FHB MORTGAGE BANK PLC

ANNUAL REPORT FOR YEAR 2014

FHB Mortgage Bank Co. Plc.

Business Report for 2014

Budapest, April 1, 2015

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1.1 HISTORY AND ACTIVITIES OF FHB MORTGAGE BANK

FHB Mortgage Bank Public Limited Company ("FHB", "Mortgage Bank", "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 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%**

1.2 OVERVIEW OF FHB BANKING GROUP

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.)

In 2012, the Strategic Plan for the business years 2013-2015 was adopted by the Board of Directors of FHB Mortgage Bank. 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 straightforward and challenging goals 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 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 the "DÜSZ Llc.") 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 (previously DÜSZ) Llc., 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 the "MPBSZ Ltd.") in December, 2013.

According to the Syndicate Agreement the subsidiaries of the FHB Invest Llc. (DBF, DíjNET, DBIT and MPBSZ) are jointly controlled 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, 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. gained 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.

At 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 party was FHB Mortgage Bank Plc. as vendor and National Asset Management Ltd, as buyer (who acting on behalf of the Hungarian State).

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

1.2.1 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.

Allianz Bank merged into FHB Commercial Bank as of 1 April 2011. The merger boosted the number of employees, number of branches and financial assets, as well. Product portfolio broadened due to the acquisition.

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. (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 Mortgage Bank. The capital increase was registered in the company register on 1 October 2014.

The FHB Commercial Bank's total assets in accordance with Hungarian Accounting Standards (HAS) amounted to HUF 521.3 billion as of 31 December 2014, and showed 1.8% decrease compared to the previous year (HUF 530.9 billion). The FHB Commercial Bank's gross loan portfolio amounted to HUF 223.2 billion, a 0.3% decrease since the end of the year 2013. The Bank's deposit portfolio increased by 34.2% over the past year and amounted to HUF 298.3 billion.

At the end of 2014 the FHB 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 11,112 million loss in 2014, its shareholders’ equity at year end was HUF 39.3 billion. The capital adequacy ratio (according to HAS) was 13.38% as at 31 December 2014.

1.2.2 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 profit. FHB Real Estate Ltd. registered capital was HUF 70 million on 31 December 2014, shareholders equity amounted to 181 million HUF.

1.2.3 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 to FHB INVEST Llc. (former name: Díjbeszedő Operational and Service Llc.) at 24 November 2014. 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.

FHB Mortgage Bank decided to increase company’s capital two times in 2014. Total capital increase amounted to HUF 1,190 million.

Shareholder’s equity of the Company according to HAS amounted to HUF 229.8 million as at 31 December 2014; issued capital was HUF 125 million and capital reserves amounted to HUF 2.5 billion. The Company closed the year 2014 with HUF 823 million losses.

1.2.4 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 close to 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 the acquisition, Diófa Asset Management was focusing on real estate investments, pension fund wealth management and tailor made solutions for institutional clients. From September 2013 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 were sold initially by Magyar Posta Befektetési Zrt. (Magyar Posta Investment Services Ltd.) through the network of Magyar Posta (Hungarian Post). 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 billion at December 31, 2013.

Asset Management Ltd. closed the year 2014 with almost HUF 196.7 million profit ; subscribed capital – after the HUF 60 million capital increase which was made by the Mortgage Bank in July - amounted to HUF 195.4 million and shareholders' equity HUF 300.7 million.

1.2.5 FHB INVEST Investment and Real Estate Management Llc.

The DÜSZ was established by splitting-off 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.) by exchange of 24% shares of DíjNET Ltd. and additional share price to be paid in next years.

From 2014, DÜSZ Ltd. is going to be 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 will be 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.

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%
Central European Credit d.d.	-	-	-	100.00%	-	-	-	-	100.00%
FHB DWH Ltd.	-	-	-	100.00%	-	-	-	-	100.00%
Díjbeszedő Faktorház Ltd.	-	-	-	-	-	51.00%	-	-	51.00%

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
DíjNET Ltd.	-	-	-	-	-	51.00%	-	-	51.00%
Díjbeszedő IT Llc.	-	-	-	-	-	50.00%	-	-	50.00%
Díjbeszedő Card Centre Ltd.	-	-	-	-	-	-	49.95%	-	24.975%
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%

2 MACROECONOMIC ENVIRONMENT IN 2014

2.1 THE HUNGARIAN ECONOMY IN 2014[1]

Figures	2012	2013	2014
GDP increase (%)	-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: HCSO, NBH, 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% for many years again. However, private consumption remained subdued, despite the improvement in the labour 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 real balancing processes continued to improve. 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.

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

Not the external demand, but the external financing environment has been 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 to 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.

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. The largest increase was in Central Hungary and in Western Transdanubia (39, and 27% of all permits). 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. The share of homes built by firms decreased from 40% to 39% (3,236), share of homes built by individuals increased from 57% to 59% (4,911).

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

[2] Based on reports and statistics of NBH

2.2.1 Retail mortgage lending

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

2.2.1.1 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.

2.2.1.2 Home protection measures

The problem of foreign currency loans was also a priority issue in 2014. 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 this 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 the National Asset Management Ltd. After 20 June 2012 the properties can be offered for the Hungarian Property Management Ltd. without marked as available for forced sale. The purchase price of the properties is determined by the Hungarian Property Management Ltd. as 35-55% of the original market value depending on the size of the town.

Government assumed to ensure the background for National Asset Management Company 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 National Asset Management Ltd, 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) 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 related to FX rate differences or unilateral amendments of contracts.

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 10,184 million provisions for this.

FHB Mortgage Bank participated the NBH's tenders in October and November 2014. FHB Group 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.

2.2.2 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%.

3 BUSINESS AND FINANCIAL RESULTS OF FHB MORTGAGE BANK[3]

3.1 MAJOR FINANCIAL INDICATORS

The balance sheet total calculated on the basis of the Hungarian Accounting Standards was 6.9% or HUF 40.5 billion higher than the previous year's figures. The balance sheet total was HUF 627.8 billion at the end of 2014. Earnings before tax were HUF 19,378 million loss.

The Bank generated more than HUF 10 billion provision for the expected losses of the settlement and the HUF conversion. Besides, the special banking tax and credit institution levy related to exchange rate protection scheme reduced the results by HUF 1,824 million and HUF 178 million, respectively. The purchase of ordinary shares representing 49% of the share capital of FHB Commercial Bank Ltd and the purchase of FHB Life Annuity Ltd. generated HUF 8,135 million exchange rate loss. The FHB Mortgage Bank's profit after tax would be HUF 943 million without special banking tax and above mentioned one-offs.

in HUF million	31/12/2013	31/12/2014	Change
Balance sheet total	587,333	627,831	6.9%
Loans, gross	138,936	128,568	-7.5%
Securities issued	330,346	305,272	-7.6%
Shareholders' equity	52,615	33,237	-36.8%
Regulatory capital[4]	31,395	65,958	110.1%
Capital adequacy ratio	22.91%	29.52%	6.6%-pt
Profit / (Loss) before tax	127	-19,378	-
Profit / (Loss) for the year	127	-19,378	-
CIR (operating costs / operating income), %[5]	85.55%	829.12%	-
ROAA (return on average assets) %	0.02%	-3.19%	-3.2%-pt
ROAE (return on average equity) %	0.24%	-45.14%	-45.4%-pt

3.2 RETAIL AND CORPORATE LENDING

The gross amount of loans – considering (in the case of loans which are concerned by the HUF conversion) the differences between the NBH exchange rate at the end of December and the fix exchange rate – was HUF 128.6 billion. The volume calculated at year-end NBH exchange rate was HUF 129.3 billion as of 31 December 2014, which was HUF 9.6 billion or 6.9% lower than the amount of 2013. 92.5% of the loan portfolio calculated at year-end exchange rate, HUF 119.7 billion is retail loans, which is HUF 9.5 billion lower than the amount as of 31 December 2013 (HUF 129.1 billion). The corporate loans amounted to HUF 9.7 billion at the end of 2014, which is HUF 0.1 billion lower than in 2013 (HUF 9.8 billion). 62.9% (HUF 81.4 billion) of the loan portfolio is denominated if HUF, the sum of loans denominated in foreign currencies were HUF 48.0 billion as of 31 December 2014. The total amount of disbursed loans is HUF 7.1 billion for 2014, which is HUF 0.5 billion more than the disbursed amount of 2013 (HUF 6.5 billion). From the HUF 7.1 billion disbursing in 2014 the brand new transactions give HUF 5.7 billion. The total disbursed loans were retail loans.

Main part of lending was generated by housing and general purpose mortgage loans. Housing loans amounted to HUF 88.0 billion in 2014 resulting 73.5% among retail loans. Volume of general purpose loans amounted to HUF 24.8 billion decreasing 7.0% compared to 2013 – representing 20.7% among retail loans in 2014 (in 2013 it was 20.6%)

[3] 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 financial statements.

[4] From 1 January 2014 there is new regulation about the capital requirement, 575/2013/EU decree (CRR) entered into force, so the regulatory capital and the capital adequacy ratio in 2013 and in 2014 can not be compared.

[5] The ratio is calculated without special banking tax

The land development portfolio amounted to HUF 2.2 billion at the end of 2014, 18.6% less than the previous year's figure. Reversed mortgages amounted to HUF 3.1 billion at the end of 2014 and did not change compared to 2013.

Corporate loans were down by 1.3% year-on-year mainly due to the decrease of housing project loans. Over amortisation of loans, portfolio clearing measures – such as sale of some non-performing debts – had an impact on decrease of loan volume.

The Mortgage Bank's portfolio-based share of retail mortgage loans was 2.0% at the end of 2014, which is a 14 basis points decrease compared to the previous year.

3.3 REFINANCING

As of 31 December 2014 the portfolio of refinanced loans decreased by 8.5% or HUF 18.3 billion year-on-year and amounted to HUF 196.3 billion. This volume includes HUF 116.0 billion receivables from external partner banks. Refinanced loans from FHB Commercial Bank amounted to HUF 80.3 billion. Loans denominated in HUF contributed 38.5% to the 2014 year-end refinanced loan portfolio as opposed to 41.4% at the end of 2013. Refinanced loan disbursements amounted to HUF 3.2 billion in 2014 including HUF 3.1 billion contributed by the Commercial Bank.

3.4 PORTFOLIO QUALITY, PROVISIONING

As of 31 December 2014 the Bank's rated assets amounted to HUF 547.4 billion, pending commitments amounted to HUF 4.5 billion (HUF 551.9 billion total) and future commitments (from swap transactions) to HUF 531.6 billion.

Breakdown of portfolio by classification, loss in value and provisions

in HUF thousands	31/12/2013			31/12/2014		
	Total receivables	Impairment and provisions	Distribution	Total receivables	Impairment and provisions	Distribution
Performing	423,545	-	-	505,118	-	-
To be monitored	25,907	744	**2.87%**	24,177	652	2.70%
Below average	10,892	1,946	17.9%	9,336	1,693	18.1%
Doubtful	8,269	3,454	41.8%	9,972	4,081	40.9%
Bad	3,605	2,941	81.6%	3,301	2,753	83.4%
Total	***472,219***	***9,085***	***1.9%***	***551,904***	***9,179***	***1.7%***

Receivables from customers amounted to HUF 129.6 billion (23.5% of the portfolio excluding swap), moreover, according to the contracts, HUF 4.5 billion of lending liability (0.8%) was maintained at the measurement time. HUF 43.4 billion claims and HUF 3.4 billion commitments were classified as "to be monitored" or "bad" related to 14,254 loan agreements from the total receivables from customers with HUF 9.2 billion total impairment and provisions. The refinancing loan portfolio amounted to HUF 196.1 billion (35.5%) classified as performing.

The Bank had outplacements at sixteen commercial banks in the form of fixed-term and sight deposits, amounting to HUF 180.7 billion (32.8%).

The Bank holds stakes in five companies: FHB Commercial Bank Ltd., FHB Real Estate Ltd, FHB Invest Llc., Diófa Asset Management Ltd. and Magyar Takarék Asset Management Ltd. The total face value of investments is HUF 41.0 billion (7.4%) classified as performing. Mortgage Bank formed HUF 1,058 million impairment on investments at the end of 2014.

Future commitments amounting to HUF 531.6 billion at the balance sheet date are classified as performing.

The ratio of performing portfolio improved in the total portfolio, while deteriorated in the loan portfolio (at receivables from customers and at commitments) compared to the values measured at the end of 2013.

As of 31 December 2014, 91.5% of the classified portfolio (excluding swaps) was performing (compared to 89.7% as of 31 December 2013). The ratio of below average, doubtful and bad receivables was 4.1% (4.8% as of 31 December 2013), and the ratio of category 'to be monitored' was 4.4% (5.5% as of 31 December 2013).

In the loan portfolio, the performing rate was 65.1% (66.4% as of 31 December 2013), the combined rate of below average, doubtful and bad loans was 16.9% (15.7% as of 31 December 2013), and the 'to be monitored' category was 18.0% (17.9% as of 31 December 2013).

The average loss in value showed decrease compared to the previous measurement time both in the total portfolio (without swap) (1.7%) and in the loan portfolio (6.9%).

3.5 MORTGAGE AND SENIOR BOND ISSUES

In 2014 FHB Bank made 13 transactions (all of them was issuance) contrary to the 27 transactions in 2013.

In 2014, the Bank has HUF 43.8 billion new capital market funds (euro funds calculated at the EUR exchange rate as of the date of the issuance). The face value of issued bonds amounted to HUF 6.1 billion mortgage bonds, HUF 36.5 billion and EUR 3.5 million unsecured bonds were issued.

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 value assets covering mortgage bonds issued by the Bank was HUF 393.6 billion as of 31 December 2014, 15% less than the figure as of 31 December 2013 (463.4 billion HUF)

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%.

3.6 BALANCE SHEET STRUCTURE

As of 31 December 2014 the balance sheet total of the Bank was HUF 627.8 billion, 6.9% higher than in 2013. The bulk of the annual increase in total assets was generated by interbank placements and subordinated loan. Interbank placements grew by HUF 107.7 billion, while subordinated loan increased by HUF 10.0 billion year-on-year. On the liabilities side, the increase was dominated by interbank funds and provisions. Changes in interbank funds increased liabilities by HUF 71.6 billion, while growth of provisions and reserves was HUF 10.2 billion. Shareholders' equity declined by HUF 19.4 billion.

in HUF million	31/12/2013	31/12/2014	Change
Assets			
Interest earning assets	520,986	570,282	9.5%
Interbank placements	64,370	172,071	167.3%
Securities	103,002	63,422	-38.4%
Refinanced loans	214,628	196,121	-8.6%
Loans to customers, gross	138,936	128,568	-7.5%
Subordinated loan	0	10,000	-
Other interest earnings assets	50	100	100.0%
Impairment and provision	-8,917	-9,014	1.1%
Cash	13	15	15.4%
Investments	48,755	39,924	-18.1%
Tangible assets, inventory	647	830	28.3%
Intangible assets	2,016	1,614	-19.9%
Other assets	23,833	24,180	1.5%
Total assets	**587,333**	**627,831**	**6.9%**
Liabilities			
Interest bearing liabilities	496,194	544,670	9.8%
Mortgage bonds	225,601	199,488	-11.6%
Bonds issued	104,745	105,784	1.0%
Interbank funds	132,490	204,051	54.0%
Subordinated debt	33,254	35,268	6.1%
Other interest bearing liabilities	104	79	-24.0%
Other liabilities	38,334	39,566	3.2%
Provisions and reserves	190	10,358	-
Shareholders' equity	52,615	33,237	-36.8%
Total liabilities and equity	**587,333**	**627,831**	**6.9%**

3.6.1 Interest earning assets

The Bank's interest earning assets increased from HUF 521.0 billion as of 31 December 2013 by 9.5% to HUF 570.3 billion by the end of 2014. The portfolio of refinanced loans decreased by 8.6% year-on-year; net loans to customers sold by the Mortgage Bank through the Commercial Bank and its network of agents was 7.5%, or HUF 10.4 billion less than in the reference year and amounted to HUF 128.6 billion. Loans to customers contributed 22.5% to interest earning assets at the end of the year (decreased by 4.1%).

The aggregate portfolio of mortgage loans (net of provisions) amounted to HUF 324.7 billion as of 31 December 2014, which is 8.2% (HUF 28.9 billion) lower than the base period figure.

The collateral value of real estate covering mortgage loan principal receivable amounted to HUF 808.6 billion as of 31 December 2014, 7.5% short of the reference period's figure (HUF 874.6 billion). Thus the average loan-to-value of coverage (LTV) ratio was 34.3% as of 31 December 2014, somewhat lower than the 2013 LTV of 35.1%.

The modification of the Government Decree on 31 December 2014 enabled the Bank that in the case of those mortgage covered loans, which are concerned by the HUF conversion, the Bank can evaluate FX loans, related impairment 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 re-evaluated at the balance sheet date's NBH exchange rate.

3.6.2 Intangible assets and investments

The value of invested assets (net of provisions) was HUF 39.9 billion as of 31 December 2014, 18.1% lower than in 2013. The decline arises mainly from the partly sales of shares in FHB Commercial Bank and sales of investment in FHB Life Annuity. As of 31 December 2014, FHB Mortgage Bank's net holdings in the jointly controlled companies were as follows: HUF 34.2 billion in FHB Commercial Bank, HUF 648 million in FHB Real Estate, HUF 188 million in Diófa Asset Management Ltd., HUF 4.6 billion in FHB INVEST Llc. and HUF 253 million in Magyar Takarék Asset Management Ltd.

The net value of intangible assets as of 31 December 2014 was HUF 1.6 billion, which contains the goodwill related to shares of Diófa Asset Management Ltd. (total HUF 153 million).

3.6.3 Other assets

The Bank's other assets amounted to HUF 24.2 billion and grew by 1.5% in 2014. The bulk of other assets were contributed by accruals amounting to HUF 18.6 billion. As of 31 December 2014 the Bank had repurchased Treasury shares amounting to HUF 207.2 million.

3.6.4 Interest bearing liabilities

3.6.4.1 Mortgage bonds and senior bonds issued

As of 31 December 2014, 36.6% of interest bearing liabilities was contributed by the Bank's mortgage bond portfolio that ensures long-term funding for mortgage loans. As of 31 December 2014, mortgage bonds issued by the Bank amounted to HUF 199.5 billion HUF, 11.6% lower than the previous year's figure.

Senior bonds completing the securities activity of mortgage bond issuance resulted in a book value of HUF 105.8 billion as of the 31 December 2014, increasing by 1.0% compared to the previous year-end figure.

3.6.4.2 Interbank funds

Interbank borrowings amounted to HUF 204.1 billion as of 31 December 2014. The contribution of bank group interbank deposits was 99% or HUF 202.1 billion (which was received from FHB Commercial Bank). As part of the group level liquidity management, FHB Commercial Bank deposits their liquid assets by the Mortgage Bank. The Mortgage Bank ensures the profitable placement of the group level liquid assets.

3.6.4.3 Subordinated liabilities

The Bank possessed a nominal value of EUR 112 million (HUF 35.3 billion) in basic capital qualifying bond as of 31 December 2014, and the stock of this was also EUR 112 million (HUF 33.3 billion) at 31 December 2013.

3.6.4.4 Other interest bearing liabilities

The aggregate value of deposits from clients on collateral accounts related to project loan transactions was HUF 79 million as of 31 December 2014, 24% lower than the HUF 104 million in the previous year.

3.6.5 Other liabilities

Other liabilities amounted to HUF 39.6 billion representing 3.2% growth compared to 2013. First of all this line item includes passive accruals amounting to HUF 38.3 billion at the end of 2014. The two dominant components of passive accruals are accrued interest expenses (HUF 10.5 billion) and accruals related to cross currency interest rate swap transactions (HUF 20.6 billion).

3.6.6 Shareholders' equity

As of 31 December 2014 the shareholder's equity of the Bank amounted to HUF 33.2 billion, decreasing by 36.8% year-on-year due to the loss per balance sheet.

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 66.0 billion at 31 December 2014. The capital adequacy ratio was 29.52% (one year ago – calculated according to existing regulations of that period - 22.91%). CET1 ratio stood at 24.01% as of 31 December 2014.

3.6.7 Off-balance sheet items

Within the Bank's off-balance sheet items, amount of unused credit lines was HUF 146.3 million. Future liabilities increased from previous year's HUF 220.0 billion to HUF 531.6 billion, including HUF 456.7 billion hedge transactions related to mortgage and unsecured bonds issued and HUF 73.9 billion FX swaps liabilities as of 31 December 2014. Demands from hedge transactions amounted to HUF 442.7 billion and demands from currency swaps to HUF 73.3 billion.

3.7 PROFIT & LOSS STRUCTURE

in HUF million	31/12/2013	31/12/2014	Change
Net interest income	7,525	8,807	17.0%
Interest income	54,139	43,309	-20.0%
Interest expense	-46,614	-34,502	-26.0%
Net fees and commission income	-1,082	-1,027	-5.1%
Fee and commission received	838	715	-14.7%
Fee and commission paid	-1,920	-1,742	-9.3%
Net result of financial transactions	477	-7,798	-
Other income and expenditure	-1,797	-2,504	39.3%
Other operating income	3,914	2,414	-38.3%
Other operating expenditure	-5,711	-4,918	-13.9%
Gross operating income	**5,123**	**-2,522**	-149.2%
Operating expenses	-5,943	-5,778	-2.8%
Net provisioning and loan losses	947	-11,078	-
Profit/loss before tax	**127**	**-19,378**	-
Taxation expense	0	0	-
Profit/loss after tax	**127**	**-19,378**	-
Profit/loss after tax w/o special banking tax and one-offs	***2,081***	***943***	-
General reserve	-13	194	-
Profit / loss per balance sheet	**114**	**-19,184**	**-**

The Bank's gross operating income was HUF - 2.5 billion in 2014, which is 149.2% lower than the result in 2013.

As a key component of gross operating income, net interest income increased by 17.0% year-on-year. Operations throughout the year generated a total of HUF 5.8 billion costs, which means 2.8% reduce compared to 2013.

3.7.1 Net interest income

The HUF 8.8 billion net interest income generated in 2014 emerged as the balance of HUF 43.3 billion interest income (20.0% lower than in 2013) and HUF 34.5 billion interest expense (26.0% decrease).

As of the incomes swap deals' interests show decrease of 27.0% generating HUF 10.8 billion, and interests of securities are down by 21.9% representing HUF 5.6 billion among incomes.

Interest expenses showed bigger decrease than interest incomes in 2014. Among expenses securities' interest expenses play the most significant role, its ratio among interest expenses decreased by 3.1%-point and now it's 69.7% and its amount declined by 29.1% compared to 2013. Interbank borrowings generated 3.5% decrease.

The net interest margin on average total assets was 1.22% as of 31 December 2013 and 1.45% as of 31 December 2014.

3.7.2 Net fees and commissions

In 2014 the net fees and commission income amounted to HUF 1.0 billion loss, after net fee income in 2013 was HUF 1.1 billion loss.

Among fee and commission paid securities' fees reduced by 43.3%, while the agent fee which is the main part of the fee on commission expenses to FHB Commercial Bank decreased by 5.4% (HUF 1.6 billion) in 2014.

3.7.3 Net profit from financial transactions

The performance of net result of financial transactions was quite different compared to 2013 result reduced by HUF 8.3 billion year-on-year and amounted to HUF 7.8 billion loss thanks mainly to the declining gain from securities. Both the result of foreign exchange transactions and mortgage bonds showed profit in 2014: foreign exchange transactions performed HUF 219.0 million compared to HUF 354.7 million in 2013 and mortgage bonds generated HUF 80.3 million gain, while the result was HUF 121.6 million loss in 2013.

3.7.4 Other income and expenditure

The result of other income and expenditure shows negative amount (HUF 2.5 billion) in 2014. It increased by 9.0%, HUF 2.2 billion income was generated by internal services (main items were IT, accounting and real estate rental services), while gain from asset sales declined by 90.9% year-on-year and amounted to HUF 141.1 million.

The most significant volume of other expenses was the expenditures related to asset sales. Figures fell by 67.6% to HUF 749.3 million compared to the HUF 2.3 billion previous year's expenditure.

484 loans ceased due to sale to NET in 2014, the expense was recorded in connection with these approximately HUF 448 million. The year of 2014 was burdened with HUF 1.8 billion bank tax, while the amount of the credit institutions levy was HUF 604.5 million.

3.7.5 Operating expenses

in HUF million	31/12/2013	31/12/2014	Change
General administrative costs	3,175	2,836	-10.7%
Personnel expenses	1,950	2,111	8.3%
- wages and salaries	1,385	1,456	5.1%
- other personnel expenses	141	196	39.0%
- social security contributions	424	459	8.3%
Direct costs of banking activity	576	528	-8.3%
Costs of internal services	0	12	-
Depreciation	242	292	20.7%
TOTAL OPERATING EXPENSES	**5,943**	**5,779**	**-2.8%**

There was no significant change in structure of operating expenses in 2014, the total expenses decreased by 2.8% to HUF 5.8 billion. General administrative expenses fell by 10.7% which contributed significantly to the reduction of total operating expenses. The main part of this cost group IT costs and property related costs, but significant item in consulting fees and telephone charges as well. More than third of operating expenses called personnel expenses increased by 8.3%.

3.7.6 Impairment and loan losses

In 2014 the Bank recorded HUF 11.1 billion net reserve for impairment and provisions, which resulted from HUF 13.6 billion provisions created, and HUF 2.5 billion provisions and reserves used. The impairment of receivables amounted HUF 2.1 billion and HUF 2.3 billion provisions and reserves reversals.

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.

3.7.7 Change in general reserve

Mortgage Bank used HUF 194.1 million of general reserve in 2014.

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 HUF 15.1 billion interbank net lending position, margin deposits amounted to EUR 45.3 million (approximately HUF 14.2 billion).

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 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 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

There were several organizational changes in the Bank in 2014 that were aimed at increasing the efficiency of the affected areas.

As of 1 May 2014, the Compliance Department changed into Directorate in order to raise compliance activity to a higher level and to specialise the control functions.

The Board of Directors is divided into the Capital Markets Compliance Department, Consumer Protection Department and the Money Laundering Prevention Department.

Within the Capital Markets and Treasury Directorate, the Treasury Middle Office Group was created so as to support the accounting, reporting and controlling processes associated with the Board's activity.

Within the Application and Service Management Department, a new Service Management Group was set up that is responsible for securing the availability of the applications supporting the core business activity, service-level monitoring, and for preparing IT documentation, while having to provide support for incident and change management.

In September 2014, NetBank Development Department has been established within the Application System Development Department of the IT Directorate, which is in charge for the implementation of developments based on the Group's business strategy, particularly with regard to Internet banking systems and calculators offered for banking products, as well as the performance of the tasks concerning the development of the domestic payment system and the system supporting the judicial enforcement proceedings.

The number of full time equivalent employees as of 31 December 2014 was 180.7 as opposed to the 172.2 as of 31 December 2013.

7 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.

From 16 January 2015, The National Bank of Hungary made an all-around review at FHB Mortgage Bank and at some of the subsidiaries 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

dr. Zoltán Spéder	**Gyula Köbli**
Chairman of the Board of Directors	Chief Executive Officer

FHB Mortgage Bank Plc.

ANNUAL REPORT
and
INDEPENDENT AUDITORS' REPORT

31 December 2014

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C, Hungary
H-1438 Budapest, P.O. Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/Hungary

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

Translation of the Hungarian original

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of FHB Mortgage Bank Plc. (the "Bank") for the year 2014, which comprise the balance sheet as at December 31, 2014 – which shows total assets of HUF 627,831 million and the loss for the year of HUF 19,184 million –, and the related profit and loss account for the year then ended and the supplement comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Act, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the financial position of FHB Mortgage Bank Plc. as at December 31, 2014, and its financial performance for the year then ended in accordance with the Act on Accounting.

Other Matters

We issued our auditors' report dated April 1, 2015 on the financial statements submitted for the General Meeting. The effects of subsequent events were examined until that date.

The financial statements were approved by the General Meeting on April 28, 2015. Our procedures regarding the subsequent events occured after April 1, 2015 were limited to the General Meeting's decision on the approval of the financial statements.

Other Reporting Obligation: Report on the Business Report

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

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

Our responsibility is to assess whether the accounting information in the business report is consistent with that contained in the financial statements prepared for the same business year. Our work with respect to the business report was limited to assessing the consistence of the business report with the 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 business report of FHB Mortgage Bank Plc., for the year 2014 corresponds to the figures included in the financial statements of FHB Mortgage Bank Plc., for the year 2014.

Budapest, April 28, 2015

The original Hungarian version has been signed.

Kornél Bodor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
000083

Tamás Horváth

registered statutory auditor
003449

FHB Mortgage Bank Co Plc

Annual Report

31 December 2014

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(translation)

Budapest, 1 April 2015

12321942649211401

Statistical code

FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság Cg 01-10-043638

BALANCE SHEET ASSETS

in HUF Million

Item No	Identification of item	31 December 2013	31 December 2014
a	b	c	e
1	**1. Liquid assets**	**628**	**1 194**
2	**2. Treasury bills and similar securities**	**98 002**	**53 436**
3	a, held for trading	98 002	53 436
4	b, held as financial fixed assets	-	-
5	**3. Loans and advances to credit institutions**	**278 383**	**377 014**
6	a, repayable on demand	767	941
7	b, other loans and advances in connection with financial services	277 616	376 073
8	ba, with remaining maturity of less than one year	40 112	183 202
9	Showing separately: -to affiliated companies	9 180	23 448
10	-to other companies linked by virtue of participating interests	-	-
11	-to the NBH	-	-
12	bb, with a remaining maturity of more than one year	237 504	192 871
13	Showing separately: -to affiliated companies	118 043	86 765
14	-to other companies linked by virtue of participating interests	-	-
15	-to the NBH	-	-
16	c, in connection with investment services	-	-
17	Showing separately: -to affiliated companies	-	-
18	-to other companies linked by virtue of participating interests	-	-
19	**4. Loans and advances to customers**	**130 043**	**119 093**
20	a, in connection with financial services	130 043	119 093
21	aa, with a remaining maturity of less than one year	21 426	19 867
22	Showing separately: -to affiliated companies	647	1 043
23	-to other companies linked by virtue of participating interests	-	-
24	ab, with a remaining maturity of more than one year	108 617	99 226
25	Showing separately: -to affiliated companies	-	200
26	-to other companies linked by virtue of participating interests	-	-
27	b, in connection with investment services	-	-
28	Showing separately: -to affiliated companies	-	-
29	-to other companies linked by virtue of participating interests	-	-
30	ba, receivables in connection with investment services on the exchange markets	-	-
31	bb, receivables in connection with investment services outside the exchange markets	-	-
32	bc, receivables from customers in connection with investment services	-	-
33	bd, claims from clearing corporations	-	-
34	be, receivables in connection with other investment services	-	-
35	**5. Debt securities, including fixed-income securities**	**5 000**	**9 987**
36	a, issued by local governments and other public bodies	-	-
	(not including treasury bills and similar securities)	-	-
37	aa, held for trading	-	-
38	ab, held as financial fixed assets	-	-
39	b, securities issued by other borrowers	5 000	9 987
40	ba, held for trading	5 000	9 987
41	Showing separately: -issued by affiliated companies	-	-
42	-issued by other companies linked by virtue of participating interests	-	-
43	-own shares repurchased	-	-
44	bb, held as financial fixed assets	-	-
45	Showing separately: -issued by affiliated companies	-	-
46	-issued by other companies linked by virtue of participating interests	-	-

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FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság Cg 01-10-043638

in HUF Million

Item No	Identification of item	31 December 2013	31 December 2014
a	b	c	e
47	**6. Shares and other variable-yield securities**	**-**	**-**
48	a, shares and participations in corporations held for trading	-	-
49	Showing separately: -issued by affiliated companies	-	-
50	-issued by other companies linked by virtue of participating interests	-	-
51	b, variable-yield securities	-	-
52	ba, held for trading	-	-
53	bb, held as financial fixed assets	-	-
54	**7. Shares and participations in corporations held as financial fixed assets**	**-**	**-**
55	a, shares and participations in corporations held as financial fixed assets	-	-
56	Showing separately: -participating interests in credit institutions	-	-
57	b, adjusted value of shares and participations in corporations held as financial fixed assets	-	-
58	Showing separately: -participating interests in credit institutions	-	-
59	**8. Shares and participating interests in affiliated companies**	**48 755**	**39 924**
60	a, shares and participations in corporations held as financial fixed assets	48 755	39 924
61	Showing separately: -participating interests in credit institutions	42 381	35 282
62	b, adjusted value of shares and participations in corporations held as financial fixed assets	-	-
63	Showing separately: -participating interests in credit institutions	-	-
64	**9. Intangible assets**	**2 016**	**1 617**
65	a, intangible assets	2 016	1 617
66	b, adjusted value of intangible assets	-	-
67	**10. Tangible assets**	**648**	**698**
68	a, tangible assets for financial and investment services	**643**	**695**
69	aa, land and buildings	273	231
70	ab, machinery, equipment, fittings, fixtures and vehicles	370	458
71	ac, tangible assets in course of construction	-	6
72	ad, payments on account	-	-
73	b, tangible assets not directly used for financial and investment services	**5**	**3**
74	ba, land and buildings	-	-
75	bb, machinery, equipment, fittings, fixtures and vehicles	5	3
76	bc, tangible assets in course of construction	-	-
77	bd, payments on account	-	-
78	c, adjusted value of tangible assets	-	-
79	**11. Own shares**	**29**	**207**
80	**12. Other assets**	**4 996**	**6 094**
81	a, stocks	150	344
82	b, other receivables	4 846	5 750
83	Showing separately: -from affiliated companies	1 221	1 232
84	-from other companies linked by virtue of participating interests	-	-
85	**13. Prepayments and accrued income**	**18 833**	**18 567**
86	a, accrued income	14 943	15 018
87	b, accrued costs and expenses	3 890	3 549
88	c, deferred charges	-	-
89	**TOTAL ASSETS**	**587 333**	**627 831**
	Showing separately: CURRENT ASSETS (1+2.a,+3.c,+3.a,+3.ba,+4.aa,+4.b,+5.aa,+5.ba,+6.a,+6.ba,+11+12)	**170 960**	**274 928**
	FIXED ASSETS (2.b,+3.bb,+4.ab,+5.ab,+5.bb,+6.bb,+7+8+9+10)	**397 540**	**334 336**

Date: Budapest , April 1, 2015

Gyula Köbli
CEO

Márton Oláh
Business Deputy CEO

FHB BANK

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Statistical code

FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság Cg 01-10-043638

BALANCE SHEET LIABILITIES AND EQUITY

in HUF Million

Item No	Identification of item	31 December 2013	31 December 2014
a	b	c	e
90	**1. Amounts owed to credit institutions**	**132 490**	**204 051**
91	a, repayable on demand	-	-
92	b, with agreed maturity dates or periods of notice in connection with financial services	132 490	204 051
93	ba, with remaining maturity of less than one year	132 490	204 051
94	Showing separately: -to affiliated companies	129 927	202 092
95	-to other companies linked by virtue of participating interests	-	-
96	-to the NBH	-	-
97	bb, with remaining maturity of more than one year	-	
98	Showing separately: -to affiliated companies	-	-
99	-to other companies linked by virtue of participating interests	-	-
100	-to the NBH	-	-
101	c, in connection with investment services	-	-
102	Showing separately: -to affiliated companies	-	-
103	-to other companies linked by virtue of participating interests	-	-
104	**2. Amounts owed to customers**	**818**	**713**
105	a, savings deposits	-	-
106	aa, repayable on demand	-	-
107	ab, with remaining maturity of less than one year	-	-
108	ac, with remaining maturity of more than one year	-	-
109	b, other liabilities in connection with financial services	818	713
110	ba, repayable on demand	714	634
111	Showing separately: -to affiliated companies	-	-
112	-to other companies linked by virtue of participating interests	-	-
113	bb, with remaining maturity of less than one year	104	79
114	Showing separately: -to affiliated companies	-	-
115	-to other companies linked by virtue of participating interests	-	-
116	bc, with remaining maturity of more than one year	-	-
117	Showing separately: -to affiliated companies	-	-
118	-to other companies linked by virtue of participating interests	-	-
119	c, in connection with investment services	-	-
120	Showing separately: -to affiliated companies	-	-
121	-to other companies linked by virtue of participating interests	-	-
122	ca, liabilities in connection with investment services on the stock exchange markets	-	-
123	cb, liabilities in connection with investment services outside the stock exchange markets	-	-
124	cc, liabilities to customers in connection with investment services	-	-
125	cd, liabilities to clearing corporations	-	-
126	ce, liabilities in connection with other investment services	-	-
127	**3. Debts evidenced by certificates**	**330 346**	**305 272**
128	a, debt securities in issue	330 346	305 272
129	aa, with remaining maturity of less than one year	65 028	124 313
130	Showing separately: -to affiliated companies	27 669	2 412
131	-to other companies linked by virtue of participating interests	-	-
132	ab, with remaining maturity of more than one year	265 318	180 959
133	Showing separately: -to affiliated companies	52 872	35 352
134	-to other companies linked by virtue of participating interests	-	-
135	b, other debt securities issued	-	-
136	ba, with remaining maturity of less than one year	-	-
137	Showing separately: -to affiliated companies	-	-
138	-to other companies linked by virtue of participating interests	-	-
139	bb, with remaining maturity of more than one year	-	-
140	Showing separately: -to affiliated companies	-	-
141	-to other companies linked by virtue of participating interests	-	-

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FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság Cg 01-10-043638

in HUF Million

Item No	Identification of item	31 December 2012	31 December 2014
a	b	c	e
142	c, debt instruments treated as securities for accounting purposes, which are not recognized as debt securities under the Capital Markets Act	-	-
143	ca, with remaining maturity of less than one year	-	-
144	Showing separately: -to affiliated companies	-	-
145	-to other companies linked by virtue of participating interests	-	-
146	cb, with remaining maturity of more than one year	-	-
147	Showing separately: -to affiliated companies	-	-
148	-to other companies linked by virtue of participating interests	-	-
149	**4. Other liabilities**	**713**	**608**
150	a, with remaining maturity of less than one year	713	608
151	Showing separately: -to affiliated companies	375	320
152	-to other companies linked by virtue of participating interests	-	-
153	-other contributions received from members in respect of co-operative credit institutions	-	-
154	b, with remaining maturity of more than one year	-	-
155	Showing separately: -to affiliated companies	-	-
156	-to other companies linked by virtue of participating interests	-	-
157	**5. Accruals and deferred income**	**36 907**	**38 324**
158	a, deferred income	22 316	24 872
159	b, deferred costs and expenses	14 591	13 452
160	c, deferred income	-	-
161	**6. Provisions for liabilities and charges**	**190**	**10 358**
162	a, provisions for pension and severance pay	-	-
163	b, provisions for contingent liabilities and for (future) commitments	177	166
164	c, general risk provisions	13	-
165	d, other provisions	-	10 192
166	**7. Subordinated liabilities**	**33 254**	**35 268**
167	a, subordinated loan capital	-	-
168	Showing separately: -to affiliated companies	-	-
169	-to other companies linked by virtue of participating interests	-	-
170	b, other contributions received from members in respect of co-operative credit institutions	-	-
171	c, other subordinated liabilities	33 254	35 268
172	Showing separately: -to affiliated companies	-	-
173	-to other companies linked by virtue of participating interests	-	-
174	**8. Subscribed capital**	**6 600**	**6 600**
175	Showing separately: - own shares repurchased on nominal value	5	25
176	**9. Subscribed capital called but unpaid (-)**	-	-
177	**10. Capital reserve**	**26 530**	**26 530**
178	a, difference between the par value and the purchase price of shares and securities (premium)	26 530	26 530
179	b, other	-	-
180	**11. General reserve**	**194**	**-**
181	**12. Profit reserve (±)**	**19 148**	**19 084**
182	**13. Tied-up reserves**	**29**	**207**
183	**14. Revaluation reserve**	**-**	**-**
184	**15. Profit or loss for the financial year (±)**	**114**	**-19 184**
185	**TOTAL LIABILITIES**	**587 333**	**627 831**

186	Showing separately: SHORT-TERM LIABILITIES [1.a,+1.ba,+1.c,+2.aa,+2.ab,+2.ba,+2.bb,+2.c,+3.aa,+3.ba,+3.ca,+4.a,]	**199 049**	**329 685**
187	LONG-TERM LIABILITIES [1.bb,+2.ac,+2.bc,+3.ab,+3.bb,+3.cb,+4.b,+7]	**298 572**	**216 227**
188	EQUITY CAPITAL [8-9+10+11+12+13+14+15]	**52 615**	**33 237**

300	CONTINGENT LIABILITIES	**4 559**	**4 466**
301	FUTURE LIABILITIES	**220 043**	**531 640**
302	TOTAL OFF-BALANCE SHEET LIABILITIES (ITEMS 300-301)	**224 602**	**536 106**

Date: Budapest , April 1, 2015

Gyula Köbli	Márton Oláh
CEO	Business Deputy CEO

12321942649211401

Statistical code

FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság Cg 01-10-043638

PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)

in HUF Million

Item No.	Identification of item		1 January, 2013 - 31 December, 2013	1 January, 2014 - 31 December, 2014
a	b		c	e
1	**1. Interest received and similar income**		**54 150**	**43 314**
2	a) interest received and similar income from fixed-income securities		5 059	2 632
3	Showing separately:	-from affiliated companies	-	-
4		-from other companies linked by virtue of participating interests	-	-
5	b) other interest received and similar income		49 091	40 682
6	Showing separately:	-from affiliated companies	5 878	4 105
7		-from other companies linked by virtue of participating interests	-	-
8	**2. Interest paid and similar charges**		**46 613**	**34 502**
9	Showing separately:	-to affiliated companies	12 152	7 831
10		-to other companies linked by virtue of participating interests	-	-
11	BALANCE (1-2)		***7 537***	***8 812***
12	**3. Income from securities**		**-**	**-**
13	a, income held for trading from shares and participations in corporations (dividends and profit-sharing)		-	-
14	b, income from participating interests in affiliated companies (dividends and profit-sharing)		-	-
15	c, I income from other securities (dividends and profit-sharing)		-	-
16	**4. Commissions and fees received or due**		**826**	**711**
17	a, in connection with other financial services		826	711
18	Showing separately:	-from affiliated companies	133	118
19		-from other companies linked by virtue of participating interests	-	-
20	b, in connection with investment services (not including trading operations)		-	-
21	Showing separately:	-from affiliated companies	-	-
22		-from other companies linked by virtue of participating interests	-	-
23	**5. Commissions and fees paid or payable**		**1 918**	**1 742**
24	a, in connection with other financial services		1 765	1 655
25	Showing separately:	-to affiliated companies	1 742	1 609
26		-to other companies linked by virtue of participating interests	-	-
27	b, in connection with investment services (not including trading operations)		153	87
28	Showing separately:	-to affiliated companies	78	47
29		-to other companies linked by virtue of participating interests	-	-
30	**6. Net profit or net loss on financial operations [6.a)-6.b)+6.c)-6.d)]**		**477**	**-7 798**
31	a, in connection with other financial services		2 698	2 289
32	Showing separately:	-from affiliated companies	51	-
33		-from other companies linked by virtue of participating interests	-	-
34	b, in connection with other financial services		2 221	10 087
35	Showing separately:	-to affiliated companies	601	-
36		-to other companies linked by virtue of participating interests	-	-
37	c, I in connection with investment services (income from trading operations)		-	-
38	Showing separately:	-from affiliated companies	-	-
39		-from other companies linked by virtue of participating interests	-	-
40	d, in connection with investment services (expenses on trading operations)		**-**	**-**
41	Showing separately:	-to affiliated companies	-	-
42		-to other companies linked by virtue of participating interests	-	-
43		-value adjustments in respect of securities held for trading	-	-
44		-valuation difference	-	-

12321942649211401
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FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság

Cg 01-10-043638

PROFIT AND LOSS STATEMENT (FINANCIAL INSTITUTIONS)

in HUF Million

Item No.	Identification of item	1 January, 2013 - 31 December, 2013	1 January, 2014 - 31 December, 2014
a	b	c	e
45	**7. Other operating income**	**3 869**	**2 414**
46	a, income from operations other than financial and investment services	2 060	2 214
47	Showing separately: -from affiliated companies	2 047	2 166
48	-from other companies linked by virtue of participating interests	-	-
49	b, other income	1 809	200
50	Showing separately: -from affiliated companies	34	38
51	-from other companies linked by virtue of participating interests		-
52	-value readjustments in respect of stocks	-	-
53	**8. General administrative expenses**	**5 703**	**5 486**
54	a, staff costs	1 950	2 110
55	aa, wages and salaries	1 393	1 468
56	ab, other employee benefits	133	184
57	Showing separately: -social security costs	8	9
58	-costs relating to pensions	3	3
59	ac, contributions on wages and salaries	424	458
60	Showing separately: -social security costs	371	395
61	-costs relating to pensions	-	-
62	b, other administrative expenses (materials and supplies)	3 753	3 376
63	**9. Depreciation**	**242**	**292**
64	**10. Other operating charges**	**5 442**	**4 368**
65	a, charges on operations other than financial and investment services	42	38
66	Showing separately: -to affiliated companies	-	-
67	-to other companies linked by virtue of participating interests	-	-
68	b, other charges	5 400	4 330
69	Showing separately: -to affiliated companies	35	1
70	-to other companies linked by virtue of participating interests	-	-
71	-value adjustments in respect of stocks	-	-
72	**11. Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments**	**2 973**	**12 520**
73	a, value adjustments in respect of loans and advances	2 823	2 134
74	b, risk provisions for contingent liabilities and for (future) commitments	150	10 386
75	**12. Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments**	**3 605**	**2 511**
76	a, value readjustments in respect of loans and advances	3 531	2 283
77	b, risk provisions for contingent liabilities and for (future) commitments	74	228
78	**13. Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests**	**-**	**1 058**
79	**14. Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests**	**158**	
80	**15. Profit or loss on ordinary activities (1-2+3+4-5+6+7-8-9-10-11+12-13+14)**	**194**	**-18 816**
81	Showi PROFIT OR LOSS ON FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5+6+7.b)-8-9-10.b)-11+12-13+14]	-1 824	-20 992
82	PROFIT OR LOSS ON OPERATIONS OTHER THAN FINANCIAL AND INVESTMENT SERVICES [7.a)-10.a)]	2 018	2 176
83	**16. Extraordinary income**	**202**	
84	**17. Extraordinary charges**	**269**	**562**
85	**18. Extraordinary profit or loss (16-17)**	**-67**	**-562**
86	**19. Profit or loss before tax (+15+18)**	**127**	**-19 378**
87	**20. Taxes on income**	**-**	**-**
88	**21. Profit or loss after tax (+19-20)**	**127**	**-19 378**
89	**22. General reserve (±)**	**13**	**-194**
90	**23. Profit reserves used for dividends and profit-sharing**	**-**	**-**
91	**24. Dividend and profit-sharing payable**	**-**	**-**
92	Showi -to affiliated companies	-	-
93	-to other companies linked by virtue of participating interests	-	-
94	**25. Profit or loss for the financial year (+21-/+22+23-24)**	**114**	**-19 184**

Date: Budapest, April 1, 2015

Gyula Köbli — CEO

Márton Oláh — Business Deputy CEO

FHB Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2014

(translation)

Budapest, 1 April 2015

FHB BANK

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2014

I. GENERAL NOTES

I/1. Description of FHB Land Credit and Mortgage Bank Public Limited Company

FHB Mortgage Bank Public Limited Company (hereinafter FHB Plc, FHB Mortgage Bank Plc, Bank) was established on 21 October 1997 under the name of FHB Land Credit and Mortgage Bank Company.

The Bank's share capital is HUF 6,600,001,000 Ft, the total amount of which was contributed in cash.

The Bank's share capital is comprised of 66,000,010 registered shares of HUF 100 par value each.

The share capital includes the following types of shares:

- 66,000,010 ordinary Class A registered shares at a total nominal value of HUF 6,600,001,000.

FHB Plc.'s ownership structure

Shareholders	Number of shares (pcs)		Ownership share in the share capital (%)	
	31.12.2013	31.12.2014	31.12.2013	31.12.2014
Series "A" ordinary shares listed on the Budapest Stock Exchange				
Domestic institutional investors / companies	38,040,017	40,475,017	57.64	63.32
Foreign institutional investors / companies	14,297,742	14,297,742	21.66	21.66
Private individuals	5,136,154	5,136,154	7.78	7.78
MNV Ltd.	4,724,833	4,832,225	7.16	7.32
FHB Plc.	53,601	253,601	0.08	0.38
Other	3,747,663	1,005,271	5.68	1.53
Total	**66,000,010**	**66,000,010**	**100.00**	**100.00**

The Bank's operations are provided for by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (new Credit Institution Act), as well as Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.

The Bank's core business as a specialized credit institution includes provision of long-term loans secured by mortgaged properties as a collateral, and issue of special long-term securities (mortgage bonds).

In 2011 the FHB Mortgage Bank Plc. significantly revamped its investments to be able to be up to the challenges of the market. On one hand the Allianz Bank Limited, which was acquired in the course of 2010, was merged by acquisition into the FHB Commercial Bank in H1 of 2011. In the second half of the year the FHB Service Limited – after its assets and liabilities were reviewed and restructured – was sold outside the Group, and along with it the majority of the previously outsourced activities were insourced to the banks. The revamp was completed in December 2011. Accordingly, as of 31 December 2014 the members of the FHB Group under consolidated supervision are as follows:

- FHB Mortgage Bank Plc.,
- FHB Commercial Bank Ltd.,
- FHB Real Estate Leasing Ltd.,
- FHB Real Estate Ltd.,
- FHB Invest Befektetési és Ingatlankezelő Ltd.,
- Diófa Alapkezelő Ltd.,
- Díjbeszedő Faktorház Ltd.,
- Magyar Posta Befektetési Szolgáltató Ltd.

In the course of 2014 the business relations between the FHB Group members further broadened in line with the strategic concept of the Group.

The FHB Mortgage Bank Plc., as a revamp of the operation of the group, provides part of the resources required for the general operation of the Group members - which resources were previously provided by FHB Service Ltd., renamed to EXO-BIT Ltd. - by means regulated by the contracts taken over and the individual contracts on providing services to each Group member within the Service Limited, the so called Service Level Agreements, and the individual property and other lease agreements and operational agreements. Some of the services previously provided by the FHB Service Ltd. are currently provided by the FHB Commercial Bank Ltd. and the rest of the services by EXO-BIT Ltd.

The scope of services provided by the FHB Mortgage Bank Plc. as follows:

- Full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision;
- Provision of full-fledged material conditions in the context of lease and operation agreements – except the branch offices of the Commercial Bank;
- Partial operation of the IT infrastructure required for the operation.

The FHB Commercial Bank, as the agent of the Mortgage Bank, entirely does direct lending furthermore complete loan aftercare and qualified loan management, and at the same time the FHB Commercial Bank, in order to have favorable funding costs, has majority of its loans refinanced by the FHB Mortgage Bank.

The FHB Real Estate Leasing Ltd. provides mortgage based financing to retail and corporate customers, furthermore sells leasing products.

NET Annuity and Real Estate Investment Ltd. (earlier FHB Annuity and Real Estate Investment Ltd.) was involved in the sales of reverse mortgage products as the Mortgage Bank's agent and provided the life annuity contracts as its own products.

The FHB Real Estate Ltd. especially helps to carry out the tasks specified in the FHB Mortgage Bank Plc.'s strategic concept with the FHB Group's activities including cover valuation, real estate sales, furthermore real estate management and real estate valuation.

After the acquisition the Diófa Alapkezelő Ltd. – besides carrying on and strengthening real-estate investments, pension fund wealth management and tailor made solutions for institutional clients – handles new retail funds which have been launched in the branch network of FHB Group.

FHB Mortgage Bank's operation for the past period is characterized by the following key data and indicators:

Major financial indicators	FHB data	
	31 Dec 2013	31 Dec 2014
Balance sheet total (million HUF)	587,333	627,831
Mortgage loans (million HUF)	344,646	315,675
Mortgage bonds outstanding (million HUF)	225,601	199,488
Bonds outstanding (million HUF)	104,745	105,784
Own equity (million HUF)	52,615	33,237
Adjusted capital (million HUF)	31,395	65,958
Capital adequacy ratio (%)	22.91	29,52
After-tax profit (million HUF)	127	-19,378
CIR (operating costs / gross operating profit) (%)	85.55	829.1
ROAA (return on average assets) (%)	0.02	-3.19
ROAE (return on average equity) (%)	0.24	-45.14

I/2. Key elements of the accounting policy

The aim of the accounting policy is to set up the accounting of economic and financial events and establish the technicalities of accounting; to synchronize financial activities and their accounting; to determine the key operating principles and conditions of accounting in order to help the Bank's various investors understand and follow the company's actual financial position and profitability through the Bank's annual reports.

The accounting policy is based on the provisions of Act C of 2000. It applies Government Decree No. 250/2000 on the Special Provisions regarding the Annual Reporting and Book-Keeping Obligations of Credit Institutions and Financial Enterprises, and also observes the provisions of Act CXII of 1996 on Credit Institutions and Financial Enterprises, Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, Act CXX of 2001 on the Capital Market, as well as relevant provisions of the Hungarian National Bank and the Ministry for National Economy in order to assist the Bank in realizing its primary objectives.

The Bank's accounting policy determines the rules for the valuation of assets and liabilities, as well as the contents of the balance sheet, the profit and loss statement and the notes to the consolidated financial statement.

In accordance with the provisions of the Accounting Act, the Bank applies double-entry book keeping and issues annual reports.

The balance sheet is prepared in accordance with Annex 1 of Government Decree No. 250/2000 and the profit and loss statement is made in a vertical format, as required by Annex 2 of the same Decree.

The Bank's accounting systems

The Bank uses BANKMASTER for client registration, accounting and basic transactions, which transfers data by controlled posting into the Bank's general ledger, SAP integrated company management system.

Error distorting true and fair view

Errors identified in the course of audits performed by external bodies or the internal audit department shall be considered to be errors distorting true and fair view for the purposes of the Bank if the shareholders' equity in the balance sheet of the business year before the year in which the error was disclosed changes by at least 20%.

Level of material and minor errors

Errors identified in the course of various audits shall always be considered to be material for the purposes of the Bank, if the aggregate impact of such errors, in the year in which the errors were disclosed, result in any changes (increases or decreases) in the shareholders' equity, financials or income in excess of 2% of the audited business year's balance sheet total. When the 2% of balance sheet total not exceeding of HUF 1 million, the margin for the above errors is HUF 1 million.

Balance sheet

Within the scope of the accounting principles the Bank set forth the balance sheet date to be 31st December of the year of reporting. The balance sheet is prepared in 10 workdays after the balance sheet date.

Tangible Assets under the purchase value of HUF 50,000 shall be accounted in a lump sum by the Company as costs at the time of the purchase.

Balance sheet and off balance sheet foreign exchange liabilities and receivables shall be recorded by the Bank at the NBH's (National Bank of Hungary) exchange rate valid as of the balance sheet date.

Within accruals, apart from general terms, the Bank's special terms include the following: accrual of interest earned and owed, as well as accrual (for the time of maturity) of negative or positive variances (exchange rate variances) between the proceeds from the issue of interest-bearing securities and their par value. Accruals and deferrals shall be registered at contract value.

Liabilities to customers include credit related interest and capital repayments paid in by customers but not yet due as well as cash received as surety from customers based on customer contracts. The utilization of surety for credit repayment takes place in circumstances stipulated in the contract.

Profit and Loss Statement

The Profit and Loss Statement calculates the retained profit of the year, while observing the provisions for the accumulation and accounting of credit institution reserves and losses.

Depreciation and amortization on tangible and intangible assets is reported monthly *pro rata temporis*, by including changes that occur during the year.

The Bank when accounting foreign currency swaps aiming liquidity, which usually mature within one year, examines the swaps not closed before balance sheet date and realizes the profit or loss proportionate to the current year in interest income or interest expense. Thereafter the Bank determines the foreign currency difference originating from the revaluation of swap related currency amount. These transactions are accounted as the foreign currency swaps for interest arbitrage according to the regulations of the Government Decree. Depending on the nature of profit or loss, profit is accounted to deferred income; loss is accounted to accrued expense, and will be released when the swap deal will be closed.

Notes to the Financial Statements

The notes to the financial statements contain the numerical data and narrative explanations, which help shareholders, investors and creditors to have a better understanding and analysis of certain lines in the balance sheet and the P/L statement. These notes provide additional information on the Bank's activities, as well as details on certain balance sheet and P/L data. Depending on their contents, data are grouped by the Bank in the Notes to the financial statement in the following sections:

- General notes,
- Specific notes,
- Information.

Business Report

Apart from the events of the accounting period, the Bank discusses issues and plans with significant present and future reference in its Business Report.

The Business Report contains information on:

- the analysis of the Bank's activities and course of business with regards to the accounting period, as well as their future impact;
- significant events occurring after the balance sheet date;
- changes with an impact on the ownership structure;
- the human resources policy;
- the research and development;
- the presentation of the branches; and
- any additional information considered important by the Bank.

I/3. Information

1. Information on shareholders with significant or majority interest

None of the Bank's shareholders has a majority interest under Act V of 2013 on Civil Code.

2. Information on the Bank's risks in excess

Section 392 of regulation no 575/2013/EU prescribes that risks are considered in excess when the total risks provided for a customer or group of connected customers is equal to or exceeds 10% of the credit institution's solvency capital (own funds). As of 31 December 2014 the Bank had no client with risks in excess as described above.

3. Compliance with mortgage lending provisions

- Within the total balance of mortgage loans, 98.98% have a maturity over five years compared tothe minimum requirement of 80.0% as stipulated by Subsection (1) Section 5 of Act XXX of 1997.
- Total outstanding mortgage loan balance does not exceed 70% of the collateral value of real estate as provided for by subsection (3), Section 5 of Act XXX of 1997. The rate was 38.93% as of 31 December 2014.

4. Compliance with the provisions on investment

As at 31 December 2014 the Bank have the following investments:

FHB Commercial Bank Ltd.,

FHB Real Estate Ltd.

Diófa Alapkezelő Ltd. and

FHB Invest Befektetési és Szolgáltatási Ltd.

Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.

All of the Bank's investments are in conformity with Section 9(1) of Act XXX of 1997 providing limitations of direct and indirect ownership. The aggregate value of investment by the Bank does not exceed 10% of the adjusted capital, as set forth by Section 9(2) of the Act.

5. Compliance with the provisions on the issue of mortgage bonds

- As of 31 December 2014, surpassing the provisions of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – HUF 199.488 million – of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to HUF 276.905 million considered as ordinary collateral.

- As of 31 December 2014, surpassing the provisions of Paragraphs (1, 2b) Section 14 of Act XXX of 1997, the Bank's interest on net ordinary collateral exceeded the interest on the nominal value of mortgage bonds outstanding, HUF 38,304 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 116,722 million.

- No supplementary collateral according to Article 14 (11) of Act XXX of 1997 on Mortgage Banks and Mortgage Bonds was involved by 31 December 2014.
- Pursuant to Section 14(1) of the Act on Mortgage Banks and Mortgage Bonds mortgage banks must at all times have sufficient cover assets of a value higher than the sum of the face value of and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(43) of Act XLVIII of 2004, as of 1 January 2006 mortgage banks must also at all times ensure cover for mortgage bonds at present value.

  The rules of calculating the present value of assets used as cover for mortgage bonds are set forth by Decree 40 of 2005 (9 December) by the Minister of Finance. The Decree provides for the present value of mortgage bonds and cover assets to be assessed for each banking day. In cases where the present value of cover assets does not exceed the present value of outstanding mortgage bonds in circulation the mortgage bank must proceed to supplement the missing cover as stipulated in the rules of collateral registration.

  Since the statutory provisions described above entered into effect FHB has established, on a daily basis, the present value of mortgage bonds as well as collateral relying on the zero coupon yield curve determined from the actual yield curve at any time, and ensures their adequacy.

  As of 31 December 2014 the present value of ordinary collateral was HUF 314,906 million and that of mortgage bonds was HUF 230,252 million, which means the present value of cover assets exceeded the present value of outstanding mortgage bonds in circulation.

  Pursuant to the provisions of the Decree by the Minister of Finance cited above the Bank has applied a quarterly sensitivity test since 2006 to check the availability, at present value, of collateral exceeding the nominal value and interest in HUF in the case of changes in interest rates and/or exchange rates. The effect of changes in the interest rate on present value is examined statically, by parallel shifting of the zero coupon yield curve 250 base points upwards and downwards. The static method of analysis is also used in the assessment of exchange rate risk as provided for by the Decree of the Minister of Finance.

  The sensitivity analysis conducted on 31 December 2014 showed the surplus cover of the mortgage bonds in circulation and the present value of their coverage as required by the relevant statutory provisions.

6. Information on mortgage bonds issued

- As of 31 December 2014 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 808,565 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 16,607 million as of 31 December 2014.
- The Bank organised repurchase of its listed and non-listed mortgage bonds and bonds four times in 2014. By an active ALM, the Bank further improved the harmonization of maturity, mitigated the concentration of maturity for the coming years, and cut its funding costs as a result of the favorable yield spread and commission structures.

7. Information on the rating of banking activities, accounting of impairment and provisions

The Bank has carried out the rating of receivables and liabilities. On 31 December 2014, the portfolio of receivables and liabilities, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments, was HUF 552,692 million in total. As a result of the rating, based on the Government decree and internal regulations, 91.44% of the total portfolio is problem-free prime, 4.43% is on the watch list, 1.71% is classified as sub-prime, 1.82% is rated as doubtful, and 0.60% as bad debt.

As of 31 December 2014, the Bank recorded HUF 9,083 million impairment from receivables, and a risk provision of HUF 166 million for contingencies.

On basis of the qualification of strategic investments at the end of the year 2014, the Bank booked impairment in the amount of HUF 1,058 million to its subsidiary, the FHB Commercial Bank Ltd.

8. Information on the general risk provision

From 30 September 2012 the Mortgage Bank – in compliance with Section 87 of Act CXII of 1996 on Credit Institutions and financial enterprise – created general risk provisions to cover any unforeseeable and indeterminable losses in connection with exposures. The "new Credit Institutions Act" abolished the possibility of provisioning for general risk and according to the Section 13 (7) of the Government Decree No. 250/2000 (XII.24.) the Bank released/used the amount of previously recognized general risk provision in 2014.

9. Information on the general reserve

According to Section 83 of the Credit Institutions Act a credit institution shall create general reserves from its after-tax profits prior to paying dividends and shares, which shall be ten percent of the after-tax profits of the year. In 2014 the Bank has not created general reserves and the opening amount has been used for the losses of the year.

10. Impairment of other receivables

As of 31 December 2014 no such losses were recorded by the Bank.

11. Information on the Bank's shares

- The Bank assigned KELER Ltd. to maintain the Register of Shares in accordance with the relevant legal provisions.

  Payment of dividends for the years 2003 through 2006 is also carried out by KELER Ltd. The income from the expired liabilities booked as an extraordinary income on 30 June 2013.

  In 2014 dividend payment has not been made.

12. Derivative deals

- As of 31 December 2014 the following OTC hedging futures are recorded by the Bank:
  - interest swap transactions, in which cases the value of future liabilities undertaken was HUF 959 million, and the value of related future receivables was HUF 861 million.
  - foreign exchange swaps with future receivables of CHF 330 million (HUF 86.511 million), EUR 626 million (HUF 196.964 million) and HUF 159.227 million, and related future liabilities of CHF 550 million (HUF 144,060 million), EUR 604 million (HUF 190.078 million) and HUF 122.600 million.
- In relation to the OTC hedging futures existing on 31 December 2014, the P/L statement already recorded HUF 591 million (EUR 1.88 million), HUF 4,039 million accrued interest, as well as HUF 1,311 million (CHF 5.01 million), HUF 372 million (EUR 1.18 million) and HUF 82 million interest expenditure.
- Swaps for hedging purposes are based on mortgage bonds denominated in EUR, HUF-denominated bonds and EUR-denominated long-term interbank loans. The swap parameters (amount and type of foreign exchange, interest, maturity etc.) are identical with the parameters of the mortgage bond and FEX loan.
- Liquidity swaps involve CHF 47 million (HUF 12.428 million), EUR 181 million (HUF 56.995 million) and HUF 3,836 million future receivables and CHF 220 million (HUF 57,493 million), EUR 37 million (HUF 11.651 million), USD 15 million (HUF 4,016 million) HUF 783 million future liabilities.
- HUF 2.8 million deferred interest expense and HUF 71 million accrued interest income related to liquidity swaps open on balance sheet date were accounted.

13. Other banking information

- In accordance with the Government Decree, the value of pending interest – which is 34.27 % of interest on receivables from customers, reported in 2014 – was HUF 2,822 million as of 31 December 2014 (2013: HUF 2,237 million) and the value of pending interest type commission was HUF 536 million (2013: HUF 409 million). During the reported year the Bank received HUF 415 million from interest that was pending before the year of reporting, of which HUF 51 million was accrued in the 2013 financial statement.
- The amount of absolute guaranty from customers backing the receivables from customers (private persons), was HUF 23,261 million (2013: HUF 25,963 million) and the amount of government guaranty was HUF 4,089 million (2013: HUF 4,604 million).

  Receivables covered by life insurance taken out by debtors amounted to HUF 14,665 million (2013: HUF 15,448 million).
- The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 3,589 million as of 31 December 2014. The cooperation agreement with the credit institutions includes a deficiency guaranty and loss sharing in favor of the Bank. Within the deficiency guaranty, the partner bank takes over a certain amount of liabilities, which the Bank recorded as non-recurring losses/provision on loans and advances. The partner bank undertakes deficiency guarantee to the extent of lending losses suffered by the Bank that cannot be recovered by any other means. According to the loss-sharing agreement, the syndicated partner undertakes 40-60% of losses/provision on loans and advances.
- Within the amounts of the liabilities from clients the contractual value of restructured liabilities was HUF 25,319 million as of 31 December 2014; its value according to the registration was HUF 21,165.
- Foreclosure procedure is in progress with regard to 150 terminated deals on 31 December 2014 that are accounted for HUF 804.7 million. The Bank initiated new auction procedures in case of 18 terminated deals in 2014 that are accounted for HUF 55.6 million and in case of 221 deals joined to outside enforcement proceedings for executors' invitations.

15 pieces of transactions – terminated in the base period – got out of the portfolio from the transactions affected by enforcement proceedings initiated by the Bank.

In all of 5 pieces of auctions (8 deals) completed in the current period, the real estate serving as collateral were auctioned by outside enforcement proceedings.

The total purchase price achieved at the auction is HUF 31.5 million and the amount calculated for our Bank after the pay-out plan covered the debt to the Bank only in one case, the acting bailiff is still carrying on the proceedings in case of the other open transactions.

The purchase price achieved at the auction and the amount calculated for our Bank after the pay-out plan covered the debt to the Bank in one cases, the acting bailiff is still carrying on the proceedings in case of the other transactions.

In case of a successful auction the bailiff suspended the procedure, after the coming into effect of Act XXXVIII of 2014 on 26 July 2014. In this case the pay out plan will be executed and the purchase price will be transferred just after the settlement by the Bank prescribed in the Act.

In order to reduce and avoid loss related to mortgage lending, the data of properties received as a result of execution are as follows:

Number	13 pieces
Legal characteristics	
Taken into possession	12 pieces
Taken into ownership, but accession	
not yet realized	1 pieces
Sold from the properties received	4 pieces

- Till 31 December 2014 the Bank offered 178 pieces of properties (2013: 320 pieces) to the NET (National Asset Management Ltd), to which 338 pieces of transactions were related (2013: 571 piecesFrom the offered properties in 2013 and 2014 190 pieces of properties (2013: 237 pieces) were purchased in the amount of HUF 574 million and together with that 304 pieces of transactions in the amount of HUF 1,008 million (2013: 394 pieces and HUF 1,270 million) were closed till 31 December 2014.

- In the scheme of „FX rate protection" - in relation of the retail FX loans - the Bank recorded 3,338 buffer accounts in its books in 2014.
- As of 31 December 2014, the amount of principal repayment from mortgages for the reported year was HUF 47,760 million, of which HUF 18,923 million was mortgage repayment from customers and 28,837 was repayment from credit institution refinancing.
- As set forth by the provisions of the Government Decree, during the preparation of the balance sheet the Bank has to move the amount of receivables and liabilities that is due in the year following the reported year from long term to short term receivables and liabilities. Accordingly, the Bank restructured HUF 19,867 million from long-term receivables from customers and HUF 32,507 million from long-term receivables from credit institutions into short-term receivables. From long-term liabilities due to issued mortgage bonds HUF 79,741 million, due to issued bonds HUF 44,572 million were moved to short-term liabilities.
- Of the HUF 53,436 reported by the Bank in the 31 December 2014 balance sheet as listed government securities.
- The closing balance of contains purchased inventory amounted to HUF 7 million, properties for sale amounted to HUF 207 million and repossessed real estate amounted to HUF 146 million on 31 December 2014. For the repossessed real estate HUF 16 million impairment loss was recognized.

- The “Expenditures on investment services” line item of the profit and loss statement recorded HUF 87 million sales expenditures related to the sales of mortgage bonds
- As a result of sales of services within the Group companies, as of 31 December 2014 the Bank had receivables from subsidiaries amounting to HUF 1,092 million in the following breakdown:

FHB Commercial Bank Ltd.	HUF 1,069 million
FHB Real Estate Ltd.	HUF 23 million

The Bank recorded HUF 320 million liabilities for services extended by its subsidiaries in the following breakdown:

FHB Commercial Bank Ltd.	HUF	175 million
FHB Real Estate Ltd.	HUF	145 million

The Bank’s assets also include CHF 70,6 million (HUF 18,487 million), USD 3,2 million (HUF 829 million) current HUF 600 million long term interbank deposit, and CHF 121 million (HUF 31,646 million), EUR 30 million (HUF 9,447 million) and HUF 161,000 million interbank deposit from FHB Commercial Bank Ltd.

- The part of the members of FHB Group are subject to group taxation headed by FHB Mortgage Bank Plc. No VAT is incurred by services extended within the tax group.

14. Additional information

- The Bank has no pension payment obligations to its previous senior management members.
- The Bank did not provide long-term loans for its associated enterprise. The Bank did not maintain or use provisions for its subsidiary.
- The Bank did not record any export sales to countries within or outside of the European Union. The Bank did not receive any export subsidies.
- The Bank did not receive any disbursement without return from subsidy programs. Subsidy programs include subsidies and allocations disbursed from central government, local government and/or international funds, as well as other business enterprises for the upkeep and development of activities.
- The Bank did not engage in research and development activities in 2014.
- The Bank does not own any tangible assets intended for direct environmental protection purposes, nor any hazardous waste and pollutants. The Bank does not have any present or future environmental obligations or environmental protection costs.
- In 2014 the Bank was not a member of the National Deposit Insurance Fund nor of any voluntary deposit insurance fund, institution protection fund or investor protection fund.
- The Bank’s assets are not encumbered with mortgage or any other similar rights.
- The Bank did not carry out any reverse transactions in 2014.

15. Changes in the legal and regulatory environment and its effect on the financial statements of the Bank

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 null 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.

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.

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[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.

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.

<u>The effect of legal changes on the financial statements of the Bank</u>

The Bank 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 10,184 million - the Bank 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 Bank 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 Bank accounted HUF

788 million FX loss on gross loan portfolio and accrued interest, HUF 69 million FX gain on impairment, and HUF 148 million FX gain on the generated provision (in total HUF 571 million FX loss).

In the calculation of the current income tax the amount of the generated provision considered as an increasing item. The Bank did not recognize 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 Bank entered into spot and swap transactions 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.

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).

16. Other information

- As a result of the revamp of the Group the FHB Mortgage Bank Plc. has been keeping its books and accounts since December 2011 despite of the previous practice.

  Public data on record:

  Gyula Köbli Registration number: 005394 Residence: 1192 Budapest, Szent Imre u. 4.

- In the 2014 business year the Company employed Deloitte Auditing and Consultiung Ltd. (seated: 1068 Budapest, Dózsa György út 84/C., corporate registration number: 01-09-071057; auditors' chamber id: 000083; Hungarian Financial Supervisory Authority id: T-000083/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Mr. Tamás Horváth (mother's name: Veronika Grósz; address: 1028 Budapest, Bölény u. 16; auditors' chamber id: 003449; Hungarian Financial Supervisory Authority id: E003449; hereinafter referred to as: „personally assigned auditor").

  The audit fee of the Auditor for performing the annual audit of the financial reports of the Company on year 2014 was HUF 14.6 million. In addition to the annual audit, the Bank assigned the Deloitte Ltd to perform other non-audit services, and paid all together HUF 1.3 million for them.

- The following persons are authorised to represent FHB Mortgage Bank Public Limited Company and sign the Company's annual report:

Gyula Köbli	Chief Executive Officer
	1192 Budapest, Szent Imre u. 4.
Márton Oláh	Deputy Chief Business
	1145 Budapest, Colombus u. 56/B 3. em. 11.

- The Bank's Annual Report can be inspected at the Company's registered office and on its website www.fhb.hu.
- The Company's registered office: 1082 Budapest, Üllői út 48.

I /4. Changes in own equity
31 December 2014

Data in million HUF

	Subscibed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve	Balance Sheet profit	Total own equty
31 December 2013	**6 600**	**26 530**	**194**	**19 148**	**29**	**114**	**52 615**
Use of general reserve	-	-	-194	-	-	-	**-194**
2013 profit				114		-114	
Creation of fixed reserve	-	-	-	-178	178		**-**
2014 profit	-	-	-	-	-	-19 184	-19 184
31 December 2014	**6 600**	**26 530**	**0**	**19 084**	**207**	**-19 184**	**33 237**

FHB BANK

II. SPECIFIC PART

II / 1. Changes in gross values of intangible and tangible assets

31 December 2014

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		49	-	12	-	61
b/ Intellectual products		2 017	-	357	-	2 374
d/ Goodwill		792	-	-	640	152
Total intangible assets :	**9.**	**2 858**	-	**369**	**640**	**2 587**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	354	-		-	354
b/ Plant, machinery installations, vehicles	10. ab)	592	-	243	64	771
c/ Investments	10. ac)	-	-	616	610	6
d/ Advances on investments	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**946**	-	**859**	**674**	**1 131**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Investments	10. bc)	-	-	-	-	-
d/ Advances on investments	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**10**	-	-	-	**10**

FHB BANK

II / 2. Changes in accumulated depreciation of intangible and tangible assets

31 December 2014

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		14	-	8	-	22
b/ Intellectual products		828	-	120	-	948
c/ Value of formation / reorganization		-	-		-	-
Total intangible assets :	**9.**	**842**	-	**128**	-	**970**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	80	-	43	-	123
b/ Plant, machinery installations, vehicles	10. ab)	223	-	119	29	313
c/ Investments	10. ac)		-		-	-
d/ Advances on investments	10. ad)		-		-	-
Total tangible assets of financial services:	**10. a)**	**303**	-	**162**	**29**	**436**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	5	-	2	-	7
c/ Investments	10. bc)	-	-	-	-	-
d/ Advances on investments	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**5**	-	**2**	**-**	**7**

FHB BANK

II / 3. Changes in net values of intangible and tangible assets

31 December 2014

Data in million HUF

Description	Balance sheet line	Changes in net values	
		Opening balance	Closing balance
I. Intangible assets :			
a/ Valuable rigths		35	39
b/ Intellectual products		1 189	1 426
c/ Value of formation / reorganization		792	152
Total intangible assets :	**9.**	**2 016**	**1 617**
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)	274	231
b/ Plant, machinery installations, vehicles	10. ab)	369	458
c/ Investments	10. ac)		6
d/ Advances on investments	10. ad)	-	-
Total tangible assets of financial services:	**10. a)**	**643**	**695**
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)	-	-
b/ Plant, machinery installations, vehicles	10. bb)	5	3
c/ Investments	10. bc)	-	-
d/ Advances on investments	10. bd)	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**5**	**3**

II / 4. Changes in depreciation of intangible and tangible assets in the subject year

31 December 2014

Data in million HUF

Description	Planned depreciations	Over-plan depreciations, shrinkage
I. Intangible assets		
1/ Valuable rights	8	-
2/ Intellectual products	121	-
3/ Value of formation / reorganization	-	640
Total intangible assets	**129**	**640**
II.1. Tangible assets of financial services:		
1/ Land and buildings	43	-
2/ Plant, machinery installations, vehicles	119	-
3/ Investments	-	-
Total tangible assets of financial services:	**162**	-
II.2. Tangible assets of non-direct financial services		
1/ Land and buildings	-	-
2/ Plant, machinery installations, vehicles	1	-
Total tangible assets of non-direct financial services:	**1**	-
III. Depreciation of tangible and intangible assets of a value below HUF 50,000 each accounted in a sum	-	-
T o t a l :	**292**	**640**

II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2014

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2014	Portfolio of 31 December 2014 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	183 202	154 152	29 050	-	-	-	-
- Long term	3.bb)	192 871	-	-	71 708	68 529	34 838	17 796
Accounts receivable from customers :								
- Short term	4. aa)	19 867	11 044	8 823	-	-	-	-
- Long term	4. ab)	109 024	-	-	39 856	40 716	17 587	10 865
- Accounted value loss	from 4. ab)	-9 798	-	-	-	-	-	-
T o t a l :		**495 166**	**165 196**	**37 873**	**111 564**	**109 245**	**52 425**	**28 661**

II / 6 . Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)
31 December 2014

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2014	Portfolio of 31 December 2014 without value loss broken down by residual times to maturity						
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years	No maturity
		1 = 2+...+8	2	3	4	5	6	7	8
Accounts payable to credit institutions :									
- Short term	1. ba)	204 051	204 051	-	-	-	-	-	-
- Long term	1. bb)	-	-	-	-	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+	79	79	-	-	-	-	-	-
	2. bb)	-	-	-	-	-	-	-	-
- Long term	2. ac)+	-	-	-	-	-	-	-	-
	2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	124 313	8 264	116 049	-	-	-	-	-
- Long term	3.ab)	180 959	-	-	164 352	16 607	-	-	
Subordinated accounts payable	7.	35 268	-	-	-	-	-	-	35 268
T o t a l :		**544 670**	**212 394**	**116 049**	**164 352**	**16 607**	**-**	**-**	**35 268**

FHB BANK

II / 7 . Items to modify corporate tax base

31 December 2014

Data in million HUF

Items to decrease pre-tax profit	Amount	Items to increase pre-tax profit	Amount
1. Planned and over-plan depreciation applicable according tothe provisions of Corporate Tax Act.	931	1. Planned depreciation accounted as cost according to Accounting Act.	292
2. Expenses related to sale of properties according to the provisions of Corporate Tax Act.	30	2. Over-plan depreciation accounted as cost according to Accounting A	640
3. Items to increase pre-tax profit of the previous years (revenues)	0	3. Expenses related to sale of properties according to Accounting Act	30
4. Reversal of provision for pending litigations	5	4. Items to decrease pre-tax profit of the previous years (expenses)	
		5. Provision for pending litigations	1
		6. Assumption of debt	130
		7. Provision for expected liabilities	10 184
T o t a l :	**966**	**T o t a l :**	**11 277**

Pre-tax profit (19 of P&L statement):	**-19 378**
The amount of the released receivables which was reimbursed by the State	356
Corporate income tax base (after the deduction of the revenues which are exempt based on the Special Banking Tax Act)	**-19 734**
Items to increase pre-tax profit	11 277
Items to decrease pre-tax profit	966
Corporate tax base:	**-9 423**
Tax payable	**0**

FHB BANK

II / 8 / a. Changes in provisions

31 December 2014

Data in million HUF

	Description	Opening balance	Writing off of credit losses	Creation of privision	Writing back of provision	FX differences	Closing balance
1.	Provision for securities	-	-	-	-	-	-
2.	Provision for accounts receivable	-	-	-	-	-	-
3.	Provision for inventories	-	-	-	-	-	-
4.	Provision for financial investments	-	-	-	-	-	-
5.	Provision for off-balance-sheet items	177	-	213	226	2	166
6.	Provision for possible future obligation	-	-	10 184	-	156	10 340
7.	Margin of provision for possible futute obligation					-148	-148
8.	Provision for general risks	13	-	-	13	-	0
9.	Other provisions	-	-	-	-	-	-
	Total provisions : (1. - 8.)	**190**	-	**10 397**	**239**	**10**	**10 358**

II / 8 / b. Changes in value losses

	Description	Opening balance	Writing back of value losses of previous year	Writing back of value losses in subject year	Value losses accounted in subject year	FX differences	Closing balance
1.	Value loss of accounts receivable from credit institutions	-	-	-	-	-	-
2.	Value loss of accounts receivable from customers	8 917	2 283	772	2 906	246	9 014
3.	Value loss of shares for investment purposes	-	-	-	1 058	-	1 058
4.	Value loss of accounts receivable	5	-	-	11	-	16
	Total value losses: (1. - 4.)	**8 922**	**2 283**	**772**	**3 975**	**246**	**10 088**

FHB BANK

II / 9. CASH-FLOW

Data in million HUF

No.	Description	31 December 2013	31 December 2014
01.	Interest received	54 150	43 314
02.	+ Incomes from other financial services	3 524	3 000
03.	+ Other incomes (without use of provision and writing back of surplus provision, value loss of inventories and over-plan depreciation	1 810	200
04.	+ Incomes from investment services (except for writing back of value loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	2 060	2 214
06.	+ Dividend received	-	-
07.	+ Extraordinary income	202	-
08.	- Interest paid	-46 614	-34 502
09.	- Expenses on other financial services (without value loss of securities)	-3 985	-11 742
10.	- Other expenses (except for creation of provision and value loss, over-plan depreciation)	-5 401	-4 331
11.	- Expenses on investment services (without value loss of securities)	-153	-87
12.	- Expenses on services other than financial and investment ones	-42	-38
13.	- General administration costs	-5 703	-5 486
14.	- Extraordinary expenses (without taxation in subject year)	-269	-562
15.	- Corporate tax payable in subject year	-	-
16.	- Dividend paid	-	-
17.	**Operating cash flow (lines 01.-16.)**	**-421**	**-8 020**
18.	± Changes in accounts payable	-49 211	48 291
19.	± Changes in accounts receivable	53 906	-88 425
20.	± Changes in inventories	-34	-194
21.	± Changes in portfolio of securities indicated as current assets	6 832	39 401
22.	± Changes in financial investments	2 692	7 773
23.	± Changes in portfolio of investments (including advances)	6	-6
24.	± Changes in portfolio of intangible assets	-1 135	270
25.	± Changes in portfolio of tangible assets (without investments)	-130	-208
26.	± Changes in accruals	-1 024	267
27.	± Changes in deferrals	-11 448	1 417
28.	+ Issue of shares at selling price	-	-
29.	+ Funds received without compensation according to relevant rules of law	-	-
30.	+ Funds handed over without compensation according to relevant rules of law	-	-
31.	- Nominal value of withdrawn own shares, property bonds	-	-
32.	**NET CASH FLOW (lines 17.-29.)**	**33**	**566**
	Out of which: - changes in cash	-	1
	- changes in bank money (accounting and other sight deposit with NBH)	33	565

II / 10. Maturities of major items of accrued interests and deferred costs and expenses

31 December 2014

Data in million HUF

Description	Balance sheet line	Items of 31 December 2014 broken down by maturities				31 December 2014
		Within 3 months	Between 3 months and one year	More then 1 year but, less then 2	More then 2 years	
		1	2	3	4	= 1+2+3+4
Accrued interest	From 13. a)					
- Accrued interests on redeemed own securities		208	404	-	-	**612**
- Accrued interests from accounts receivable from customers		2 634	1	-	-	**2 635**
- Accrued interests from credit institutions from refinancing loans		294	-	-	-	**294**
- Accrued interests of interbank deposits		21	266	-	-	**287**
- Accrued interest of hedge transactions		967	3 684	-	-	**4 651**
- Commission for arrangement of state subsidies		10	-	-	-	**10**
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		3 032	8 319	228	-	**11 579**
- Deferred interest on hedge transactions		149	1 619	-	-	**1 768**
- Deferred interest on interbank loans		19	-	-	-	**19**

FHB BANK

II / 11. Assets and liabilities in foreign currencies
31 December 2014

Data in million HUF

	ASSETS	Amount in balance sheet	Of which in foreign currency, value in HUF		LIABILITIES	Amount in balance sheet	Of which in foreign currency, value in HUF
1.	Cash	1 194	2	1.b.	Liabilities towards credit institutions from financial services and fixed for a predetermined term	204 051	43 051
2.a.	Government securities	53 436	6 493	2.b.	Other liabilities to customers from financial services	713	143
3.a.	Receivables from credit institutions - sight	941	941	3.	Liabilities from securities issued	305 272	36 496
3.b.	Other receivables from financial services	376 073	153 895	4.a.	Other liabilities	608	31
4.a.	Receivables from customers from financial services	119 093	43 079	5.a.	Passive accrual of income	24 872	65
5.ba.	Debt securities, including fixed interest securities issued by other issuer	9 987	6 473	5.b.	Accrued costs and expenditures	13 452	2 727
12.b.	Other receivables	5 750	463	6.b.	Risk reserve for pending and certain future liabilities	166	23
13.a.	Accrued income	15 018	1 523	6.d	Other resreve	10 192	7 651
13.b.	Deferred costs and expenditures	3 549	179	7.c	Other subordinated liabilities	35 268	35 268

III. INFORMATIVE PART

III / 1/a Informative data on direct participations of the bank

31 December 2014

Data in million HUF

Name of the enterprise\ Registered office	Share in property	Registered value of the investmen	Enterprise's Own equity	Subscribed capital	Subscribed and not yet paid	Profit reserve	Restricted reserve	Capital reserve	Valuation reserve	2013 profit
FHB Real Estate Ltd	100,0%	648	181	70	-	-408	-	515	-	4
1082 Budapest Üllői út 48.										
FHB Commercial Bank Ltd	51,0%	34 224	39 252	8 681	-	20 036	-	21 647	-	-11 112
1082 Budapest Üllői út 48.										
Diófa Alapkezelő Ltd.	99,7%	188	301	195	-	-11	-	-	-	117
1027 Budapest, Kacsa utca 15-23. 6. em.										
FHB INVEST Ltd.(Díjbeszedő Operating and Servicing Ltd.)	100,0%	4 610	3 492	636	-	638	-	-	-	2 218
1117 Budapest, Budafoki út 107-109.										
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd	25,1%	253	553	1 008	-	-1	-	-	-	-454
1092 Budapeat, Ferenc krt. 44.1/2										
Total		39 923	73 780	10 590	-	20 254		22 162		-9 227

31 December 2014

Data in million HUF

Name of enterprise	Rerfistered office	Share in property	Subscribed capital
Magyar Kártya Szolgáltató Zrt.	1082 Budapest, Üllői út 48.	50.50%	5
FHB Ingatlanlízing Zrt	1082 Budapest, Üllői út 48.	100.00%	125
Central European Credit d.d. (horvát)	10000 Zagreb, Marulićev trg 10, Croatia	100.00%	8,274
FHB DWH Zrt	1082 Budapest, Üllői út 48.	100.00%	5
Diófa Ingatlankezelő Kft. (korábban Hitelunió Pénzügyi és Szolgáltató Kft.)	1062 Budapest, Andrássy út 105.	99.70%	10,0
Káry-villa Ingatlanfejlesztő Kft.	1082 Budapest, Üllői út 48.	100.00%	0,5
„Wodomus 54" Ingatlanfejlesztő Kft.	1082 Budapest, Üllői út 48.	100.00%	0,5
Díjbeszedő Faktorház Zrt.	1117 Budapest, Budafoki út 107-109.	51.00%	500
Díjbeszedő Informatikai Kft.	1117 Budapest, Budafoki út 107-109.	50.00%	670
Díjbeszedő Kártyaközpont Zrt.	1117 Budapest, Budafoki út 107-109.	24.98%	10
DÍJNET Zrt.	1117 Budapest, Budafoki út 107-109.	51.00%	5
Magyar Posta Befektetési Szolgáltató Zrt.	1062 Budapest, Andrássy út 105.	50.00%	110
Magyar Takarékszövetkezeti Bank Zrt.	1122 Budapest, Pethényi köz 10.	13.76%	3 390
Takarék Alapkezelő Zrt.	1122 Budapest, Pethényi köz 10.	13.76%	100
Takarék Faktorház Zrt.	1125 Budapest, Fogaskerekű utca 4-6.	13.76%	275
Takarékszövetkezeti Informatikai Kft.	1125 Budapest, Fogaskerekű utca 4-6.	7.21%	210
Banküzlet Vagyonkezelő Kft.	1132 Budapest, Victor Hugo 18-22.	6.74%	79
MTB Ingatlan Kft.	1122 Budapest, Pethényi köz 10.	13.76%	4

III/2. Investments
31 December 2014

Data in million HUF

	FHB Commercial Bank Ltd.	FHB Real Estate Ltd	FHB Life Annuity Ltd	Diófa Alapkezelő Ltd	Díjbeszedő Operatin and Servicing Ltd.	Magyar Takarék Vagyonkezelő Ltd	Total
31 December 2013	**42 381**	**648**	**987**	128	4 611		**48 755**
Purchase os shares	8 000	-	-	60	-		**8 060**
Sales of shares	-35 099	-	-1 537				**-36 636**
Capital increase	20 000	-	550	-	-		**20 550**
Provision for impairment	-1 058	-	-	-	-		**-1 058**
Acquisition	-	-	-			253	**253**
31 December 2014	**34 224**	**648**	**0**	**188**	**4 611**	**253**	**39 924**

FHB BANK

III / 3. Total emoluments payable to members of Board of Directors and Supervisory Board on business year

31 December 2014

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Board of Directors	7	19
Supervisory Board	4	12
T o t a l :	11	31

Total emoluments payable to Management

Description	Number of persons receiving emoluments	Amount of emoluments payable (million HUF)
Management	3	75

FHB BANK

III / 4. Loans granted to members of Board of Directors, Management and Supervisory Board

31 December 2014

Data in million HUF

Description	Paid	Re - paid	Principal to be re-pad	Essential conditions, interests-bearing
1. Internal loans				
- Board of Directors	-	-	-	
- Management	-	-	-	Structure as set out in announcement under preferential conditions
- Supervisory Boars	-	-	-	Structure as set out in announcement under preferential conditions
1. Total:	**0**	**0**	**0**	

III / 5 Average statistical personnel staff broken down by staff groups

31 December 2014

PERIOD	Average statistical personnel staff		
	Blue collar	White collar	**Total**
2013	4	195	**199**
2014	3	211	**214**

III / 6. Book value and nominal value of own securities

31 December 2014

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	46 087	46 537
b) Treasury Bills	7 349	7 554
c) MNB bonds	0	0
d) Bonds issued by credit institutions	6 296	5 878
e) Re-deemed own bonds (repurchased by the bank)	3 691	3 662
f) Re-deemed own shares (repurchased by the bank) (repurchased by the Bank)	207	25
Total current assets	**63 630**	**63 656**
II. Financial investments, interests in other enterprises		
a) participations in credit institutions	34 224	4 427
b) participations in other enterprises	5 700	1 155
Total financial investments:	**39 924**	**5 582**
TOTAL (I. + II.)	**103 554**	**69 238**

III /7 . Extraordinary incomes and expenses

31 December 2014

Data in million HUF

Extraordinary incomes	2 013	2 014	Extraordinary expenses	2012.	2013.
1. Income from expired liabilities / Expired liabilities	202		1. Donation	31	32
			2. Released bad debt	238	400
			3. Assumption of debt		130
Total incomes :	**202**		**Total charges :**	**269**	**562**

III / 8. Off-balance sheet items
31 December 2014

Data in million HUF

Descriptions	31 December 2013.	31 December 2014.
Pending liabilities		
- Available credit facility on credits extended	8	146
- Loans committed in contract but not yet extended	4 551	4 320
Total pending liabilities	**4 559**	**4 466**
Future obligations	220 043	531 640
Total off-balance sheet liabilities	**224 602**	**536 106**
Future receivables	203 810	516 820
Collaterals	936 971	872 639
Total off-balance sheet receivables	**1 140 781**	**1 389 459**

Budapest, 1 April 2015

Gyula Köbli
CEO

Márton Oláh
Business Deputy CEO

FHB Mortgage Bank Co. Plc.
Address: 1082 Budapest, Üllői út 48.
E-mail: fhb@fhb.hu
Website: www.fhb.hu