 2015 the above mentioned value will change both in proportion and in volume.

	Sensitivity of interest income 2014+10 bp	Sensitivity of interest income 2014 +25 bp	Sensitivity of equity (2014) +10 bp	Sensitivity of equity (2014) +25bp
HUF	76	190	(109)	(272)
EUR	27	68	88	220
CHF	38	95	583	1,457

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.

Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2014 net interest income would increase by HUF 7.6 million in case of HUF, it would increase by HUF 2.7 million in case of EUR and would increase by HUF 3.8 million in case of CHF.

Sensitivity of equity means the re-valuation of all financial assets and liabilities and off-balance sheet positions based on tenors of maturity and/or repricing. Full-fledged sensitivity of shareholders' equity is based on the presumption that the yield curve moves in parallel, while analysis by maturity groups highlights sensitivity in each tenor segment. The net impact of such moves would cause the decrease of the capital by HUF 10.9 million in HUF, the increase of the capital by HUF 8.8 million in EUR, the increase of the capital of by HUF 58.3 million in CHF.

All figures in tables are in HUF million except otherwise noted

46. EXCHANGE RATE RISK MANAGEMENT

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

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

FX risk (in the case of 1% increase in exchange rate)

FX	Effect on earning before income tax (31 December 2014)	Effect on capital (31 December 2014)	Effect on earning before income tax (31 December 2013)	Effect on capital (31 December 2013)
EUR	367.9	74.3	10.8	(36.5)
CHF	626.5	133.8	(4.3)	130.4

The above showed table from 2014 does not include the effect of ***Curia, Settlement Rules and Forint Conversion acts.*** After the settlements and forint conversions in 2015 the above mentioned value will change both in proportion and in volume.

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax could increase with 367.9 HUF, in case of CHF items it could increase with 626.5 million HUF. The similar effect for the capital could mean a decrease of 74.3 million in case of EUR items and 133.8 million HUF increase in case of CHF items. (The sensitivity of the equity means the re-evaluation of the all-currency financial assets and the off-balance sheet positions.)

All figures in tables are in HUF million except otherwise noted

Consolidated FX financial position of the group in terms of main currencies:

31 December 2014	CHF	EUR	HUF	Total
Assets				
Cash	46	337	1,965	2,348
Balances with the National Bank of Hungary	-	-	158,616	158,616
Due from Banks	962	17,113	989	19,064
Securities held for trading	985	3,835	29,776	34,596
Financial assets available-for-sale	-	19,993	55,384	75,377
Shares in associated and joint venture	-	-	6,932	6,932
Derivative financial assets	-	-	2,547	2,547
Refinanced mortgage loans	54,522	389	61,271	116,182
Loans and advances to customers	122,641	23,237	173,225	319,103
Tangible assets	-	-	6,733	6,733
Goodwill and other intangibles	-	-	8,326	8,326
Deferred tax asset	-	-	9,363	9,363
Other assets	271	306	9,673	10,250
Total assets	**179,427**	**65,210**	**524,800**	**769,437**
Nominal values of derivative assets	98,938	278,527	165,762	543,227
Total assets incl. derivatives	**278,365**	**343,737**	**690,562**	**1,312,664**

31 December 2014	CHF	EUR	HUF	Total
Liabilities				
Due to banks	2,028	10,856	30,152	43,036
Deposits	176	31,315	267,271	298,762
Derivative financial liabilities	-	-	12,736	12,736
Issued securities	-	43,786	211,558	255,344
Financial liabilities at fair value through profit or loss, except	-	7,266	29,235	36,501
Leasing liability	-	-	5,772	5,772
Current tax liability	-	-	145	145
Provisions	4,747	13,428	7,029	25,204
Other liabilities	179	297	3,413	3,889
Total liabilities	**7,130**	**106,948**	**567,311**	**681,389**

All figures in tables are in HUF million except otherwise noted

31 December 2014	CHF	EUR	HUF	Total
Shareholders' equity	**-**	**31,749**	**56,299**	**88,048**
Total liabilities and shareholders' equity	**7,130**	**138,697**	**623,610**	**769,437**
Nominal values of derivative liabilities	216,663	201,728	140,710	559,101
Total liabilities incl. derivatives	**223,793**	**340,425**	**764,320**	**1,328,538**
modificated accoirding to the Conversion Act	(50,593)		50,593	-
Position	3,379	3,312	(23,165)	(15,874)

Consolidated FX financial position of the group in terms of main currencies (31 December 2013):

31 December 2013	CHF	EUR	HUF	Total
Total assets incl. derivatives	**181,810**	**173,465**	**611,783**	**967,058**
Total liabilities incl. derivatives	**185,106**	**171,713**	**628,245**	**985,064**
Shareholders' equity	**-**	**31,749**	**44,323**	**76,072**
Position	**3,296**	**(1,752)**	**16,462**	**18,007**

47. PREPAYMENT RISK

Prepayment risk means the potential risk that the Bank may suffer losses when clients and refinancing partners partially or entirely repay their outstanding mortgage loans or refinanced loans respectively before the due date in the loan agreement.

The impact of prepayment risk on both assets and liabilities is presented in the statement.

The following method was applied to quantify the effect on net interest income:

An annual prepayment rate (annualized in the course of the year) was determined on the basis of actual amounts prepaid and gross average receivables from outstanding loans. Then interest income was netted of internal settlement interest (i.e. of cost of financing). The resulting net interest income was geared to the amount of outstanding loans for the year and this resulted in the average interest margin on loans for the year. The series of average loans, average prepayment rate and average net interest margin for the period shows the projected effect of prepayments on net interest income. Thus the prepayment risk shows the effect to which extent the interest income decreases because of prepaid (therefore missing) loan capital.

The following method was applied to quantify the effect on shareholders' equity:

The effect on net interest income was adjusted by the actual income from prepaid fees for the period, since those partially compensate the decreasing profit due to the missing net interest income and the decreasing shareholders' equity. The effect on corporate income tax was disregarded.

All figures in tables are in HUF million except otherwise noted

Prepayment risk of the Bank:

	Effect on net interest income	Effect on equity	Effect on net interest income	Effect on equity
	31.12.2014	31.12.2014	31.12.2013	31.12.2013
	HUF million	HUF million	HUF million	HUF million
Loans	**(927)**	**(799)**	**(845)**	**(682)**
HUF	(791)	(707)	(612)	(525)
EUR	(24)	(15)	(108)	(70)
CHF	(112)	(77)	(125)	(87)
Refinanced mortgage loans	**(93)**	**62**	**(177)**	**9**
HUF	(170)	(106)	(76)	(18)
EUR	-	-	(1)	(1)
CHF	77	168	(100)	28
Total	**(1,020)**	**(737)**	**(1,022)**	**(673)**

48. LIQUIDITY AND MATURITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking. The Bank maintains its liquidity by coordinating the maturity of its receivables and payables. At the same time, it applies maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times.
The Bank regularly reviews prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares its liquidity plans and financing position based on different scenarios, also including effects coming from stress tests.

The Bank aims to decrease liquidity risk by diversifying the sources of financing that resulting in higher proportion of customer deposits besides using other capital market products. The Bank also maintains a high level of liquid asset portfolio consisting of mainly government securities.

Off-balance sheet liabilities are presented at their latest date to be drawn (contractual maturity) in the table below. They would be presented in the first category if their earliest date to be drawn were to be taken.

Notes to the Consolidated Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2014

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	36,345	32,023	13,928	16,637	-	98,933
Deposits	92,019	147,947	42,888	15,842	19,030	-	317,726
Derivative financial liabilities	-	2,666	10,447	557	629	-	14,299
Issued securities	-	4,691	103,229	106,194	23,370	-	237,484
Financial liabilities at fair value through profit or loss, except derivatives	-	1,609	13,637	6,836	5,749	-	27,831
Off balance sheet commitments	-	8,392	34,708	28,617	44	138	71,899
Total banking liabilities	**92,019**	**201,650**	**236,932**	**171,974**	**65,459**	**138**	**768,172**

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	91	85,883	83,985	5,448	-	175,407
Liabilities from derivatives	-	1,040	93,714	86,831	5,424	-	187,009
Net value of derivatives	**-**	**(949)**	**(7,831)**	**(2,846)**	**24**	**-**	**(11,602)**

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2013

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	104,896	97	447	1,663	-	107,103
Deposits	62,297	107,258	48,346	7,150	11,247	-	236,298
Derivative financial liabilities	-	346	10,933	(4,086)	-	-	7,193
Issued securities	-	5,700	26,663	184,686	18,493	-	235,542
Financial liabilities at fair value through profit or loss, except derivatives	-	529	12,790	28,454	5,859	-	47,632
Off balance sheet commitments	-	16,540	18,194	11,476	75	26	46,311
Total banking liabilities	**62,297**	**235,269**	**117,023**	**228,127**	**37,337**	**26**	**680,079**

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	54,435	59,377	140,391	-	-	254,203
Liabilities from derivatives	-	10,904	64,925	140,878	-	-	216,707
Net value of derivatives	**-**	**43,531**	**(5,548)**	**(487)**	**-**	**-**	**(37,496)**

All figures in tables are in HUF million except otherwise noted

The liability structure is managed by the Bank in the following ways:

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

The table above shows an age analysis of the Bank's liabilities based on the remaining maturity calculated from the balance sheet date. The mortgage bonds and bonds issued by the Bank are presented at actual due principal amounts and increased by the interest payments expected to be paid disclosed in the related information memoranda and programs and are not affected by exchange rate gains and losses or by any valuation difference arising on derivatives. In practice, the maturity of liabilities may depart from the contracted terms.

Maturity analysis of assets and liabilities as of 31 December 2014

	Less than 12 months	Over 12 months
Assets		
Cash on hand	2,348	-
Balances with the National Bank of Hungary	158,616	-
Due from banks	19,064	-
Securities held for trading	20,234	14,362
Financial assets available-for-sale	17,828	57,549
Shares in associates and joint ventures	-	6,932
Derivative financial assets	1,106	1,441
Refinanced mortgage loans	11,449	104,733
Loans and advances to customers	31,878	287,225
Investment property	-	-
Tangible assets	-	6,733
Goodwill and other intangible assets	-	8,326
Deferred tax assets	-	9,363
Other assets	10,250	-
Total assets	**272,773**	**496,664**

All figures in tables are in HUF million except otherwise noted

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	12,472	30,564
Deposits from customers	263,890	34,872
Derivative financial liabilities	11,613	1,123
Issued securities	125,780	129,564
Financial liabilities at fair value through profit or loss, except derivatives	23,916	12,585
Finance leases liabilities	-	5,772
Reserve for annuity payments	-	-
Current tax liabilities	145	-
Deferred taxes liabilities	-	-
Provisions	25,204	-
Other liabilities	3,889	-
Total liabilities	**466,909**	**214,480**

Maturity analysis of assets and liabilities as of 31 December 2013

	Less than 12 months	Over 12 months
Assets		
Cash on hand	2,039	-
Balances with the National Bank of Hungary	11,469	-
Due from banks	4,163	17,107
Securities held for trading	40,408	1,542
Financial assets available-for-sale	138,806	13,067
Shares in associates and joint ventures	-	6,158
Derivative financial assets	259	3,320
Refinanced mortgage loans	10,821	122,871
Loans and advances to customers	37,575	282,496
Investment property	436	10,876
Tangible assets	-	5,625
Goodwill and other intangible assets	-	11,373
Deferred tax assets	-	7,421
Other assets	8,687	995
Total assets	**254,663**	**482,851**

All figures in tables are in HUF million except otherwise noted

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	87,861	28,986
Deposits from customers	204,103	18,398
Derivative financial liabilities	11,279	4,086
Issued securities	25,672	203,179
Financial liabilities at fair value through profit or loss, except derivatives	27,147	34,313
Finance leases liabilities	-	9,292
Reserve for annuity payments	368	2,095
Current tax liabilities	6	-
Deferred taxes liabilities	-	503
Provisions	1,142	-
Other liabilities	3,012	-
Total liabilities	**360,590**	**300,852**

49. MANAGEMENT OF RISK FROM OPERATION

Risk from operation is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Group through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment. The Bank's management considers feedback to be particularly important in terms of operations-related risk management, as this is the tool to check the effectiveness of measures taken to eliminate risks.

50. TREATMENT OF RISK CONCENTRATION

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate and also by diversifying its product portfolio from collateral perspective (meaning to increase the proportion of other than real estate securities).

All figures in tables are in HUF million except otherwise noted

51. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

On January 1, 2014 regulation (eu) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms came into effect. The new regulation defines new prudential requirements not only in case of capital adequacy, but also for liquidity, financial stability and leverage, as well. Most important elements of the new regulation are the different methodology of calculation of own funds and more strict requirements on the level of Tier 1 capital. CRR includes transitional provisions, reports, reviews and amendments in favour of continuous convenience, some of these rules have to appointed by the competent authorities, in our case by National Bank of Hungary as financial supervisory. NBH appointed this rules in regulation No. 10/2014. (IV. 3.).
CRR defines prudencial consolidated method and prudencial consolidated companies. The prudencial consolidated companies in 2014 are FHB Mortgage Bank Plc., FHB Commercial Bank Ltd., FHB Real Estate Ltd., FHB Invest Befeketetési és Ingatlankezelő Ltd., Diófa Alapkezelő Ltd., FHB Ingatlanlízing Ltd. (wholly consolidated companies) and Díjbeszedő Faktorház Ltd., Magyar Posta Befektetési Szolgáltató Ltd., (two of them proportionally consolidated companies) The consolidated method and consolidated companies are approved by NBH.

FHB calculated capital adequacy based on consolidated IFRS data of a range of group members defined by CRR (companies under consolidated supervision), applying also temporary rules.

In 2013, the Group applied the Hungarian accounting standards regarding consolidated risk-weighted assets (using (a) the IRB (internal qualifying) method for credit risk from 1 July 2008 and (b) the AMA for operational risk based on the permission of NBH) and IFRS standards regarding Tier 1 items. Due to regulatory changes, data of own funds and capital adequacy ratio calculation are not comparable for 2013 and 2014.

The calculation of the solvency/regulatory capital (own funds) of 2013 is made because of the comparision. The total risk exposure amount is equal to the amount calculated on the basis of the law in force at the end of 2013, while the elements of the solvency/regulatory capital have been restated based on the CRR.

The amount of the capital adequacy ratio is calculated by dividing the amount of the regulatory capital by the total amount of capital requirement divided by 8%.

The Hungarian Financial Supervisory Authority has begun the annual supervisory review process (SREP) in October 2014, which has not finished until the end of year 2014.

	31 December 2014	31 December 2013
OWN FUNDS	**72,843**	**59,408**
TIER 1 CAPITAL	**72,843**	**59,408**
COMMON EQUITY TIER 1 CAPITAL	**62,498**	**27,660**
Capital instruments eligible as CET1 Capital	8,102	8,280
Retained earnings	25,011	35,771
Accumulated other comprehensive income	(3)	381
Other reserves	-	196
Minority interest given recognition in CET1 capital	11,199	-
Transitional adjustments due to additional minority interests	9,894	-
Adjustments to CET1 due to prudential filters	(484)	(353)
(-) Goodwill	166	5,183
(-) Other intangible assets	7,593	11,373
Other transitional adjustments to CET1 Capital	29,359	-
ADDITIONAL TIER 1 CAPITAL	**10,345**	**31,749**
Capital instruments eligible as AT1 Capital	31,749	31,749
Other transitional adjustments to AT1 Capital	(19,698)	-
TIER 2 CAPITAL	**-**	**-**
SA General credit risk adjustments	10	-
Other transitional adjustments to T2 Capital	(1,716)	-

CET1 Capital ratio	**13.39%**	**6.9%**
T1 Capital ratio	**14.90%**	**14.43%**

	31 December 2014	31 December 2013
Capital requiriment (min)	32,660	29,706
Total expsores amount	408,247	371,325
ROAE **(return on average equity %)**	**(19.8)**	**(6.1)**

All figures in tables are in HUF million except otherwise noted

52. RELATED PARTY TRANSACTIONS

For the purpose of the financial statements, Group identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10% (A64 Trustee Ltd., VCP Finanz Holding Ltd., and from 2010 also Allianz Hungary Insurance Ltd). Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions. For the list of the subsidiaries, associates and joint ventures please refer to Note 2.4.

	31 December 2014	31 December 2013
Loans to executives, members of the Board of Directors and Supervisory Board	-	-
Gross remuneration		
Salary	75	82
Bonus	-	5
Honorarium	31	28
Total remuneration	**106**	**115**

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transitions in 2014 and 2013 between the Group and other related parties are disclosed below:

	31 December 2014	31 December 2013
Other assets	-	-
Total assets	**-**	**-**
Other liabilities	1	1
Total liabilities	**1**	**1**
Other operating income	-	-
Other operating expense	-	-
Operating income	**-**	**-**
Operating expense	(64)	(126)
Profit on transactions with related parties	**(64)**	**(126)**

All figures in tables are in HUF million except otherwise noted

53. NET GAINS

The allocation of operating income to financial instrument categories excluding gains from foreign exchange transactions:

2014	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Loans and advances	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	12,138	3,636	39,326	-	-	-	55,100
Interest expense	-	-	-	(9,649)	(24,809)	-	(34,458)
Net interest income	**12,138**	**3,636**	**39,326**	**(9,649)**	**(24,809)**	**-**	**20,642**
Fee and commission income	-	-	2,611	-	2,977	766	6,354
Fee and commission expense	-	-	(646)	-	(148)	(207)	(1,001)
Net fee and commission income	**-**	**-**	**1,965**	**-**	**2,829**	**559**	**5,353**
Change in fair value of derivatives	300	-	-	(1,362)	-	-	(1,062)
Gains from securities	1,258	2,421	-	(177)	(1,240)	2,661	4,923
Other operating income	-	-	-	-	-	1,326	1,326
Other operating expense	-	-	(18,052)	-	-	(13,726)	(31,778)
Operating income	**13,696**	**6,057**	**23,239**	**(11,188)**	**(23,220)**	**(9,180)**	**(596)**

All figures in tables are in HUF million except otherwise noted

2013	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Loans and advances	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	16,988	6,109	43,078	-	-	-	66,175
Interest expense	-	-	-	(15,594)	(31,870)	-	(47,464)
Net interest income	**16,988**	**6,109**	**43,078**	**(15,594)**	**(31,870)**	**-**	**18,711**
Fee and commission income	-	-	1,747	-	2,541	772	5,060
Fee and commission expense	-	-	(91)	-	(387)	(256)	(734)
Net fee and commission income	**-**	**-**	**1,656**	**-**	**2,154**	**516**	**4,326**
Change in fair value of derivatives	371	-	-	(2,443)	-	-	(2,072)
Gains from securities	239	969	-	(51)	(191)	16	982
Other operating income	-	-	-	-	-	1,462	1,462
Other operating expense	-	-	(89)	-	(211)	(4,405)	(4,705)
Operating income	**17,598**	**7,078**	**44,645**	**(18,088)**	**(30,118)**	**(2,411)**	**18,704**

All figures in tables are in HUF million except otherwise noted

54. SEGMENT REPORTING BY BUSINESS SEGMENTS

The group distinguishes business segments. The reportable segments of the Group on the base of IFRS 8 are the following:
Retail, Corporate, Treasury, Refinancing, other.

The reported business segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments
- transactions between the different segments were eliminated
- the main decisive management of the Group regularly controls the operating results
- separated financial information is available

Segment report , December 31 2014	Retail	Corporate	Treasury	Refinan-cing	Other*	Total
Net interest income	14,724	1,302	3,686	1,823	(893)	20,642
Other net income	(3,636)	881	(2,083)	(587)	(11,547)	(16,972)
Provision for impairment on loan losses	(2,065)	(401)	37	-	(1,953)	(4,382)
Direct expense	(10,423)	(1,600)	(1,102)	(466)	(3,008)	(16,599)
Operating result	(1,400)	182	538	770	(17,401)	(17,311)
Profit before tax	-	-	-	-	-	(17,311)
Segment assets	230,789	82,475	302,675	116,183	37,315	769,437
Segment liabilities and equity	171,107	127,655	453,926	-	16,749	769,437

Segment report , December 31 2013	Retail	Corporate	Treasury	Refinan-cing	Other*	Total
Net interest income	11,194	1,358	4,056	3,058	(955)	18,711
Other net income	39	1,007	(1,208)	(493)	(256)	(911)
Provision for impairment on loan losses	(7,296)	251	73	-	183	(6,789)
Direct expense	(11,930)	(1,626)	(703)	(649)	(1,136)	(16,044)
Operating result	(7,993)	990	2,218	1,916	(2,164)	(5,033)
Profit before tax						(5,033)
Segment assets	339,731	191,801	7,075	133,692	65,215	737,514
Segment liabilities and equity	339,490	191,780	7,075	133,692	65,477	737,514

*Including the real estate services, life annuity services and real estate leasing

All figures in tables are in HUF million except otherwise noted

55. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On January 15, 2015 the Swiss central bank ceased the 1.2 exchange rate limit of Swiss Franc against Euro which earlier prevented the further strengthening of the CHF. Parallel with this step decreased the base reference rate to the -1.25% and -0.25% level. Since that time the CHF exchange rate decreased continuously from the parity level and actually balances around 285 HUF/CHF.

As part of Government's home protection measures adopted since 2010, in November 2014, the Monetary Council of NBH decided to ensure approximately EUR 9 billion for the Banks to cover the source of HUF conversion. FHB has executed the EUR-HUF transaction with the NBH and covered its entire FX need resulting from the loan conversion into HUF. On the same day as the EUR-HUF conversion, FHB has also closed its EUR-CHF position on the interbank market. Apart from limited trading positons, FHB – as a matter of policy - had no open FX positions before the above mentioned transaction with the NBH and that is still the case following the conversion. Trading positions are and always were negligible relative to the bank's balance sheet, therefore measures of the Swiss Central Bank has no material impact on the position and profitability of FHB Group.

Banking Group has started the settlements related to FX denominated consumer loan agreements based on Curia Act with the value date of February 1, 2015. Bank will manage the settlements and provide information to customers in line with the regulatory deadlines.

On 31 January 2015 Gábor Gergő Soltész resigned from his positions held at FHB Mortgage Bank as deputy chief executive officer, and held at FHB Bank as chief executive officer and member of the Board of Directors. At the same date he resigned from his other positions fulfilled at FHB Group companies as well, namely from Supervisory Board membership of FHB Real Estate Ltd. and Board of Director membership of FHB Real Estate Leasing Ltd.

From 1 February 2015 the position of deputy chief executive officer at FHB Mortgage Bank is held by Márton Oláh, who was also elected as member of the Board of Directors by FHB Bank's general meeting. The appointment and election of Márton Oláh were permitted by the Hungarian National Bank in advance.

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