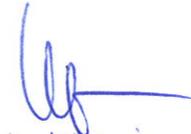


## BASE PROSPECTUS

  
GYULA KÓSZLI  
CEO

  
JÁNOS GÁBOR  
Managing Director



**FHB MORTGAGE BANK CO. PLC.**  
**(FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)**

(incorporated with limited liability in the Republic of Hungary)

**EUR 3,000,000,000**  
**Euro Mortgage Securities and Euro Medium Term Note Programme**  
**for the issuance of**  
**Hungarian Mortgage Bonds and Mortgage Notes (jelzáloglevelek) and Notes**

Under this EUR 3,000,000,000 Euro Mortgage Securities and Euro Medium Term Note Programme (the **Programme**), FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) may from time to time issue Hungarian Mortgage Bonds (the **Mortgage Bonds**) and Mortgage Notes (the **Mortgage Notes**, together with the Mortgage Bonds, the **Mortgage Securities**) (*jelzáloglevelek*) and Notes (the **Notes**, together with the Mortgage Securities the **Instruments**) denominated in any currency agreed from time to time between the Issuer and the relevant Dealer (as defined below). The Mortgage Bonds will be issued in dematerialised registered form. The Mortgage Notes and the Notes will be issued in bearer form.

The maximum aggregate nominal amount of all Instruments from time to time outstanding under the Programme will not exceed EUR 3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein. An investment in Instruments involves certain risks. For discussion of these risks, see "*Risk Factors*" beginning on page 6 of this Base Prospectus.

The Instruments may be issued on a continuing basis to one or more of the Dealers specified under "*General Description*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Instruments being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Instruments. Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The rating of certain Series of Instruments to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Instruments will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

**ARRANGER**

**BNP PARIBAS**

**DEALERS**

**BNP PARIBAS**

**CREDIT SUISSE**

**CRÉDIT AGRICOLE CIB**

**DEUTSCHE BANK**

**DZ BANK AG**

**RAIFFEISEN BANK  
INTERNATIONAL AG**

The date of this Base Prospectus is 31 May 2011.

**This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the *Prospectus Directive*) as amended (which includes the amendments made by Directive 2010/73/EU (the *2010 PD Amending Directive*) to the extent that such amendments have been implemented in a Member State of the European Economic Area).**

**The Issuer (the *Responsible Person*) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**References in this Base Prospectus to Instruments being listed (and all related references) shall mean that such Instruments have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Mortgage Bonds*" and "*Terms and Conditions of the Notes*") of Instruments will be set out in a final terms (the "*Final Terms*") which, with respect to Instruments to be listed on the Official List of the Luxembourg Stock Exchange will be filed with the CSSF.**

**The Programme provides that Instruments may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Instruments and/or Instruments not admitted to trading on any market.**

**The Issuer may agree with any Dealer that Instruments may be issued in a form not contemplated by the Terms and Conditions of the Mortgage Bonds, the Terms and Conditions of the Mortgage Notes or the Terms and Conditions of the Notes, respectively contained herein, in which event a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments.**

**This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. This Base Prospectus may only be used for the purposes for which it has been published.**

**The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. Neither the Dealers nor the Agent accept any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.**

**No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Instruments and, if given or**

made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Instruments (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Instruments should purchase any Instruments. Each investor contemplating purchasing any Instruments should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Instruments constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Instruments.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Instruments shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Instruments of any information coming to their attention.

The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons (see "*Subscription and Sale*").

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Instruments in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Instruments may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Instruments may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Instruments outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Instruments may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Instruments may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Instruments. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Instruments in the United States, the European Economic Area (including the United Kingdom, the Republic of Hungary, Italy and France) and Japan, see "*Subscription and Sale*".

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons

acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Instruments is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Instruments and 60 days after the date of the allotment of the relevant Tranche of Mortgage Bonds. Any stabilisation action or overallotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

This Base Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a base prospectus for such offer.

All references in this document to "*U.S. dollars*" refer to United States dollars. All references to "*HUF*" and "*Forint*" refer to Hungarian Forint. All references to "*Sterling*" and "*£*" refer to pounds sterling. All references to "*euro*", "*EUR*" and "*€*" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. All references to SDR are to the Special Drawing Rights of the IMF.

The term "mortgage bond" as used herein corresponds to the use of the term "jelzáloglevelek" as used in Hungarian legislation. Mortgage Bonds (as so capitalised) means mortgage bonds in dematerialised form; Mortgage Notes (as so capitalised) means mortgage bonds in bearer form. The use of "mortgage bonds" or Mortgage Securities herein is generic and should be construed to include both Mortgage Bonds and Mortgage Notes.

As at 30 May 2011, the euro/HUF fixing rate published by the European Central Bank was euro 1.00 = HUF268.07.

Certain figures in this Base Prospectus have been subject to rounding adjustments. Accordingly, amounts shown as totals in tables or elsewhere may not be an arithmetic aggregation of the figures which precede them.

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## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Instruments issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Instruments may occur for other reasons which are as yet unknown, and the Issuer does not represent that the statements below regarding the risks of holding any Instruments are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

*The following is a general discussion of certain risks typically associated with the Issuer and the acquisition of, and holding, Instruments issued under the Programme. It does not consider the investor's specific knowledge and/or understanding of risks typically associated with the Issuer and the acquisition of, and holding, Instruments issued under the Programme, whether obtained through experience or circumstances that may apply to a particular investor.*

### **General**

Whilst any Series of Instruments is outstanding, the risks specified in each of the sections below may impact such Instruments at different points in time and for different lengths of time. In addition, different risk factors may have simultaneous or combined effects, which may not be predictable. No assurance can be given as to the impact that any combination of risk factors may have on the value of the Instruments. Each Series of Instruments may have a risk profile that changes over time. Prospective investors should seek advice from professional financial advisers in order to further discuss and understand how the risk profile of a particular Series of Instruments may affect their overall investment portfolio.

Further, an investment in the Instruments involves a reliance on the creditworthiness of the Issuer and therefore also entails the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Instruments.

### **Risks relating to the global financial crisis**

Hungary's economy may be adversely affected by market downturns and economic slowdowns elsewhere in the world.

Hungary's economy and currency may also be vulnerable to changes in international credit markets.

The global financial system has been experiencing difficulties since August 2007, when the sub-prime mortgage financial crisis began in the United States. The financial markets have deteriorated

dramatically since the bankruptcy filing by Lehman Brothers in September 2008, culminating in a global financial crisis by the second half of 2008 with unprecedented levels of illiquidity. This resulted in the collapse of equity prices of some large lenders in the mortgage industry and a severe curtailment of the availability of credit, threatening the solvency of a number of banks and other financial institutions. The "credit crisis" saw the availability of funding in the wholesale markets to which the Issuer had access become severely disrupted with, in certain markets, no funding being available for extended periods of time.

The crisis has been accompanied by declines in stock markets worldwide and a loss in investment value. A change in international investor sentiment, resulting from these events, has also been widely recognised as adversely affecting the availability of capital and funding. In response to market instability and illiquidity, a number of governments have intervened in order to inject liquidity and capital into, and to stabilise, financial markets, and, in some cases, to prevent the failure of these financial institutions. Despite such measures, the volatility and disruption of the capital and credit markets continued at unprecedented levels. In addition, recessionary conditions are still present in certain markets, where the Issuer operates. Demand for housing loans and for residential and commercial real estate properties has also fallen considerably. Any continued deterioration in property prices in Hungary could adversely affect the Issuer's financial condition and results of operations.

Although financial markets have shown some degree of stabilisation, the recovery, however, has been fragile, meaning that comparatively small events can cause powerful reactions. Moreover, the effects of high national debt on the business environment cannot be entirely assessed yet. The Issuer's business, earnings and financial condition may still be affected by the deterioration in, and uncertainty of, the global economic outlook deriving from the "credit crisis".

As a consequence of the global financial crisis, the structure, nature and regulation of financial markets in the future may be fundamentally altered, possibly in unforeseen ways. There can be no assurance that similar or greater disruption may not occur in the future for similar or other reasons. There can be no assurance that a global recession will not occur again, or as to how severe it would be or as to how long it would last. Economic prospects are subject to considerable uncertainty.

The precise nature of all the risks and uncertainties the Issuer faces as a result of the above events cannot be predicted and are outside the Issuer's control.

Potential investors should ensure that they have sufficient knowledge and awareness of the global financial crisis and the economic situation and outlook as they consider necessary to enable them to make their own evaluation of the risks and merits of an investment in the Instruments. In particular, prospective investors should take into account the considerable uncertainty as to how the global financial crisis and the wider economic situation will develop over time.

#### ***Effects of government actions intended to alleviate the effects of the financial crisis***

In response to the severe market conditions, central banks and governments throughout the world have adopted measures aimed at increasing liquidity in, and promoting the stability of, the financial markets. In particular, numerous governments in the European Union have provided additional capital and funding facilities to financial institutions and are implementing other measures, including increased regulatory oversight and additional capital requirements.

Should further measures be adopted, this could lead to increased government ownership and control of financial institutions, disparate competitive positions and further consolidation in the markets in which the Issuer operates, which in turn could have a negative impact on the Issuer's business, financial condition and results of operations.

There can be no assurance that government actions to limit the impact of the crisis will be successful and that they will not instead lead or contribute to a deeper and/or longer-lasting recession.

### **Factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme**

As with all other banks, the Issuer is mainly exposed to credit risk, liquidity risk, operational risk and market risk (e.g. risks from interest rate movements and currency movements).

These risk factors are addressed by the Issuer's own risk management procedures and exposures are constantly measured and supervised.

Risk factors specific to the Issuer:

#### ***General Economic and Business Conditions***

The profitability of the Issuer's businesses could be adversely affected by a worsening of general economic conditions in Hungary, globally or in certain markets such as the European Economic Area (the EEA). Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the prospects of the Issuer.

As such, the prospects of the Issuer would also be significantly affected by an economic downturn or considerably higher interest rates could adversely affect the credit quality of the Issuer's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the Issuer's customers would be unable to meet their obligations.

Fluctuations in the debt and equity markets may affect the market value and liquidity of the Issuer's assets. The deteriorating credit quality of the Issuer's customers may result in increasing defaults and arrears in monthly payments on mortgage loans, higher credit impairments on the Issuer's mortgage loan portfolio, declining mortgage asset values and flat or decreasing mortgage loan portfolio levels which could adversely affect the Issuer's ability to service its payment obligations under the Instruments.

A market downturn would also be likely to lead to a decline in the volume of transactions the Issuer executes and, therefore, may result in a decrease in the income it receives from fees, commissions and interest. Adverse economic developments may also have a negative impact on the Issuer's customers in a number of ways, including *inter alia* their income, solvency or financial wealth, which in turn could reduce the Issuer's credit quality and demand for the Issuer's mortgage loan products.

General economic conditions, which may in particular influence the financial viability of the Issuer's activities, include the following:

- (i) changes in foreign exchange rates;
- (ii) volatility in interest rates;
- (iii) lack of liquidity in wholesale funding markets in periods of economic or political crisis;
- (iv) illiquidity and downward price pressure in real estate markets, particularly in the residential property segment;
- (v) recession and employment fluctuations; and
- (vi) borrower perception as to the continuing availability of credit and price competition in the market segments served by the Issuer.

### ***Structural liquidity, interest rate and foreign exchange rate risks***

Structural risks arise from mismatches between the assets and liabilities of the Issuer, resulting in structural liquidity, interest-rate and foreign exchange rate risks.

#### ***Structural liquidity risk***

Structural liquidity risk is the risk that the Issuer will be unable to meet its obligations as they fall due, or meet its liquidity commitments only at increased costs.

Structural liquidity risk mainly arises from maturity mismatches in respect of the Issuer's assets and liabilities.

Since the Issuer operates as a mortgage credit institution under stringent legal requirements, it has a special asset-liability structure as compared with that generally characterising the Hungarian banking system. The Issuer primarily funds its mortgage lending business by issuing mortgage bonds. Mortgage loans have long-term maturities and provide for repayments in the form of annuities with principal amounts being subject to amortisation on a periodic basis. Mortgage bonds, on the other hand, are shorter-term obligations of the Issuer with bullet repayments. Consequently, financing mortgage loans through the issuance of mortgage bonds exposes the Issuer to structural (funding) liquidity risks (besides structural interest rate risks).

Although structural liquidity risk can be mitigated to a significant extent by converging the maturities of the Issuer's assets and the maturities of the mortgage bonds to be issued and its other liabilities in order that the Issuer's overall asset-liability structure is balanced, there is no guarantee that such balance will prevail at all times.

A substantial part of the liquidity and funding requirements of the Issuer is met through reliance on ongoing access to wholesale lending markets. The ability of the Issuer to access wholesale funding sources on adequate economic terms is dependent on a variety of factors, many of which are beyond its control. The volume of these funding sources, in particular long-term funding, may be constrained during periods of liquidity stress. Turbulence in the global financial markets and economy may adversely affect the willingness of certain counterparties to do business with the Issuer.

Failure to manage structural liquidity risk may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme.

In an effort to *inter alia* reduce the impacts that may arise from structural liquidity risk on its ability to service its payment obligations under the Mortgage Bonds issued under the Programme, the Issuer has undertaken pursuant to a Notice to holders of the Mortgage Bonds, amongst other things, to ensure

that sufficient liquid assets are available to cover liquidity liabilities that may arise in relation to the Mortgage Bonds over any twelve-month term following each calculation day. (For more information, please see "*Description of the Issuer –Rating Developments - Over-collateralisation commitment of the Issuer*" below.)

#### *Structural interest rate risk*

Structural interest rate risk originates primarily from the differences between the structure and/or levels of interest rates applicable in respect of the Issuer's assets and liabilities side. For example, the Issuer may fund its assets with fixed and/or relatively high interest rates, by liabilities obtained at floating and/or lower interest rates, and *vice versa*. Structural interest rate risk may also arise when interest rate fixing periods on assets and liabilities do not coincide. The Issuer faces significant structural interest rate risk, as mortgage loans provided to clients typically have a six-month, one-year or to five-year interest bracket with a price adjustment clause, whilst funds financing them are largely fixed rate interest bearing liabilities raised in the capital markets.

Interest rates are highly sensitive to many factors beyond the Issuer's control, including monetary policies and domestic and international economic and political conditions. As with any bank, changes in market interest rates could affect the interest rates the Issuer charges on its interest earning assets in a different way to the interest rates the Issuer pays on its interest bearing liabilities. This difference could reduce the Issuer's net interest income.

As a consequence of its special asset-liability structure (as referred to in "*Structural liquidity risk*" above), the Issuer receives interest primarily from mortgage loans, and pays interests mainly to the holders of mortgage bonds. An increase in interest rates may reduce the demand for mortgage loans and the Issuer's ability to originate such loans. Conversely, a decrease in the general level of interest rates may adversely affect the Issuer through, among other things, increased prepayments on the Issuer's mortgage loan portfolio. Likewise, a decrease in interest rates may affect the Issuer's ability to issue mortgage bonds.

A mismatch in interest-earning mortgage loans and interest-bearing liabilities to mortgage bond holders in any given period, which tends to accompany changes in interest rates, may have a material adverse effect on the financial condition and results of operations of the Issuer.

#### *Structural foreign exchange rate risk*

Structural foreign exchange rate risk derives primarily from the fact that the assets of the Issuer may be denominated in a currency different from those of the Issuer's liabilities which fund such assets. For example, lending denominated in foreign currency and funds raised in foreign currency do not necessarily mean that the Issuer's receivables and obligations arise in the same currency.

The credit risk of the Issuer's foreign currency-based loans is increased by the fact that the typical currency of income from customers may be different from the currency of proceeds from collateral sales.

Furthermore, the share of mortgage loans originated by the Issuer in non-HUF currencies represents a significant proportion of its mortgage loan portfolio. Borrowers under such loans at the same time typically receive their main income in HUF, which leaves them exposed to foreign exchange rate risk

as there is no obligation on the part of borrowers to hedge against fluctuations in exchange rates. Movements in foreign exchange rates and a significant devaluation of HUF as against the currencies in which such loans are denominated may result in borrowers encountering difficulties in repaying their loans, and thereby an increase in the credit risk associated with them, which could lead to borrowers being unable to meet their repayment obligations on mortgage loans and ultimately to default under such loans. Such defaults may have an adverse effect on the Issuer's business, operations, financial condition or prospects. Moreover, recent restrictions introduced in Hungary on the conversion rates that may be applied by financial institutions in relation to foreign-currency denominated housing loans granted to consumers with repayments denominated, and to be fulfilled, in HUF (see "*The Hungarian Banking System and Capital Markets – II. Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits*" below) may have a further negative impact on the Issuer's ability to recoup its cost of funding such loans.

Whilst the Issuer seeks to match the currency of its assets with that of its liabilities funding them, no assurance can be given that the Issuer will, at all times, be able to successfully mitigate all or some of its foreign-exchange rate exposure.

#### *Refinancing risk*

Mortgage loans granted by the Issuer usually have maturities beyond the maturity of the corresponding funding (the typical maturity of the Issuer's mortgage loan assets is five to twenty years, whilst the maturity of its liabilities is typically five to fifteen years), which results in the Issuer's dependence on its ability to continuously refinance its maturing debts with new funding. The Issuer's funding capacity and ability to raise funding can deteriorate due to a number of different causes, such as, *inter alia*, a lowered credit rating, large financial losses, rumours, market price changes that affect the size of liquidity reserves, increase in interest rates and/or a widening of credit spreads. Some of these factors may also increase the Issuer's need for funding through, for example, a higher amount of collateral being demanded by the counterparties to certain financing transactions.

As a result of the global financial crisis, the Issuer may encounter difficulties in obtaining refinancing or may only be able to obtain refinancing at elevated costs. The inability of the Issuer to anticipate or provide for unforeseen decreases or changes in funding sources and to refinance itself would have a material adverse effect on the Issuer's ability to meet its obligations when they fall due under Instruments issued under the Programme.

#### *Prepayment risk*

The volatility of the interest environment will increase demands for prepayment among the Issuer's customers, which could adversely affect the Issuer's profitability.

Prepayment risk is an increasingly significant exposure for the Issuer, especially due to the legislative provisions applicable to mortgage loans, which are granted to consumers (please see "*The Hungarian Banking System and Capital Markets - Consumer protection legislation in the financial sector*" below). Pursuant to the Consumer Credit Act (as defined below), consumer borrowers are entitled at any time to discharge, in whole or in part, their obligations under their credit agreements, including mortgage-backed loans. Furthermore, the provisions of the Consumer Credit Act impose limitations on the right of credit institutions to recover their losses and costs incurred as a consequence of a

prepayment by consumer borrowers. This in turn requires more stringent asset-liability management, further increasing the cost of funding for the Issuer.

### ***Credit risk***

The credit risk faced by the Issuer arises primarily from the risks of non-payment and default on the part of the Issuer's borrowers and other counterparties. Any deterioration or adverse change in the creditworthiness of the Issuer's borrowers and other counterparties, or a fall in collateral values, is likely to affect the recoverability and value of the Issuer's assets, and requires an increase in provisions appropriated by the Issuer, which in turn could have a negative impact on the financial performance of the Issuer.

The Issuer is exposed to a variety of counterparty and credit risks. Third parties that owe the Issuer money, securities or other assets may not perform their obligations due to bankruptcy, shortage in liquidity, downturns in the economy or real estate values, operational failure or any other reasons. Credit risk is present and inherent in both on-balance sheet transactions and off-balance sheet commitments.

More specifically, the credit risk faced by the Issuer as a mortgage credit institution predominantly derives from the risk of defaults by its borrowers on mortgage-backed loans, in other words, the risk of the borrowers failing to duly perform their obligations under such loans.

Defaults by borrowers under mortgage-backed loans may occur for a vast array of reasons. Various factors influence mortgage delinquency rates, prepayment rates, repossession and eviction frequency and the ultimate payment of interest and principal, such as changes in market interest rates, foreign exchange rates, international, national or local economic conditions, regional economic or housing conditions, changes in tax laws, inflation or real estate property values, unemployment, the financial standing of borrowers, the availability of financing, yields on alternative investments, political developments and government policies or factors similar to the foregoing. Accordingly, credit risk tends to be aggravated during periods of economic downturn or stagnation, which are typically characterised by higher rates of insolvencies and defaults.

Other factors in the borrowers' individual, personal or financial circumstances may also affect the ability of borrowers to repay mortgage loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by borrowers, and could ultimately have an adverse impact on the ability of borrowers to make repayments on their mortgage loans.

In addition, the ability of a borrower to sell a property mortgaged as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the given time.

Credit risk also includes country risk, which is the risk of losses arising from economic difficulties or political unrest in a country where the Issuer operates.

The Issuer continuously monitors credit quality and operates a comprehensive risk management system. However, there is no guarantee that such monitoring and risk management will suffice at all times.

The Issuer's current credit approval and monitoring procedures (see "*Risk Management – Management of credit risk*" below) focus, *inter alia*, on the borrowers' cash flow and ability to repay mortgage loans, in an effort to improve the quality of the Issuer's mortgage loan portfolio and mitigate future allowances for loan losses and credit impairments. However, there is no assurance that these credit approval and monitoring procedures will reduce the amount of provisions for mortgage loans that become non-performing in the future. Furthermore, actual credit impairments vary over the business cycle and, due to prevailing market conditions, additional credit impairments may occur at a rate higher than that experienced in the past. Future provisions for non-performing loans and an increase in the amount of allowances for credit impairments and credit impairments not covered by allowances could have a materially adverse effect on the Issuer's operating results. In addition, a downturn in the global economy would potentially result in a higher proportion of non-performing loans.

The negative development of the Issuer's operating performance, loan-loss levels, write-downs and impairments could adversely affect its results and may result in capital requirements that could constrain its operations, thereby reducing the Issuer's ability to service payments under the Instruments and potentially adversely affecting the trading price of the Instruments.

*Risks relating to the realisation value of collateral taken by the Issuer*

The exposure arising from defaults by borrowers on mortgage loans can be counterbalanced, *inter alia*, by enforcement actions taken in order to realise the encumbered real property serving as collateral for such loans. Therefore, the Issuer's credit risk may be increased when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the relevant mortgage loan. The market value, at which real estate properties mortgaged as security for mortgage loans can be sold, and thus the results of realisation through such enforcement actions, heavily depend on the current real estate market prices and the legal environment at that time.

For example, the fair market value of real estate, which is used as collateral for loans, particularly in the real estate financing business, is subject to significant fluctuations over the course of time, caused in particular by changes in supply and demand, construction deficiencies and delays, land contamination and hazards, leasing status (vacancies) or potential buyers and their financial resources, changes in the general legal framework such as tax treatment, and other factors that are beyond the control of the Issuer (such as natural disasters and terrorist attacks). Such market developments and changes may in particular reduce the value of real estate collateral.

Real estate properties in which security interest has been taken by the Issuer may be concentrated in certain locations. Specific geographic regions may have experienced or may in the future experience economic conditions and residential or, as the case may be, commercial real estate markets that are weaker than in other regions, the concentration of mortgage loans secured by residential or, as the case may be, commercial real estate properties in such areas may result in a greater risk of borrower default or arrears on mortgage loans than if such concentration were not present.

Furthermore, the Issuer's ability to enforce collateral without the consent of the respective borrower may be dependent on the relevant court decision and execution measures and on other relevant circumstances in the real estate or mortgage markets.

The Issuer's ability to enforce the security interest it has taken over real estate properties may be adversely affected by regulatory or governmental measures such as the moratorium and the

transitional restrictions recently imposed in Hungary on evictions and enforcement sales outside court-enforcement in certain circumstances (please see "*The Hungarian Banking System and Capital Markets – II. Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Moratorium on evictions and transitional restrictions on enforcement sales outside court enforcement*" below). Furthermore, if, upon the expiry of such moratorium, enforcement actions in respect of lots of similar mortgaged properties are required to be taken at the same time by other credit institutions or market participants, this may result in an oversupply in the market for real estate without sufficient demand and/or a significant decrease in prices at which the relevant mortgaged properties can be sold through such enforcement proceedings. All this in turn could, at least in the short term, adversely affect the Issuer's ability to enforce the security interest it has taken in real estate properties and/or on the proceeds that can be realised from the enforcement sales of the relevant mortgaged properties.

In addition, no assurance can be given that the values of the relevant real estate properties will not decline or, since origination, have not declined and it cannot be excluded that the Issuer may have to increase its loan loss provisions in the future, for example, if the market value of the underlying collateral decreases, which in turn may be detrimental to the Issuer's interest revenues and its profitability.

#### *Settlement risk*

Settlement risk means the possibility that the Issuer has already paid a counterparty (for example, a bank in a foreign exchange transaction) but the corresponding return payment does not settle at the agreed time as a consequence of default or a failure in the relevant settlement system.

#### **Market risks**

Fluctuations in debt and equity markets or changes in parameters influencing market prices (such as interest rates, credit spreads, foreign exchange rates, general financial markets and liquidity risks (e.g. the possibility of obtaining needed funding or of selling assets)) may affect the market value and liquidity of the Issuer's assets. Changes in interest rate levels, yield curves and spreads may affect the Issuer's net interest margin. Changes in currency exchange rates affect the value of assets and liabilities denominated in foreign currencies and the value of the Issuer's assets in foreign currencies.

The value of the Issuer's mortgage loan assets secured by real estate property is in particular exposed to price changes in the real estate markets.

The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is also exposed. However, it is difficult to predict with accuracy any changes which may occur in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations. The occurrence of such events may have an adverse impact on the Issuer's financial condition and results of operations, and thus its ability to service its payment obligations under the Instruments.

#### *Counterparty credit risk*

Although the activities of the Issuer as a mortgage credit institution are strictly limited by statute (see "*Description of the Issuer – The Issuer's business*" below), many of the hedging and other risk

management strategies employed by the Issuer involve transactions with counterparties in the financial services industry.

Many of these transactions expose the Issuer to the risk of the relevant counterparty defaulting on its obligations prior to maturity when the Issuer has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the Issuer cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. In addition, the deteriorated solvency of such counterparties may impair the efficacy of the Issuer's hedging and other risk management strategies.

Any of the aforementioned events may have a material adverse effect on the Issuer's businesses, financial condition and results of operations.

### ***Systemic risk***

The Issuer may additionally be exposed to systemic risk. Systemic risk refers to the possibility of the failure of one institution having a knock-on effect on the banking system as a whole, leading to liquidity problems or losses or defaults on the part of other institutions. Concerns about, or a default by, one institution may lead to significant liquidity problems or losses or defaults by other institutions as the soundness of many financial institutions may be closely related as a result of credit, payment (clearing and settlement), or other relationships between them.

### ***Capital risk***

The Issuer bears capital risks when it has insufficient capital resources to:

- (i) meet regulatory capital requirements in Hungary and in other jurisdictions where regulated activities are undertaken. The Issuer's authorisation to operate as a mortgage credit institution is dependent upon *inter alia* the maintenance of adequate capital resources;
- (ii) improve its credit rating. In addition to capital resources, the Issuer's rating is supported by a diverse portfolio of activities, prudent risk management and focus on value creation. A weaker credit rating would increase the Issuer's cost of funds; or
- (iii) support its business expansion and strategic options.

Such capital risks may, if they should evolve, have a material adverse effect on the Issuer.

### ***Operational risk***

Operational risk is the risk of losses arising from the inefficiency or failure of procedures, people and internal systems, or from external risks which include legal, personnel, and environmental risks as well as risks associated with the security of information systems.

Operational risk is inherent in all activities of the Issuer and cannot be eliminated. In particular, as with all other credit institutions, the Issuer's activities are increasingly dependent on highly sophisticated information technology (IT) systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions. The Issuer cannot provide assurances that such failures or interruptions will not occur or, if they do occur, they will be adequately addressed. The occurrence of any failures or interruptions could result in a loss of customer data and an inability to service the

Issuer's customers, which could have a material adverse effect on the Issuer's reputation, financial condition and results of operations.

In addition, the Issuer's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although the Issuer takes protective measures and endeavours to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorised access and other events that could have a security impact. Given the high volume of transactions at the Issuer, certain errors may be repeated or compounded before they are discovered and rectified. If one or more of such events occurs, this could potentially jeopardise the Issuer's, its clients', counterparties' or third parties' confidential and other information processed and stored in, and transmitted through, the Issuer's computer systems and networks, or otherwise cause interruptions or malfunctions in the Issuer's, its clients', counterparties' or third parties' operations, which could result in significant losses or reputational damage.

Legal risks relate to, *inter alia*, the validity and effectiveness of transactions entered into by the Issuer and the collaterals taken in respect of them.

The Issuer is also exposed to personnel risks, in particular qualification, fluctuation, availability and motivation risks. The Issuer's current senior management team includes a number of executives who the Issuer believes to contribute significant experience and expertise to the Issuer's management in the banking sectors in which the Issuer operates. The continued success of the Issuer's business and the Issuer's ability to execute its business strategy will depend, in large part, on the efforts of the Issuer's senior management. If a substantial portion of the Issuer's senior management leaves the Issuer, its business may be materially adversely affected.

In addition, the Issuer's access to direct client-related information is limited as the Issuer is restricted by statute from engaging in the provision of client account services. Consequently, such information, which would be automatically available to account holding banks, needs to be obtained from other sources. A significant proportion of such information is available through the Issuer's subsidiary, FHB Commercial Bank Ltd, which serves as one of the main channels for the distribution of the Issuer's products (see "*Business Overview – Distribution Network*" below) and is authorised to provide client account services and thereby has access to direct client-related information. The Issuer has also concluded an agreement with BISZ Központi Hitelinformációs Ltd. (Central Credit Bureau Co Ltd), which operates an inter-bank information system, and with other organisations to acquire, as soon as possible, information in relation to eventual delays in client payments.

As with other credit institutions, the Issuer has implemented comprehensive risk management strategies aimed at adequately identifying and measuring the risks it faces, such as the incidence of loan losses or delinquency, and at mitigating those risks. In order to minimise such exposures, the Issuer applies statistical methods, as well as stress testing and other techniques (please see "*Risk Management*" below). Although the Issuer invests substantial time and effort in its risk management strategies and techniques, such procedures may nonetheless fail under some circumstances, particularly when confronted with risks that are not identified or anticipated.

Failure to manage such risks may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme.

### ***Litigation risk***

The Issuer, like all other commercial entities, may from time to time be subject to litigation, whether of a substantive or vexatious nature. Such litigation, if not dismissed at an early stage or if decided contrary to the Issuer's best commercial interests, may have an adverse impact on the operations of the Issuer.

### ***Effect of government policy and regulation***

The Issuer's business and earnings may be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the countries in which the Issuer operates.

Areas where changes could have an impact include:

- (a) the monetary, interest rate and other policies of central banks and regulatory authorities in markets where the Issuer operates;
- (b) general changes in government or regulatory policy that may significantly influence investor decisions, in particular markets in which the Issuer operates;
- (c) general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
- (d) the costs, effects and outcomes of other regulatory reviews, actions or litigation, including any additional compliance requirements;
- (e) changes in the bankruptcy legislation in the principal markets in which the Issuer operates and the consequences thereof;
- (f) initiatives by local, state and national regulatory authorities or legislative bodies to revise practices, pricing or responsibilities of financial institutions serving the interests of their consumers;
- (g) changes in rules on competition and the pricing environment;
- (h) further developments in the financial reporting environment;
- (i) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- (j) any change in a relevant jurisdiction's legislation, including, but not limited to, taxation, banking regulations, foreign exchange control and customer protection rules;
- (k) any failure or malfunction of any relevant judicial system, including, but not limited to, the failure of, or substantial delay to, court proceedings and/or in respect of enforcement procedures;
- (l) any circumstance resulting in judgments becoming unenforceable or any substantial delay to the enforcement of judgments rendered by any relevant court, including any courts of arbitration; and

- (m) other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Issuer's products and services.

The evolution of such risks may have an adverse effect on the Issuer or on its products and services offered or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation or in fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

The Issuer is also subject to financial services laws, regulations and banking supervision. If any violation of such regulations is detected, this may lead to higher scrutiny by the supervising authority and therefore to an increase in administrative expenses. Further, should orders or fines imposed on the Issuer by supervisory authorities become publicly known, this may lead to a loss of confidence among clients and business partners which may also have a negative effect on the Issuer's financial condition and results of operations.

#### *Tightened capital adequacy requirements*

The Basel Committee on Banking Supervision (**BCBS**) may from time to time adopt changes to the capital adequacy regime applicable to commercial and investment banks.

For example, on 12 September 2010, the BCBS announced higher global capital standards on the basis of the broad agreement reached on 26 July 2010 on the overall design of the capital and liquidity reform package. (See "*The Hungarian Banking System and Capital Markets – Main elements of the Hungarian banking regulations – Capital Adequacy – Basel III*" below.)

The implementation of such new global capital standards in the jurisdictions where the Issuer operates would result in more stringent capital requirements or, as the case may be, the need for additional capital injections into the Issuer, which could constrain the Issuer's financial condition and results of operations.

#### *Changes in accounting standards*

The Issuer's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time, amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Issuer's financial statements. These changes can be hard to predict and can materially impact how the Issuer records and reports its financial condition and results of operations.

#### *Effects of competition*

Credit institutions such as the Issuer are subject to intense competition which is expected to increase further in the future with the implementation of the European Single Market in the financial services sector. The retail home lending market is a multi-agent market (with the participation of commercial banks, mortgage credit institutions, savings banks, savings co-operatives and insurance companies). Mortgage banking is also a competitive market. Besides local competitors, other international banks may enter the Hungarian banking market, thus increasing the pressure on the Issuer's profit margins.

As the Issuer's own distribution network has been considerably broadened recently, the Issuer relies less heavily on its subsidiaries and a network of agents, as well as on other partner credit institutions

primarily through refinancing or cooperation arrangements (please see "*Business Overview – Distribution network*" below) for the provision of its products and/or services. At the same time, the Issuer's competitive position is still affected by the performance of such subsidiaries, agents and partner credit institutions, as well as on the Issuer's ability to retain its refinancing partners in the light of the increasing competition in the refinancing market.

There can be no assurance that the Issuer can maintain its competitive position. If the Issuer is unable to provide competitive products and/or services, it may fail to attract new customers and/or retain existing customers, experience decreases in its interest, fee and other income and/or lose market share, the occurrence of which may have a material adverse effect on the Issuer's business, financial condition and results of operations.

### **Risk factors stemming from the Hungarian economy**

- Due to its size and openness, the Hungarian economy is affected by international, particularly European, market trends. Deteriorating internal and external indicators may force successive governments to adopt further austerity measures. Moreover, it may be the case that governments take economic, fiscal or monetary policy decisions that may have a negative impact on the Issuer's profitability.
- International trends have an immediate and powerful bearing on the development of Hungarian interest rates as well as on stock and financial market prices. Such changes have a significant effect on the Issuer's access to funds and the conditions for raising them. In an effort to mitigate its exposure to risks relating to capital markets and to expand future opportunities, the Issuer launched its mortgage bond programme in the international markets in 2003 and this is updated annually.
- The Issuer's activities and the profitability of its operations are strongly affected by the macroeconomic environment and the domestic and international perception of the Hungarian economy. The macroeconomic situation will, on the one hand, determine the magnitude of disburseable housing loans and the quality of the property portfolio through the amount of disposable income of the population. On the other hand, the state budget and balance of payments, deficits, inflation, interest rates and the volatility of the foreign exchange rate of the Hungarian forint as against other currencies will have an effect on mortgage bond issuances and on the demand for them. All these may in turn have a negative impact on the Issuer's cost of funding and thus, ultimately, on the Issuer's profitability.
- A possible negative trend in the real estate market may result in the need for increased coverage for mortgage bonds.
- Investors must be particularly aware of the risks deriving from changes in the economic cycle which, along with negative market trends in international capital markets, may have an effect on the volume and profitability of mortgage lending and may increase the ratio of defaulting loans.

The maturity date of Instruments issued under the Programme may extend beyond the date of the introduction of the euro in Hungary meaning that payments in respect of HUF denominated

Instruments will be effected in euro, and converted at a HUF to EUR exchange rate to be fixed at a future date.

### ***Changes in the Hungarian housing policy***

The Issuer's businesses and revenues therefrom may, in particular, be adversely affected by restrictive fiscal or other austerity policies or measures adopted by the Hungarian government. A significant risk relating to the legislative environment may especially stem from changes in the Hungarian housing policy and amendments to the regime of housing subsidies (see "*Hungarian Housing and Mortgage Market – Government housing policy and subsidised loan scheme*" below). The Issuer monitors changes in the legislative environment, including the EU regulatory framework for the financial sector, and draws up models to explore their short-term and long-term impact on its profitability and financial plans. However, it is important to note that any changes in the regulation have only affected future demand for subsidised loans and have had no impact on existing subsidised loan agreements or the Issuer's ability to perform its obligations under the Instruments.

### ***Changes in the Hungarian taxation environment***

The Issuer may, from time to time, be subject to special taxation obligations. For example, measures adopted by the Hungarian government in response to the financial crisis include the imposition of transitional tax obligations levied on the financial sector (please see "*The Hungarian Banking System and Capital Markets – II. Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Special "bank tax"*" below).

The imposition of such special taxes may have an adverse effect on the Issuer's financial condition and results of operation.

### **Rating risk**

An issuer credit rating is the opinion of a rating agency on the credit standing of an issuer, i.e. a forecast or an indicator of a possible credit loss due to insolvency, delay in payment or incomplete payment to the investors. The decision by a rating agency to suspend, downgrade, put on negative watch or withdraw a rating which relates to the Issuer or issues of its financial instruments, or downgrade the Hungarian sovereign rating may have an adverse effect on the market value and trading price of the Instruments. Such an action may also lead to a restriction of the Issuer's access to funds and, consequently, to higher refinancing costs.

### **Factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme**

#### ***The Instruments may not be a suitable investment for all investors***

Each potential investor in the Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement to the Base Prospectus;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including Instruments with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Instruments are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of the Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

#### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and counterparty credit risk:

##### *The secondary market generally (Liquidity risk)*

Application has been made to admit the Instruments issued under the Programme to trading on the Official List of the Luxembourg Stock Exchange. Regardless of whether the Instruments are listed or not, there can be no assurance that a liquid secondary market for the Instruments will develop or, if it does develop, that it will continue. In an illiquid market, an investor might not be able to sell its Instruments at any time at fair market prices or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Instruments that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies, or have been structured to meet the investment requirements of limited categories of investors. These types of Instruments generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Instruments. The ability to sell the Instruments might additionally be restricted for country-specific reasons.

##### *Counterparty credit risk*

Investors are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Instruments. The worse the

creditworthiness of the Issuer, the higher the risk of loss (see also "*Factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme*" above). A materialisation of the credit risk may result in the partial or total failure of the Issuer to make interest and/or redemption payments.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Instruments in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Instruments, (2) the Investor's Currency equivalent value of the principal payable on the Instruments and (3) the Investor's Currency equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks (Market price risk)*

The development in market prices of the Instruments depends on various factors, such as changes in market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Instruments. The holder of Instruments is, therefore, exposed to the risk of an unfavourable development in market prices of its Instruments, which materialises if the holder sells the Instruments prior to the final maturity of such Instruments.

Further, Hungarian capital markets are heavily dependent on international trends. As a result, if international capital market indicators are adversely affected, such a change may have a negative impact on the Hungarian capital markets. Therefore, any adverse change in the market price of foreign securities as a result of market turbulence, such as the recent sub-prime market events, this may have an adverse effect on the market price of mortgage bonds issued by Hungarian issuers.

Investment in Fixed Rate Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Instruments.

A holder of a Floating Rate Instrument is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the profitability of Floating Rate Instruments. Floating Rate Instruments may include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features. The market value of such Floating Rate Instruments tends to be more volatile than the market value of conventional Floating Rate Instruments. The yield of Floating Rate Instruments with a cap can be considerably lower than that of similar Floating Rate Instruments without a cap.

### *Credit spread risk*

Investors in Instruments are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the market price of the Instruments.

Credit spread is the margin payable by the Issuer to the holder of any Instrument as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, the Hungarian sovereign rating, the probability of default, the recovery rate, the remaining term to maturity of the Instruments and obligations under any collateralisation or guarantee, and declarations as to any preferred payment or subordination. The liquidity situation, the general level of interest rates, overall economic developments, and the currency in which the relevant obligation is denominated may also have a positive or negative effect.

### *Risk of suspension, interruption or termination of trading in the Instruments*

The listing of the Instruments may, depending on the rules applicable to the relevant stock exchange, be suspended or interrupted by the respective stock exchange or a competent regulatory authority for a number of reasons, including a violation of price limits, a breach of statutory provisions, the occurrence of operational problems involving the stock exchange or generally if deemed required in order to secure a functioning market or to safeguard the interests of investors. Furthermore, trading in the Instruments may be terminated, either upon the decision of the stock exchange or a regulatory authority or upon application by the Issuer.

### *Inflation risk*

Inflation risk describes the possibility that the value of assets such as the Instruments or income thereon will decrease as inflation shrinks the purchasing value of a currency in which the Instruments and/or payments on them are denominated. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on any Instruments, the yield on such Instruments will become negative.

### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Instruments. The ratings may not reflect the potential impact of all risks related to the structure of and market for the Instruments, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A credit rating agency may, from time to time, alter the methodology employed by it for rating the Instruments, and such modification may affect ratings attributed to the Instruments issued under the Programme.

In general, European regulated investors are restricted under Regulation (EC) No 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also

apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus and/or the Final Terms, is set out in the section "*Description of the Issuer*" of this Base Prospectus and will be disclosed in the Final Terms.

#### *Form of the New Global Note*

The form of the New Global Note was established to enable Mortgage Notes or Notes to be issued and held in a manner which is recognised as eligible collateral in accordance with Eurosystem's monetary policy and intra-day credit operations either upon issue or while still outstanding. However, such recognition will depend upon the satisfaction of Eurosystem's eligibility criteria, as applied from time to time by the Eurosystem.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Instruments are legal investments for it, (2) Instruments can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

#### ***Risks related to Instruments generally***

Set out below is a brief description of certain risks relating to the Instruments generally:

##### *Modification*

The terms and conditions of the Instruments contain provisions on convening meetings of Holders to deliberate on any proposals and consider any matters affecting their common interests *en masse*. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

##### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following the implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

The terms and conditions of the Mortgage Securities are based on Hungarian law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Hungarian law or administrative practice after the date of this Base Prospectus.

The terms and conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

#### *Trading in the clearing systems*

The Mortgage Bonds will clear and be tradeable through KELER, Clearstream, Luxembourg and Euroclear. At the date of this Base Prospectus, there is no direct settlement bridge between Euroclear and Clearstream, Luxembourg for the Mortgage Bonds. A participant in Clearstream, Luxembourg wishing to trade Mortgage Bonds with a participant in Euroclear (and *vice versa*) will, until a settlement bridge is established between Clearstream, Luxembourg and Euroclear, be required to settle that trade through the respective accounts of Clearstream, Luxembourg with KELER and the account of Euroclear's agent bank held with KELER.

#### *Integral multiples of less than EUR 100,000*

It is possible that certain Instruments may be traded in the clearing systems in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such a case, should definitive Instruments be required to be issued, Holders who hold Instruments in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Instruments such that their holding then becomes an integral multiple of a Specified Denomination.

#### *Reliance on the procedures of Euroclear and/or Clearstream, Luxembourg for transfers, payments and communication with the Issuer*

Notes or Mortgage Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes may be deposited with a common depositary for, or, as applicable, as common safekeeper with, Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Notes, investors will not be entitled to receive Mortgage Notes or Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. Whilst the Mortgage Notes or the Notes are represented by

one or more Global Notes, deposited with Euroclear and/or Clearstream, Luxembourg, investors will be able to trade their beneficial interests only through these settlement systems.

#### *Other risks*

The past performance of Instruments issued under the Programme may not prove to be a reliable guide to their future performance.

#### *The tax impact of an investment in the Instruments should be carefully considered*

Interest payments on Instruments, or profits realised by an investor upon the sale or repayment of Instruments, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. The tax impact on investors generally is described under "*Taxation*"; however, the tax impact on an individual investor may differ from the situation described for investors generally. Prospective investors, therefore, should contact their own tax advisers for advice on the tax impact of an investment in the Instruments. Furthermore, the applicable tax regime may change to the disadvantage of the investors in the future.

#### ***Risks related to the structure of a particular issue of Instruments***

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

##### *Instruments subject to optional redemption by the Issuer*

An optional redemption feature of Instruments is likely to limit their market value. During any period when the Issuer may elect to redeem Instruments, the market value of those Instruments generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Instruments when its cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

##### *Index Linked Instruments and Dual Currency Instruments*

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. Potential investors should be aware that:

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;

- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The past performance of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Instruments. Accordingly, investors should consult their own financial and legal advisers about the risk entailed by an investment in any Index Linked Instruments and the suitability of such Instruments in light of their particular circumstances.

#### *Partly-paid Instruments*

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

#### *Variable rate Instruments with a multiplier or other leverage factor*

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Instruments*

Fixed/Floating Rate Instruments may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such conversion, this will affect the secondary market and the market value of the Instruments since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Instruments may be less favourable than then prevailing spreads on comparable

Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Instruments.

*Instruments issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

## GENERAL DESCRIPTION

This section "General Description" must be read as an introduction to this Base Prospectus and any decision to invest in any Instruments, should be based on a consideration of this Base Prospectus as a whole, including any documents incorporated by reference.

The following is qualified in its entirety by the remainder of this Base Prospectus.

Words and expressions defined in "*Form of the Mortgage Bonds*", "*Form of the Mortgage Notes*", "*Form of the Notes*", "*Terms and Conditions of the Mortgage Bonds*", "*Terms and Conditions of the Mortgage Notes*", and "*Terms and Conditions of the Notes*" shall have the same meanings in this description.

<b>Issuer:</b>	FHB Mortgage Bank Co. Plc. ( <i>FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság</i> )
<b>Description:</b>	Euro Mortgage Securities and Euro Medium Term Note Programme for the issuance of Mortgage Bonds, Mortgage Notes and Notes
<b>Arranger:</b>	BNP Paribas
<b>Dealers:</b>	BNP Paribas Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank Aktiengesellschaft DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Raiffeisen Bank International AG
	and any other Dealers appointed in accordance with the Programme Agreement.
<b>Principal Paying Agent:</b>	Deutsche Bank AG, London Branch
<b>Risk Factors</b>	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme. These are set out under " <i>Risk Factors</i> ". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme. These are set out under " <i>Risk Factors</i> " and include the fact that the Instruments may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Instruments and certain market risks.
<b>Certain Restrictions:</b>	Each issue of Instruments denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.

### **Instruments having a maturity of less than one year**

Instruments having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

- Programme Size:** Up to EUR 3,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
- Distribution:** Instruments may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
- Currencies:** Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
- Redenomination:** The applicable Final Terms may provide that certain Instruments may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 3 of the Terms and Conditions of the Mortgage Bonds, in Condition 3 of the Terms and Conditions of the Mortgage Notes and Condition 4 of the Terms and Conditions of the Notes.
- Maturities:** Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
- Issue Price:** Instruments may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Type of Mortgage Securities:** For a description of certain aspects relevant to the Mortgage Securities, see "*Certain Information relating to the Mortgage Securities*".
- Form of Mortgage Bonds:** The Mortgage Bonds will be issued in dematerialised registered form as described in "*Form of the Mortgage Bonds*".
- The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms) integral multiples of

EUR 1,000 (or its foreign currency equivalent) in excess thereof. If Mortgage Bonds are cleared through KELER, they will be tradeable only in principal amounts which are multiples of the Specified Denomination.

**Form of Mortgage Notes:**

The Mortgage Notes will be issued in bearer form as described in "*Form of the Mortgage Notes*".

The Mortgage Notes will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of EUR 1,000 (or its foreign currency equivalent) in excess thereof.

**Form of Notes:**

The Notes will be issued in bearer form as described in "*Form of the Notes*".

The Notes will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of EUR 1,000 (or its foreign currency equivalent) in excess thereof.

**Fixed Rate Instruments:**

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

**Floating Rate Instruments:**

Floating Rate Instruments will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Instruments of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Instruments.

**Index Linked Instruments:**

Payments of principal in respect of Index Linked Redemption Instruments or of interest in respect of Index Linked Interest Instruments will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities

or to such other factors as the Issuer and the relevant Dealer may agree.

**Other provisions in relation to Floating Rate Instruments and Index Linked Interest Instruments:**

Floating Rate Instruments, and Index Linked Interest Instruments may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Instruments and Index Linked Interest Instruments in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

**Dual Currency Instruments:**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Instruments will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

**Zero Coupon Instruments:**

Zero Coupon Instruments will be offered and sold at a discount to their nominal amount and will not bear interest.

**Partly Paid Mortgage Bonds:**

Subject to the prior written consent of KELER (as defined below), the Issuer shall not issue Partly Paid Mortgage Bonds.

**Partly Paid Mortgage Notes:**

Partly Paid Mortgage Notes may be issued where the issue price is payable in more than one instalment.

**Partly Paid Notes:**

Partly Paid Notes may be issued where the issue price is payable in more than one instalment.

**Redemption:**

The applicable Final Terms will indicate either that the Instruments cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Instruments will be redeemable at the option of the Issuer and/or the Holders upon giving notice to the Holders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Instruments having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions*" above.

**Denomination of Instruments:**

Instruments will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Instrument will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum denomination of each Instrument admitted to trading on a regulated market within the

European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be EUR 100,000 (or, if the Instruments are denominated in a currency other than euro, the equivalent amount in such currency).

**Taxation:**

All payments in respect of the Instruments will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 7 of the Terms and Conditions of the Mortgage Bonds, in Condition 7 of the Terms and Conditions of the Mortgage Notes and Condition 8 of the Terms and Conditions of the Notes, respectively. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 of the Terms and Conditions of the Mortgage Bonds and Condition 8 of the Terms and Conditions of the Notes, respectively, be required to pay additional amounts to cover the amounts so deducted.

The terms of the Instruments contain a provision, pursuant to which the Agent must, at all times, be tax resident in Germany or the United Kingdom.

**Negative Pledge:**

The terms of the Mortgage Securities will not contain a negative pledge provision.

The terms of the Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.

**Cross Default:**

The terms of the Mortgage Securities will contain a cross default provision as further described in Condition 9 of the Terms and Conditions of the Mortgage Bonds and in Condition 9 of the Mortgage Notes.

**Cross Acceleration:**

The terms of the Notes will contain a cross acceleration provision as further described in Condition 10 of the Terms and Conditions of the Notes.

**Status of the Mortgage Securities:**

The Mortgage Securities will constitute unsubordinated obligations of the Issuer ranking *pari passu* among themselves. The Mortgage Securities will be covered in accordance with the Hungarian Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzáloghitelintézetéről és a jelzáloglevélről) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (jelzáloglevelek).

**Status of the Notes:**

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain

obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

**Subordination:**

Instruments may not be issued on a subordinated basis.

**Rating:**

The rating of Instruments to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Instruments will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 will be disclosed in the Final Terms.

**Approval, listing and admission to trading:**

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Instruments may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.

Instruments which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the Instruments are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

**Clearing of Mortgage Bonds:**

Mortgage Bonds will only clear through Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**), as more fully described under "*Form of the Mortgage Bonds*" and "*Settlement Procedures for the Mortgage Bonds*" below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in "*Form of the Mortgage Notes*" below.

**Clearing of Notes:**

Notes will clear through Euroclear and Clearstream, as more fully described under "*Form of the Notes*" and "*Settlement Procedures*" below.

**Governing Law:**

The Mortgage Securities will be governed by, and any non-contractual obligations arising therefrom shall be construed in accordance with, Hungarian law. In relation to the Mortgage Securities, any Dispute (including a dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Securities) may be settled by the Hungarian Money and Capital Markets Arbitration Court, in accordance with its own rules of procedure, as more fully described in the Terms

and Conditions of the Mortgage Securities.

The Notes will be governed by, and any non-contractual obligations arising therefrom shall be construed in accordance with, English law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Instruments in the United States, Japan and the European Economic Area (including the United Kingdom, Hungary, Italy and France) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Instruments see "*Subscription and Sale*".

**United States Selling Restrictions:**

Regulation S, Category 1, TEFRA C for Mortgage Bonds; Regulation S, Category 1, TEFRA D for Mortgage Notes; Regulation S, Category 1, TEFRA C or TEFRA D for Notes.

**Representation of the holders of the Instruments:**

There is no provision for the representation of holders of the Instruments.

For the purpose of calculating the euro equivalent of the aggregate nominal amount of Instruments issued under the Programme from time to time:

- (a) the euro equivalent of Instruments denominated in another Specified Currency (as specified in (i) the applicable Final Terms in relation to (x) the Mortgage Bonds or (y) the Mortgage Notes, or (ii) the applicable Final Terms in relation to the Notes, as the case may be) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Mortgage Securities or Notes, as the case may be, or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the euro equivalent of (i) Dual Currency Mortgage Securities, Index Linked Mortgage Securities and Partly Paid Mortgage Securities (each as specified in the applicable Final Terms in relation to (x) the Mortgage Bonds or (y) the Mortgage Notes, or (ii) Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the Notes, as the case may be) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Instruments (in the case of Partly Paid Mortgage Securities or Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Mortgage Securities or Zero Coupon Notes (as specified in (i) the applicable Final Terms in relation to (x) the Mortgage Bonds or (y) the Mortgage Notes, described under "*Form of the Mortgage Bonds*" and, in relation to Mortgage Notes, or (ii) the applicable Final Terms in relation to the Notes, as the case may be) and other Mortgage Securities or Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Base Prospectus:

- (a) Annual Report of the Issuer for 2009 containing the audited consolidated annual financial statements for the financial year ended 31 December 2009 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial year ended 31 December 2009	Pages 5 to 81
– Independent Auditors' Report	Page 4
– Consolidated Income Statement	Page 5
– Consolidated Comprehensive Income Statement	Page 6
– Consolidated Financial Position	Pages 7 to 8
– Consolidated Cash Flow Statement	Pages 9 to 10
– Consolidated Statement of Shareholders' Equity	Page 11
– Notes to the Consolidated Financial Statements	Pages 12 to 81

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

- (b) the audited consolidated annual financial statements for the financial year ended 31 December 2010 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial year ended 31 December 2010	Pages 5 to 92
– Independent Auditors' Report	Page 4
– Consolidated Income Statement	Page 5
– Consolidated Comprehensive Income Statement	Page 6
– Consolidated Financial Position	Pages 7 to 8
– Consolidated Cash Flow Statement	Pages 9 to 10
– Consolidated Statement of Shareholders' Equity	Page 11
– Notes to the Consolidated Financial Statements	Pages 12 to 92

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

(c) the Interim management report for the first quarter of 2011 including the information set out at the following pages in particular:

- I. Summary consolidated figures of the latest period (IFRS) Page 2
- II. Summary of the activities and events of the past period Pages 3 to 8
- III. Summary analysis of the consolidated financial statements of FHB Mortgage Bank Plc. by IFRS Pages 9 to 18
- IV. Consolidated financial statements of FHB Mortgage Bank Plc. prepared in accordance with International Financial Reporting Standards (IFRS) Pages 20 to 24

Any other information not listed above but contained in such document is incorporated by reference for information purposes only; and

(d) the Articles of Association of the Issuer.

Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the website of the Issuer, [www.fhb.lu](http://www.fhb.lu). In addition, such documents will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. for Instruments listed on the Official List of the Luxembourg Stock Exchange and on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Instruments, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Instruments.

## FORM OF THE MORTGAGE BONDS

Each Tranche of Mortgage Bonds will be in dematerialised registered form. The Issuer will, in accordance with Act CXX of 2001 on the Capital Markets (*2001. évi CXX. törvény a tőkepiacról*) (the **Capital Markets Act**) and Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről*), issue and deposit with KELER a document (the **Document**), which does not qualify as a security, setting out the particulars of each Series of Mortgage Bonds. In the event that further Mortgage Bonds are issued or a part of the relevant Series of Mortgage Bonds are cancelled, in each case in accordance with the Terms and Conditions of the Mortgage Bonds, the Document will be cancelled and a new Document (the **new Document**) amended in accordance with the particulars of the further Mortgage Bonds or, as the case may be, the outstanding part of the relevant Series of Mortgage Bonds will be issued.

The Final Terms, or in the case of a Series with more than one Tranche, the latest Final Terms, for each Series of Mortgage Bonds (or the relevant provisions thereof) forms part of the related Document or new Document, as the case may be, and supplements the Terms and Conditions of the Mortgage Bonds and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions of the Mortgage Bonds, replace or modify the Terms and Conditions of the Mortgage Bonds for the purposes of a particular Series of Mortgage Bonds.

Payments in respect of the Mortgage Bonds will be made in accordance with the rules and regulations of KELER as effective from time to time and taking into consideration the relevant laws on taxation to those securities account managers who are registered in the register of KELER with respect to such Mortgage Bonds at the close of the business on the Reference Date (as defined in the Terms and Conditions of the Mortgage Bonds) for that payment, as designated in the regulations of KELER effective from time to time. Payment shall be due to that person who is deemed to be the Holder (as defined below) on the Reference Date.

In accordance with Section 138(2) of the Capital Markets Act, any reference to a **Holder** or  **Holders** in relation to any Mortgage Bonds means the person or persons, as the case may be, to whose securities account the Mortgage Bonds are credited until the opposite is proven. However, in respect of any Mortgage Bonds held on the securities account of Clearstream, Luxembourg and/or Euroclear's agent bank at KELER, each person who is for the time being shown in the records of Clearstream, Luxembourg and/or Euroclear's agent bank as the holder of a particular nominal amount of the Mortgage Bonds shall be entitled to exercise the rights of a Holder of that nominal amount of Mortgage Bonds in accordance with Clearstream, Luxembourg's, Euroclear's standard procedures. For the avoidance of any doubt, payments of principal or interest on the Mortgage Bonds held on the securities account of Clearstream, Luxembourg and/or Euroclear's agent bank at KELER will be made by, or on behalf of, the Issuer, through KELER, to the account of Clearstream, Luxembourg and/or Euroclear's agent bank.

The Mortgage Bonds will be transferable only by debiting the seller's securities account and crediting the buyer's securities account and in accordance with the rules and procedures for the time being of KELER. Under Section 6(5) of the Capital Markets Act, the Holders will not be entitled to exchange dematerialised Mortgage Bonds for printed Mortgage Bonds. However, in the limited circumstances described in Condition 1(e) of the Terms and Conditions of the Mortgage Bonds, the Issuer will be obliged to procure the delivery of printed mortgage bonds to the Holders.

The Mortgage Bonds will be cleared through KELER and Clearstream, Luxembourg which has its registered office at 67, Boulevard Grand-Duchesse Charlotte, L-1331 Luxembourg and through

Euroclear which has its registered office at 1 Boulevard du Roi Albert, 1210 Brussels, Belgium – see "*Settlement Procedures*".

If the applicable Final Terms specify any amendment to the Terms and Conditions of the Mortgage Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 3, 4, 5, 6 (except Condition 6(b)), 10, 11 (insofar as such Mortgage Bonds are not listed or admitted to trade on any stock exchange) or 12, they will not necessitate the preparation of a supplement to this Base Prospectus. If the Terms and Conditions of the Mortgage Bonds of any Series are to be modified in any other respect, a supplement to this Base Prospectus will be prepared, if appropriate.

## SETTLEMENT PROCEDURES FOR THE MORTGAGE BONDS

The following information is a summary of the settlement procedures envisaged to be applicable, as at the date of this Base Prospectus, to each Tranche of Mortgage Bonds to be issued under the Programme.

### ISSUE OF HUF DENOMINATED MORTGAGE BONDS

#### *Version 1 (Euroclear Free of Payment)*

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depository will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

The relevant Dealer or Lead Manager, as the case may be, will, on the relevant settlement day, instruct Euroclear to give a "Receive Free" instruction to its Hungarian agent bank for the nominal amount of the relevant Tranche indicating the securities (settlement) sub-account of the Issuer as "seller's account".

The Issuer will give a "Deliver Free" instruction to KELER for the nominal amount of the relevant Tranche indicating Euroclear's agent bank's securities account with KELER as "buyer's account".

Upon settlement KELER will (i) debit the securities (settlement) sub-account of the Issuer with the nominal amount of the relevant Tranche; (ii) credit the nominal amount of the relevant Tranche to Euroclear's agent bank's securities account with KELER.

The relevant Dealer or Lead Manager, as the case may be, will instruct its HUF cash correspondent bank (CCB), to transfer the purchase price with value date being the settlement date, to the Issuer's HUF account with the National Bank of Hungary.

#### *Version 2 (Clearstream Delivery against Payment)*

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depository will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

The relevant Dealer or Lead Manager, as the case may be, will, on the relevant settlement day, instruct Clearstream, Luxembourg to give an "OTC buy" instruction to its Hungarian depository KELER for the nominal amount of the relevant Tranche indicating the securities (settlement) sub-account of the Issuer as "seller's account". In turn, Clearstream, Luxembourg will give the above "OTC buy" instruction to KELER. The settlement currency is HUF.

The Issuer will give an "OTC sell" instruction to KELER for the nominal amount of the relevant Tranche indicating Clearstream, Luxembourg's securities account with KELER as "buyer's account".

If both the "OTC buy" and "OTC sell" instructions refer to the same number of Mortgage Bonds, settlement amount and settlement date and the buyer's and seller's account can be matched, the nominal amount of the relevant Tranche is credited to the securities (settlement) sub-account of the Issuer and there are sufficient funds (the purchase price) on Clearstream, Luxembourg's cash account

with KELER, then KELER will settle the "OTC buy" and "OTC sell" instructions on a delivery versus payment basis.

Accordingly, KELER will (i) debit the securities (settlement) sub-account of the Issuer with the nominal amount of the relevant Tranche; (ii) credit the nominal amount of the relevant Tranche to Clearstream, Luxembourg's securities account with KELER; (iii) debit Clearstream, Luxembourg's cash account with the purchase price; and (iv) credit or transfer the purchase price to the Issuer's cash account for value on the relevant settlement date.

In turn, Clearstream, Luxembourg will, in accordance with its instructions received from the relevant Dealer(s) or Lead Manager, as the case may be, credit the nominal amount of the relevant Tranche to the securities account(s) with Clearstream, Luxembourg of the persons entitled thereto.

Upon credit of the relevant securities account(s) with Clearstream, Luxembourg, the relevant accountholder(s) may further allocate the Mortgage Bonds to the securities account(s) of their respective clients.

## **ISSUE OF NON-HUF DENOMINATED MORTGAGE BONDS**

### *Version 1 (Euroclear Free of Payment)*

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depository will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

The relevant Dealer or Lead Manager, as the case may be, will, on the relevant settlement day, instruct Euroclear to give a "Receive Free" instruction to its Hungarian agent bank for the nominal amount of the relevant Tranche indicating the securities (settlement) sub-account of the Issuer as "seller's account".

The Issuer will give a "Deliver Free" instruction to KELER for the nominal amount of the relevant Tranche indicating Euroclear's agent bank's securities account with KELER as "buyer's account".

Upon settlement KELER will (i) debit the securities (settlement) sub-account of the Issuer with the nominal amount of the relevant Tranche; (ii) credit the nominal amount of the relevant Tranche to Euroclear's agent bank's securities account with KELER.

The relevant Dealer or Lead Manager, as the case may be, will instruct its cash correspondent bank (CCB) in the relevant currency, to transfer the purchase price with value date being the settlement date, to the Issuer's CCB, who in turn will credit the purchase price on the Issuer's cash account.

### *Version 2 (Clearstream Delivery against Payment)*

Upon the issue of a Tranche of Mortgage Bonds, the Issuer transfers such Tranche of Mortgage Bonds to the central securities account of Clearstream, Luxembourg with KELER indicating that the beneficiary's account number is 80781. The Issuer informs KELER by fax of the transfer.

After the transfer of the relevant Tranche of Mortgage Bonds to KELER's account with Clearstream, Luxembourg, KELER allocates a "technical ISIN-code" for such Tranche of Mortgage Bonds.

The Issuer sends a "Receive Free Instruction" with the technical ISIN code by fax to KELER upon receipt of which the nominal amount of the Tranche of Mortgage Bonds will be re-credited to the securities technical creation sub-account of the Issuer.

The Issuer gives a cross-border Delivery Against Payment Instruction with the technical ISIN code to KELER for the nominal amount of the Tranche of Mortgage Bonds indicating the securities account number of the relevant Dealer or Lead Manager, as the case may be, with Clearstream, Luxembourg AND/OR the securities account number of the relevant Dealer or Lead Manager, as the case may be, with Euroclear as "buyer's account".

This instruction together with the original ISIN code of the Tranche of Mortgage Bonds will be forwarded by KELER by SWIFT to Clearstream, Luxembourg, in which KELER instructs Clearstream, Luxembourg to complete a Delivery Against Payment Instruction with the original ISIN code for the nominal amount of the Tranche of Mortgage Bonds indicating the securities account of KELER with Clearstream, Luxembourg as "seller's account" and the securities account number of the relevant Dealer or Lead Manager, as the case may be, within Clearstream, Luxembourg AND/OR securities account number of the relevant Dealer or Lead Manager, as the case may be, within Euroclear as "buyer's account".

The relevant Dealer or Lead Manager, as the case may be, submits a Receipt Against Payment Instruction to Clearstream, Luxembourg and/or Euroclear in which it indicates its own account with Clearstream, Luxembourg and/or Euroclear as "buyer's account" and KELER's account at Clearstream, Luxembourg as "delivering account".

In case of a successful settlement in Clearstream Luxembourg's settlement system and upon receipt of the respective confirmations (confirmation of debit (securities); confirmation of credit (cash)) KELER (a) credits the purchase price of the Tranche of Mortgage Bonds sold in the Currency Account System to the account of the Issuer with KELER; (b) debits the securities (settlement) sub-account of the Issuer with the nominal amount of the Tranche of Mortgage Bonds with the technical ISIN; and (c) informs the Issuer by fax about the settlement.

#### *Payments*

In relation to an issue of Mortgage Bonds, the Issuer will pay any amount due in HUF under the Mortgage Bonds to the HUF bank account of the Agent (as defined in the Terms and Conditions of the Mortgage Bonds) with a Hungarian bank and, in case of any amount due in a currency other than HUF, to such account as may be designated for such purpose by the Agent from time to time.

The Agent will then, based on the list of Securities Account Managers (as defined in the Terms and Conditions of the Mortgage Bonds) received from KELER ("*kifizetési diszpozíció*"), transfer the amount due to an account specified by KELER with an instruction to KELER to allocate the relevant funds to those listed on the "*kifizetési diszpozíció*", as appropriate (KELER will take such instructions subject to a separate agreement with the Issuer). Accordingly, KELER will credit the relevant funds to those listed on the "*kifizetési diszpozíció*", as appropriate, including crediting such funds to Clearstream, Luxembourg's and/or Euroclear's agent bank's cash account (or transferring such funds to the account of Clearstream, Luxembourg and/or Euroclear's agent bank's at a Hungarian bank) as are necessary to make the appropriate payments on the nominal amount of the relevant Tranche showing on Clearstream, Luxembourg's and/or Euroclear's agent bank's securities account with KELER. Clearstream, Luxembourg and/or Euroclear will credit such amounts received to the cash accounts of the relevant accountholders with it.

The relevant accountholders with Clearstream, Luxembourg and/or Euroclear will in turn credit the relevant amount to their respective clients.

## FORM OF THE MORTGAGE NOTES

Each Tranche of Mortgage Notes will be in bearer form and will be initially issued in the form of a temporary global Mortgage Note (a **Temporary Global Mortgage Note**) or, if so specified in the applicable Final Terms, a permanent global Mortgage Note (a **Permanent Global Mortgage Note**) which, in either case, will:

- (i) if the Global Mortgage Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream Luxembourg; or
- (ii) if the Global Mortgage Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for, Euroclear and Clearstream, Luxembourg.

Whilst any Mortgage Note is represented by a Temporary Global Mortgage Note, payments of principal, interest (if any) and any other amount payable in respect of the Mortgage Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Mortgage Note if the Temporary Global Mortgage Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Mortgage Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Mortgage Note is issued, interests in such Temporary Global Mortgage Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Mortgage Note of the same Series or (b) for definitive Mortgage Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Mortgage Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Mortgage Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Mortgage Note for an interest in a Permanent Global Mortgage Note or for definitive Mortgage Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Mortgage Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Mortgage Note if the Permanent Global Mortgage Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Mortgage Note will be exchangeable (free of charge), in whole but not in part, for definitive Mortgage Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. **A Permanent Global Mortgage Note will not be exchanged for a definitive Mortgage Note for any reason other than as set out in the Permanent Global Mortgage Note.** The Issuer will promptly give notice to Mortgage Noteholders in

accordance with Condition 11 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Mortgage Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Mortgage Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Mortgage Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Mortgage Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Mortgage Notes, receipts or interest coupons.

Mortgage Notes which are represented by a Global Mortgage Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Mortgage Notes*"), the Agent shall arrange that, where a further Tranche of Mortgage Notes is issued which is intended to form a single Series with an existing Tranche of Mortgage Notes, the Mortgage Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Mortgage Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Mortgage Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Mortgage Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Mortgage Note is still represented by a Global Mortgage Note and the Global Mortgage Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Mortgage Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Mortgage Note then the Global Mortgage Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Mortgage Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant in relation to the Mortgage Notes (the **Mortgage Note Deed of Covenant**) dated 31 May 2011 and executed by the Issuer.

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note**) which, in either case, will:

- (i) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); or
- (ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

So long as the Notes are represented by a temporary Global Note or permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of EUR 100,000 and higher integral multiples of EUR 1,000, notwithstanding that no definitive Notes will be issued with a denomination above EUR 199,000.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed

for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a Deed of Covenant in relation to the Notes (the **Note Deed of Covenant**) dated 31 May 2011 and executed by the Issuer.

## FORM OF FINAL TERMS OF THE MORTGAGE BONDS/MORTGAGE NOTES

*Set out below is the form of Final Terms which will be completed for each Series/Tranche of Mortgage Bonds or Mortgage Notes issued under the Programme.*

[Date]

**FHB MORTGAGE BANK CO. PLC.**  
**(FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Mortgage Bonds/Mortgage Notes]  
under the EUR 3,000,000,000  
Euro Mortgage Securities and Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 31 May 2011 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area). This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Mortgage [Bonds/Notes] is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at and collection from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying Agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from [www.fhb.hu](http://www.fhb.hu).

This Base Prospectus and the Final Terms applicable to each issue of Mortgage [Bonds/Notes] will be available on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).

*[The following alternative language applies if the first tranche of an issue of Mortgage Bonds / Mortgage Notes which is being increased was issued under a Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Mortgage [Bonds/Notes] (the **Conditions**) set forth in the Base Prospectus dated [original date] which are incorporated by reference into the Base Prospectus dated [current date] and are attached hereto. This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State of the European Economic Area) and must be read in conjunction with the Base Prospectus dated 31 May 2011. Full information on the Issuer and the offer of the Mortgage [Bonds/Notes] is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [current date]. Copies of such Base Prospectuses are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Mortgage Bonds/Mortgage Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: FHB Mortgage Bank Co. Plc.  
*(FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság)*
2. (a) Series Number: [            ]  
(b) Tranche Number: [            ]  
  
*(If fungible with an existing Series, details of that Series, including the date on which the Mortgage Bonds/Mortgage Notes become fungible.)*
3. Specified Currency or Currencies: [            ]
4. Aggregate Nominal Amount:  
(a) Series: [            ]  
(b) Tranche: [            ]
5. [(a)] Issue Price (per Mortgage [    ] per cent. of the Specified Denomination [plus  
[Bond/Note]): [            ] accrued interest from [insert date] *(in the case of  
fungible issues only, if applicable)*  
  
[(b)] Net Proceeds: [            ]  
*(Required only for listed  
issues)*
6. (a) Specified Denominations: [            ]

*[The Mortgage Bonds/Mortgage Notes will be tradable only in principal amounts of at least the Specified Denomination and to the extent permitted by the relevant clearing system(s), integral multiples of the Tradable Amount (specified in Part B, item 10 below) in excess thereof – REFER TO PART B, ITEM 10 OF THE FINAL TERMS.]*

*[N.B. If the Mortgage Bonds are to be cleared through KELER, they will be tradeable only in principal amounts of at least the Specified Denomination.]*

*(N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Mortgage Bonds/Mortgage Notes to be admitted to*

*trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Mortgage Bonds/Mortgage Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*

*(N.B. If an issue of Mortgage Bonds/Mortgage Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR 100,000 or equivalent minimum denomination is not required.)*

(b) Calculation Amount

*(If only one Specified Denomination, insert the Specified Denomination.*

*If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

7. (a) Issue Date (value date): [ ]

(b) Interest Commencement Date: [ ]

*(N.B. An Interest Commencement Date will not be relevant for certain Mortgage Bonds/Mortgage Notes, for example Zero Coupon Mortgage Bonds/Mortgage Notes.)*

8. Maturity Date: [Fixed rate - specify date/  
Floating rate - Interest Payment Date falling in or nearest to [specify month]]

9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[BUBOR/LIBOR/EURIBOR] +/- [ ] per cent.  
Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]

[Dual Currency Interest]

[specify other]  
(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at the Specified Denomination]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]\*

[specify other]

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds/Mortgage Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

11. Change of Interest Basis or Redemption/ Payment Basis: [Specify details of any provision for change of Mortgage Bonds/Mortgage Notes into another Interest Basis or Redemption/ Payment Basis]

12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]

13. [Date [Board] approval for issuance of Mortgage [Bonds/Notes] obtained: [ ] [and [ ], respectively]]

*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Bonds/Mortgage Notes.)*

14. Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 4.)*

- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons.)*

- (c) Fixed Coupon Amount per [ ] per Calculation Amount

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\* Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.

Mortgage Bond/Mortgage  
Note:

- (d) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.]*

*N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration.*

*N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA).]*

- (g) Party responsible for calculating amounts payable: [Agent/if not Agent, insert details of Calculation Agent]
- (h) Other terms relating to the method of calculating interest for Fixed Rate Mortgage [Bonds/Notes]: [None/Give details]

16. **Floating Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount: [Agent/if not Agent, insert details of Calculation Agent]
- (f) Screen Rate Determination:
- Reference Rate: [ ]  
*(Either BUBOR, LIBOR, EURIBOR or other,*

*although additional information is required if other - including fallback provisions in the Agency Agreement.)*

- Interest Determination Date(s): [            ]  
*(Second Budapest business day prior to the start of each Interest Period if BUBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)*
  
- Relevant Screen Page: [            ]  
*(In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.)*

(g) ISDA Determination:

- Floating Rate Option: [            ]
- Designated Maturity: [            ]
- Reset Date: [            ]

(h) Margin(s): [ +/- ] [            ] per cent. per annum

(i) Minimum Rate of Interest: [            ] per cent. per annum

(j) Maximum Rate of Interest: [            ] per cent. per annum

(k) Day Count Fraction: [Actual/Actual (ISDA) or Actual/Actual  
Actual/365 (Fixed)  
Actual/365 (ÁKK)  
Actual/365 (Sterling)  
Actual/360  
30/360 or 360/360 or Bond Basis  
30E/360 or Eurobond Basis  
Other]  
*(See Condition 4 for alternatives.)*

(l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Mortgage [Bonds/Notes], if different from those set out in the Conditions: [            ]

17. **Zero Coupon Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining*

*subparagraphs of this paragraph.)*

- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Any other formula/basis of determining amount payable: [ ]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6(e)(iii) and Condition 6(i) apply/specify other]  
*(Consider applicable day count fraction if not HUF or U.S. dollar denominated.)*

18. **Index Linked Interest Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent responsible for calculating the Interest Amount(s): [ ]
- (c) Provisions for determining Rate of Interest where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (f) Additional Business Centre(s): [ ]
- (g) Minimum Rate of Interest: [ ] per cent. per annum
- (h) Maximum Rate of Interest: [ ] per cent. per annum
- (i) Day Count Fraction: [ ]

19. **Dual Currency Interest Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details, including notice period for currency selection]
- (b) Calculation Agent, if [ ]

responsible for calculating the interest payable:

- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: [            ]

**PROVISIONS RELATING TO REDEMPTION**

- 20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
  - (a) Optional Redemption Date(s): [            ]
  - (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [            ] per Calculation Amount/specify other/see Appendix
  - (c) If redeemable in part:
    - (i) Minimum Redemption Amount: [            ]
    - (ii) Maximum Redemption Amount: [            ]
    - (iii) Method of selection: [            ]
  - (d) Notice period (if other than as set out in the Conditions): [            ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*
  
- 21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
  - (a) Optional Redemption Date(s): [            ]
  - (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [            ] per Calculation Amount/specify other/see Appendix
  - (c) Notice period (if other than as [            ]

set out in the Conditions):

*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*

22. Final Redemption Amount:

[ ] per Calculation Amount/specify other/see Appendix]

*(N.B. In relation to any issue of Mortgage Bonds/Mortgage Notes which are expressed at item 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it, the following wording should be added: "For the avoidance of doubt, in the case of a holding of Mortgage Bonds/Mortgage Notes in an integral multiple of [ ] in excess of [ ] as envisaged in item 6 above, such holding will be redeemed at its nominal amount.")*

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds/Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e)):

[ ] per Calculation Amount/specify other/see Appendix]

## **GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE BONDS/MORTGAGE NOTES**

24. Additional Financial Centre(s) or other special provisions relating to Payment Dates:

[Not Applicable/give details]  
*(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate.)*

25. Details relating to Partly Paid Mortgage [Not Applicable/give details]\*  
[Bonds/Notes]: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Mortgage [Bonds/Notes] and interest due on late payment:
26. Redenomination applicable: Redenomination [not] applicable  
*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
27. Other final terms: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*  
*(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers.)*

## DISTRIBUTION

28. (a) If syndicated, names of [Not Applicable/give names]  
Managers:
- (b) Stabilising Manager (if any): [Not Applicable/give name]
29. If non-syndicated, name of relevant [Not Applicable/give name]  
Dealer:
30. TEFRA rules applicable: [TEFRA C/TEFRA D]†
31. Additional selling restrictions: [Not Applicable/give details]

## [MISCELLANEOUS

32. Form of Mortgage Notes:
- (a) Form: [Temporary Global Mortgage Note exchangeable for a Permanent Global Mortgage Note which is exchangeable for definitive Mortgage Notes only]

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\* Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.  
† TEFRA C is applicable to Mortgage Bonds; TEFRA D is applicable to Mortgage Notes.

upon an Exchange Event]

[Temporary Global Mortgage Note exchangeable for definitive Mortgage Notes on and after the Exchange Date]

[Permanent Global Mortgage Note exchangeable for definitive Notes only upon an Exchange Event]

*(N.B. If the Specified Denominations of the Mortgage Notes in Item 6 include language substantially to the following effect: "EUR 100,000 and integral multiples of EUR 1,000" the Temporary Global Mortgage Note must not be exchangeable for definitive Mortgage Notes.)*

(b) New Global Note [Yes/No]

33. Talons for future Coupons or Receipts to be attached to definitive Mortgage Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]

34. Details relating to Instalment Mortgage Notes:

(a) Instalment Amount(s): [Not applicable/*give details*]

(b) Instalment Date(s): [Not applicable/*give details*]\*

#### **[PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Mortgage [Bonds/Notes] described herein pursuant to the EUR 3,000,000,000 Euro Mortgage Securities and Euro Medium Term Note Programme of FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*.)

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: .....  
Duly authorised

By: .....  
Duly authorised

#### **FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG**

\* Only relevant for Mortgage Notes.

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [On the official list of the Luxembourg Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Mortgage [Bonds/Notes] to be admitted to trading on [[the Regulated Market of the Luxembourg Stock Exchange]/[ ]]. /Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [EUR] [ ]

### 2. RATINGS

Ratings: The Mortgage [Bonds/Notes] to be issued [have been]/[are expected to be] rated:

[S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to Mortgage Bonds/Mortgage Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

\*[[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[Insert credit rating agency] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[Insert credit rating agency] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No.

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\* Care should be taken to ensure that the information as at the date of publication, if necessary state as at a particular date.

1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of *[insert the name of the relevant EU CRA affiliate that applied for registration]*, which is established in the European Union, disclosed the intention to endorse credit ratings of *[insert credit rating agency].]*

*[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings *[have been]/[are expected to be]* endorsed by *[insert the name of the relevant EU-registered credit rating agency]* in accordance with Regulation (EC) No. 1060/2009. *[Insert the name of the relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

*[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

### **[3. NOTIFICATION**

*The Commission de Surveillance du Secteur Financier [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]*

### **4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUES**

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Mortgage [Bonds/Notes] has an interest material to the offer. – *Amended as appropriate if there are other interests]*

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

### **5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- |         |                           |     |
|---------|---------------------------|-----|
| [(i)]   | Reasons for the offer:    | [ ] |
| [(ii)]  | Estimated net proceeds:   | [ ] |
| [(iii)] | Estimated total expenses: | [ ] |

*(N.B.: If the Mortgage Bonds/Mortgage Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies [(i)] above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at [(ii)] and [(iii)] above are also required.)*

**6. YIELD (Fixed Rate Mortgage Bonds/Mortgage Notes only)**

Indication of yield: [       ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**7. PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Mortgage Bonds/Index-Linked Mortgage Notes only)**

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Where the underlying is an index include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer include details of where the information about the index can be obtained.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

*[The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].]*

*(N.B. This paragraph 7 only applies if the Mortgage Bonds/Mortgage Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Mortgage Bonds/Dual Currency Mortgage Notes only)**

*[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]*

*[(When completing this paragraph, consideration should be given as to whether such matters*

described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(N.B. This paragraph 8 only applies if the Mortgage Bonds/Mortgage Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

## 9. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Alphabetical code of Series: [ ]
- (iv) Any clearing system(s) other than Clearstream Banking, société anonyme[,/and] Euroclear Bank S.A./N.V. [and KELER] and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]  
*(If the Series of Mortgage Bonds/Mortgage Notes is listed on the Official List of the Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER.)*
- (v) Delivery: Delivery [against/free of] payment
- (vi) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vii) List of such documents available for inspection or collection (free of charge): [*insert list and place where such documents are so available*]
- (viii) Place of issue: Outside Hungary
- [(ix) Place of creation of Mortgage Bonds: Hungary]\*
- (x) Number of Mortgage Bonds:
- (b) Series: [ ]
- (c) Tranche: [ ]
- (xi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes/No]  
 [Note that the designation "yes" simply means that the Mortgage Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Mortgage Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem

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\* Only required for issues of Mortgage Bonds.

either upon issue or at any or all times during the life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]

*[Include this text if "yes" selected in which case the Mortgage Notes must be issued in NGN form. Not applicable in the case of Mortgage Bonds.]*

[(xii) Serial number of the Mortgage [        ]]\*  
Notes:

**10. TRADEABLE AMOUNT**

[[    ]/Not Applicable. *[Not applicable in the case of Mortgage Bonds tradeable in KELER.]*

***Certificate of the Hungarian asset controller (vagyonellenőr) to be attached to and form part of the Final Terms for each series of mortgage bonds pursuant to Section 11(2)(n) of the Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzáloghitelintézettről és a jelzáloglevélről).***

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\* Only required for issues of Mortgage Notes.

## TERMS AND CONDITIONS OF THE MORTGAGE BONDS

*The following are the Terms and Conditions of the Mortgage Bonds which will form part of each Document (as defined below). The applicable Final Terms in relation to any Series/Tranche of Mortgage Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Mortgage Bonds. The applicable Final Terms (or the relevant provisions thereof) will form part of each Document prepared in connection with each issue. Reference should be made to "Form of Final Terms" of this Base Prospectus for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Mortgage Bonds.*

This Mortgage Bond is one of a Series (as defined below) of Mortgage Bonds issued by FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**).

References herein to the **Mortgage Bonds** shall be references to the Mortgage Bonds of this Series and shall mean units of the Specified Denomination in the Specified Currency.

The Issuer has entered into an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 31 May 2011 and made between the Issuer, Deutsche Bank AG as principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

As used herein, **Tranche** means Mortgage Bonds which are identical in all respects (including as to listing) and **Series** means a Tranche of Mortgage Bonds together with any further Tranche or Tranches of Mortgage Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms (as defined below) are available for collection or inspection during normal business hours at the specified office of each of the Paying Agents save that, if this Mortgage Bond is an unlisted Mortgage Bond of any Series, the applicable Final Terms will only be available for collection or inspection by a Holder (as defined below) holding one or more unlisted Mortgage Bonds of that Series and such Holder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Mortgage Bonds and identity. The Holders are deemed to have notice of, and are subject to, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Terms and Conditions of the Mortgage Bonds include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement shall have the same meanings where used in the Terms and Conditions of the Mortgage Bonds unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

Words and expressions used in the applicable Final Terms shall have the same meanings where used in the Terms and Conditions of the Mortgage Bonds unless the context otherwise requires or unless otherwise stated.

## 1. TYPE, FORM, KIND AND TITLE

### (a) *Type*

The Mortgage Bonds are registered securities.

### (b) *Form*

The Mortgage Bonds are in dematerialised form. The Issuer will, in accordance with Act CXX of 2001 on the Capital Markets (*2001. évi CXX. törvény a tőkepiacról*) (the **Capital Markets Act**) and Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről*), issue and deposit with Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**) a document (the **Document**), which does not qualify as a security, with the particulars of this Series of Mortgage Bonds. In the event that further Mortgage Bonds are issued in accordance with Condition 12 or a part of this Series of Mortgage Bonds are cancelled in accordance with Condition 6(h), the Document will be cancelled and a new Document (the **new Document**) amended in accordance with the particulars of the further Mortgage Bonds or, as the case may be, the outstanding part of this Series of Mortgage Bonds will be issued.

The Final Terms for this Mortgage Bond (or the relevant provisions thereof) forms part of the related Document or new Document, as the case may be, and supplements these Terms and Conditions of the Mortgage Bonds (the **Terms and Conditions of the Mortgage Bonds**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions of the Mortgage Bonds, replace or modify the Terms and Conditions of the Mortgage Bonds for the purposes of this Mortgage Bond. References to the **applicable Final Terms** are to the Final Terms relating to a Tranche of Mortgage Bonds (or the relevant provisions thereof) which forms part of the Document prepared with respect to this Mortgage Bond.

*So long as the relevant clearing systems so permit, the Mortgage Bonds may be tradeable only in principal amounts of at least EUR 100,000 (or its foreign currency equivalent) and integral multiples of EUR 1,000 (or its foreign currency equivalent).*

### (c) *Kind*

This Mortgage Bond may be a Fixed Rate Mortgage Bond, a Floating Rate Mortgage Bond, a Zero Coupon Mortgage Bond, an Index Linked Interest Mortgage Bond, a Dual Currency Interest Mortgage Bond or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Final Terms.

This Mortgage Bond may be an Index Linked Redemption Mortgage Bond, a Dual Currency Redemption Mortgage Bond, a Partly Paid Mortgage Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis specified in the applicable Final Terms.

### (d) *Title*

In accordance with Section 138(2) of the Capital Markets Act, any reference to **Holder** or **Holders** in relation to any Mortgage Bonds shall mean the person or persons to whose securities account the Mortgage Bonds are credited until the opposite is proven. However, in respect of any Mortgage Bonds held on the securities account of Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and/or the agent bank of Euroclear S.A./N.V. (**Euroclear**) at KELER, each person who is for the time being shown in the records of

Clearstream, Luxembourg and/or Euroclear as the holder of a particular nominal amount of the Mortgage Bonds shall be entitled to exercise the rights of a Holder of that nominal amount of Mortgage Bonds in accordance with Clearstream, Luxembourg's and/or Euroclear's standard procedures. For the avoidance of any doubt, payments of principal or interest on the Mortgage Bonds held on the securities account of Clearstream, Luxembourg and/or the agent bank of Euroclear at KELER will be made by, or on behalf of, the Issuer, through KELER, to the account of Clearstream, Luxembourg and/or the agent bank of Euroclear.

The Mortgage Bonds will be transferable only by debiting the seller's securities account and crediting the buyer's securities account and in accordance with the rules and procedures for the time being of KELER. Under Section 6(5) of the Capital Markets Act, the Holders will not be entitled to exchange the dematerialised Mortgage Bonds for printed mortgage bonds. However, in the limited circumstances set out in Condition 1(e), the Issuer will be obliged to procure the delivery of printed mortgage bonds to the Holders.

(e) *Closure of KELER*

(i) Upon the occurrence of an Exchange Event (as defined below) the Issuer undertakes at its own expense and in accordance with the then applicable laws, rules and regulations of any stock exchange on which the Mortgage Bonds are for the time being listed:

- (A) to issue a new Series of Mortgage Bonds (the **Replacement Mortgage Bonds**) in replacement of the Series of Mortgage Bonds which were, in accordance with the records of KELER at the time of the occurrence of the Exchange Event, credited to securities accounts of each Securities Account Manager (as defined below) with KELER (the **Cancelled Mortgage Bonds**); and
- (B) to procure that appropriate agency arrangements in line with the then prevailing market standards for the servicing of bearer debt securities are established in connection with the Replacement Mortgage Bonds.

**Exchange Event** means the Issuer has been notified that KELER has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor clearing system is available.

(ii) The Replacement Mortgage Bonds to be issued by the Issuer upon the occurrence of an Exchange Event will:

- (A) constitute a new Series of Mortgage Bonds with terms (save for their respective issue dates and save as provided in (vi) below) identical to the Cancelled Mortgage Bonds which they are replacing;
- (B) be delivered to the securities account managers who have Cancelled Mortgage Bonds credited to their securities account with KELER (the Securities Account Managers) in accordance with the last available records of KELER (as determined in accordance with Condition 1(f)); and
- (C) be represented by printed certificates.

(iii) The Issuer will promptly (and in any event within five days of its occurrence) give notice to any stock exchange (in accordance with the then applicable rules and

regulations of that stock exchange) on which the Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 11 upon the occurrence of an Exchange Event and the issuance of Replacement Mortgage Bonds. The Issuer will procure that the replacement of the Cancelled Mortgage Bonds with Replacement Mortgage Bonds shall occur no later than 45 days after the date of the giving of the notice referred to in the immediately preceding sentence. Subject to Condition 1(e)(ii), the Issuer will procure that Replacement Mortgage Bonds are made available at the specified office of the Paying Agent for the time being in Luxembourg.

- (iv) The aggregate nominal amount of Replacement Mortgage Bonds issued following the occurrence of an Exchange Event shall be equal to the aggregate nominal amount of Mortgage Bonds which, according to the records of KELER, were credited to the securities accounts of Securities Account Managers at the time of the occurrence of the Exchange Event.
- (v) Upon the receipt of Replacement Mortgage Bonds by a Securities Account Manager, such Securities Account Manager and the Holder whose securities account is managed by such Securities Account Manager agree that the Mortgage Bonds which were credited to the securities account of such Securities Account Manager with KELER at the time of the occurrence of the Exchange Event shall be cancelled and shall cease to be of any further effect. Upon the receipt of the Replacement Mortgage Bonds, the Securities Account Manager agrees to hold them for the benefit and on behalf of Holders for whom the Securities Account Manager manages a securities account and in accordance with the balance of such securities account of such Holder. For the avoidance of doubt, to the extent that payments have been made in respect of Mortgage Bonds on or prior to the time that those Mortgage Bonds become Cancelled Mortgage Bonds, this shall relieve the Issuer of being required to make those payments in respect of the Replacement Mortgage Bonds. If any payment in respect of Mortgage Bonds falls due on or after the occurrence of an Exchange Event but prior to the date of delivery of Replacement Mortgage Bonds, then that payment shall only be required to be made by, or on behalf of, the Issuer at the time of presentation (and surrender, as the case may be) of the Replacement Mortgage Bond to the Agent or a Paying Agent by the holder of the Replacement Mortgage Bond. For the purposes of the immediately preceding sentence, interest shall continue to accrue on the Mortgage Bonds at the Rate of Interest (as defined below) in respect of the period from and including the due date for payment to but excluding the actual date of payment.
- (vi) If Replacement Mortgage Bonds are issued pursuant to this Condition 1(e) then:
  - (A) The word "Type," in the heading of Condition 1 shall be deleted, Condition 1(a) shall be deleted, Condition 1(c) shall become Condition 1(b) and Conditions 1(b) and 1(d) will be replaced with the following, respectively:

"(a) *Form and Denomination*

The Mortgage Bonds are in bearer form (where the certificate indicates the name of the owner - *névreszoló*), serially numbered, in the Specified Currency and the Specified Denomination. Interest bearing Mortgage Bonds have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to

include a reference to Talons or talons. Any reference herein to Mortgage Bonds shall, unless the context otherwise requires, be deemed to include a reference to Coupons attached to such Mortgage Bonds."

"(c) *Title*

Title to the Mortgage Bonds and Coupons attached to such Mortgage Bonds will pass upon endorsement of the transfer of title on the Mortgage Bonds and delivery of the Mortgage Bonds and Coupons attached to such Mortgage Bonds following such endorsement of the transfer of title. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Mortgage Bond and Coupon attached to such Mortgage Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of any previous loss or theft thereof) for all purposes, other than if the identity of the owner is indicated on the relevant Mortgage Bond and Coupon attached to such Mortgage Bond. Any reference to **Holder** or **Holders** in relation to any Mortgage Bond shall mean the holder or holders of the Mortgage Bonds. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. Any reference herein to Holder or Holders shall, unless the context otherwise requires, be deemed to include a reference to Couponholders".

(B) Condition 3(a)(ii) will be replaced with the following:

"the amount of interest due in respect of the Mortgage Bonds will be calculated by reference to the aggregate nominal amount of Mortgage Bonds held (or, as the case may be, in respect of which coupons are presented for payment) by the relevant Holder and the amount of such payment shall be rounded down to the nearest euro 0.01;"

(C) The "." at the end of Condition 3(a)(v) shall be replaced by "; and" and the following new Condition 3(a)(vi) shall be added thereafter:

"the Mortgage Bonds shall be issued at the expense of the Issuer in such denomination as the Agent may decide in accordance with the then prevailing market practice for a redenomination of securities denominated in Hungarian Forint into euro and applicable Hungarian law."

(D) The definition of Business Day contained in Condition 4(b)(i) shall be amended by deleting:

"; and

(C) a day on which KELER and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers."

at the end of that definition and replacing it with"."

(E) Condition 5(a) will be replaced with the following:

"Payments of principal will (subject as provided below and subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7) be made in the following manner:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque,

only against presentation and surrender of this Mortgage Bond, and payments of interest in respect of this Mortgage Bond will (subject as provided below) be made as aforesaid only against presentation and surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Mortgage Bonds (other than Dual Currency Interest Mortgage Bonds or Index Linked Interest Mortgage Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons).

Upon any Fixed Rate Mortgage Bond becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Mortgage Bond, Dual Currency Interest Mortgage Bond or Index Linked Interest Mortgage Bond becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any Mortgage Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Mortgage Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Mortgage Bond."

(F) The definition of Payment Day contained in Condition 5(b) shall be amended by:

- (i) deleting "; and
  - (iii) a day on which KELER and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers."

at the end of that definition and replacing it with "."; and

- (ii) inserting in Condition 5(b)(i) after the word "Budapest" the words", in the relevant place of presentation".

- (G) Condition 6(c) shall be amended by replacing the last sentence thereof with:

"In the case of a partial redemption of Mortgage Bonds, the Mortgage Bonds to be redeemed (**Redeemed Mortgage Bonds**) will be selected individually by lot not more than 30 days prior to the date fixed for redemption. A list of the serial numbers of such Redeemed Mortgage Bonds will be published in accordance with Condition 11 not less than 15 days prior to the date fixed for redemption."

- (H) Condition 6(d) shall be amended by replacing the second paragraph thereof with:

"To exercise the right to require redemption of this Mortgage Bond the Holder of this Mortgage Bond must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Mortgage Bond or evidence satisfactory to the Paying Agent concerned that this Mortgage Bond will, following delivery of the Put Notice, be held to its order or under its control. Any Put Notice given by a Holder of any Mortgage Bond pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption, an Event of Default has occurred and is continuing in which event such Holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph (d) and instead to declare such Mortgage Bond forthwith due and payable pursuant to Condition 9."

- (I) Condition 6(g) shall be amended by inserting after the words "Mortgage Bonds" in the first sentence:

"(provided that all unmatured Coupons appertaining thereto are purchased therewith)".

- (J) Condition 11 shall be amended by

- (i) inserting after the word "sent" in the last paragraph: "(together with this Mortgage Bond)"; and
- (ii) deleting the end of the sentence from "together with" and replacing it with".".

- (K) All references to KELER and/or actions to be taken by or in connection with KELER in the Terms and Conditions of the Mortgage Bonds shall be deemed to be deleted.

(f) *Records of KELER*

The records of KELER shall be evidence of the identity of the Securities Account Managers and the number of Mortgage Bonds credited to the securities account of each Securities Account Manager. For these purposes a statement issued by KELER stating:

- (i) the name of the Securities Account Manager to which the statement is issued; and
- (ii) the aggregate nominal amount of Mortgage Bonds credited to the securities account of the Securities Account Manager as at the close of business on the last day prior to the occurrence of an Exchange Event on which KELER is effecting money and securities transfers,

shall be evidence of the records of KELER.

## 2. STATUS OF THE MORTGAGE BONDS

The Mortgage Bonds constitute unsubordinated obligations of the Issuer ranking *pari passu* among themselves. The Mortgage Bonds are covered in accordance with Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzáloghitelintézetéről és a jelzáloglevélről) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds ("jelzáloglevelek").

## 3. REDENOMINATION

(a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Holders on giving prior notice to the Agent, the stock exchange(s) on which the Mortgage Bonds may be listed and KELER and at least 30 days' prior notice to the Holders in accordance with Condition 11, elect that, with effect from the Redenomination Date specified in the notice, the Mortgage Bonds shall be redenominated in euro.

The election will have effect as follows:

- (i) the Mortgage Bonds shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Mortgage Bond equal to the nominal amount of that Mortgage Bond in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Holders, the stock exchange (if any) on which the Mortgage Bonds may be listed, KELER and the Paying Agents of such deemed amendments;
- (ii) the amount of interest due in respect of the Mortgage Bonds will be calculated by reference to the aggregate nominal amount of Mortgage Bonds credited to the

securities account of the relevant Holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (iii) after the Redenomination Date, all payments in respect of the Mortgage Bonds other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Mortgage Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the Holder;
- (iv) if the Mortgage Bonds are Fixed Rate Mortgage Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and
- (v) if the Mortgage Bonds are Floating Rate Mortgage Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

In the Terms and Conditions of the Mortgage Bonds, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Mortgage Bonds) any date for payment of interest under the Mortgage Bonds or (in the case of Zero Coupon Mortgage Bonds) any date, in each case specified by the Issuer in the notice given to the Holders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency joins the European economic and monetary union; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

#### 4. **INTEREST**

(a) *Interest on Fixed Rate Mortgage Bonds*

Each Fixed Rate Mortgage Bond bears interest on its outstanding nominal amount (or, if it is a Partly Paid Mortgage Bond, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. As used in the Terms and Conditions of the Mortgage Bonds, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (A) in the case of Mortgage Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Mortgage Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in the Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (2) the number of days in the Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Terms and Conditions of the Mortgage Bonds:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency (in Hungary, one Forint) and, with respect to euro, one cent.

(b) *Interest on Floating Rate Mortgage Bonds and Index Linked Interest Mortgage Bonds*

(i) *Interest Payment Dates*

Each Floating Rate Mortgage Bond and Index Linked Interest Mortgage Bond bears interest on its outstanding nominal amount (or, if it is a Partly Paid Mortgage Bond, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Terms and Conditions of the Mortgage Bonds, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Terms and Conditions of the Mortgage Bonds, **Business Day** means any day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Budapest and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (C) a day on which KELER and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Mortgage Bonds and Index Linked Interest Mortgage Bonds will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Mortgage Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Series/Tranche of the Mortgage Bonds (the **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the Budapest inter-bank offered rate (**BUBOR**) or the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest

Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity and Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise so stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Mortgage Bonds*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards or if the Reference Rate is EURIBOR rounded if necessary to the third decimal place with 0.0005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time in the case of EURIBOR) or 12.30 p.m. (Budapest time in the case of BUBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Mortgage Bonds is specified in the applicable Final Terms as being other than BUBOR, LIBOR or EURIBOR, the Rate of Interest in respect of such Mortgage Bonds will be determined as provided in the applicable Final Terms.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Mortgage Bonds, and the Calculation Agent, in the case of Index Linked Interest Mortgage Bonds will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Mortgage Bonds, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Mortgage Bonds or Index Linked Interest Mortgage Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (A) if "Actual/Actual(ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (ÁKK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) / 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (G) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) / 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (H) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) / 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent, or (if applicable) the Calculation Agent, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, KELER, the relevant regulatory authority and any stock exchange on which the relevant Floating Rate Mortgage Bonds or Index Linked Interest Mortgage Bonds are for the time being listed and notice thereof to be published in accordance with Condition 11 as soon as possible after their determination but in no event later than the first Business Day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer, KELER, the relevant regulatory authority and each stock exchange on which the relevant Floating Rate Mortgage Bonds or Index Linked Interest Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 11.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b) whether by the Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Issuer and the Holders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Mortgage Bonds*

The rate or amount of interest payable in respect of Dual Currency Interest Mortgage Bonds shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Mortgage Bonds*

In the case of Partly Paid Mortgage Bonds (other than Partly Paid Mortgage Bonds which are Zero Coupon Mortgage Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Mortgage Bonds and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Mortgage Bond (or in the case of the redemption of part only of a Mortgage Bond, that part only of such Mortgage Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at a level specified under Section 301(2) of Act IV of 1959 on the Civil Code (*1959. évi IV. törvény a Polgári Törvénykönyvről*) (the **Civil Code**) until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Mortgage Bond have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Mortgage Bond has been received by the Agent and notice to that effect has been given to the Holders in accordance with Condition 11.

## 5. PAYMENTS

(a) *Method of payment*

Payments in respect of the Mortgage Bonds shall be made through the Agent and the other Paying Agents in accordance with the rules and regulations of KELER as effective from time to time, and taking into consideration the relevant laws on taxation, to those Securities Account Managers to whose securities account at KELER such Mortgage Bonds are credited at close of business on the Reference Date (as defined below) for that payment, as designated in the regulations of KELER effective from time to time. Pursuant to current rules and regulations of KELER, the Reference Date is the day falling three Business Days immediately prior to the relevant Interest Payment Date (the **Reference Date**). Payment shall be due to that person who is deemed to be the Holder on the Reference Date.

(b) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Bond is not a Payment Day (as defined below), the Holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Budapest and any Additional Financial Centre specified in the applicable Final Terms; and

- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) a day on which KELER and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(c) *Interpretation of principal and interest*

Any reference in the Terms and Conditions of the Mortgage Bonds to principal in respect of the Mortgage Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Mortgage Bonds;
- (iii) the Early Redemption Amount of the Mortgage Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Mortgage Bonds;
- (v) in relation to Zero Coupon Mortgage Bonds, the Amortised Face Amount (as defined below); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Bonds.

Any reference in the Terms and Conditions of the Mortgage Bonds to interest in respect of the Mortgage Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

**Amortised Face Amount** shall be calculated in accordance with the following formula:

$$RP \times (1 + AY)^y$$

where:

*RP* means the Reference Price;

*AY* means the Accrual Yield expressed as a decimal; and

*y* is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Mortgage Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage Bond becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(d) *General provisions applicable to payments*

The Holders shall be the only persons entitled to receive payments in respect of Mortgage Bonds and the Issuer will be discharged by payment to, or to the order of, the Holders in respect of each amount so paid. Each of the persons shown in the records of Clearstream, Luxembourg, Euroclear or KELER as the beneficial holder of a particular nominal amount of Mortgage Bonds must look solely to Clearstream, Luxembourg, Euroclear or KELER, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the Holders.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Mortgage Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Mortgage Bonds will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Mortgage Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

**6. REDEMPTION AND PURCHASE**

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Mortgage Bond (including each Index Linked Redemption Mortgage Bond and Dual Currency Redemption Mortgage Bond) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Mortgage Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Bond is neither a Floating Rate Mortgage Bond, an Index Linked Interest Mortgage Bond nor a Dual Currency Interest Mortgage Bond) or on any Interest Payment Date (if this Mortgage Bond is either a Floating Rate Mortgage Bond, an Index Linked Interest Mortgage Bond or a Dual Currency Interest Mortgage Bond), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 11, to the Holders (which notice shall be irrevocable), if:

- (i) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Bonds, the Issuer has or will

become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Mortgage Bonds; and

- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Mortgage Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two members of the board of directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Mortgage Bonds redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in Condition 6(e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 11; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Mortgage Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Mortgage Bonds, the Mortgage Bonds to be redeemed will be selected in accordance with the rules of KELER and the applicable Final Terms not more than 30 days prior to the date fixed for redemption.

(d) *Redemption at the option of the Holders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the Holder of any Mortgage Bond giving to the Issuer in accordance with Condition 11 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Mortgage Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if

appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable final Terms.

To exercise the right to require redemption of this Mortgage Bond the holder of this Mortgage Bond must deliver, within the notice period, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent both an ownership certificate issued by KELER or the relevant Securities Account Manager (which document certifies, in addition to the title of the Holder, that the Mortgage Bonds are held on an account blocked for the benefit of the Issuer) and a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**). With respect to Mortgage Bonds credited to the securities account of Clearstream, Luxembourg and/or the agent bank of Euroclear at KELER, to exercise the right to require redemption of the relevant Mortgage Bonds the Holder must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Clearstream, Luxembourg and/or Euroclear (which may include notice being given on his instruction by Clearstream, Luxembourg and/or Euroclear to the Agent by electronic means) in a form acceptable to Clearstream, Luxembourg and/or Euroclear from time to time. Any Put Notice given by a Holder of any Mortgage Bond pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption, an Event of Default has occurred and is continuing in which event such Holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph (d) and instead to declare such Mortgage Bond forthwith due and payable pursuant to Condition 9.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9, each Mortgage Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Mortgage Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Mortgage Bond (other than a Zero Coupon Mortgage Bond and a Partly Paid Mortgage Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Mortgage Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Mortgage Bond, at its Amortised Face Amount set out in Condition 5(c).

(f) *Partly Paid Mortgage Bonds*

Partly Paid Mortgage Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(g) *Purchases*

The Issuer may at any time purchase Mortgage Bonds at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Holders alike.

(h) *Cancellation*

All Mortgage Bonds which are redeemed or purchased by the Issuer will forthwith be cancelled. All Mortgage Bonds so cancelled cannot be reissued or resold.

(i) *Late payment on Zero Coupon Mortgage Bonds*

If the amount payable in respect of any Zero Coupon Mortgage Bond upon redemption of such Zero Coupon Mortgage Bond pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Mortgage Bond shall be the amount calculated as provided in paragraph 5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Mortgage Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Mortgage Bond have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Mortgage Bonds has been received by the Agent and notice to that effect has been given to the Holders in accordance with Condition 11;

and the Accrual Yield were increased by the default interest specified under Section 301(1) of the Civil Code.

**7. TAXATION**

All payments of principal and interest in respect of the Mortgage Bonds by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and/or interest which would otherwise have been receivable in respect of the Mortgage Bonds, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Mortgage Bonds:

- (a) the Holder of which is liable for such taxes or duties in respect of such Mortgage Bond by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Bond; or
- (b) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the Holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(b)); or

- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Mortgage Bond to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 11.

## 8. PRESCRIPTION

Claims against the Issuer for payment under the Mortgage Bonds may not be prescribed unless otherwise permitted by Hungarian law.

## 9. EVENTS OF DEFAULT

### (a) *Events of Default relating to Mortgage Bonds*

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing with respect to any Mortgage Bond (any reference to **Mortgage Bond** and **Mortgage Bonds** shall be construed accordingly):

- (i) the Issuer fails to make payment of any principal or interest due in respect of the Mortgage Bonds and such failure to pay continues for a period of 15 days; or
- (ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Bonds and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or
- (iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 9(b)) owing by the Issuer is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for

Borrowed Money, provided that no such event referred to in this sub-paragraph (v) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or

- (vi) the Issuer becomes subject to any special supervisory measure of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*),

then any Holder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Mortgage Bond held by the Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with the accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Pursuant to the relevant provisions of Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Bonds, together with the relevant asset cover, to another mortgage loan credit institution. This transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer the Mortgage Bonds will be cancelled and the transferee mortgage loan credit institution will issue its mortgage bonds (the **New Mortgage Bonds**) to the Holders on the same terms and conditions as those of the Mortgage Bonds. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Bond held by it to be due and payable pursuant to this Condition 9(a), although this will not prejudice any rights a Holder may have under the New Mortgage Bonds.

(b) *Definitions*

For the purposes of this Condition 9:

**Indebtedness for Borrowed Money** means, any present or future indebtedness for or in respect of: (i) money borrowed; or (ii) any notes, bonds, mortgage bonds or other debt securities offered, issued or distributed whether by way of public offer, private placement, acquisition consideration or otherwise and whether issued in cash or in whole or in part for consideration other than cash.

## 10. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;
- (b) so long as the Mortgage Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the Agent, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with Condition 11.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **11. NOTICES**

All notices regarding the Mortgage Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London, and, for so long as the Mortgage Bonds are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. So long as the Mortgage Bonds are listed on the Official List of the Luxembourg Stock Exchange, the Issuer will also request that notices to holders of the Mortgage Bonds be published on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any the relevant stock exchange or other relevant regulatory authority. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and, in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Notices to be given by any Holder shall be in writing and sent to the Agent, together with evidence satisfactory to the Agent of ownership which may include certification to this effect by KELER.

## **12. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Holders to issue further mortgage bonds having terms and conditions the same as the Mortgage Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Mortgage Bonds.

## **13. GOVERNING LAW, SUBMISSION TO JURISDICTION AND WAIVER OF SOVEREIGN IMMUNITY**

- (a) *Governing law*

The Mortgage Bonds are governed by, and any non-contractual obligations arising therefrom, shall be construed in accordance with, Hungarian law.

(b) *Submission to jurisdiction*

The Issuer and the Holders agree to subject any disputes which may arise out of or in connection with the Mortgage Bonds, the issue thereof or any document created in connection with such issue (including a dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Bonds) (the **Disputes**) to the exclusive jurisdiction of the Money and Capital Markets Arbitration Court defined under Section 376 of the Capital Markets Act. The Money and Capital Markets Arbitration Court shall proceed in accordance with its own rules of procedure provided that the arbitration proceedings shall be conducted in the English language.

(c) *Waiver of sovereign immunity*

The Issuer hereby irrevocably and unconditionally waives with respect to the Mortgage Bonds any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Disputes.

#### **14. MEETING OF HOLDERS AND MODIFICATION**

The Agency Agreement contains provisions for convening meetings of the Holders to consider any matter, including the sanctioning by Extraordinary Resolution of a modification of the Mortgage Bonds, or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Holders holding not less than ten per cent. in nominal amount of the Mortgage Bonds for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Mortgage Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the nominal amount of the Mortgage Bonds so held or represented, except that at any meeting the business of which included the modification of certain provisions of the Mortgage Bonds (including modifying the date of maturity of the Mortgage Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Mortgage Bonds or altering the currency of payment of the Mortgage Bonds), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Mortgage Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Mortgage Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

The Agent and the Issuer may agree, without the consent of the Holders, to:

- (a) any modification (except as mentioned above) of the Mortgage Bonds or the Agency Agreement which, in the sole opinion of the Issuer, is not prejudicial to the interests of the Holders; or
- (b) any modification of the Mortgage Bonds, or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 11 as soon as practicable thereafter.

**15. LANGUAGE**

These Terms and Conditions of the Mortgage Bonds are in the English language. A Hungarian language translation of these Terms and Conditions has been deposited with KELER in accordance with its rules and regulations. The English language version of these Terms and Conditions of the Mortgage Bonds and the applicable Final Terms in the English language shall be legally binding.

## TERMS AND CONDITIONS OF THE MORTGAGE NOTES

*The following are the Terms and Conditions of the Mortgage Notes which will be incorporated by reference into and will form part of, each Global Mortgage Note (as defined below) and each definitive Mortgage Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Mortgage Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Series/Tranche of Mortgage Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Mortgage Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Mortgage Note and definitive Mortgage Note. Reference should be made to "Form of Final Terms of the Mortgage Bonds/Mortgage Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Mortgage Notes.*

This Mortgage Note is one of a Series (as defined below) of Mortgage Notes issued by FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Mortgage Notes** shall be references to the Mortgage Notes of this Series and shall mean:

- (a) in relation to any Mortgage Notes represented by a global Mortgage Note (a **Global Mortgage Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Mortgage Note; and
- (c) any definitive Mortgage Notes issued in exchange for a Global Mortgage Note.

The Mortgage Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 31 May 2011 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Mortgage Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Mortgage Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Mortgage Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Mortgage Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Mortgage Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Mortgage Note. References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Mortgage Note.

Any reference to **Mortgage Noteholders** or **holders** in relation to any Mortgage Notes shall mean the holders of the Mortgage Notes and shall, in relation to any Mortgage Notes represented by a Mortgage Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Mortgage Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Mortgage Notes together with any further Tranche or Tranches of Mortgage Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Mortgage Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant in relation to the Mortgage Notes (the **Mortgage Note Deed of Covenant**) dated 31 May 2011 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Mortgage Note Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices save that, if this Mortgage Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Mortgage Noteholder holding one or more Mortgage Notes and such Mortgage Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Mortgage Notes and identity. The Mortgage Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Mortgage Note Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. FORM, DENOMINATION AND TITLE**

The Mortgage Notes are in bearer form and are serially numbered, in the Specified Currency in the Specified Denomination(s). Mortgage Notes of one Specified Denomination may not be exchanged for Mortgage Notes of another Specified Denomination.

This Mortgage Note may be a Fixed Rate Mortgage Note, a Floating Rate Mortgage Note, a Zero Coupon Mortgage Note, an Index Linked Interest Mortgage Note, a Dual Currency Interest Mortgage Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Mortgage Note may be an Index Linked Redemption Mortgage Note, an Instalment Mortgage Note, a Dual Currency Redemption Mortgage Note, a Partly Paid Mortgage Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis specified in the applicable Final Terms.

Definitive Mortgage Notes are issued with Coupons attached, unless they are Zero Coupon Mortgage Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Mortgage Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Mortgage Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Mortgage Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Mortgage Notes is represented by a Global Mortgage Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Mortgage Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Mortgage Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Mortgage Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Mortgage Notes, for which purpose the bearer of the relevant Global Mortgage Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Mortgage Notes in accordance with and subject to the terms of the relevant Global Mortgage Note and the expressions **Mortgage Noteholder** and **holder of Mortgage Notes** and related expressions shall be construed accordingly.

Mortgage Notes which are represented by a Global Mortgage Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

*So long as the relevant clearing systems so permit, the Mortgage Notes may be tradeable only in principal amounts of at least the Specified Denomination (or its foreign currency equivalent) and integral multiples of such other EUR 1,000 (or its foreign currency equivalent).*

## **2. STATUS OF THE MORTGAGE NOTES**

The Mortgage Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated obligations of the Issuer and rank *pari passu* among themselves. The Mortgage Notes are covered in accordance with Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*).

### 3. REDENOMINATION

#### (a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Mortgage Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Mortgage Noteholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Mortgage Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Mortgage Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Mortgage Note and Receipt equal to the nominal amount of that Mortgage Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Mortgage Noteholders, the stock exchange (if any) on which the Mortgage Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Mortgage Notes will be calculated by reference to the aggregate nominal amount of Mortgage Notes held (or, as the case may be, in respect of which Coupons are presented for payment) by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Mortgage Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (x) in the case of Relevant Mortgage Notes in the denomination of euro 100,000 and/or such higher amounts as the Agent may determine and notify to the Mortgage Noteholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Mortgage Noteholders in euro in accordance with Condition 6; and (y) in the case of Mortgage Notes which are not Relevant Mortgage Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Mortgage Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Mortgage Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Mortgage Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Mortgage Notes and Receipts so issued will also become void on that date although those Mortgage Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Mortgage Notes, Receipts and Coupons will be issued in exchange for Mortgage Notes, Receipts and Coupons

denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Mortgage Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Mortgage Notes;

- (v) after the Redenomination Date, all payments in respect of the Mortgage Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Mortgage Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Mortgage Notes are Fixed Rate Mortgage Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (A) in the case of the Mortgage Notes represented by a Global Mortgage Note, by applying the Rate of Interest to the full nominal amount outstanding of the Mortgage Notes multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention; and
  - (B) in the case of definitive Mortgage Notes, by applying the Rate of Interest to the Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Mortgage Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without further rounding; and
- (vii) if the Mortgage Notes are Floating Rate Mortgage Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

In the Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Mortgage Notes) any date for payment of interest under the Mortgage Notes or (in the case of Zero Coupon Mortgage Notes) any date, in each case specified by the Issuer in the notice given to the Mortgage

Noteholders pursuant to Condition 3(a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

**Relevant Mortgage Notes** means all Mortgage Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

#### 4. INTEREST

(a) *Interest on Fixed Rate Mortgage Notes*

Each Fixed Rate Mortgage Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Mortgage Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Mortgage Notes in definitive form, where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(i) in the case of Fixed Rate Mortgage Notes which are represented by a Global Mortgage Note, the aggregate outstanding nominal amount of the Fixed Rate Mortgage Notes represented by such Global Mortgage Note (or, if they are Partly Paid Mortgage Notes, the aggregate amount paid up); or

(ii) in the case of Fixed Rate Mortgage Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Mortgage Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

(i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

- (A) in the case of Mortgage Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
- (B) in the case of Mortgage Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
- (iii) in the Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Mortgage Notes and Index Linked Interest Mortgage Notes*

(i) *Interest Payment Dates*

Each Floating Rate Mortgage Note and Index Linked Interest Mortgage Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes is represented by a Global Mortgage Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Mortgage Notes (or, if they are Partly Paid Mortgage Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Mortgage Note or Index Linked Interest Mortgage Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Mortgage Note, the amount paid up).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Budapest and each Additional Business Centre specified in the applicable Final Terms;
- (B) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open;
- (C) a day on which Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**), Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Mortgage Notes and Index Linked Interest Mortgage Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Mortgage Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Mortgage Notes (the **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the Budapest inter-bank offered rate (**BUBOR**) or the London inter-bank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Mortgage Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12:30 p.m. (Budapest time in the case of BUBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Mortgage Notes is specified in the applicable Final Terms as being other than BUBOR, LIBOR or EURIBOR, the Rate of Interest in respect of such Mortgage Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4(b)(ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4(b)(ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Mortgage Notes, and the Calculation Agent, in the case of Index Linked Interest Mortgage Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Mortgage Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes for the relevant Interest Period by applying the Rate of Interest to:

- (1) in the case of Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes which are represented by Global Mortgage Note, the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Mortgage Note (or, if they are Partly Paid Mortgage Notes, the aggregate amount paid up); or
- (2) in the case of Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Mortgage Note or an Index Linked Interest Mortgage Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Mortgage Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (A) if "Actual/Actual(ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (A'KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

- (F) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30; and

- (G) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30;

- (H) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30.

- (v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the first London Business Day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed and to the Mortgage Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Mortgage Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Mortgage Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Mortgage Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Mortgage Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Mortgage Notes*

In the case of Partly Paid Mortgage Notes (other than Partly Paid Mortgage Notes which are Zero Coupon Mortgage Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Mortgage Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Mortgage Note (or in the case of the redemption of part only of a Mortgage Note, that part only of such Mortgage Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at a level specified under Section 301(2) of Act IV of 1959 on the Civil Code (1959. évi IV. törvény a Polgári Törvénykönyvről) (the **Civil Code**) until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Mortgage Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Mortgage Note has been received by the Agent and notice to that effect has been given to the Mortgage Noteholders in accordance with Condition 13.

## **5. PAYMENTS**

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) *Presentation of definitive Mortgage Notes, Receipts and Coupons*

Payments of principal in respect of definitive Mortgage Notes will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Mortgage Notes, and payments of interest in respect of definitive Mortgage Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Mortgage Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Mortgage Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Mortgage Note to which it appertains. Receipts presented without the definitive Mortgage Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Mortgage Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Mortgage Notes in definitive form (other than Dual Currency Mortgage Notes, Index Linked Mortgage Notes or Long Maturity Mortgage Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Mortgage Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Mortgage Note, Dual Currency Mortgage Note, Index Linked Mortgage Note or Long Maturity Mortgage Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not

attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Mortgage Note** is a Fixed Rate Mortgage Note (other than a Fixed Rate Mortgage Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Mortgage Note shall cease to be a Long Maturity Mortgage Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Mortgage Note.

If the due date for redemption of any definitive Mortgage Note is not an Interest Payment Date, interest (if any) accrued in respect of such Mortgage Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Mortgage Note.

(c) *Payments in respect of Global Mortgage Notes*

Payments of principal and interest (if any) in respect of Mortgage Notes represented by any Global Mortgage Note will (subject as provided below) be made in the manner specified above in relation to definitive Mortgage Notes or otherwise in the manner specified in the relevant Global Mortgage Note, where applicable, against presentation or surrender, as the case may be, of such Global Mortgage Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such Global Mortgage Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream Luxembourg, as applicable.

(d) *General provisions applicable to payments*

The holder of a Global Mortgage Note shall be the only person entitled to receive payments in respect of Mortgage Notes represented by such Global Mortgage Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Mortgage Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Mortgage Notes represented by such Global Mortgage Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Mortgage Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Mortgage Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Mortgage Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Mortgage Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) in the case of Mortgage Notes in definitive form only, the relevant place of presentation;
  - (B) London;
  - (C) each Additional Financial Centre specified in the applicable Final Terms; and
  - (D) Budapest;
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open;
- (iii) a day on which KELER, Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(f) *Interpretation of principal and interest*

Any reference in the Conditions to principal in respect of the Mortgage Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Mortgage Notes;
- (iii) the Early Redemption Amount of the Mortgage Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Mortgage Notes;
- (v) in relation to Mortgage Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Mortgage Notes, the Amortised Face Amount (as defined in Condition 6(e)(iii)); and

- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Notes.

Any reference in the Conditions to interest in respect of the Mortgage Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## 6. REDEMPTION AND PURCHASE

### (a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Mortgage Note (including each Index Linked Redemption Mortgage Note and Dual Currency Redemption Mortgage Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

### (b) *Redemption for tax reasons*

The Mortgage Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Note is neither a Floating Rate Mortgage Note, an Index Linked Interest Mortgage Note nor a Dual Currency Interest Mortgage Note) or on any Interest Payment Date (if this Mortgage Note is either a Floating Rate Mortgage Note, an Index Linked Interest Mortgage Note or a Dual Currency Interest Mortgage Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 13, the Mortgage Noteholders (which notice shall be irrevocable), if:

- (i) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Mortgage Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Mortgage Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two members of the board of directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Mortgage Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in Condition 6(e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Mortgage Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Mortgage Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Mortgage Notes, the Mortgage Notes to be redeemed (**Redeemed Mortgage Notes**) will be selected individually by lot, in the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Mortgage Notes represented by a Global Mortgage Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, a list of the serial numbers of such Redeemed Mortgage Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Mortgage Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(c) and notice to that effect shall be given by the Issuer to the Mortgage Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Mortgage Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Mortgage Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Mortgage Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Mortgage Note the holder of this Mortgage Note must, if this Mortgage Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable

from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Mortgage Note or evidence satisfactory to the Paying Agent concerned that this Mortgage Note will, following delivery of the Put Notice, be held to its order or under its control. If this Mortgage Note is represented by a Global Mortgage Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Mortgage Note the holder of this Mortgage Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Mortgage Note is represented by (i) a Global Mortgage Note which has not been issued in a new global note (**NGN**) form as specified in the applicable Final Terms, at the same time present or procure the presentation of the relevant Global Mortgage Note to the Agent for notation accordingly or (ii) a Global Mortgage Note which has been issued in NGN form as specified in the applicable Final Terms, at the same time procure that proper instruction is given to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such redemption.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Mortgage Note pursuant to this Condition 6(d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6(d) and instead to declare such Mortgage Note forthwith due and payable pursuant to Condition 9.

(e) *Early Redemption Amounts*

For the purpose of Condition 6(b) above and Condition 9, each Mortgage Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Mortgage Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Mortgage Note (other than a Zero Coupon Mortgage Note but including an Instalment Mortgage Note and a Partly Paid Mortgage Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Mortgage Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Mortgage Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Mortgage Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(f) *Instalments*

Instalment Mortgage Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6(e).

(g) *Partly Paid Mortgage Notes*

Partly Paid Mortgage Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) *Purchases*

The Issuer may at any time purchase Mortgage Notes (provided that, in the case of definitive Mortgage Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

(i) *Cancellation*

All Mortgage Notes which are redeemed or purchased by the Issuer will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Mortgage Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) cannot be reissued or resold.

(j) *Late payment on Zero Coupon Mortgage Notes*

If the amount payable in respect of any Zero Coupon Mortgage Note upon redemption of such Zero Coupon Mortgage Note pursuant to Conditions 6(a), 6(b), 6(c) or 6(d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Mortgage Note shall be the amount calculated as provided in Condition 6(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Mortgage Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Mortgage Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Mortgage Notes has been received by the Agent and notice to that effect has been given to the Mortgage Noteholders in accordance with Condition 13,

and the Accrual Yield were increased by the default interest specified under Section 301(1) of the Civil Code.

## 7. TAXATION

All payments of principal and interest in respect of the Mortgage Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Mortgage Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Mortgage Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Mortgage Note, Receipt or Coupon:

- (a) presented for payment in the Republic of Hungary; or
- (b) the Holder of which is liable for such taxes or duties in respect of such Mortgage Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(e)); or
- (d) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Mortgage Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Mortgage Noteholders in accordance with Condition 13.

## 8. PRESCRIPTION

Claims against the Issuer for payment under the Mortgage Notes may not be prescribed unless otherwise permitted by Hungarian law.

## 9. EVENTS OF DEFAULT

### (a) *Events of Default relating to Mortgage Notes*

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing with respect to any Mortgage Note (any reference to **Mortgage Note** and **Mortgage Notes** shall be construed accordingly):

- (i) the Issuer fails to make payment of any principal or interest due in respect of the Mortgage Notes and such failure to pay continues for a period of 15 days; or
- (ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or
- (iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 9(b)) owing by the Issuer is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this sub-paragraph (v) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or
- (vi) the Issuer becomes subject to any special supervisory measure of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*),

then any Holder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Mortgage Note held by the Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with the accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Pursuant to the relevant provisions of Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution. This

transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer the Mortgage Notes will be cancelled and the transferee mortgage loan credit institution will issue its mortgage bonds (the **New Mortgage Notes**) to the Holders on the same terms and conditions as those of the Mortgage Notes. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Note held by it to be due and payable pursuant to this Condition 9(a), although this will not prejudice any rights a Holder may have under the New Mortgage Notes.

(b) *Definitions*

For the purposes of this Condition 9:

**Indebtedness for Borrowed Money** means, any present or future indebtedness for or in respect of: (i) money borrowed; or (ii) any notes, bonds, mortgage bonds mortgage notes or other debt securities offered, issued or distributed whether by way of public offer, private placement, acquisition consideration or otherwise and whether issued in cash or in whole or in part for consideration other than cash.

**10. REPLACEMENT OF MORTGAGE NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Mortgage Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Mortgage Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

**11. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;
- (b) so long as the Mortgage Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Mortgage Noteholders in accordance with Condition 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Mortgage Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Mortgage Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## **13. NOTICES**

All notices regarding the Mortgage Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London and for so long as the Mortgage Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Mortgage Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Until such time as any definitive Mortgage Notes are issued, there may, so long as any Global Mortgage Notes representing the Mortgage Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Mortgage Notes and, in addition, for so long as any Mortgage Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Mortgage Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Mortgage Noteholder shall be in writing and given by lodging the same, together (in the case of any Mortgage Note in definitive form) with the relative Mortgage Note or Mortgage Notes, with the Agent. Whilst any of the Mortgage Notes are represented by a Global Mortgage Note, such notice may be given by any holder of a Mortgage Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Mortgage Noteholders, the Receiptholders or the Couponholders to create and issue further mortgage bonds having terms and conditions the same as the Mortgage Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Mortgage Notes.

#### **15. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

(a) *Governing law*

The Mortgage Notes are governed by, and any non-contractual obligations arising therefrom, shall be construed in accordance with, Hungarian law.

(b) *Submission to jurisdiction*

The Issuer and the Holders agree to subject any disputes which may arise out of or in connection with the Mortgage Notes, the issue thereof or any document created in connection with such issue (including a dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Notes) (the **Disputes**), to the exclusive jurisdiction of the Money and Capital Markets Arbitration Court defined under Section 376 of the Capital Markets Act. The Money and Capital Markets Arbitration Court shall proceed in accordance with its own rules of procedure provided that the arbitration proceedings shall be conducted in the English language.

#### **16. MEETINGS OF MORTGAGE NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

The Agency Agreement contains provisions for convening meetings of the Mortgage Noteholders to consider any matter, including the sanctioning by Extraordinary Resolution of a modification of the Mortgage Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Mortgage Noteholders holding not less than 10 per cent. in nominal amount of the Mortgage Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Mortgage Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Mortgage Noteholders whatever the nominal amount of the Mortgage Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Mortgage Notes, the Receipts or the Coupons (including modifying the date of maturity of the Mortgage Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Mortgage Notes or altering the currency of payment of the Mortgage Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Mortgage Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Mortgage Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Mortgage Noteholders shall be binding on all the Mortgage Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Mortgage Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Mortgage Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Mortgage Noteholders; or
- (b) any modification of the Mortgage Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Mortgage Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Mortgage Noteholders in accordance with Condition 13 as soon as practicable thereafter.

## FORM OF FINAL TERMS OF THE NOTES

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

[Date]

**FHB MORTGAGE BANK CO. PLC.**  
**(FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the EUR 3,000,000,000  
Euro Mortgage Bond and Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 31 May 2011 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at and collection from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying Agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from [www.fhb.hu](http://www.fhb.hu).

The Base Prospectus and, in the case of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

*[The following alternative language applies if the first tranche of an issue of Notes which is being increased was issued under a Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date] which are incorporated by reference into the Base Prospectus dated [current date] and are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 31 May 2011 which constitutes a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [current date]. Copies of such Base Prospectuses are available for viewing [at [website]] [and] [copies may be obtained from [address] during normal business hours.]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.]*

1. Issuer: FHB Mortgage Bank Co. Plc.  
*(FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság)*
2. (a) Series Number: [ ]  
[(b) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
(a) [Series: [ ]  
(b) [Tranche: [ ]
5. [Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [ ]

[The Notes will be tradeable only in integral principal amounts of Specified Denominations: EUR 100,000\* and integral multiples of EUR 1,000† in excess thereof up to and including EUR 199,000‡. No Notes in definitive form will be issued with a denomination above EUR 199,000§.]

*(N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities.*

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\* Or its foreign currency equivalent.

† Or its foreign currency equivalent.

‡ Or its foreign currency equivalent.

§ Or its foreign currency equivalent.

*Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*

*(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR 100,000 or equivalent minimum denomination is not required.)*

(b) Calculation Amount

*(If only one Specified Denomination, insert the Specified Denomination.*

*If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

7. (a) Issue Date: [ ]

(b) Interest Commencement Date: [ ]

*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*

8. Maturity Date: *[Fixed rate - specify date/  
Floating rate - Interest Payment Date falling in or nearest to [specify month]]*

9. Interest Basis: *[[ ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other]  
(further particulars specified below)*

10. Redemption/Payment Basis: *[Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]*

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. (a) Status of the Notes: Senior
- (b) [Date [Board] approval for issuance of Notes obtained [ ] [and [ ]], respectively]]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee.)*
14. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 5.)*
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons.)*
- (c) Fixed Coupon Amount(s): [ ] per [ ] in nominal amount
- (d) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.  
N.B. This will need to be amended in the case of*

*regular interest payment dates which are not of equal duration.  
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA).]*

- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: [ ].  
(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement.)
  - Interest Determination Date(s): [ ]  
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)
  - Relevant Screen Page: [ ]  
(In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.)

- (g) ISDA Determination:
- Floating Rate Option: [    ]
  - Designated Maturity: [    ]
  - Reset Date: [    ]
- (h) Margin(s): [+/-] [    ] per cent. per annum
- (i) Minimum Rate of Interest: [    ] per cent. per annum
- (j) Maximum Rate of Interest: [    ] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual(ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(See Condition 5 for alternatives.)
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [    ]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Accrual Yield: [    ] per cent. per annum
  - (b) Reference Price: [    ]
  - (c) Any other formula/basis of determining amount payable: [    ]
  - (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5(c) and 7.10 apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated.)
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the

*requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

- (a) Index/Formula: [give or annex details]
  - (b) Calculation Agent responsible for calculating the interest due: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
  - (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
  - (d) Specified Period(s)/Specified Interest Payment Dates: [ ]
  - (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
  - (f) Additional Business Centre(s): [ ]
  - (g) Minimum Rate of Interest: [ ] per cent. per annum
  - (h) Maximum Rate of Interest: [ ] per cent. per annum
  - (i) Day Count Fraction: [ ]
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
  - (b) Calculation Agent, if any, responsible for calculating the interest payable: [ ]
  - (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
  - (d) Person at whose option Specified [ ]

Currency(ies) is/are payable:

## PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [ ] per Calculation Amount
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice period (if other than as set out in the Conditions): [ ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*
21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [ ] per Calculation Amount
- (c) Notice period (if other than as set out in the Conditions): [ ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*
22. Final Redemption Amount: [ ] per Calculation Agent/specify other/see

## Appendix]

*(N.B. In relation to any issue of Notes which are expressed at item 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: "For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [ ] in excess of [ ] as envisaged in item [6] above, such holding will be redeemed at its nominal amount.")*

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

23. Early Redemption Amount payable on [ ] per Calculation Amount/specify redemption for taxation reasons or on other/see Appendix].  
event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):

### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:

(a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event/at any time at the request of the Issuer]

*(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. Need to amend Exchange Events to disapply any Noteholder/Issuer optional exchange where Notes are expressed to have a minimum denomination of EUR 100,000 or equivalent and are tradeable in integral multiples of EUR 1,000 thereafter in order for Notes to be*

*accepted by the clearing systems.)*

- (b) New Global Note: [Yes/No]
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]  
*(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate.)*
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable  
*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates).)*
30. Other final terms: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

## **DISTRIBUTION**

31. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) Stabilising Manager (if any): [Not Applicable/give name]
32. If non-syndicated, name of relevant Dealer: [Name]

33. Whether TEFRA D or TEFRA C rules [TEFRA D/TEFRA C/TEFRA not applicable] applicable or TEFRA rules not applicable:

34. Additional selling restrictions: [Not Applicable/give details]

**[PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR 3,000,000,000 Euro Mortgage Securities and Euro Medium Term Note Programme of FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*.)]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

**FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG**

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [On the official list of the Luxembourg Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [[the Regulated Market of the Luxembourg Stock Exchange]/[ ]] with effect from [ ]./ Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [EUR] [ ]

### 2. RATINGS

The Notes to be issued [have been]/[are expected to be] rated:

[S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

\*[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration

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\* Care should be taken to ensure that the information as at the date of publication, if necessary state as at a particular date.

under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of *[insert the name of the relevant EU CRA affiliate that applied for registration]*, which is established in the European Union, disclosed the intention to endorse credit ratings of *[insert credit rating agency]*.

*[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings *[have been]/[are expected to be]* endorsed by *[insert the name of the relevant EU-registered credit rating agency]* in accordance with Regulation (EC) No. 1060/2009. *[Insert the name of the relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

*[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

### 3. NOTIFICATION

The Commission de Surveillance du Secteur Financier *[has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues]* the *[names of competent authorities of host Member States]* with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

### 4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

*[Save for any fees payable to the dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. - Amend as appropriate if there are other interests]*

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

### 5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i)]* Reasons for the offer:
- [(ii)]* Estimated net proceeds:
- [(iii)]* Estimated total expenses:

*(N.B. Delete unless the Notes are derivative securities to which Annex XII of the Prospectus*

*Directive Regulation applies, in which case [(i)] above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at [(ii)] and [(iii)] above are also required.)]*

**6. YIELD (Fixed Rate Notes Only)**

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**7. PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING (INDEX-LINKED NOTES ONLY)**

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Where the underlying is an index include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer include details of where the information about the index can be obtained.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

*[The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].]*

*(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (DUAL CURRENCY NOTES ONLY)**

*[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

*(N.B. This paragraph 8 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

## 9. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if "yes" selected in which case the Notes must be issued in NGN form]*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of Final Terms of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 31 May 2011 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant in relation to the Notes (the **Note Deed of Covenant**) dated 31 May 2011 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Note Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices and, in the case of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)), save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Note Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

*So long as the relevant clearing systems so permit, the Notes may be tradeable only in principal amounts of at least the Specified Denomination (or its foreign currency equivalent) and integral multiples of such other EUR 1,000 (or its foreign currency equivalent).*

## 2. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

## 3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding, the Issuer shall not create or permit to be outstanding any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any Guarantee in respect of any Indebtedness, without, in the case of the creation of a Security Interest, at the same time and, in any other case, promptly according to the Noteholders an equal and rateable interest in the same or providing to the Noteholders such other security as shall be approved by an Extraordinary Resolution of the Noteholders.

As used herein:

**Indebtedness** means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt, mortgage bonds issued in accordance with Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről*), as amended) which are, or are intended to be or are capable of being, listed or traded on any stock exchange, over the counter or on other organised market for securities and which are:

- (i) denominated, payable or optionally payable in a currency other than Hungarian Forint; and

- (ii) not initially and primarily distributed to investors inside Hungary.

**Guarantee** means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness.

**Security Interest** means any mortgage, charge, pledge, lien or other similar encumbrance or security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

**Permitted Security Interest** means a Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof that is created pursuant to an asset-based financing or like arrangement (including a securitisation transaction) whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues, provided that, the aggregate outstanding amount of assets or revenues that are the subject of such security shall not at anytime exceed an amount equal to 15 per cent. of the total assets of the Issuer, but always subject to the laws and regulations applicable to the Issuer, as evidenced by its most recent audited financial statements (or, if at any time the Issuer prepares consolidated financial statements, its most recent audited consolidated financial statements).

## 4. REDENOMINATION

### 4.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes held (or, as the case may be, in respect of which

Coupons are presented for payment) by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 100,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the full nominal amount outstanding of the Notes, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and
  - (ii) in the case of Definitive Notes, by applying the Rate of Interest to the Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and then multiplying such rounded figure by the number of times the relevant Definitive Note can be divided by the Calculation Amount; and
- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

## 4.2 Definitions

In the Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

**Relevant Notes** means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

- (a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes or Index Linked Interest Notes is represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Note or Index Linked Interest Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form

comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2(d):

- (A) if "Actual/Actual(ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) \times 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (F) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) \times 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (G) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = [360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1) / 360$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

- (e) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in

accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**5.3 Interest on Dual Currency Interest Notes**

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

**5.4 Interest on Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

**5.5 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

**6. PAYMENTS**

**6.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and

- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

## 6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

### **6.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream Luxembourg, as applicable.

### **6.4 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

### **6.5 Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;

- (ii) London;
  - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **6.6 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

### **7.2 Redemption for tax reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (a) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by

Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **7.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

#### **7.4 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by (i) a Global Note which has not been issued in a new global note (**NGN**) form as specified in the applicable Final Terms, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly or (ii) a Global Note which has been issued in NGN form as specified in the applicable Final Terms, at the same time procure that proper instruction is given to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such redemption.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

#### **7.5 Early Redemption Amounts**

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

## **7.6 Instalments**

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

## **7.7 Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

## **7.8 Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

## **7.9 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

## **7.10 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment in the Republic of Hungary; or
- (b) the Holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## 9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal are made within a period of 10 years and/or claims in respect of interest are made within a period of five years after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

## **10. EVENTS OF DEFAULT**

### **10.1 Events of Default**

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) the Issuer fails to make payment of any principal or interest due in respect of the Notes and such failure to pay continues for a period of 15 days; or
- (b) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (c) the Hungarian Financial Supervisory Authority initiates the liquidation of the Issuer with the competent court, or any order is made by a competent court in respect of the commencement of liquidation proceedings against the Issuer; or
- (d) the Hungarian Financial Supervisory Authority resolves on the voluntary winding up of the Issuer; or
- (e) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (f) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 10.2) owing by the Issuer or any Principal Subsidiary is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer or any Principal Subsidiary defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this sub-paragraph (e) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or
- (g) if the Issuer or any Principal Subsidiary ceases or gives notice of its intention or otherwise any indication of its intention to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Issuer or any Principal Subsidiary stops payment of, or admits inability to pay its debts (or any class of its debts) as they fall due or is adjudicated by any competent court or is found bankrupt or insolvent; or
- (h) if (A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrator or other similar official, or an administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary and (B) in any case

(other than the appointment of an administrator) is not discharged within 45 days or (C) the Issuer or any Principal Subsidiary becomes subject to any special supervisory measures of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*); or

- (i) if the Issuer or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors),

then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

## 10.2 Definitions

For the purposes of the Conditions:

**Indebtedness for Borrowed Money** means any indebtedness for any borrowed money or amounts raised under any acceptance or acceptance credit facility.

**Principal Subsidiary** means at any time a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 15 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:
  - (i) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition;
  - (ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary

pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, its assets represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

Notwithstanding the above definition, FHB Commercial Bank Ltd. shall always be deemed to be a Principal Subsidiary.

A report by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

## **11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;

- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) provided such a Paying Agent exists, the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

### **13. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

### **14. NOTICES**

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to

trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of

interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing law**

The Agency Agreement, the Note Deed of Covenant, the Notes, the Receipts and the Coupons are, any non-contractual obligations arising therefrom shall be, governed by, and shall be construed in accordance with, English law.

### **18.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly submit to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders, may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes, the Receipts and the Coupons (and any non-contractual obligations arising out of or in connection with the Notes, the Receipts and the Coupons), against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **18.3 Appointment of Process Agent**

The Issuer appoints the Hungarian Trade Commission at its office at 46 Eaton Place, London SW1 8AL as its agent for service of process, and undertakes that, in the event of the Hungarian Trade Commission ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### **18.4 Waiver of immunity**

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## **USE OF PROCEEDS**

The net proceeds from each issue of Instruments will be applied by the Issuer for the financing of its mortgage loan business. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE ISSUER

### *History and development of the Issuer*

FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) was established on 21 October 1997 and duly registered in Hungary by the Court of Registration of the Budapest Metropolitan Court under Reg. No Cg. 01-10-043638 on 18 March 1998. Its registered seat is Üllői út 48., 1082 Budapest, telephone: +36 1 452 9100. The Issuer operates in Hungary as a specialised credit institution. The main activity of the Issuer is mortgage-based lending financed by the issuance of mortgage bonds. Its two basic business lines are (primarily retail) lending and refinancing of other credit institutions. The Issuer's lending business consists largely of retail mortgage lending and, to a lesser extent, the provision of commercial mortgage credits.

### *The Issuer's business*

The Issuer's business activities concentrate on the entire mortgage financing market building upon the Issuer's commercial background. The FHB Bank Group (the **Group** or the **FHB Group**) provides its domestic and international partners with a wide range of banking, mortgage and capital markets services.

The business activities of the Issuer as a Hungarian mortgage credit institution are strictly limited under Act XXX of 1997 on mortgage credit institutions and mortgage bonds (the **Mortgage Credit Institutions Act**) to, among other things, the following activities: (1) the granting of mortgage loans that are secured by either (i) a mortgage over a real estate located in the European Economic Area (the **EEA**), or (ii) on-demand suretyship provided by the Hungarian State; (2) undertaking of suretyships, bank guarantees and other bankers' commitments in favour of those to whom a mortgage loan has been provided by the Issuer on condition that any exposure from such commitments are covered by real estate; (3) appraisal of market and coverage (lending) value of real estate; (4) custody services in respect of securities issued by the Issuer; (5) arranging services in connection with the offerings of securities issued by the Issuer; and (6) certain other ancillary services. The Issuer may not take deposits and considerable restrictions are imposed on its investments such as that applying in respect of real estate, where the total value of its investments in properties (excluding those serving as premises for its operations) may not exceed 5 per cent. of its solvency capital. The Issuer, as a mortgage credit institution, may conclude derivative transactions only for liquidity or risk management purposes to hedge its exposures. The Issuer itself is the operating entity which directly holds all the loan assets or mortgages established as independent liens (as defined in Act IV of 1959 on the Civil Code of Hungary, within a meaning comparable to that of a non-recourse mortgage) (the **Independent Liens**) and issues the mortgage bonds financing such loan assets and mortgages.

### *History of the Issuer*

On the initiative of the National Commercial and Credit Bank Plc. (*Országos Kereskedelmi és Hitelbank Rt.*), a foundation was established in 1992 under the name of the Land Mortgage Bank Foundation (*Földhitelintézeti Alapítvány*) (the **Foundation**).

In 1996, five banks set up a joint venture company in order to prepare for the incorporation of the Issuer (*Jelzálog Hitelintézetet Előkészítő Részvénytársaság*), the role of which was to establish the first new bank

since the Second World War, which undertakes exclusively the business of mortgage lending refinanced by way of issuing mortgage bonds.

The Mortgage Credit Institutions Act was passed by the Hungarian Parliament in April 1997 and the Issuer was established on 21 October 1997. Its HUF 3 billion initial share capital was raised through the contributions of four banks (*Magyar Befektetési és Fejlesztési Bank Rt.*, *Mezőbank Rt.*, *Postabank és Takarékpénztár Rt.*, and *Pénzügyi Központ Bank Rt.*) and the Ministry of Finance (control over the total 85 per cent. shareholding of the Hungarian State was conferred upon certain state entities). The Issuer was authorised by the predecessor of the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*, the **HFSA**) to start its operation as a specialised credit institution under Act CXII of 1996 on credit institutions and financial enterprises (the **Credit Institutions Act**) and the Mortgage Credit Institutions Act on 5 March 1998.

In 2001, the Issuer began to issue mortgage bonds, sold by public auctions and listed on the Budapest Stock Exchange.

In 2003, as a result of partial privatisation and the admission of the Issuer's shares to trading on the Budapest Stock Exchange, state ownership in the Issuer was reduced from 94.7 per cent. to 53.2 per cent.

As part of the business strategy adopted by the Issuer's Board of Directors in February 2006, the Issuer was turned into a bank group with a view to becoming capable of serving the entire market segment for mortgage lending and real estate financing in the future.

On 29 August 2007, Hungarian Privatisation and State Holding Company Limited (**ÁPV Zrt.**) sold its Series "A" ordinary shareholding in the Issuer, representing 50 per cent. plus one of the voting rights in respect of the Issuer, on the Hungarian and international capital markets by way of an accelerated bookbuilding process. As a result of the sale, ÁPV Zrt.'s ownership interest in the Issuer dropped to 4.11 per cent.

The ordinary shares sold by ÁPV Zrt. were bought by a significant number of Hungarian and foreign investment companies. As a result of the transaction, none of the new shareholders gained a holding exceeding the 5 per cent. statutory threshold for qualifying as a significant shareholder for the purposes of transparency requirements.

## **The Group**

### ***Formation of the Group***

The Group was formed in 2006 as part of the Issuer's medium term business strategy approved by the Issuer's Board of Directors in February 2006 with a view to ensuring a balanced growth in the rate of return on equity, primarily through the diversification of the Issuer's activities, increase of business volume, reorganisation of its client structure, entry into new markets, broadening its product scale and reduction of risk exposure. The Group is composed of the Issuer and its various financial institution subsidiaries (as set out in "*Members of the Group*" below), which have been established or acquired in the course of implementing that strategy.

Since the establishment of the Group, loan products of the Issuer have increasingly been sold through its subsidiary, FHB Commercial Bank Ltd. (**FHB Bank** or **FHB Commercial Bank**), and the Issuer's main

focus has moved towards refinancing mortgage loans originated by FHB Commercial Bank and other partner banks, project lending and raising funds in the capital markets primarily through the issuance of mortgage bonds and senior unsecured bonds. Retail and corporate loan products sold through FHB Commercial Bank for, and on behalf of, the Issuer are booked on the balance sheet of the Issuer.

The Issuer has limited its direct lending activities to subsidised housing loans, land development loans, reverse mortgage loans, large commercial mortgage loans and housing project loans. FHB Commercial Bank is primarily engaged in selling non-subsidised, market-based retail loan products and corporate loan products.

#### *Members of the Group*

- *FHB Commercial Bank*

FHB Commercial Bank was established with the purpose of facilitating the expansion of lending activities and to introduce a commercial banking business line fundamentally built on mortgage-based real estate financing within the Group.

After the establishment of the Group, front office activities were transferred to FHB Commercial Bank. Structurally, agency activities and the operation of the agent networks are also carried out by FHB Commercial Bank.

As part of the strategic cooperation arrangements between the FHB Group and the Allianz Group (Hungary) (**Allianz Hungary** or the **Allianz Group Hungary**) (please see "*Changes in the overall business strategy of the Group*" below), the FHB Group acquired Allianz Bank from Allianz Hungary in October 2010 and, following that acquisition, Allianz Bank was merged into FHB Commercial Bank in April 2011.

- *FHB Life Annuity Ltd.*

FHB Life Annuity Ltd. (formerly FHB Annuity Ltd.) was set up to maximise the benefits from cross-selling possibilities by offering the Issuer's financial products to elderly customers.

FHB Life Annuity Ltd. offers two main products for elderly customers: (1) "FHB Annuity", which is sold directly by FHB Life Annuity Ltd., and (2) "FHB Mortgage Annuity", which is a reverse mortgage product, meaning that such agreements are booked directly on the balance sheet of the Issuer. In respect of "FHB Mortgage Annuity", FHB Life Annuity Ltd. is involved in both product development and sales activities, with the latter performed on the basis of an agency agreement concluded with the Issuer.

- *FHB Real Estate Ltd.*

FHB Real Estate Ltd. was established with a view to rationalising internal operations throughout the Group. It specialises in real estate valuation and real estate management activities.

The core business of FHB Real Estate Ltd. is to provide collateral evaluation and services in relation to investments in, and sales activities in respect of, real estate, as well as the provision of real estate

management and real estate appraisal services to the members of the Group. In addition to those rendered to members of the Group, FHB Real Estate Ltd. also offers evaluation services to external clients.

To provide reliable information for real estate appraisals, mortgage lending, real estate agency, evaluation and other activities throughout the Group and to external business partners, a comprehensive database system and source of reference in respect of the housing market has been developed by FHB Real Estate Ltd. under the name of the "FHB House Price Index".

The FHB House Price Index is based on actual purchase and sale transaction prices with sufficiently long series of data and large sample sizes to reflect movements in property prices in the Hungarian market for real estate with the degree of reliability expected by professionals in the financial and housing markets. The FHB House Price Index shows changes on a quarterly basis in purchase and sale prices of Hungarian residential real estate from 1998 through the processing of transaction data of over 800,000 residential properties.

- *FHB Service Ltd.*

FHB Service Ltd.'s main business lines include (i) advisory activities, (ii) investment services in line with the strategic objectives of the Group and (iii) the provision of human resource support for the Issuer. In addition to the above, the company has obtained a licence from HFSA to manage as an agent the problematic loan assets of the bank members of the Group engaged in lending activities. The operations of FHB Service Ltd. have been expanded to provide infrastructural, accounting, payroll and human resources, as well as regulatory reporting and IT services for the Group.

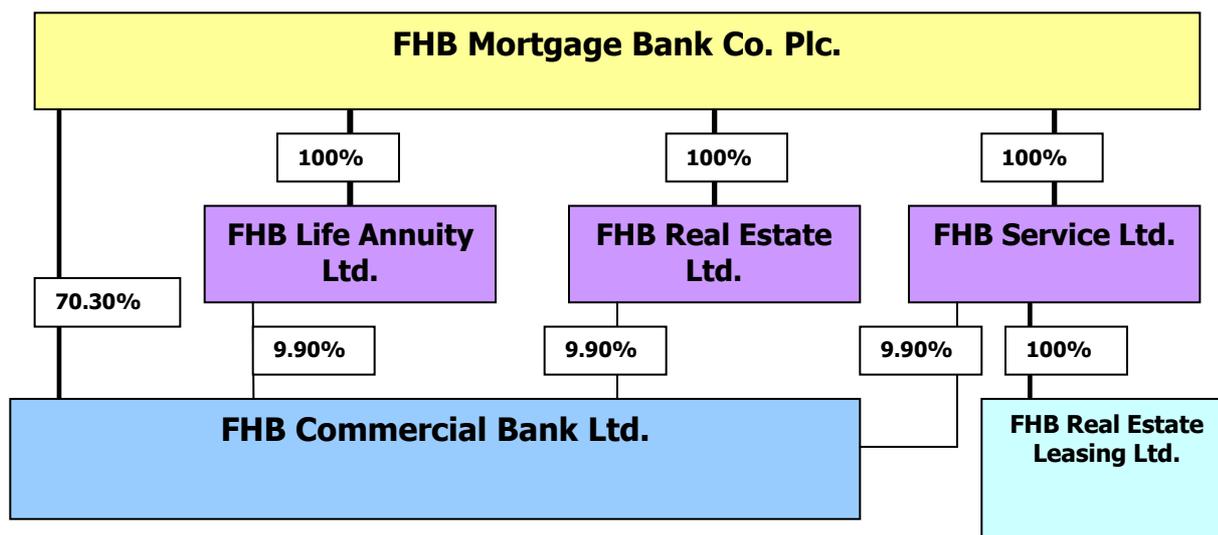
- *FHB Real Estate Leasing Ltd.*

FHB Real Estate Leasing Ltd. (formerly, Central European Credit Ltd.) was acquired by the Group in April 2009. FHB Real Estate Leasing Ltd. provides real estate leasing services mainly for private individuals. FHB Real Estate Leasing Ltd. also offers mortgage products solely on a real estate collateral basis (for general, purchase and refinancing purposes) to private individuals as well as to legal entities. FHB Real Estate Leasing Ltd. cooperates with other members of the Group and continues to participate in the premium real estate financing market.

For more information on the activities of selected members of the Group in the calendar years of 2009 and 2010, respectively, please see "*Business Overview - Activities of Selected Members of the Group in 2009 and 2010*" below.

### *The structure of the Group*

The structure of the Group as at 1 April 2011 is presented in the table below:



### *Changes in the overall business strategy of the Group*

As a result of the review of the Group's business strategy that is already underway, a newly formed overall business plan is expected to be announced in 2011.

One of the major pillars of the envisaged new business strategy is a long-term, 20-year exclusive strategic cooperation arrangement between Allianz Hungary and the FHB Group (the underlying agreements, which were concluded on 2 July 2010, cannot be terminated prior to the end of the fifth year of their term).

Besides the expansion of the FHB Group's customer base and branch network through the acquisition of Allianz Bank (please see "*Formation of the Group*" above), the strategic cooperation between Allianz Hungary and the FHB Group provides for further synergies to be realised, including:

- cooperation on a mutual exclusivity basis in the sales of the FHB Group's products (including banking, life annuity and investment products) through the distribution channels of Allianz Hungary and, *vice versa*, the sale of the products of Allianz Hungary (including insurance services and products relating to pension, health and investment funds managed by Allianz Hungary) to nearly two million customers through the branch network of the FHB Group;
- the provision of the full spectrum of insurance services (and not merely selling points) by FHB branches for the whole customer base of Allianz Hungary (with approximately one million customer contacts on a yearly basis);
- exclusive provision of banking services to the members of the Allianz Group Hungary by the FHB Group;
- cooperation in direct sales activities to take advantage of cross-sales opportunities and envisaged joint CRM (customer relationship management) activities;

- brand-licence arrangements between Allianz Hungary and the FHB Group under which branches taken over by FHB Commercial Bank are co-branded.

The business activities of the Group have been expanded significantly since 2008 to include corporate banking services for small and medium sized enterprises, investment products and services for private customers and distribution of insurance services.

Through the acquisition of Allianz Bank, the number of the FHB Group's branches was also increased considerably from 21 in 2008 to 53 in April 2011.

### ***Key short-term business targets for 2011***

Key short-term business targets have not changed substantially since 2010 and still include:

- the management of loan portfolio quality (with strengthened prevention and collection procedures);
- adoption of an even more conservative funding policy (with increased emphasis on liquidity management and liquidity reserves, diversification of funding sources, increase in the level of deposit collection, etc.);
- improvement of the FHB Group's position in domestic SME financing (with increased risk standards and collateral requirements and the exclusion of product-based lending) to offset the impacts of declining demand for mortgage loans;
- the implementation of a move in respect of the Group's core sales activity towards fee generating products (e.g. transaction-based products, insurance distribution and fee-based retail investment services).

### **Rating developments**

The following table sets out the ratings assigned by Moody's to the Issuer and the mortgage bonds issued by it over the period from 5 September 2002 to 8 December 2010 in chronological order.

Rating		Date	Action
Bank Financial Strength Rating	D-	05/09/2002	First rating
Long- and Short-Term Bank Deposit	A3/P-2	05/09/2002	First rating
Mortgage (Covered) Bonds	A1	07/10/2002	First rating
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	A2/P-1	13/12/2002	Upgrade
Bank Financial Strength Rating	D	04/08/2004	Upgrade
Bank Financial Strength Rating	D+	29/09/2005	Upgrade
HUF-denominated Mortgage (Covered) Bonds	Aa2	20/12/2005	Upgrade
Foreign currency-denominated Mortgage (Covered) Bonds	Aa2	31/05/2006	Upgrade
Foreign Currency Long-Term and Short-Term Bank Deposit	A2/P-1	January 2007	Placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	September 2007	Downgrade
Mortgage (Covered) Bonds	Aa3	01/04/2008	Downgrade
Mortgage (Covered) Bonds	A3	08/04/2009	Downgrade and placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	19/05/2009	Affirmed
Bank Financial Strength Rating	D+	19/05/2009	Affirmed with negative outlook
Mortgage (Covered) Bonds	A3	20/05/2009	Affirmed

Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	21/01/2010	Affirmed with negative outlook
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	23/07/2010	Affirmed and placement on review for possible downgrade
Mortgage (Covered) Bonds	A3	27/07/2010	Placement on review for possible downgrade
Mortgage (Covered) Bonds	Baa1	08/12/2010	Downgrade

On 5 April 2011, Moody's downgraded the standalone Bank Financial Strength Rating of the Issuer to D (mapping to Ba2 on the long-term scale) from D+ (mapping to Ba1 on the long-term scale) and its local and foreign currency long- and short-term deposit ratings to Ba1/not Prime from Baa3/Prime-3. Pursuant to Moody's press release, these downgrades reflect the deterioration in non-performing loans, the Issuer's main focus on the difficult mortgage market and its significant exposure to wholesale funding. On 7 April 2011, the rating of the mortgage (covered) bonds issued by the Issuer was downgraded by Moody's to Baa3 from Baa1. This downgrade was prompted by the corresponding rating action taken by Moody's on 5 April 2011 on the Issuer's senior unsecured rating. These ratings were issued by Moody's Italia S.r.l. (**Moody's S.r.l.**) and Moody's Deutschland GmbH (**Moody's GmbH**) and remain in force at the date hereof.

Each of Moody's S.r.l. and Moody's GmbH is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 on credit rating agencies (the **CRA Regulation**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority up to the date of this Base Prospectus.

Please also refer to "*Credit ratings may not reflect all risks*" in the section headed "*Risk Factors*" of this Base Prospectus.

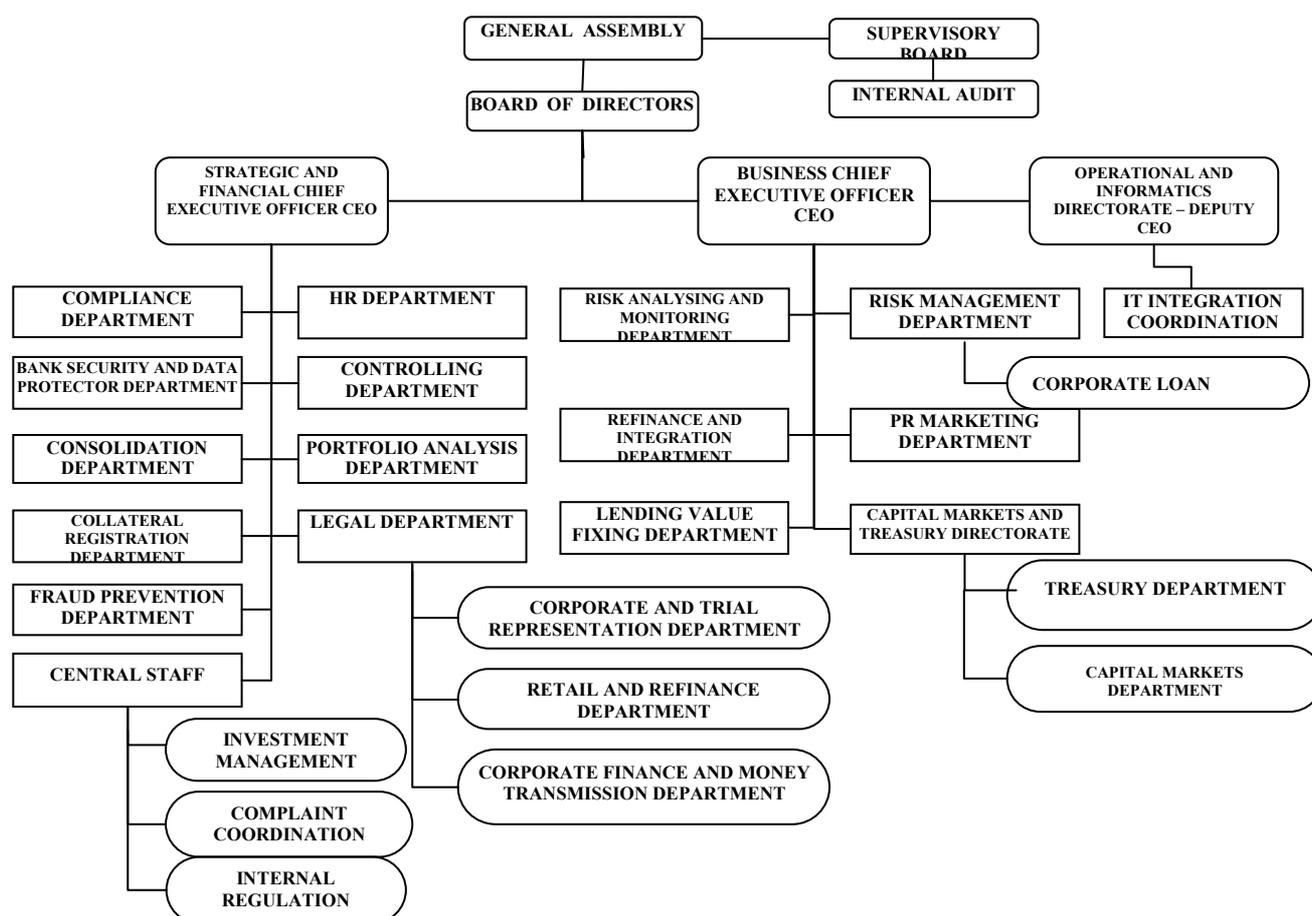
#### *Over-collateralisation commitment of the Issuer*

In 2008, with a view to supporting the ratings assigned by Moody's from time to time to the outstanding mortgage bonds issued by the Issuer, the Issuer issued a Notice to Mortgage Bond Holders (the **Notice**). Pursuant to the Notice, the Issuer undertakes that until and so long as the mortgage bonds issued by it are outstanding, it will maintain (i) an additional amount of collateral over and above the statutory level, and (ii) sufficient liquid assets in the manner as described below. The method for calculating the level of over-collateralisation is in accordance with the coverage requirements of Hungarian law. The Issuer has committed itself to keeping such collateral level in place as long as the outstanding mortgage bonds issued by it are rated or, confirmation is obtained that a change in the level of over-collateralisation will not have a negative impact on the rating of such mortgage bonds. On such basis, Moody's considered such an undertaking for over-collateralisation as "committed".

Furthermore, the Issuer has undertaken in the Notice to maintain an appropriate level of liquidity in respect of the entire period in which any mortgage bond is outstanding by ensuring that sufficient liquid assets are available to cover liquidity liabilities that may arise over any twelve-month period following each calculation day.

## Organisational Structure of the Issuer (as at 31 March 2011)

The Issuer's organisational structure is shown in the following diagram:



## Administrative, management and supervisory bodies (as at the date of this Base Prospectus)

### Directors and Officers

#### **Members of the Board of Directors**

**Dr Zoltán Spéder:** Chairman, appointed in April 2008. Between 1995 and 2007, he was the vice-president of OTP Bank Plc.

**Dr Christian Riener:** Appointed in April 2008. Since 2000 he has worked at Vienna Capital Partners (VCP) in different positions, where he is currently a partner, a member of the board of directors and managing director.

**László Harmati:** Appointed in July 2002, co-CEO of the Issuer. Between 2000 and 2002, he was the head of the Regulation Policy Department at the National Bank of Hungary. He has held the position of Chairman of the Supervisory Board at FHB Real Estate Ltd. since November 2010, and the position of Chairman of the Board of Directors at FHB Real Estate Leasing Ltd. since 2009.

**Gyula Köbli:** Appointed in April 2010, co-CEO of FHB Mortgage Bank Plc. He has been the financial CFO at FHB Mortgage Bank Plc. since November 2008, and has held the position of Chairman of the Supervisory

Board at FHB Service Ltd. since March 2009 and the position of Chairman of the Board of Directors at FHB Commercial Bank Ltd. since November 2010.

**Tamás Foltányi:** Appointed in April 2010. He has been the operational Deputy CEO at FHB Mortgage Bank Plc. since 2005 and is also CEO at FHB Service Ltd.

**Dr Gábor Borsányi:** Appointed in April 2006. Since 2006, he is a managing director of Allianz Hungária Biztosító Zrt.

**István Somkuti:** Appointed in April 2007. Since June 2010, he has been an executive officer of Richter Gedeon Nyrt.

**Tamás Vojnits:** Appointed in April 2010. He is a partner at Orient IM.

### **Members of the Supervisory Board**

**Csaba Lantos:** Appointed in April 2009. Chairman of the Supervisory Board of FHB Mortgage Bank Co. Plc. since June 2009.

**Róbert Somfai:** Appointed in July 2002. He is a member of the Supervisory Board of FHB Mortgage Bank Co. Plc. Since 1990, he has been also a director at Capital Financial Advisory Ltd.

**Dr Erik Landgraf:** Appointed in May 2006. Since 1999, he has been the chief counsel of the FHB Group.

**Viet Nguyen Hoang:** Appointed in May 2006. He is an employee of the Risk Management Department of FHB Mortgage Bank Co. Plc.

**Enikő Uhrin Mártonné:** Appointed in April 2010. Between 2003 and 2008, she held the position of Director of the SAP Department at OTP Bank Plc.

**Miklós Szabó:** Appointed in April 2011. Since 2010, he has also been the Head of the Investment and Supply Department at FHB Service Ltd.

**Ákos Starcz:** Appointed in April 2011. Since June 2008, he has also been a strategic director at Közép-Európai Média és Kiadó Zrt. and, since February 2009, the Chairman and CEO of Bookline.hu Nyrt.

### **Management of FHB Mortgage Bank Co. Plc.**

**Members:** László Harmati, CEO of the Business Directorate, Gyula Köbli, CFO and Tamás Foltányi, deputy CEO of the Operation and Informatics Directorate.

The address of each member of the Board of Directors and the Supervisory Board is Üllői út 48., 1082 Budapest, Hungary.

## **Conflicts of Interest**

To the best knowledge of the Issuer, there are no conflicts of interest between the duties of the members of the Board of Directors and the Supervisory Board of the Issuer, and their private interests and other duties.

## **Material Contracts**

### ***Loan from the Hungarian State***

In an extraordinary announcement dated 25 March 2009, the Issuer released that it had concluded a loan agreement with the Hungarian State, under which the Issuer received a EUR 400 million loan from the Hungarian State provided through the Government Debt Management Agency Private Company Limited (*Államadósság Kezelő Központ Zrt.*) (the **Loan Agreement**), the funding of which was obtained by the Hungarian State from the credit facility provided by the International Monetary Fund (the **IMF**) to Hungary.

The loan must be repaid by the Issuer in eight equal instalments. The final repayment date is set as 11 November 2012.

## **Trend Information**

There are no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects during the current financial year.

## Major Shareholders

Ownership structure of FHB Mortgage Bank Co. Plc (as at 31 March 2011):

Shareholder	Number of shares	Percentage of ownership interest in the registered capital
<b>Series "A" ordinary shares</b>		
State*	2,714,300	4.11
Domestic institutional investors / companies	46,965,403	71.12
Foreign institutional investors / companies	13,645,241	20.72
Domestic private individuals	2,453,669	3.72
Foreign private individuals	19,884	0.02
FHB employees	63,112	0.10
FHB treasury shares	138,401	0.21
<b>Shares total:</b>	<b>66,000,010</b>	<b>100.00</b>

\*e.g.: MNV Zrt., social security, municipalities, companies with 100 per cent. state ownership.

## Entities holding more than 5 per cent. ownership interest in the registered capital of the Issuer (as at 31 March 2011)

Name	Nationality <sup>1</sup>	Activity <sup>2</sup>	Number of Shares	Share (per cent.) <sup>3</sup>	Voting rights (per cent.) <sup>3,4</sup>
VCP Finanz Holding Kft.	B	I	15,970,000	24.20	24.20
A64 Vagyonkezelő Kft.	B	I	10,746,468	16.28	16.28
Allianz Hungária Biztosító Zrt.	B	I	8,119,293	12.30	12.30
Silvermist Estate SA	K	I	6,303,545	9.55	9.55

<sup>1</sup> Resident (B), Non-resident (K).

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

<sup>3</sup> Data rounded up to two decimals.

<sup>4</sup> Voting right granting participation in decision making at the General Shareholders' Meeting of the Issuer.

The Issuer's registered capital consists of 66,000,010 Series "A" ordinary registered shares with a nominal value of HUF 100 each, representing a total nominal value of HUF 6,600,001,000.

## **Management incentive schemes**

### ***2008-2010 Scheme***

The Issuer's 2008 Annual General Meeting (the **2008 AGM**) concluding the year 2007, approved a two-year share-based incentive scheme for the years of 2009 and 2010. The share option scheme (the **2008-2010 Scheme**) was developed to remunerate directors, executives and specific managers for their services (the **Eligible Participants**). The 2008-2010 Scheme involved the transfer of treasury shares at a discount.

The Issuer reported share option benefits granted under the 2008-2010 Scheme at fair value as of the day of approval of the relevant benefit by the General Meeting, calculated in accordance with IFRS 2. The fair value of shares, involved in the 2008-2010 Scheme but not yet delivered, was recognised as expenditure (other personnel costs) and as a separate line item against the share option reserve under shareholders' equity for the period in which such benefits were vested.

The cumulative expenditure on the 2008-2010 Scheme was based on vesting periods ending on the date of each balance sheet and the Issuer's estimation regarding the number of shares vested under the 2008-2010 Scheme.

Under the 2008-2010 Scheme, there was no exercise period stipulated, thus shares were allocated to Eligible Participants from re-purchased treasury shares on a pre-determined day, based on the decision of the Issuer's relevant Annual General Meeting. Eligible Participants could only decide on the acceptance of the shares granted, the 2008-2010 Scheme did not provide for any other decision rights to them. Consequently, the 'share options' granted under the 2008-2010 Scheme did not have an expiry date.

### ***2011-2012 Scheme***

The Issuer's 2011 Annual General Meeting (the **2011 AGM**) concluding the year of 2010, approved a new two-year share option programme for the years of 2011 and 2012 (the **2011-2012 Scheme**) with a view to remunerating Eligible Participants. Benefits under the 2011-2012 Scheme also consist of option rights granted to Eligible Participants to purchase treasury shares at a discount subject to certain thresholds as to the number and total value of such shares available to the different classes of Eligible Participants and limitations on the aggregate number of shares that may be transferred under the 2011-2012 Scheme.

Share option benefits under the 2011-2012 Scheme are conditional on the business performance of the Group (as calculated on a consolidated basis in accordance with IFRS) in respect of certain financial ratios reaching the targets set by the 2011 AGM.

Share option benefits vested under the 2011-2012 Scheme are exercisable by the relevant Eligible Participants over a period of three years in pre-determined proportions.

## FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENTS

The following table shows the audited Consolidated Income Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended on 31 December 2009, and 31 December 2010, respectively, and the unaudited Consolidated Income Statement of the Issuer for the three month period ended on 31 March 2010 and the three month period ended on 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	31 March 2011 "A"	31 March 2011 "B"	31 December 2010	31 March 2010 Reclassified	31 December 2009 Reclassified
Interest income	18,783	18,783	75,639	18,837	82,746
Interest expense	(12,677)	(12,677)	(49,445)	(11,997)	(55,260)
<b>Net interest income</b>	<b>6,106</b>	<b>6,106</b>	<b>26,194</b>	<b>6,839</b>	<b>27,486</b>
Fee and commission income	1,028	1,028	2,168	349	1,662
Fee and commission expense	(289)	(289)	(547)	(121)	(222)
<b>Net fee and commission income</b>	<b>739</b>	<b>739</b>	<b>1,621</b>	<b>229</b>	<b>1,440</b>
Loss/gains from foreign exchange transactions	(130)	(130)	(723)	(209)	(957)
Change in fair value of derivatives	1,213	1,213	(3,116)	(396)	2,304
Gains from securities	43	43	1,059	866	593
<b>Net trading result</b>	<b>1,126</b>	<b>1,126</b>	<b>(2,780)</b>	<b>261</b>	<b>1,940</b>
Other operating income	278	278	10,273	871	3,742
Other operating expense	(3,284)	(1,469)	(4,712)	(570)	(3,136)
<b>Operating income</b>	<b>4,965</b>	<b>6,780</b>	<b>30,596</b>	<b>7,629</b>	<b>31,472</b>
Credit loss expense	(1,456)	(1,456)	(5,127)	(2,016)	(7,720)
Operating expense	(4,813)	(4,813)	(16,550)	(3,306)	(13,713)
<b>Profit before tax</b>	<b>(1,304)</b>	<b>511</b>	<b>8,919</b>	<b>2,307</b>	<b>10,039</b>
Income tax benefit/expense	(101)	(342)	2,279	(804)	(2,991)
<b>Profit for the year</b>	<b>(1,405)</b>	<b>169</b>	<b>11,198</b>	<b>1,503</b>	<b>7,048</b>
Including: profit of non-controlling shareholders	-	-	-	-	-
Including: profit of shareholders of the Bank	(1,405)	169	11,198	1,503	7,048
<b>Earnings per share (HUF 100 face value)</b>					
Ordinary shares (HUF)	<b>(91.77)</b>	<b>5.11</b>	<b>242.63</b>	<b>21.33</b>	<b>99.30</b>
Diluted earnings per share (HUF)	<b>(91.77)</b>	<b>5.11</b>	<b>242.63</b>	<b>21.33</b>	<b>99.30</b>

*Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.*

*The Bank Tax is presented as an operating expense as it does not meet the definition of income tax under IFRS. As the full liability for 2011 legally entered into force on 1 January 2011, the 2011 liability in accordance with the IAS 37 should be recognised as both an expense and liability in the full amount from the beginning of the year.*

*To comply with IFRS, columns marked "A" of the financial statements include the full amount of the 2011 Bank Tax, while, in order to make the quarterly report reflect a more commercial comparison, columns marked "B" of the financial statements contain the proportionate part of the full amount of the Bank Tax for 2011 as payable in each quarter.*

The Issuer, as the parent bank within the FHB Group, has classified, recorded and reported derivative transactions on a consolidated basis in accordance with international accounting standards. Depending on the type of derivatives, different accounting methods have been applied:

- in the case of **cash flow hedges**, the effective part of the relevant change in fair value appears as other comprehensive income. This is how the Issuer accounts its multicurrency swap transactions, involving cash flows with fixed interest rates;
- in the case of **fair value hedges**, gains or losses from revaluation have been accounted in the profit and loss statement; and
- in respect of **derivative transactions with trading purposes**, revaluation of gains or losses appear directly in the profit and loss statement.

IAS 39, as amended, allows the Issuer to carry liabilities associated with trading transactions at fair value.

For information purposes, most of the loans obtained by the Issuer, and bonds and mortgage bonds issued by it were carried at amortised cost. The fair value of loans has been established on the basis of an internal model, while the internal evaluation model applied previously to bonds and mortgage bonds has been replaced by a more advanced valuation method as part of the improvement of the Issuer's risk management system.

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

The following table shows the audited consolidated Comprehensive Income Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended on 31 December 2009 and 31 December 2010, respectively, and the unaudited consolidated Comprehensive Income Statement of the Issuer for the three month period ended 31 March 2010 and three month period ended on 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	31 March 2011 "A"	31 March 2011 "B"	31 December 2010	31 March 2010	31 December 2009 Reclassified
Profit for the year	(1,405)	169	11,198	1,503	7,048
Other comprehensive income					
Change in Cash-flow hedge reserve	(249)	(249)	(912)	(599)	(364)
Change in fair value of financial assets available for sale	400	400	(1,335)	6	1,152
Foreign currency translation reserve	5	5	(2)	0	21
Deferred tax effect for other comprehensive income	(6)	(6)	411	114	(132)
Other comprehensive income for the period net of taxes	150	150	(1,837)	(479,)	678
<b>Total comprehensive income for the year, net of taxes</b>	<b>(1,255)</b>	<b>319</b>	<b>9,361</b>	<b>1,024</b>	<b>7,726</b>
Including: income of non-controlling shareholders	-	-	-	-	-
Including: income of shareholders of the Bank	(1,255)	319	9,361	1,024	7,726

*Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.*

*The Bank Tax is presented as an operating expense as it does not meet the definition of income tax under IFRS. As the full liability for 2011 legally entered into force on 1 January 2011, the 2011 liability in accordance with the IAS 37 should be recognised as both an expense and liability in the full amount from the beginning of the year.*

*To comply with IFRS, columns marked "A" of the financial statements include the full amount of the 2011 Bank Tax, while, in order to make the quarterly report reflect a more commercial comparison, columns marked "B" of the financial statements contain the proportionate part of the full amount of the Bank Tax for 2011 as payable in each quarter.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table shows the audited Consolidated Statement of Financial Position of the Issuer in accordance with International Financial Reporting Standards as at 31 December 2009 and 31 December 2010, respectively, and the unaudited Consolidated Statement of Financial Position of the Issuer as at 31 March 2010 and 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	31 March 2011 "A"	31 March 2011 "B"	31 December 2010	31 March 2010 Reclassified	31 December 2009 Reclassified
<b>Assets</b>					
Cash	2,895	2,895	3,186	847	1,100
Balances with National Bank of Hungary	1,453	1,453	3,458	836	2,449
Due from banks	53,564	53,564	69,463	49,620	37,974
Financial assets held for trading at fair value	644	644	4,758	995	0
Financial assets available for sale at fair value	114,535	114,535	101,808	96,192	131,022
Derivative financial assets	2,360	2,360	944	2,812	3,555
Refinanced mortgage loans	242,117	242,117	260,320	257,899	263,015
Loans and advances to customers	364,078	364,078	387,035	332,893	333,759
Investment property at fair value	11,354	11,354	11,426	10,394	9,560
Tangible assets	6,448	6,448	6,412	2,257	2,448
Goodwill and other intangible assets	13,775	13,775	13,655	11,589	11,317
Deferred tax asset	3,366	3,170	3,303	126	124
Other assets	8,682	10,497	7,753	5,918	4,816
<b>Total assets</b>	<b>825,271</b>	<b>826,890</b>	<b>873,521</b>	<b>772,378</b>	<b>801,139</b>
<b>Liabilities</b>					
Due to banks	35,617	35,617	22,650	16,554	18,292
Deposits	117,696	117,696	112,740	68,275	63,562
Derivative financial liabilities at fair value	34,942	34,942	59,691	33,309	25,058
State loans	93,518	93,518	112,120	103,027	138,958
Issued securities	335,862	335,862	351,755	313,945	314,530
Financial liabilities at fair value through profit or loss	138,631	138,631	146,054	179,910	184,741
Reserve for annuity payments	2,434	2,434	2,380	2,173	1,864
Current tax liability	37	37	29	19	51
Deferred tax liability	438	483	509	1,738	1,649
Provisions	927	927	918	1,091	1,082
Other liabilities	7,363	7,363	5,613	3,877	3,919
<b>Total liabilities</b>	<b>767,465</b>	<b>767,510</b>	<b>814,459</b>	<b>723,918</b>	<b>753,703</b>
<b>Shareholders' equity</b>					
Share capital	6,600	6,600	6,600	6,600	6,600
Treasury shares	(123)	(123)	(123)	(1,546)	(1,546)
Retained earnings	49,211	50,785	50,702	35,803	34,434
Other reserves	2,118	2,118	1,883	7,603	7,948
<b>Total shareholders' equity</b>	<b>57,806</b>	<b>59,380</b>	<b>59,062</b>	<b>48,460</b>	<b>47,436</b>
<b>Total liabilities and shareholders' equity</b>	<b>825,271</b>	<b>826,890</b>	<b>873,521</b>	<b>772,378</b>	<b>801,139</b>

*Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.*

*The Bank Tax is presented as an operating expense as it does not meet the definition of income tax under IFRS. As the full liability for 2011 legally entered into force on 1 January 2011, the 2011 liability in accordance with the IAS 37 should be recognised as both an expense and liability in the full amount from the beginning of the year.*

*To comply with IFRS, columns marked "A" of the financial statements include the full amount of the 2011 Bank Tax, while, in order to make the quarterly report reflect a more commercial comparison, columns marked "B" of the financial statements contain the proportionate part of the full amount of the Bank Tax for 2011 as payable in each quarter.*

## CONSOLIDATED CASH FLOW STATEMENT

The following table shows the audited Consolidated Cash Flow Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended on 31 December 2009 and 31 December 2010, respectively, and the unaudited Consolidated Cash Flow Statement of the Issuer for three month period ended 31 March 2010 and the three month period ended on 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	31 March 2011 "A"	31 March 2011 "B"	31 December 2010	31 March 2010 Reclassified	31 December 2009 Reclassified
Cash flow from operating activities					
Net profit	(1,405)	169	11,198	1,503	7,048
Non cash adjustments to net profit from:					
Depreciation	589	589	1,753	398	1,571
Increase in fair value of Investment property	85	85	(750)	(369)	(2,040)
Recognition of investment property through income statement	0	0	(1,045)	0	1,315
Provision for losses	(136)	(136)	6,179	2,101	6,581
(Gain)/Loss on tangible assets derecognized	58	58	366	11	248
(Gain)/Loss on intangible assets derecognized	54	54	216	0	0
Share option reserve	0	0	241	0	(86)
Share-based payment	0	0	0	0	0
De-recognition of treasury shares	0	0	(600)	0	0
Capitalized interest	28	28	226	0	185
Fair value derivatives	(26,379)	(26,379)	36,318	8,510	(1,958)
Fair value adjustment on financial liabilities through profit and loss	3,070	3,070	1,507	0	0
Change in fair value of annuity reserve	176	176	1,283	309	1,634
Change in foreign currency translation reserve	5	5	(2)	0	21
Goodwill impairment	7	7	120	0	130
<b>Operating profit before change in operating</b>	<b>(23,848)</b>	<b>(22,274)</b>	<b>57,010</b>	<b>12,463</b>	<b>14,649</b>
Decrease/(Increase) in operating assets:					
Financial assets held for trading	4,114	4,114	15,314	(995)	0
Financial assets available for sale	(12,368)	(12,368)	30,035	34,835	(111,640)
Refinanced mortgage loans	18,203	18,203	2,695	5,116	23,598
Loans and advances to customers	23,073	23,073	(23,845)	(1,226)	(2,903)
Other assets	(993)	(2,612)	(2,521)	(1,229)	278
Increase/(Decrease) in operating liabilities:					
Deposits	4,956	4,956	18,495	4,713	29,497
Due to banks	14,106	14,106	11,761	(1,762)	2,116
Other liabilities	1,687	1,732	(2,499)	140	744
<b>Net cash flow from operating activities</b>	<b>28,930</b>	<b>28,930</b>	<b>106,445</b>	<b>52,055</b>	<b>(43,661)</b>

	31 March 2011 "A"	31 March 2011 "B"	31 December 2010	31 March 2010 Reclassified	31 December 2009 Reclassified
<b>Cash flow from investing activities</b>					
Proceeds from sales of tangible and intangible assets	5	5	(48)	(5)	(12)
Purchase of tangible and intangible assets	(869)	(869)	(3,171)	(484)	(3,074)
Purchase of investment property	(34)	(34)	(220)	(479)	(2,855)
Sale of investment property	21	21	150	15	0
Paid from reserves on annuity business	(121)	(121)	(767)	0	(876)
Net cash flow from acquisition of subsidiaries	0	0	5,372	0	(1,128)
<b>Net cash flow from investing activities</b>	<b>(998)</b>	<b>(998)</b>	<b>1,316</b>	<b>(953)</b>	<b>(7,945)</b>
<b>Cash flow from financing activities</b>					
Proceed from bonds issued	11,405	11,405	107,654	29,808	11,354
Principal repayment on issued securities	(37,791)	(37,791)	(114,707)	(39,255)	(88,672)
Treasury shares purchased	0	0	(154)	0	(391)
Long term loans repayment	(19,741)	(19,741)	(65,969)	(31,742)	0
Long term loan borrowings	0	0	0	(133)	139,140
<b>Net cash flow from financing activity</b>	<b>(46,127)</b>	<b>(46,127)</b>	<b>(73,176)</b>	<b>(41,322)</b>	<b>61,431</b>
Net increase in cash and cash equivalents	(18,195)	(18,195)	34,585	9,780	9,825
Opening balance of cash and cash equivalents	76,107	76,107	41,522	41,522	31,697
Closing balance of cash and cash equivalents	57,912	57,912	76,107	51,302	41,522
<b>Breakdown of cash and cash equivalents:</b>					
Cash	2,895	2,895	3,186	847	1,100
Balances with National Bank of Hungary	1,453	1,453	3,458	835	2,448
Dues from banks with a maturity of less than 90 days	53,564	53,564	69,463	49,620	37,974
<b>Closing balance of cash and cash equivalents</b>	<b>57,912</b>	<b>57,912</b>	<b>76,107</b>	<b>51,302</b>	<b>41,522</b>
<i>Supplementary data</i>					
Tax paid	(113)	(113)	(1,369)	(354)	(1,367)
Interest received	16,198	16,198	76,211	17,938	81,863
Interest paid	(8,074)	(8,074)	(51,693)	(11,500)	(57,410)

Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.

The Bank Tax is presented as an operating expense as it does not meet the definition of income tax under IFRS. As the full liability for 2011 legally entered into force on 1 January 2011, the 2011 liability in accordance with the IAS 37 should be recognised as both an expense and liability in the full amount from the beginning of the year.

To comply with IFRS, columns marked "A" of the financial statements include the full amount of the 2011 Bank Tax, while, in order to make the quarterly report reflect a more commercial comparison, columns marked "B" of the financial statements contain the proportionate part of the full amount of the Bank Tax for 2011 as payable in each quarter.

## STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY ("A")

The following table shows the audited Statement of the Consolidated Shareholders' Equity of the Issuer in accordance with International Financial Reporting Standards for the years ended on 31 December 2009 and 31 December 2010, respectively, and the unaudited statement of the Consolidated Shareholders' Equity of the Issuer for the three month period ended on 31 March 2010 and the three month period ended on 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	Share capital	Treasury shares	Share premium	General reserve	Cash flow hedge reserve	Share option reserve	Change in fair value of fin. assets available for sale	Foreign currency translation reserve	Retained earnings	Shareholders' equity
<b>1 January 2009</b>	<b>6,600</b>	<b>(1,155)</b>	<b>1,709</b>	<b>3,815</b>	<b>1,114</b>	<b>86</b>	<b>(23)</b>	<b>0</b>	<b>28,040</b>	<b>40,187</b>
Transfer to general reserve				655					(655)	0
Profit for the year									7,049	7,049
Other comprehensive income					(281)		938	21		678
Purchase/(Sale) of treasury shares		(391)								(391)
Change in share option reserve						(86)			0	(86)
<b>31 December 2009 / 1 January 2010</b>	<b>6,600</b>	<b>(1,546)</b>	<b>1,709</b>	<b>4,470</b>	<b>833</b>	<b>0</b>	<b>915</b>	<b>21</b>	<b>34,434</b>	<b>47,436</b>
Transfer from general reserve				134					(134)	0
Profit for the period									1,503	1,503
Other comprehensive income					(484)		5		0	(479)
<b>31 March 2010 / 1 April 2011</b>	<b>6,600</b>	<b>(1,546)</b>	<b>1,709</b>	<b>4,604</b>	<b>349</b>	<b>0</b>	<b>920</b>	<b>21</b>	<b>35,803</b>	<b>48,460</b>
Transfer from general reserve				(4,604)					4,604	0
Profit for the period									9,695	9,695
Other comprehensive income					(248)		(1,107)	-2	0	(1,357)
Purchase/(Sale) of treasury shares		1,423							600	2,023
Change in share option reserve						241			0	241
<b>31 December 2010 / 1 January 2011</b>	<b>6,600</b>	<b>(123)</b>	<b>1,709</b>	<b>0</b>	<b>101</b>	<b>241</b>	<b>(187)</b>	<b>19</b>	<b>50,702</b>	<b>59,062</b>
Transfer to general reserve				86					(86)	0
Profit for the period									(1,405)	(1,405)
Other comprehensive income					(214)		359	5	0	150
Change in share option reserve			1						0	1
<b>31 March 2011</b>	<b>6,600</b>	<b>(123)</b>	<b>1,710</b>	<b>86</b>	<b>(113)</b>	<b>241</b>	<b>172</b>	<b>24</b>	<b>49,211</b>	<b>57,806</b>

*Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.*

*The Bank Tax is presented as an operating expense as it does not meet the definition of income tax under IFRS. As the full liability for 2011 legally entered into force on 1 January 2011, the 2011 liability in accordance with the IAS 37 should be recognised as both an expense and liability in the full amount from the beginning of the year.*

*The Consolidated Shareholders Equity marked "A" includes the full amount of the 2011 Bank Tax.*

## STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY ("B")

The following table shows the audited Statement of the Consolidated Shareholders' Equity of the Issuer in accordance with International Financial Reporting Standards for the years ended on 31 December 2009 and 31 December 2010, respectively, and the unaudited statement of the Consolidated Shareholders' Equity of the Issuer for the three month period ended on 31 March 2010 and the three month period ended on 31 March 2011, respectively:

*All figures in the table below are in HUF millions*

	Share capital	Treasury shares	Share premium	General reserve	Cash flow hedge reserve	Share option reserve	Change in fair value of fin. assets available for sale	Foreign currency translation reserve	Retained earnings	Shareholders' equity
<b>1 January 2009</b>	<b>6,600</b>	<b>(1,155)</b>	<b>1,709</b>	<b>3,815</b>	<b>1,114</b>	<b>86</b>	<b>(23)</b>	<b>0</b>	<b>28,040</b>	<b>40,187</b>
Transfer to general reserve				655					(655)	0
Profit for the year									7,049	7,049
Other comprehensive income					(281)		938	21		678
Purchase/(Sale) of treasury shares		(391)								(391)
Change in share option reserve						(86)			0	(86)
<b>31 December 2009 / 1 January 2010</b>	<b>6,600</b>	<b>(1,546)</b>	<b>1,709</b>	<b>4,470</b>	<b>833</b>	<b>0</b>	<b>915</b>	<b>21</b>	<b>34,434</b>	<b>47,436</b>
Transfer from general reserve				134					(134)	0
Profit for the period									1,503	1,503
Other comprehensive income					(484)		5		0	(479)
<b>31 March 2010 / 1 April 2011</b>	<b>6,600</b>	<b>(1,546)</b>	<b>1,709</b>	<b>4,604</b>	<b>349</b>	<b>0</b>	<b>920</b>	<b>21</b>	<b>35,803</b>	<b>48,460</b>
Transfer from general reserve				(4,604)					4,604	0
Profit for the period									9,695	9,695
Other comprehensive income					(248)		(1,107)	(2)	0	(1,357)
Purchase/(Sale) of treasury shares		1,423							600	2,023
Change in share option reserve						241			0	241
<b>31 December 2010 / 1 January 2011</b>	<b>6,600</b>	<b>(123)</b>	<b>1,709</b>	<b>0</b>	<b>101</b>	<b>241</b>	<b>(187)</b>	<b>19</b>	<b>50,702</b>	<b>59,062</b>
Transfer to general reserve				86					(86)	0
Profit for the period									169	169
Other comprehensive income					(214)		359	5	0	150
Change in share option reserve			1						0	1
<b>31 March 2011</b>	<b>6,600</b>	<b>(123)</b>	<b>1,710</b>	<b>86</b>	<b>(113)</b>	<b>241</b>	<b>172</b>	<b>24</b>	<b>50,785</b>	<b>59,382</b>

*Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In addition, Act CXXIII of 2010 amending the original act of LIX of 2006 on the Introduction of Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). For further information on the Extra Tax and the Bank Tax, please see the subsection "Special "bank tax"" in the section "The Hungarian Banking System and Capital Market" on pages 230 and 231 below.*

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*The Consolidated Shareholders Equity marked "B" contains the time proportionate part of the full amount of the Bank Tax for 2011 as payable in each quarter.*

## BUSINESS OVERVIEW

The financial information in this Base Prospectus has been extracted partly from the audited consolidated annual financial statements of the Issuer in respect of the financial years ended on 31 December 2009 and 2010 and from the controlling database of the Issuer.

The main activities of the Issuer, as a specialised credit institution and the parent bank of the FHB Banking Group (the **Group**), vary from residential lending to more elaborate retail and corporate mortgage products. In 2010, the Group's business focused on four main areas: own lending, refinancing, deposit and account services, and sales of annuity schemes.

### *Scope of activities*

The Issuer is authorised to pursue the following activities (listed in accordance with the classification of activities in the sectors of the economy, issued by the Central Office of Statistics (**TEÁOR**)):

#### Other lending operations (TEÁOR No 6492'08)

Within the category of lending operations listed in TEÁOR, the Issuer is licensed to perform only the following activities from the operations specified in Section 3(2) of the Mortgage Credit Institutions Act:

- acceptance of repayable funds from the public, except for the collection of deposits;
- provision of loans that are secured by either (i) a mortgage over real estate located in the European Economic Area (**EEA**), or (ii) on-demand suretyship provided by the Hungarian state; and
- undertaking suretyships, bank guarantees and other bankers' commitments in favour of those to whom a mortgage loan has been provided by the Issuer on condition that any exposure from such commitments are covered by real estate.

#### Other financial operations not listed elsewhere (TEÁOR No 6499'08)

- interest rate swap transactions and foreign exchange swap transactions to hedge interest rate risks of foreign exchange liabilities (funding sources), and other options and hedging transactions.

#### Other supplementary financial operations not listed elsewhere (TEÁOR No 6619'08)

- mortgage brokerage; and
- currency conversion.

### *Products and services*

The most significant proportion of the Group's outstanding loan portfolio is composed of retail housing mortgage loans. Within such housing loans, most of the loans have been granted for the financing of home purchases and home buildings. Since 2009, the leading products among the newly-granted loans within the

Group have been "traditional" housing mortgage loans, followed by general-purpose mortgage loans (home equity loans).

Besides the Issuer's traditional home loan products (with or without state-subsidised interest), the Issuer offers a wide range of retail mortgage products.

### **Products of the Issuer**

*Retail home lending products offered by the Issuer:*

- home building mortgage loans;
- home purchase mortgage loans;
- home extension mortgage loans;
- home modernisation mortgage loans;
- home alteration loans;
- "nest-building" loans;
- subsidised loans;
- credit granted in relation to savings in housing saving funds;
- reverse mortgages for elderly people; and
- (agricultural) farm development credits.

*Corporate credit products offered by the Issuer:*

- project and structured corporate real estate financing.

### **Products of FHB Commercial Bank Ltd.**

*Retail lending and credit products offered by FHB Commercial Bank Ltd.:*

- loans for purposes relating to real estate;
- general purpose mortgage loans;
- credit granted in relation to savings in housing saving funds;
- credit granted in relation to life insurance;
- mortgage loans priced on the basis of a reference interest rate;
- current account credit line (overdraft limit);

- "Fix" personal loans linked to life insurance policies or savings under voluntary pension schemes;
- flexible credit line; and
- credit cards.

*Corporate lending and credit products offered by FHB Commercial Bank Ltd:*

- project and structured corporate real estate financing;
- general purpose mortgage loans;
- current account credit line (overdraft limit);
- loans with mortgage collateral;
- loans with security deposits ("óvadék") posted as collateral;
- refinanced loans<sup>1</sup>;
- revolving credit line; and
- bank guarantees.

*Retail payment and savings products offered by FHB Commercial Bank Ltd.:*

- account packages;
- bank cards;
- term deposits;
- long term investment deposit accounts;
- saving deposit accounts;
- structured deposits; and
- mobile phone payment services.

*Corporate payment and savings products offered by FHB Commercial Bank Ltd.:*

- account packages;
- term deposits; and
- structured deposits.

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<sup>1</sup> Loans refinanced by FHB Commercial Bank which had been originally provided under the "New Hungary Loan Programmes" introduced by the Hungarian government.

**Breakdown of loans disbursed on a yearly basis (per cent.)**

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.03.2011</b>
<b>Retail loans</b>	<b>35.5</b>	<b>51.1</b>	<b>36.9</b>
Housing	21.0	25.4	17.0
General purpose mortgage loans	9.1	18.4	10.9
Reverse mortgage loans	1.0	3.7	5.7
Farm development loans	2.8	3.2	0.0
FHB Real Estate Leasing (formerly CEC Ltd.) loans	1.6	0.4	3.3
<b>Corporate loans</b>	<b>64.5</b>	<b>48.9</b>	<b>63.1</b>
Project loans	7.9	3.9	3.8
Commercial real estate financing	3.3	0.0	0.0
General purpose loans	17.9	6.4	0.9
Fixed purpose loans	23.0	17.4	49.4
Current account credit line	10.8	18.5	5.6
FHB Real Estate Leasing (formerly CEC Ltd.) loans	1.6	2.7	3.4

**Distribution network**

Through the intermediation of FHB Commercial Bank Ltd. (**FHB Bank** or **FHB Commercial Bank**), the Issuer uses three channels for the distribution of its retail products. These channels consist of its (i) own network, (ii) agent network, and (iii) refinancing activity. A small proportion of the Issuer's retail loan portfolio consists of loans originally distributed through former cooperation arrangements with "syndicate" partner credit institutions.

**Breakdown of loans disbursed through the different channels**

<b>Distribution channels (per cent.)</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.03.2011</b>
Network of agents	18.3	27.6	18.5
Syndicate partners	0.1	0.0	0.0
Direct FHB distribution network	72.1	62.1	81.0
Refinancing	9.5	10.3	0.5

### ***The Issuer's network***

The Issuer relies on the branch network of its subsidiary, FHB Commercial Bank, which offers the whole range of commercial banking activities. The branch network of FHB Bank has been significantly increased recently from 22 to 53 branches (please see "*Description of the Issuer – The Group - Changes in the overall business strategy of the Group*" above), out of which 19 branches are situated in Budapest, whilst the others are located in towns with the status of counties ("*megyei jogú város*"). Except for the central branch, all of the branches operate with fewer than ten employees.

The performance of the Issuer's network in respect of its overall retail lending business line increased both in 2009 and 2010. The share of the Issuer's network in total loan disbursements to retail customers was 40.5 per cent. in 2009 and 48.6 per cent. in 2010.

Retail mortgage lending through the Issuer's network decreased by 2.4 per cent. in 2010, primarily due to declining demand.

### ***Network of agents***

The Issuer's distribution system also relies, to a significant extent, on sales through a network of independent agents. The share of the Issuer's agent network decreased to 27.6 per cent. in 2010 due to declining demand and the recent expansion of the Group's branch network.

In 2010, the aggregate amount of loans disbursed through the agent network decreased to HUF 5.1 billion from HUF 6.6 billion in 2009 and the contribution of the network of agents to the Issuer's overall performance declined to 47.7 per cent. from 53 per cent. in 2009.

### ***Refinancing***

The Issuer's refinancing business line is predominantly based on cooperation arrangements with FHB Commercial Bank and other partner credit institutions. As at the date of this Base Prospectus, the Issuer has effective cooperation agreements with MKB Bank Ltd., Kereskedelmi és Hitelbank Ltd. (Commercial and Credit Bank Ltd.), CIB Közép-Európai Nemzetközi Bank Ltd. (CIB Central European Bank Ltd.), Erste Bank Hungary Ltd., Raiffeisen Bank Ltd., AXA Bank SA Branch office in Hungary, Hanwha Bank and FHB Commercial Bank Ltd.

Under these cooperation arrangements, the Issuer refinances those residential mortgage loans granted by partner credit institutions, which are secured by Independent Liens created over real estate located in Hungary (as defined in "*Description of the Issuer – The Issuer's business*" above). Such refinancing transactions consist of the purchase of the relevant Independent Liens by the Issuer and a simultaneous undertaking by the respective partner credit institutions to repurchase the relevant Independent Liens in accordance with the underlying mortgage repayment terms.

Prior to the approval of the underlying mortgage loans by partner credit institutions, the Issuer conducts evaluations of the real estate properties over which the relevant Independent Liens are being created. This is because of the statutory restrictions imposed by the Mortgage Credit Institutions Act, pursuant to which the

purchase of Independent Liens is made conditional on, among other things, the evaluation of the relevant mortgaged properties by the purchaser mortgage credit institution. This also ensures that the approved amount of the underlying mortgage loans does not exceed the applicable statutory thresholds as measured on the basis of the lending value of the relevant mortgaged properties.

Apart from the evaluation of the real estate properties that are subject to the relevant Independent Liens, the underlying mortgage loans are originated in accordance with the internal rules and procedures of each partner credit institution. Risks associated with the underlying mortgage loans are also borne by the respective partner credit institution. All these in turn mean that the Issuer is not involved in customer acquisition, marketing, contracting, credit assessments, client monitoring and other activities in relation to such refinanced mortgage loans.

#### **Refinancing (HUF billions IFRS)**

	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.03.2011</b>
Refinanced portfolio	263,015	260,320	242,117
New loans/year	3,444	1,976	0,025

In the course of 2009, the aggregate value of the consolidated portfolio of refinanced loans decreased significantly by HUF 23.6 billion to HUF 263.0 billion, representing an 8.2 per cent. year-on-year decline. The aggregate amount of newly-refinanced mortgage loans within the consolidated portfolio of refinanced loans also decreased to HUF 3.4 billion in 2009 as compared with the disbursement level of HUF 7.7 billion in 2008.

In 2010, the aggregate value of the consolidated portfolio of refinanced loans declined by HUF 2.7 billion to HUF 260.3 billion, representing a 1.0 per cent. year-on-year decrease. The aggregate amount of newly refinanced mortgage loans within the consolidated portfolio of refinanced loans also decreased to HUF 2 billion as compared with the disbursement level of HUF 3.4 billion in 2009.

The aggregate value of Independent Liens purchased in 2010 decreased moderately to HUF 8.1 billion, from HUF 9.5 billion in 2009.

#### **Breakdown of refinanced loans by contractual term**

<b>Term</b>	<b>31.12.2009 (per cent.)</b>	<b>31.12.2010 (per cent.)</b>	<b>31.03.2011 (per cent.)</b>
0-5 years	0.14	0.00	0.04
5-10 years	1.81	1.49	1.39
10-15 years	9.52	7.76	7.39
15-20 years	18.57	17.77	17.98
20-25 years	63.68	66.02	65.40
Above 25 years	6.28	6.96	7.8

The average term of refinanced loans from purchase to maturity tends to shift towards the longer term: while at the end of 2009, the share of loans with terms exceeding 15 years was over 88.5 per cent., the proportion of such long term loans at the end of 2010 was 90.75 per cent.

## Own lending

### Breakdown of own loans disbursed through the different channels

Distribution channels (per cent.)	31.12.2009	31.12.2010	31.03.2011
Network of agents	20.2	30.2	18.6
Syndicated partners	0.2	0.0	0.0
Direct FHB distribution network	79.6	69.8	81.4
Total	100.0	100.0	100.0

### Lending activity in 2010

In 2010, the aggregate net amount of the Issuer's consolidated loan portfolio increased by HUF 53.3 billion, representing a 16.0 per cent. growth year-on-year. This increase primarily resulted from the acquisition of Allianz Bank (please see "Description of the Issuer – The Group - Members of the Group" above) and changes in foreign exchange rates.

As at 31 December 2010, 64.7 per cent. of outstanding loans were denominated in foreign currencies, moderately higher than the 55.8 per cent. level of 31 December 2009.

Retail loans continued to dominate within the Issuer's consolidated loan portfolio with a share of approximately 90 per cent. in 2010, and 93.5 per cent. in 2009.

In 2010, loans provided to retail customers increased by HUF 70.9 billion as compared with the corresponding figure for 2009, representing a 23.9 per cent. year-on-year growth. This was mainly attributed to the acquisition of Allianz Bank, as a result of which an aggregate value of HUF 42.9 billion has been added to the Issuer's consolidated loan portfolio, and partly due to changes in foreign exchange rates. Some 52.3 per cent. of the retail loan portfolio was represented by housing loans, showing a decrease from 60 per cent. level as at 31 December 2009. The share of general-purpose mortgage loans was 40.8 per cent. of the retail loan portfolio as at 31 December 2010 and 36.3 per cent. as at 31 December 2009. In 2010, the proportion of housing loans and general-purpose mortgage loans in respect of the Issuer's consolidated loan portfolio was 59.6 per cent. and 36.1 per cent., respectively, as compared with 61.3 per cent. and 36.8 per cent., respectively, in 2009.

Corporate lending continued expanding in 2010. As a result, the aggregate value of the portfolio of corporate loans rose from HUF 38.6 billion as at 31 December 2009 to HUF 43.0 billion as at 31 December 2010. This growth was triggered mainly by the SME business line and the acquisition of Allianz Bank. Housing project loans decreased by HUF 0.5 billion and commercial real estate financing loans declined by HUF 0.2 billion in 2010.

**Breakdown of gross loans outstanding (HUF million)**

Type of loan	31.12.2009	31.12.2010	31.03.2011
Real estate purchase loans	116,551	133,273	126,414
Housing construction loans	50,718	48,234	46,561
Modernisation loans	4,240	4,607	4,145
Extension/enlargement loans	10,093	9,338	8,848
Other loans secured by real estate	136,687	175,935	160,361
Loans not secured by real estate	15,220	28,837	30,633
Loans to employees	2,258	2,478	2,382
Finance leases	1,206	2,153	2,374
Other loans	0	55	56
<b>Total</b>	<b>336,973</b>	<b>404,910</b>	<b>381,774</b>
Of which			
Retail	296,540	359,321	335,973
Other	40,433	45,589	45,801

**Contractual term of the Group's own loan portfolio**

Term	31.12.2009 (per cent.)	31.12.2010 (per cent.)	31.03.2011 (per cent.)
0-5 years	5.94	10.02	9.61
5-10 years	2.44	3.73	3.69
10-15 years	12.82	15.48	15.40
15-20 years	23.43	23.80	23.97
20-25 years	40.05	36.95	37.22
Above 25 years	15.32	10.02	10.12

In 2010, the ratio of loans with a maturity over 15 years decreased to 70.8 per cent. within the total portfolio as compared with 78.8 per cent. in 2009. The ratio of loans with a maturity over 25 years also decreased from 15.32 per cent. in 2009 to 10.02 per cent. in 2010.

### Breakdown of own loan portfolio by interest period

Interest period	31.12.2009 (per cent.)	31.12.2010 (per cent.)	31.03.2011 (per cent.)
Less than one year	59.14	68.36	67.54
1 year	6.12	5.45	5.55
5 years	32.07	23.90	24.72
10 years	2.67	2.02	2.09
Fixed	0.00	0.27	0.10

### Quality of assets

Overall portfolio quality, taking into account macroeconomic changes and the average performance of the Hungarian banking sector,<sup>2</sup> continued to be favourable, despite a decrease in the proportion of non-problematic loans as compared with the figure for 2009. The aggregate gross value of the total consolidated loan portfolio as determined in accordance with IFRS totalled HUF 665 billion as at 31 December 2010 as compared with HUF 600 billion as at 31 December 2009.

The proportion of non-performing loans within the total consolidated loan portfolio increased to 5.53 per cent., as at 31 December 2010, from 3.93 per cent. as at 31 December 2009. The share of non-performing loans within the Group's own loan portfolio was 9.65 per cent. as at 31 December 2010 and 7.33 per cent. as at 31 December 2009. In 2010, the total outstanding amount of provisions for non-performing loans in respect of the consolidated loan portfolio increased by HUF 15.9 billion to HUF 23.3 billion from the amount as at 31 December 2009. The average ratio of impairments in respect of non-performing loans was 52.7 per cent. as at 31 December 2010 and 29.8 per cent. as at 31 December 2009.

Main features of the total consolidated loan portfolio are shown in the table below.

*Data in HUF million*

Description	31 December 2009	31 December 2010	31 March 2011
Impairment as at 1 January	1.848	7.393	23.314
Charge for the period	8.810	10.716	6.197
Provision portfolio from acquisition	0	9.142	0
FX change of impairment	(105)	1.614	(1.333)
Release during the period	(1.920)	(5.549)	(5.005)
Derecognition due to selling	(1.240)	(4)	(4)
Impairment at period end	7.393	23.314	23.169
Net effect of charge and release	6.638	5.167	1.192
Loans written off	0	21	56
Loss/(profit) on loans sold	650	(190)	(2)

<sup>2</sup> The average ratio of loans past due 90 days was 8.94 per cent. in the Group's retail loan portfolio and 7.9 per cent. in the corporate loan portfolio at the end of the third quarter of 2010, whilst the average figure at the level of the Hungarian banking sector was 10.6 per cent. in the retail segment and 12.7 per cent. in the corporate segment. (Source: Report of the National Bank of Hungary on Financial Stability dated 17 November 2010.)

Loss on terminated loans	119	127	50
Charge/(release) for commitments	313	0	159
Losses on loan and advances	7.720	5.127	1.456

### **Funding, liquidity and capital resources**

The main source of funding for the Issuer, as a specialised mortgage credit institution, is the issuance of mortgage bonds and senior unsecured bonds in the domestic and the international capital markets under its domestic and euro mortgage securities programmes as updated from time to time. The majority of securities issued by the Issuer are listed on the Budapest Stock Exchange as well as on the Official List of the Luxembourg Stock Exchange. Besides public offerings, the Issuer routinely arranges also for private placements, although the frequency and volume of such transactions are relatively low as compared with public offerings. At the Group level, several other types of funding possibilities are available, such as liability-side products developed for the retail and SME sectors. The total deposit portfolio reached HUF 113 billion by the end of 2010, representing a 77.4 per cent. increase in comparison with the level of the previous year.

In 2009, the Hungarian capital market encountered a significant scarcity of liquidity due to the global crisis in the financial and capital markets, with considerable difficulties in pricing of securities in the absence of quotes reflecting real market values on both the offer and the bid sides. In order to avoid maturity concentration which could have given rise to liquidity problems in the course of 2009, the Issuer continued to engage in proactive asset-liability management (**ALM**) activities through, *inter alia*, a number of repurchase auctions and other types of repurchase transactions in respect of its certain securities both in the domestic and the international capital markets.

New funds raised in the course of 2009 amounted to nearly HUF 60.5 billion, including the issuance of six series of mortgage bonds and three series of senior unsecured bonds. Eight series of mortgage bonds and one series of senior unsecured bonds matured in that financial year with a total nominal value of approximately HUF 66 billion and HUF 10.5 billion, respectively. The total value of the securities repurchased in 2009 accounted for HUF 26.6 billion.

Demand in the Hungarian capital market for securities issued by the Issuer increased to a certain extent in the first quarter of 2010. This was supported significantly by a mortgage bond purchase programme (the **Mortgage Bond Purchase Programme**) introduced by the National Bank of Hungary (the **NBH**) for 2010 with a view to facilitating expansion in the Hungarian mortgage bond market through the purchase of domestic mortgage bonds up to a total amount of HUF 100 billion (discontinued from January 2011). Transactions conducted by the NBH under the Mortgage Bond Purchase Programme contributed considerably to a narrowing of margins in respect of domestic mortgage bonds issued by the Issuer.

In the first quarter of 2010, the Issuer conducted several repurchase transactions in respect of certain of its securities and issued one series of mortgage bonds with a total nominal value of HUF 24.0 billion and two series of senior unsecured bonds with a total nominal value of HUF 5.8 billion.

New funds raised by the Issuer in the second quarter of 2010 through mortgage bond and bond issuances amounted to HUF 22.4 billion. The aggregate nominal value of repurchase transactions effected in the same

period as part of the Issuer's ALM activities totalled nearly HUF 13.7 billion. In the third quarter of 2010, the aggregate amount of funds raised by the Issuer totalled approximately HUF 40 billion including mortgage bond issuances with a total nominal value of approximately HUF 10.5 billion and senior unsecured bond issuances with a total nominal value of HUF 29.5 billion, primarily through public auctions. Bonds issued by the Issuer in the course of July 2010 were acquired by both retail and institutional investors. In the fourth quarter of 2010, the Issuer issued series of senior unsecured bonds for retail customers and conducted a bond issuance through a private placement with a total nominal value of HUF 25 billion. The aggregate value of senior unsecured bond issuances totalled over HUF 28 billion in the fourth quarter of 2010 with the total value of mortgage bond issuances remaining below HUF 500 million.

The aggregate amount of new funds raised by the Issuer doubled in 2010 as compared with the 2009 level of HUF 60.5 billion, totalling approximately HUF 121 billion. During 2010, eight series of mortgage bonds and senior unsecured bonds matured with a total nominal value of approximately HUF 116.1 billion and a total redemption value of HUF 25.2 billion.

### **Mortgage bond coverage**

For information on the requirements applicable to the coverage for mortgage bonds and the Issuer's coverage register, please see "*Certain Information relating to the Mortgage Securities*" below, and for further information on the over-collateralisation commitment of the Issuer, please see the section "*Description of the Issuer - Over-collateralisation Commitment of the Issuer*" above.

The value of assets included in the coverage for mortgage bonds issued by the Issuer was as follows as at 31 December 2009 (non-consolidated):

<b>Outstanding mortgage bonds in circulation</b>	<b>HUF</b>
Principal:	458,781,010,000
Interest:	107,969,097,027
Total:	566,750,107,027

<b>Value of assets included in the ordinary coverage</b>	<b>HUF</b>
Principal:	533,517,215,979
Interest:	379,211,293,240
Total:	912,728,509,219

<b>Value of assets included in the supplementary coverage</b>	<b>HUF</b>
Money held on separate blocked account with NBH, principal:	2,047,735
Total:	2,047,735

The value of assets included in the coverage for mortgage bonds issued by the Issuer was as follows as at 31 December 2010 (non-consolidated):

<b>Outstanding mortgage bonds in circulation</b>	<b>HUF</b>
Principal:	415,224,095,000
Interest:	97,700,853,728
Total:	512,924,948,728

<b>Value of assets included in the ordinary coverage</b>	<b>HUF</b>
Principal:	511,182,325,364
Interest:	296,213,133,877
Total:	807,395,459,241

<b>Value of assets included in the supplementary coverage</b>	<b>HUF</b>
Total:	0

The value of assets included in the coverage for mortgage bonds issued by the Issuer was as follows as at 31 March 2011 (non-consolidated):

<b>Outstanding mortgage bonds in circulation</b>	<b>HUF</b>
Principal:	384,003,167,000
Interest:	94,821,208,819
Total:	478,824,375,819

<b>Value of assets included in the ordinary coverage</b>	<b>HUF</b>
Principal:	491,138,915,105
Interest:	282,086,532,215
Total:	773,225,447,320

<b>Value of assets included in the supplementary coverage</b>	<b>HUF</b>
Total:	0

### **The position of the Issuer in the Hungarian Banking System/Market**

#### **Mortgage bond market shares**

<b>Mortgage Banks</b>	<b>31.12.2009 (per cent.)</b>	<b>31.12.2010 (per cent.)</b>	<b>31.03.2011</b>
<b>OTP Mortgage Bank</b>	74.41	73.24	74.10
<b>FHB Mortgage Bank</b>	22.63	23.63	22.83
<b>UniCredit Mortgage Bank</b>	2.96	3.13	3.06

Source: website of the Association of Hungarian Mortgage Banks (used exchange rate: of the Hungarian Central Bank as of 31 March 2011)

The aggregate mortgage bond portfolio of the three Hungarian mortgage banks amounted to HUF 2,011 billion as at 31 December 2009 and HUF 1,752.5 billion as at 31 December 2010. The Issuer's market share in the mortgage bond market was 23.63 per cent. at the end of the fourth quarter of 2010, slightly higher than the figure for the previous year. In the first quarter of 2011, the aggregate mortgage bond portfolio of the three Hungarian mortgage banks decreased to HUF 1,681 billion. OTP Mortgage Bank's market share increased further to 74.1 per cent., while the Issuer's market share stabilised at 22.83 per cent.

### **Activities of selected members of the Group in 2009 and 2010**

The following is a summary of the main activities of FHB Commercial Bank, FHB Life Annuity Ltd. and FHB Real Estate Leasing Ltd. in 2009 and 2010.

#### *FHB Commercial Bank*

By the end of 2010, FHB Bank had increased its sales activity in respect of retail and corporate banking and loan products, especially in relation to bank account and payment card services. The simultaneous expansion of FHB Bank's product range enabled the Group to employ new methods for raising funds and thereby to diversify the structure of its liability side. As a result, the number and value of transactions as well as the income generated from banking charges increased considerably.

The number of retail current accounts was near to 52,300 as at 31 December 2010, representing a 34.9 per cent. increase from the figure of 38,800 for 2009 and 5.9 per cent. growth as compared with 49,400 for the third quarter of 2010. The total balance of retail and corporate deposits amounted to HUF 76.0 billion as at 31 December 2010, showing a 24.8 per cent. increase from the fourth quarter of 2009.

In 2010, excluding loans granted to other Group members, the gross aggregate amount of loans provided by FHB Bank was close to HUF 136.4 billion and the total amount of FHB Bank's portfolio increased by 20.2 per cent. over the year. The total amount of the loan portfolio grew by HUF 9.5 billion in the fourth quarter of 2010, mainly attributed to a HUF 7.1 billion growth in the retail loan portfolio over the same period.

The aggregate amount of FHB Bank's retail loan portfolio was HUF 119.4 billion as at 31 December 2010, showing a HUF 22 billion growth as compared with the aggregate value as at 31 December 2009. The aggregate amount of FHB Bank's corporate loan portfolio was in excess of HUF 17.1 billion at the end of 2010, representing a HUF 1.2 billion (12.5 per cent.) growth as compared with 2009. Growth in the corporate loan portfolio was mainly attributed to the expansion of FHB Bank's SME lending business line.

#### *FHB Life Annuity Ltd.*

As at 31 December 2010, the aggregate value of "FHB Annuity" agreements signed by FHB Life Annuity Ltd. since the launch of the product totalled HUF 11.8 billion, out of which an aggregate value of HUF 2.1 billion is represented by agreements entered into in 2010. This figure for 2010 is significantly lower than the HUF 3.7 billion aggregate value of the agreements concluded in 2009. Annuity payments effected since the launch of the "FHB Annuity" product totalled HUF 3.8 billion as at 2010 with an aggregate value of HUF 755 million for 2010.

As at 31 December 2010, the aggregate contracted value of "FHB Mortgage Annuity" agreements signed by FHB Life Annuity Ltd. since the launch of the product totalled HUF 3.5 billion, with a HUF 2.7 billion aggregate amount of disbursements thereunder (representing a HUF 0.7 billion year-on-year growth). The share of foreign currency denominated "FHB Mortgage Annuity" loans within the total "FHB Mortgage Annuity" portfolio was 4 per cent. as at 31 December 2010 (representing an aggregate value of HUF 105 million). The total value of the mortgaged properties underlying the "FHB Mortgage Annuity" agreements concluded in 2009 amounted to HUF 2.1 billion, with the aggregate value of the underlying mortgaged property portfolio totalling HUF 8.5 billion as at 31 December 2010. The aggregate contracted value of "FHB Mortgage Annuity" agreements entered into in 2010 was HUF 891 million with total disbursements under such agreements amounting to HUF 750 million.

Due to moderate business volumes, the distribution of new "FHB Annuity" products has been suspended as from the third quarter of 2010. The sale of the "FHB Mortgage Annuity" reverse mortgage product has, at the same time, been limited to agreements, where real estate coverage is constituted by properties located in Budapest.

#### *FHB Real Estate Leasing Ltd.*

FHB Real Estate Leasing Ltd. expanded its product portfolio in the second half of 2009 and started to provide services in relation to the financial lease of real estate properties mostly to retail customers. In 2010, financing provided under such lease agreements amounted to HUF 0.8 billion and, as a result, the total amount of the lease portfolio rose to HUF 2.2 billion as at 31 December 2010. A significant part of FHB Real Estate Leasing Ltd.'s lease portfolio (representing an aggregate value of HUF 1.9 billion) is attributed to restructuring arrangements within the Group.

## RISK MANAGEMENT

### *Introduction*

Risk taking is inherent in the provision of financial services and the Issuer, as the parent bank of the FHB Banking Group (the **Group**), assumes a variety of risks in undertaking its business activities. Risk is defined in general as any event that could: damage the core earnings capacity of the Issuer; increase earnings or cash flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations.

### *Risk Management – individual risk types*

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the Issuer's risk assessment processes and which are particularly relevant to the Issuer:

- credit risk;
- interest rate risk;
- liquidity risk;
- risks from maturity mismatches;
- foreign exchange rate risk;
- operational risk; and
- risks from prepayment.

### *Management of credit risk*

#### *(a) Customer rating*

Before assuming risks and obligations, the Issuer examines its prospective customers' ability and willingness to repay loans as well as the value and marketability of real estate collateral offered by them as coverage. The Issuer performs simple and complex customer ratings, classifies loan applicants and other counterparties into categories and determines a credit limit for each class. Each rating is based on a scoring/rating system specially developed for that purpose. Thus, the amount of a loan granted is based on the rating of the relevant customer, the credit limit determined for him, and the lending value of the respective real estate collateral. In the case of foreign-currency-denominated loans, foreign exchange rate risk is also taken into consideration when establishing the amount of the loan to be granted.

The adequacy of the scoring/rating systems applied to classifying the customers and other counterparties is subject to regular review and permanently monitored by the Issuer.

#### *(b) Exposure rating and provisioning*

The Issuer rates its exposures in accordance with its internal rules and the relevant legal regulations. Determination of expected losses and provisions for them is based on the Issuer's previous empirical experience relating to performance rates and actual losses deriving from non-performing loans, taking into consideration arrears in respect of (re)payments of principal and interest, changes in the

financial situation of clients, other risk factors and the actual value of real estate collateral pledged as security. Provisions for losses on loans are appropriated in such a way that ensures sufficient coverage for expected losses both with respect to individual transactions and at the portfolio level.

(c) *Rating of collaterals*

The Issuer accepts as collateral for loans a mortgage interest or Independent Lien (as defined in "*Certain information relating to the Mortgage Securities – The collateral system of mortgage bonds - Coverage requirement*" above) established on real estate property. The Issuer usually requires a mortgage that ranks first in right of satisfaction. Given that a restriction on transfer of title and creation of encumbrances is in each case also registered in respect of the relevant mortgaged property in the land register by virtue of the Mortgage Credit Institution Act, the sale of, or the creation of any further encumbrance on, that mortgaged property is conditional on the Issuer's prior consent. Under its loan agreements, the Issuer is entitled to, when its right of satisfaction becomes exercisable, decide at its sole discretion to sell the relevant mortgaged real estate or may agree with the relevant borrowers on the joint sale of such properties. The Issuer's ability to enforce or exercise such rights may, however, be subject to statutory or regulatory restrictions (please see "*The Hungarian banking system and capital markets - Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – II. Legislative measures – Moratorium on evictions and transitional restrictions on enforcement sales outside court enforcement*" below).

The Issuer considers the reliable and prudent valuation of real estate to be of key importance in maintaining the soundness of its mortgage lending activities on an ongoing basis. The Issuer has so far relied on its own specialised expert staff in the valuation of real estate offered and accepted as collateral, which is conducted in line with the provisions of No 25/1997 (VIII.1.) order of the Minister of Finance on the principles of the methodology applicable to the establishment of the lending value of real estate not qualifying as agricultural land and No 54/1997 (VIII.1.) order of the Minister of Agriculture on the principles of the methodology applicable to the establishment of the lending value of agricultural land, and has created a database built on data obtained from tax authorities to support its valuation activity. In the wake of the modification of its scope of business, the Issuer has entered into agreements with independent real estate appraisal agencies to involve them in the evaluation of prospective real estate collateral. However, the lending value of mortgaged real estate properties is still established by the Issuer's expert staff.

(d) *Coverage Supervisor*

In addition to performing its duties imposed by the relevant statutory provisions, the Issuer's Coverage Supervisor (PricewaterhouseCoopers Kft.) reviews the activity of the Issuer's evaluation experts in cases identified by it, and carries out spot checks on valuations.

*Strict internal regulation*

Determination of lending values and the registration of ordinary and supplementary coverage are based on stringent internal regulations as approved by the Hungarian Supervisory Authority (the **HFS**A).

***Interest rate risk management***

The Issuer's interest risk mainly derives from the following factors:

- changes in the capital and money markets during the period after loan disbursements and mortgage bonds issuances;

- discrepancies between the interest periods for, and price adjustments to, loans and funds;
- reinvestment risk, that is the difference between the yield obtained by the reinvestment of funds received through repayments and interest payments on the original loans;
- differing interest rates in respect of annuity-based loans and mortgage bonds; and
- diverse maturity structures of assets and liabilities.

Interest rate risk is managed primarily by matching the maturity structures of liabilities and assets, adjusting re-pricing periods, and reducing potential differences between interest rate structure (fixed or variable) of assets and liabilities. Interest rate risk management at the portfolio level is becoming increasingly important along with the use of derivative transactions, such as swaps, for hedging purposes. To this end, the Issuer has signed ISDA master agreements with several reputable international financial institutions.

### ***Liquidity risk management***

Maintaining liquidity is a fundamental requirement in banking. The Issuer maintains liquidity primarily through matching the maturity of receivables and obligations and, subject to certain limitations, by using maturity transformation techniques. At the same time, the Issuer also seeks to ensure that its overall solvency is at all times sustained.

The Issuer monitors special liquidity indicators, the ratio of liquid assets and the coverage on maturing mortgage bonds on a daily basis. Monthly analyses include the examination of maturity coverage limits and mismatches occurring amongst the various maturity brackets.

### ***Management of maturity mismatches***

In addition to primary liquid assets, the Issuer finances liquidity shortages in a timely manner from funds raised by means of the issuance of new mortgage bond series or other capital market instruments. Some of the ordinary coverage required for mortgage bond series issued for this purpose is available on a continuous basis in the form of long-term mortgage loans released from the coverage for the relevant mortgage bonds when principal repayments are made at the due dates. Additional ordinary coverage on new series is constituted by increasing the regular collateral portfolio generated by lending.

### ***Prepayment risk management***

With the exception of extraordinary prepayments, the Issuer levies a fee on prepayments of loans. Imposing such charges mitigates the risk of prepayment. The Issuer's ability to recover its costs incurred from prepayments is however subject to statutory limitations in respect of mortgage loans provided to consumer borrowers (as defined in Act CLXII of 2009 on consumer credit). (For a more detailed discussion, please see "*The Hungarian Banking System and Capital Markets - Consumer protection legislation in the financial sector*" below.) The Issuer analyses the early repayment ratio on a portfolio basis using stress tests, and estimates the volume of prepayments, with the results taken into consideration in the course of planning new issuances of mortgage bonds.

### ***Foreign exchange rate risk management***

In accordance with its business policy, the Issuer strives to keep the risk stemming from the fact that receivables and payables arise in different foreign currencies at a low level. In order to manage this type of risk, the Issuer sets limits on positions and monitors compliance with those limitations.

Hedging risks mainly involves the use of derivative instruments (such as swaps). Pursuant to the Mortgage Credit Institutions Act, a mortgage credit institution may enter into derivative transactions solely for hedging and liquidity purposes.

***Operational risk management***

The Issuer manages the possible losses deriving from operational risk by adopting appropriate policies and internal regulations on operational processes and procedures and through controlling compliance with those internal regulations.

***Capital requirement calculation***

Since 1 January 2008, the Issuer has been authorised to determine capital charges for operational risk under the Standard Approach. Further, the Issuer has obtained permission from the HFSA for the application of the Internal Rating Based Approach for calculating capital requirements for credit risk, effective from 1 July 2008.

## CERTAIN INFORMATION RELATING TO THE MORTGAGE SECURITIES

Mortgage bonds ("*jelzáloglevél*") are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (1997. évi XXX. törvény a jelzálog-hitelintézettről és a jelzáloglevélről) (the **Mortgage Credit Institutions Act**).

Mortgage credit institutions grant loans secured by mortgages on real estate properties located in the territory of Hungary or other member states of the European Economic Area (the **EEA**), for which they procure funds primarily by way of issuing mortgage bonds.

### **The collateral system of mortgage bonds**

#### ***Coverage requirement***

Mortgage credit institutions must, at all times, have "coverage" ("*fedezet*") available at a value which is higher than the equivalent of the outstanding principal and interest in respect of all outstanding mortgage bonds. In order to achieve this, mortgage credit institutions must ensure that: (a) the total amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the aggregate amount of outstanding principal on all outstanding mortgage bonds, and (b) the total amount of interest payable on the amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the interest payable on the aggregate amount of outstanding principal on all outstanding mortgage bonds. Mortgage credit institutions must ensure that the above coverage requirements are also met on a present value basis. Such coverage may consist of ordinary coverage and supplementary coverage.

The ordinary coverage for mortgage bonds consists primarily of mortgage loans adjusted for the lending value of the respective mortgaged properties, established on the basis of detailed and strict statutory regulations. Each mortgage loan (or the repurchase price of each independent lien, as applicable) may only be taken into account as coverage up to 60 per cent. of the established lending value of the relevant mortgaged property, except in respect of residential real estate, where the relevant mortgage loan (repurchase price) may only be taken into account as ordinary coverage for up to 70 per cent. of the lending value of such residential mortgaged property. Principal and interest claims arising from mortgage loans and management fees received regularly by a mortgage credit institution may serve as ordinary coverage, if the mortgage securing the respective loan is registered in the land register. In the case of mortgage loans secured by mortgages on real estate situated in another member state of the EEA, further prudential requirements need to be met in order for such loans to be included in the ordinary coverage.

The repurchase price of so-called independent liens (as defined in Act IV of 1959 on the Civil Code of Hungary within a meaning comparable to that of a non-recourse mortgage) may also serve as ordinary coverage. In addition, the adjusted value of certain derivative transactions concluded in relation to mortgage bonds issued by the respective mortgage credit institution and/or the coverage thereof may account for ordinary coverage, provided that the relevant counterparty consents to the inclusion of the respective derivative transaction into the ordinary coverage and certain other conditions are met, and the balance of the receivables and liabilities arising from such derivative transactions on a present value basis does not exceed 12 per cent. of the present value of the liabilities arising under the outstanding mortgage bonds issued by the relevant mortgage credit institution. Further, the claims for principal and interest as well as management fees

arising from the so called "connected loan" (that part of the credit facility which is secured by state guarantee and not covered by the mortgage) may also constitute ordinary coverage.

Supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) money held in a separate blocked account with the National Bank of Hungary; (b) securities issued by the central banks of the member states of the European Union (the **EU**), the EEA, the Organisation for Economic Co-operation and Development (the **OECD**) or the European Central Bank (the **ECB**); (c) securities issued by member states or full members of the EU, the EEA, or the OECD; (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank or the European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship ("*állami készfizető kezességvállalás*") provided by the Hungarian State; (f) securities the principal and interest payment on which are guaranteed by any of the issuers listed in (c) and (d) above; (g) certain loans granted with first demand suretyship provided by the Hungarian State; and (h) covered bonds (as defined in No 196/2007. (VII.30.) order of the government) which are recognised as eligible collateral by the central bank of a member state or the ECB, except for mortgage bonds issued by the relevant mortgage credit institution and covered bonds issued by a credit institution or investment firm closely linked to that mortgage credit institution. The total amount of claims towards any of the obligors listed in (c), (d), (f) and (h) above may not at any time exceed 2 per cent. of the of the aggregate nominal amount of all outstanding mortgage bonds issued by the relevant mortgage credit institution.

The inclusion of covered bonds referred to in (h) above in the supplementary coverage is subject to further strict statutory thresholds as follows: (i) the total amount of such covered bonds is capped at 25 per cent. of the aggregate amount of the supplementary coverage; and (ii) the total amount of such covered bonds may not exceed 5 per cent. of the aggregate nominal amount of all outstanding mortgage bonds issued by the relevant mortgage credit institution.

If the mortgage bonds and their respective coverage are denominated in different currencies, mortgage credit institutions are required to hedge their foreign exchange risk by derivative transactions. These derivative transactions may, subject to further rules as referred to above, also be included in the ordinary coverage.

In the event of the transformation or liquidation of a mortgage credit institution, the respective mortgage credit institution may transfer wholly or partially its obligations arising under mortgage bonds and those derivative transactions which have been included in the ordinary coverage to another mortgage credit institution. This transfer is subject to the permission of the HFSA, but does not require the prior consent of the holders of the mortgage bonds or the counterparties to the relevant derivative transactions. The obligations arising from mortgage bonds may only be transferred together with the related ordinary and supplementary coverage. The mortgage credit institution, taking over the portfolio concerned, must issue new mortgage bonds on the original terms and conditions.

### ***The role of the Coverage Supervisor***

- *Monitoring the availability of coverage assets*

Sections 16 and 17 of the Mortgage Credit Institutions Act contain the provisions on the appointment and responsibilities of the coverage supervisor (the **Coverage Supervisor**; "*Vagyonellenőr*").

The Coverage Supervisor:

- (a) monitors and certifies the continuous availability of sufficient coverage for mortgage bonds as required by the Mortgage Credit Institutions Act; and
- (b) is responsible for the due registration of (1) the properties subject to the mortgages and other liens included in the ordinary coverage for mortgage bonds together with their land-registry details and lending values; and (2) the ordinary and supplementary coverage in the coverage register.

The appointment of the Coverage Supervisor is valid only with the approval of the HFSA.

A security has to meet certain formal requirements to qualify as a mortgage bond. One of these requirements is the certification by the Coverage Supervisor on the mortgage bond of the existence of the prescribed coverage and the registration thereof in the coverage register.

### ***The coverage register***

The coverage register contains the up-to-date data, aggregated at a portfolio level, of all outstanding mortgage bonds issued by the relevant mortgage credit institution, the mortgaged properties securing the mortgage loans that constitute the ordinary coverage for those mortgage bonds and the total value of the ordinary and supplementary coverage. The maturity register sets out details with a monthly breakdown on liabilities arising under all outstanding mortgage bonds issued by the relevant mortgage credit institution and the credit receivables included in the ordinary and supplementary coverage.

### ***Valuation of the coverage assets***

The Mortgage Credit Institutions Act and the Credit Institutions Act impose stringent requirements on the valuation of coverage assets, elaborated *in extenso* in No 25/1997. (VIII.1.) order of the Minister of Finance on the principles of the methodology applicable to the establishment of the lending value of real estate not qualifying as agricultural land and No 54/1997. (VIII.1.) order of the Minister of Agriculture on the principles of the methodology applicable to the establishment of the lending value of agricultural land.

Accordingly, the key elements for the valuation of coverage assets are as follows:

- preliminary assessment of the acceptability and effectiveness of coverage assets under the relevant legal requirements (as a general rule, the Issuer accepts only unencumbered real estate);
- assessment of the long-term permanent nature of the value of the real estate serving as collateral for mortgage loans;
- estimation of the time required for the sale of such real estate; and
- the establishment of the lending value of such real estate.

### ***Registration of coverage assets***

- Pursuant to the applicable legal requirements, the Issuer maintains a coverage register as described above. The coverage registration rules of the Issuer were approved by the Board of Directors of the Issuer (Resolutions No 57/2007 (23 November 2007) and No 5/2008 (29 February 2008)), and by

the HFSA (Resolution No E-I-206/2008 (11 March 2008)) and have been reviewed by the Coverage Supervisor. Statements of the Issuer's coverage register record, both at the portfolio level and on an individual basis, the updated data of assets included in the coverage for all outstanding mortgage bonds issued by the Issuer. The aim of the portfolio level statements is to monitor compliance with the requirement of proportionality set out in the Mortgage Credit Institutions Act and with the requirement to match the maturities of mortgage bonds and mortgage loans to comply with the obligation of credit institutions to match the maturity of their assets and liabilities.

### **Secure position of the holders of mortgage bonds in the ranking of creditors**

Liquidation proceedings against mortgage credit institutions are governed by the rules applicable to the liquidation of credit institutions, subject to the following specific provisions.

Upon ordering the liquidation, the competent court also appoints a coverage administrator (the **Coverage Administrator**; "*fedezeti gondnok*"), whose main responsibility is to ensure the satisfaction of all claims of the holders of mortgage bonds in due course. From its appointment, only the Coverage Administrator is entitled to dispose of the Issuer's assets which constitute the coverage for mortgage bonds.

In the event of the liquidation of a mortgage credit institution, claims arising under mortgage bonds and derivative transactions included in the coverage will not become due and payable at the time of the commencement of the liquidation. The Coverage Administrator acts outside the ordinary liquidation proceedings. The Coverage Administrator will satisfy the claims of the holders of mortgage bonds and the counterparties to those derivative transactions which have been registered in the coverage register as part of the ordinary coverage. The claims of these counterparties will rank *pari passu* with those of the holders of mortgage bonds in right of satisfaction. The rules on satisfying claims arising under mortgage bonds must be applied appropriately to the satisfaction of claims arising from such derivative transactions.

Following the settlement of the Coverage Administrator's fees, the fees relating to the administration and enforcement of certain claims in relation to the liquidation and the costs associated with the activities of the Coverage Supervisor, the following assets (the **Restricted Assets**) may be used exclusively for the satisfaction of obligations owed to holders of mortgage bonds and counterparties to derivative transactions included in the coverage: (a) the ordinary and supplementary coverage registered in the coverage register at the time of the commencement of the liquidation; (b) (i) that proportion of the ordinary coverage which could not be taken into account as ordinary coverage for the reason that it exceeds the 60per cent. or 70per cent. of the mortgage lending value statutory limits to which extent a receivable may account for ordinary coverage; and (ii) those liquid assets of the mortgage credit institution which (A) exist at the time of the commencement of the liquidation, (B) are not included in the coverage, but (C) satisfy the criteria set out in the Mortgage Credit Institutions Act for supplementary coverage.

The Restricted Assets defined in (a) and (b) above do not constitute part of the liquidation assets. The Coverage Administrator will satisfy the claims arising from mortgage bonds on the dates for interest payment and redemption indicated on the mortgage bond.

Restricted Assets only become part of the liquidation assets of the mortgage credit institution if all the claims of the holders of mortgage bonds and counterparties to derivative transactions included in the coverage are satisfied or transferred to another mortgage credit institution.

When claims arising under mortgage bonds and derivative transactions included in the coverage become due

and the Restricted Assets are not sufficient to cover these claims, the holders of mortgage bonds and the relevant counterparties to the derivative transactions included in the coverage will be satisfied *pro rata* to their claims. In this case, proceeds generated by Restricted Assets at a later stage must be paid to settle such unsatisfied claims as they fall due and *pro rata* in respect of claims falling due at the same time. In the case of late payment, the holders of mortgage bonds may claim the default interest specified in the terms and conditions of the mortgage bonds (the default interest accrued from the original maturity is payable after the satisfaction of claims for principal and interest claims arising under the mortgage bonds).

From the commencement of the liquidation, only the Coverage Administrator may act with respect to the Restricted Assets on behalf of the mortgage credit institution. The Coverage Administrator may initiate the transfer of obligations arising under mortgage bonds and the repurchase of outstanding mortgage bonds. The Coverage Administrator may also conclude derivative transactions for hedging purposes and it must enforce claims serving as coverage on behalf of the mortgage credit institution. From the commencement of the liquidation, the proportion of the ordinary coverage in the total coverage may fall below 80per cent. The purchase price from the sale of Restricted Assets may be used solely for satisfying obligations owed to the holders of mortgage bonds and the counterparties to the derivative transactions included in the ordinary coverage. The Coverage Administrator must take all actions necessary to maintain the continuous solvency of the mortgage credit institution (i.e. that all claims are fully satisfied from the Restricted Assets at the time when they fall due). If continuous solvency is not fully achievable, then the Coverage Administrator must satisfy the relevant claims, irrespective of their maturity, *pro rata* to their principal amounts.

Within two years following the commencement of the liquidation the Coverage Administrator or any holder of mortgage bonds may request the court to supplement the Restricted Assets from the liquidation assets of the mortgage credit institution. This is subject to proving that the Restricted Assets are not sufficient to cover the claims of the holders of mortgage bonds. After two years this right elapses. The court may only resolve on the conclusion of the liquidation proceeding and the dissolution of the relevant mortgage credit institution, if (i) all the claims arising under the mortgage bonds and the derivative transactions included in the coverage have been satisfied or transferred to another mortgage credit institution, or (ii) all the assets serving as coverage for such claims have been exhausted.

Pursuant to Section 21 of the Mortgage Credit Institutions Act, only the holders of mortgage bonds and the counterparties to derivative transactions included in the coverage (to the extent of their claims arising under the mortgage bonds and such derivative transactions) may commence enforcement proceedings with respect to Restricted Assets. Payment to such persons in the enforcement proceedings is subsequent to the payment of statutory enforcement costs.

### **Special status of the mortgage bonds**

As a summary of the provisions laid out in this section, the following is a list of the six basic pillars on which the special strength and security of mortgage bonds rely:

- ***Coverage system***

The ordinary coverage for mortgage bonds is provided for by mortgage loans adjusted according to lending values of their respective collateral, established on the basis of detailed and strict statutory regulations. Each mortgage loan may only be taken into account as coverage to the extent permitted by the Mortgage Credit Institutions Act. Where there is no sufficient ordinary coverage, supplementary coverage must be used on a mandatory basis.

For further information, please see the subsection under the heading of "*Secure position of the holders of mortgage bonds in the ranking of creditors*" above.

- ***Strictly defined coverage proportions***

Among coverage assets, supplementary coverage may only account for a maximum of 20 per cent. from the third year of operation of the respective mortgage credit institution. Further, strict limitations apply to the recognition of mortgage loan assets as ordinary coverage (please see "*Coverage requirement*" above).

- ***Independent Coverage Supervisor***

The registration of the current mortgage loan portfolio and the mortgaged real estate underlying the mortgage loan assets constituting the coverage for mortgage bond issues are supervised and controlled by an independent Coverage Supervisor appointed in order to safeguard of the interests of the investors (please see "*The role of the Coverage Supervisor*" above).

- ***Special status of the holders of mortgage bonds in a liquidation proceeding against a mortgage credit institution***

The Mortgage Credit Institutions Act grants to the holders of mortgage bonds and counterparties to derivative transactions included in the coverage in respect of the coverage and certain other liquid assets a privileged position in the liquidation of a mortgage credit institution, as compared with other creditors.

For a more detailed discussion, please see the subsection under the heading of "*Secure position of the holders of mortgage bonds in the ranking of creditors*" above.

- ***Special supervision by the HFSA***

Pursuant to the Mortgage Credit Institutions Act, the HFSA is obliged to carry out comprehensive on-site audits at mortgage credit institutions on an annual basis.

- ***Increased publicity***

A mortgage credit institution is obliged to disclose quarterly information to the HFSA and to the public periodically in each quarter year, on the aggregate nominal amount of, and interest on, all outstanding mortgage bonds issued by it as well as on the value of the available coverage assets, as certified by the Coverage Supervisor.

- ***Specialised credit institution***

Mortgage bonds can be issued exclusively by mortgage credit institutions with certain formal requirements as set out in the Mortgage Credit Institutions Act. If any of the mandatory elements of such statutory content is missing, the bond will not qualify as a mortgage bond.

### **Mortgage Securities created in an OECD member state other than Hungary**

Pursuant to the amendment of the Mortgage Credit Institutions Act, certain provisions of Hungarian law are not applicable to the formal requirements for a security to qualify as a mortgage bond in respect of mortgage bonds created in an OECD member state other than Hungary and to the issuance thereof. Such mortgage bonds will still qualify as mortgage bonds even if the global note representing the relevant mortgage bonds, which is deposited with a common safekeeper or common depository, is exchanged for definitive securities in accordance with the specified denomination of the relevant mortgage bonds. The form of such securities is governed by the law of the jurisdiction where they have been created.

Consequently, in the event that mortgage bonds are created in an OECD member state other than Hungary:

- (a) section 6(3) of Act CXX of 2001 on capital markets (the **Capital Markets Act**), providing that publicly issued securities must be in a dematerialised and registered form, will not be applicable;
- (b) such mortgage bonds do not need to specify the name of the owner thereof. In such a case, a mortgage bond qualifies as a registered security provided that the name of the owner of the account in which it is registered can be clearly identified; and
- (c) section 12(2) of the Mortgage Credit Institutions Act, which states that coupons shall be issued in respect of interest and principal instalment payments to be made on mortgage bonds created in a physical form, will not apply.

## HUNGARIAN HOUSING AND MORTGAGE MARKET

### *Government housing policy and subsidised loan scheme*

#### **(1) The former regime**

The main method for stimulating home ownership under the former scheme was the interest subsidy received by mortgage banks on mortgage bonds that were used for the financing of residential mortgage loans meeting the criteria set out in No 12/2001 (I.31.) order of the government on the state subsidy regime for housing purposes, as amended from time to time (the **Order**). The aim of the interest subsidy regime was to encourage mortgage banks to grant mortgage loans with a rate of interest not exceeding a certain cap as set out in the Order.

The subsidies under this scheme may not be granted in respect of applications for housing state support submitted on, or following, 1 July 2009. Nevertheless, it is important to emphasise that the termination of the regime set out in the Order does not affect the right of mortgage banks to receive continued interest subsidies on mortgage bonds that relate to loans for which application was made prior to 1 July 2009. Interest subsidy payments on such loan agreements are made according to an agreement between a mortgage bank and the minister responsible for housing policy, with the consent of the minister responsible for financial affairs and monies are transferred from the Hungarian State Treasury (*Magyar Államkincstár*).

Within this regime, such subsidies could take two forms. Liability-side subsidies were those provided to mortgage banks on eligible mortgage bonds relating to residential mortgage loans which meet the criteria set out in the Order. In the case of asset-side subsidies, on the other hand, financing subsidised loans through mortgage bonds is not a criterion for the subsidy.

#### **(2) The current scheme**

Residential lending in Hungary has been considerably affected by the recent, significant curtailment to state subsidies for housing purposes, which has led to the re-establishment of the subsidy scheme on a significantly narrower basis in terms of eligibility, forms of subsidisation and levels of subsidies. The provisions on the current system are set out in order No 134/2009 (VI. 23.) of the government on state subsidies in respect of loans provided to young persons and families with more than one child for the purpose of financing residential property (the **Subsidy Order**).

As opposed to the former scheme (still applicable with regard to loans, the application for which was submitted before 1 July 2009), the new regime provides for only one type of state support in the form of interest rate subsidies in respect of loans granted to eligible persons (as defined in the Subsidy Order) (the **Eligible Persons**) for the (i) purchase or construction of a new property (within the meaning as stipulated in the same) or (ii) the modernisation of an existing property, already owned by the borrower (together, the **Eligible Loans**), provided in both cases that the real estate concerned is situated within the territory of Hungary.

To be eligible for a state subsidy under the new regime, borrowers and, as the case may be, the members of their households (as defined in the Subsidy Order) must meet several requirements

common to all types of Eligible Loans and those specific criteria set out with respect to each class of such loans. Those requirements include, without limitation: (i) qualifications as to status, such as citizenship, right of free movement and residence, status of immigrants or permanent residence etc.; (ii) criteria in relation to age, number of children in the borrower's household; (iii) thresholds with respect to the proportion of the ownership interest, the acquisition of which is intended to be financed by the Eligible Loan; (iv) limitations on ownership interests in properties other than those in connection with which the Eligible Loan has been applied for. Thresholds also apply in respect of the value of a property intended to be acquired and to the amount of the Eligible Loan.

Eligible Loans may only be denominated in HUF. Where Eligible Loans are financed by a mortgage credit institution through the issuance of mortgage bonds, and the relevant mortgage bonds are denominated in a foreign currency, the interest subsidy is conditional on the mortgage credit institution entering into such a foreign exchange transaction that ensures that neither the government nor the borrower is exposed to foreign exchange risk.

In the event that the total amount of the provision for interest subsidy in respect of a given year is expected to exceed a HUF 3 billion threshold, the minister responsible for housing policy is obliged to initiate the suspension of any further applications submitted in that year for Eligible Loans.

Another element of the current housing subsidy regime is the stand-by guarantee provided by the state in relation to certain loans granted to young persons for the purposes of financing residential property in accordance with, and on the conditions set out in, order No 4/2005 (I. 12.) of the government.

The Hungarian government's interest subsidy regime represents a decreasingly important source of income for the Issuer.

## **The Hungarian real estate market in 2010<sup>3</sup>**

### ***Housing retail market in 2010***

Statistics of the real estate construction industry for 2010 reflected the effects of the economic crisis: production declined by 10.1 per cent., following a 4.3-per-cent. decrease in 2009. The downturn of production was even higher in the housing and related construction segment amounting to 35 per cent., as compared with the 11-per-cent. figure for 2009.

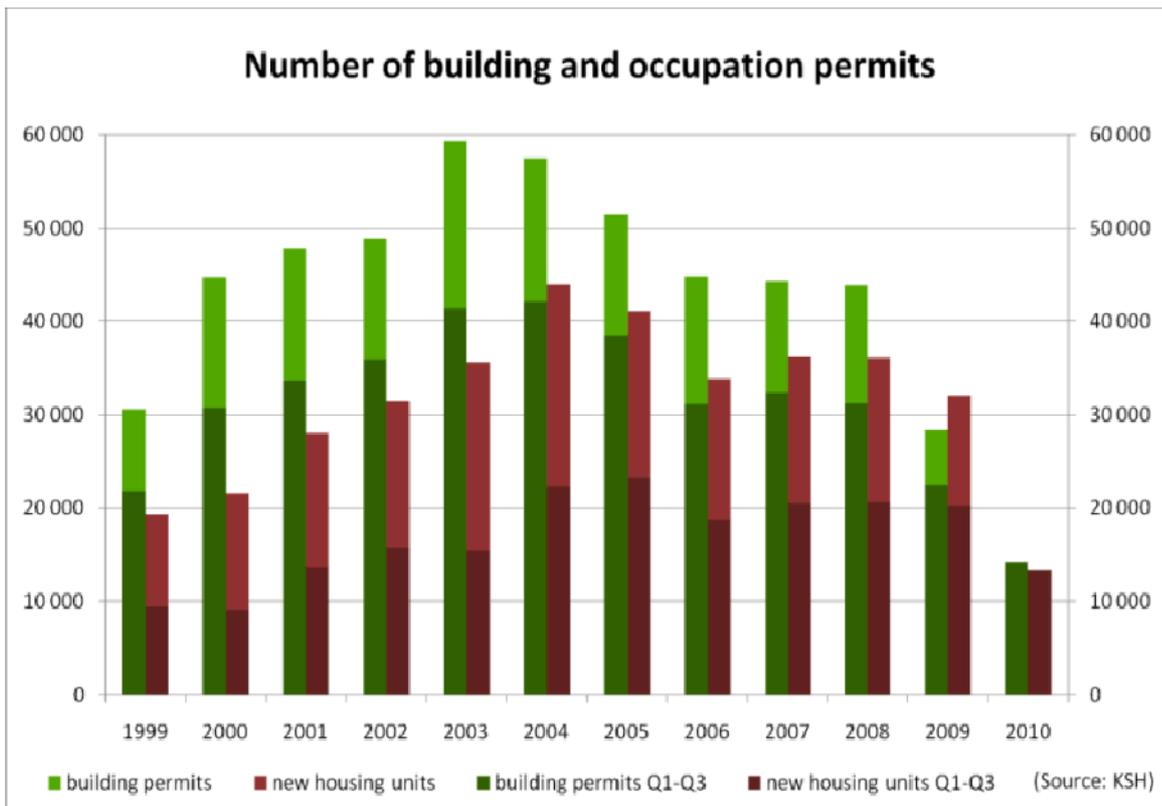
A decline in supply also started in 2010 in the Hungarian real estate market both in respect of newly built and second-hand housing units. The number of projects decreased significantly due to low demand and difficulties faced by developers in obtaining financing. The considerable decline in construction levels resulted in the number of newly built housing units remaining below 21,000, which exhibits such a low figure that was last recorded at the end of 1990's.

The number of housing units delivered in 2010 fell by 40 per cent. in Budapest, whilst the average decrease in respect of municipalities and towns with the status of counties ("*megyei jogú város*") was 35 per cent. Among newly constructed dwellings, 46 per cent. was represented by family houses, 38 per cent. was made up of homes built in multi-storey or multi-family houses, and 10 per cent. consisted of commonhold apartments in residential parks or blocks-of flats. In 2010, the proportion of family houses and new dwellings

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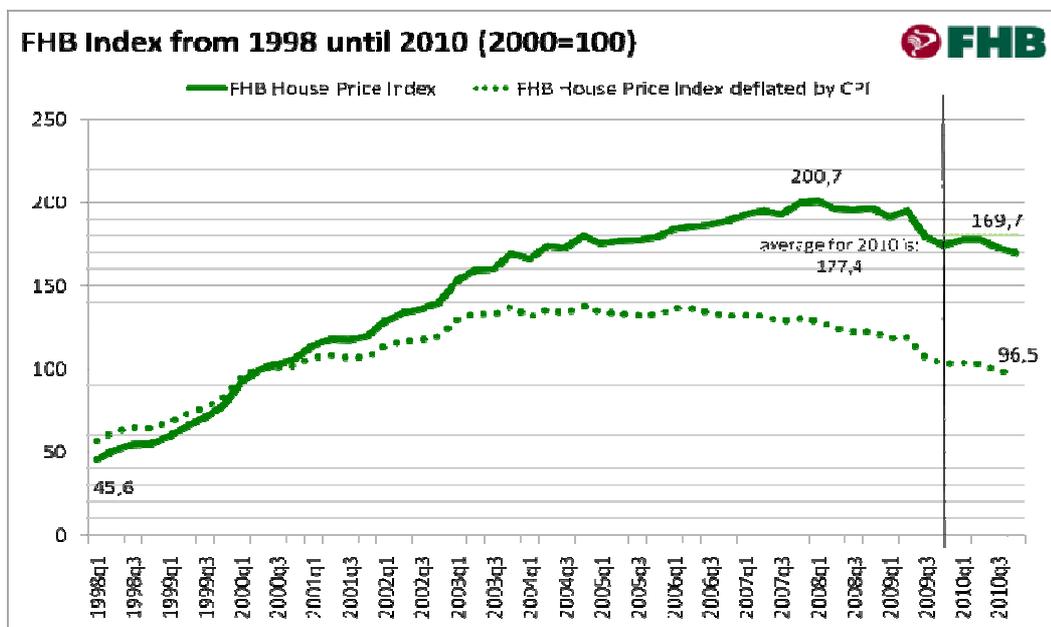
<sup>3</sup> The sources of the information provided in this chapter: (1) official statistics for 2009 and 2010 published by the Hungarian Central Statistics Office (KSH); (2) the annual and interim reports of the Issuer; and (3) the FHB House Price Index (FHB)

in residential parks increased by 3 per cent. and 1 per cent. year-on-year, respectively. The average floor area of dwellings built in 2010 was 92 m<sup>2</sup> in 2010, showing a 3-m<sup>2</sup> increase as compared with the figure for 2009.



The decline in house prices continued at a slower pace in 2010 as most of the effects of the economic crisis materialised in the third quarter of 2009. According to the FHB House Price Index<sup>4</sup>, house prices showed an average drop of 5.7 per cent. in 2010 as compared with the figure for 2009, representing a 9.2 per cent. decline in real terms. The number of property sales transactions in the Hungarian real estate market decreased in 2010 to 72,000 from the 2009 figure of 91,000 (the peak was in 2003 with over 270,000 transactions), sinking to the lowest level for the past decade. Such low transaction levels suggest that sellers have been reluctant to lower their prices.

<sup>4</sup> Data of the FHB House Price Index are published on a quarterly basis. For more information on the FHB House Price Index please see "Business Overview – FHB House Price Index" above.



On the basis of the GDP growth forecast of the National Bank of Hungary (the **NBH**) for 2011, which expects a GDP growth of 3 per cent. in the course of 2011, the expert group on the FHB House Price Index foresees a moderate increase in demand in the housing market in 2011. At the same time, a further decline is expected in the number of newly built housing units in 2011, although the number of newly issued building permissions is forecasted to start rising from the second half of 2011.

As a result of the moderately increasing demand and decreasing supply expected for 2011, the FHB House Price Index forecasts a moderate 2 per cent. increase in house prices in 2011 as compared with the figure for 2010. Adjusted for inflation projections, in real terms, this would mean that average house prices would stagnate on a year-on-year basis as compared with the second half of 2010. Turnover in the housing market is expected to move upwards from its 2010 level, although recovery to the pre-crisis levels is not expected yet due to weak supply and demand.

### ***Retail lending in 2010***

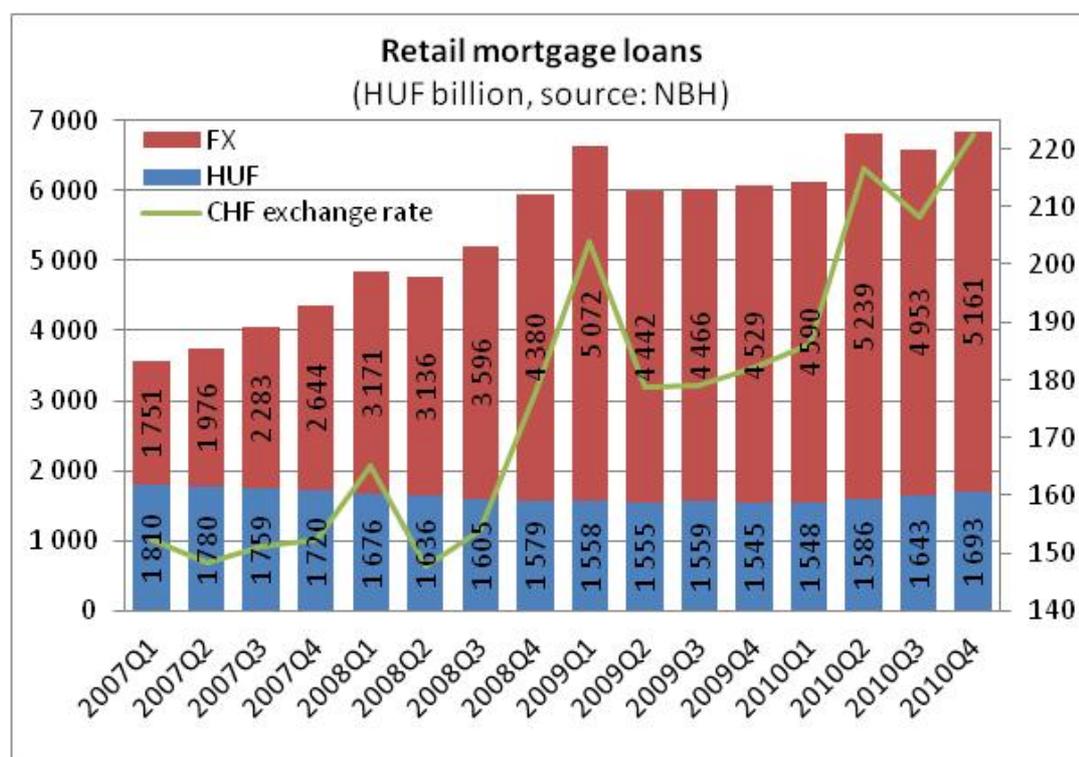
Almost all banks have responded to the financial crisis and the significant changes in the legislative environment by further tightening their mortgage lending policies.

On the demand side, aggregate demand for loans remained subdued, nevertheless, there was an important shift in the structure of demand towards HUF denominated loans. This was partly because of legislative restrictions imposed in respect of foreign-currency-denominated lending (see "*The Hungarian Banking System and Capital Markets - Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits*" below) and partly due to the rise in borrower awareness of foreign exchange rate risks and the resulting increase in their risk aversion. The share of HUF denominated loans in respect of new lending has, in turn, increased significantly and, by the end of 2010, foreign-currency-denominated lending was virtually discontinued.

The total amount of outstanding household debt increased significantly in the course of 2010 despite the fact that households' repayments consistently exceeded new borrowings.

According to the statistics published by the NBH, the total retail loan portfolio amounted to HUF 6,854 billion as at 31 December 2010, with the year-on-year growth figure being HUF 780 billion (representing 12.8 per cent.). In terms of volume, year-on-year growth was considerably higher than the growth of HUF 114.8 billion seen in 2009. Disregarding the impact of foreign exchange rate fluctuations, year-on-year decline in the total retail mortgage loan portfolio was HUF 222 billion as at 31 December 2010.

The aggregate amount of the foreign-currency-denominated loan portfolio increased by HUF 208 billion during the fourth quarter of 2010. The annual growth in the aggregate amount of the foreign-currency-denominated loan portfolio was also significant, amounting to HUF 487 billion (as compared with the HUF 148.6 billion as at 31 December 2009) primarily resulting from significant foreign exchange rate movements. At the same time, the aggregate amount of the HUF-denominated loan portfolio grew by HUF 148 billion as compared with the figure for the same period in 2009. At the end of 2010, the total amount of the foreign-currency-denominated retail mortgage loan portfolio was HUF 5,161 billion (representing 75.3 per cent. of the total retail mortgage loan portfolio), as opposed to the moderately increased level of HUF 1,693 billion in respect of HUF-denominated loans. The proportion of foreign-currency-denominated retail mortgage loans was 74.6 per cent. in the same period in 2009.



The total amount of the portfolio of housing loans granted to households was HUF 4,353 billion as at 2010, with a HUF 378 billion increase as compared with the figure for 2009. Year-on-year growth of HUF-denominated housing loans amounted to HUF 16 billion only, whilst the aggregate amount of foreign-

currency-denominated housing loans was CHF 0.8 billion down year-on-year (representing a HUF 187 billion year-on-year decrease as converted at the HUF/CHF exchange rate published by the NBH as of 31 December 2010).

The aggregate amount of general-purpose mortgage loans grew by HUF 402 billion year-on-year and amounted to HUF 2,500 billion as at 31 December 2010, with a growth of HUF 121 billion seen over the third quarter of 2010. Growth in respect of HUF-denominated general-purpose mortgage loans was over HUF 131 billion and, similarly to the housing loan portfolio, the aggregate amount of general-purpose mortgage loans, denominated in foreign currencies, was CHF 0.8 billion down year-on-year (representing a HUF-182-billion year-on-year decrease as converted at the HUF/CHF exchange rate published by the NBH as of 31 December 2010).

## THE HUNGARIAN BANKING SYSTEM AND CAPITAL MARKET

### Introduction

Hungary joined the European Union (the EU) on 1 May 2004. As a member state of the EU, Hungary has implemented the relevant EU legislation laying down the foundations for the legal framework for the financial services industry, including the main EU sectoral Directives together with their various implementing EU legislative measures and other EU legislative acts with a financial subject matter.

The Hungarian banking system comprises a vast array of financial service providers, including banks, specialised credit institutions, savings and credit co-operative credit institutions and financial enterprises. The past few years have seen further diversification on the supply side, in particular in the payments segment, through the emergence of payment institutions ("*pénzforgalmi intézmény*") and electronic money institutions ("*elektronikuspénz-kibocsátó intézmény*") as new types of service providers introduced by recent EU legislation.

### Financial supervision

#### *The European System of Financial Supervisors*

In the light of the financial crisis, having exposed important failures in financial supervision, a package of EU legislative acts on financial supervision has been recently adopted with a view to creating a new European financial supervisory architecture (the **European System of Financial Supervisors**), including three new European Supervisory Authorities (the **ESAs**) for the financial services sector: a European Banking Authority (the **EBA**), a European Insurance and Occupational Pensions Authority (the **EIOPA**) and a European Securities and Markets Authority (**ESMA**). The European System of Financial Supervisors consists of the European Systemic Risk Board (the **ESRB**), the ESAs, the national supervisory authorities (**NSAs**) and the Joint Committee of the ESAs.

The new comprehensive European supervisory framework is set out in Regulation (EU) No 1092/2010 on macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and the Omnibus I Directive (Directive 2010/78/EU of 24 November 2010) (together, the **Financial Supervision Package**).

The Financial Supervision Package confers important powers on the ESAs, including, *inter alia*, to:

- draw up specific rules for NSAs and financial institutions;
- develop technical standards, guidelines and recommendations;
- monitor how rules are being enforced by NSAs;
- take action in emergencies, including the banning of certain products;

- mediate and settle disputes between NSAs;
- ensure the consistent application of EU law; and
- mediate in certain situations and settle disagreements between NSAs, in particular in areas that require cooperation, coordination or joint decision-making by supervisory authorities from more than one Member State of the EU.

The ESAs are also entitled to address individual decisions directly to the relevant NSAs: (i) in the course of the settlement of a disagreement between the relevant NSAs arisen in relation to cross-border situations, where those NSAs fail to reach an agreement within the time limit set by the respective ESA for conciliation; and (ii) in emergency situations declared by the European Council. In addition, in circumstances where an NSA fails to apply the relevant directly applicable provisions of EU law or has applied such provisions in a way that appears to amount to a breach thereof, the ESAs are empowered to issue a recommendation directly to the NSA concerned as to the actions necessary for compliance. In exceptional circumstances and subject to further conditions, where the relevant NSA fails to take the actions required by the respective ESA in these cases, the ESA concerned may adopt decisions directly addressed to individual financial institutions as a last resort to ensure compliance with the requirements of the relevant EU legislation.

Furthermore, the Financial Supervision Package confers direct supervisory powers on ESMA over credit rating agencies established and registered in the EU, including powers to request information, launch investigations, and perform on-site inspections.

The ESRB is responsible for monitoring and assessing potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole. To this end, the ESRB provides an early warning of system-wide risks that may be building up and, where necessary, issue recommendations for action to deal with these risks.

The Joint Committee of the ESAs serves as a forum in which the ESAs cooperate regularly and closely to ensure cross-sectoral consistency, in particular with respect to: financial conglomerates, accounting and auditing issues, micro-prudential analyses of cross-sectoral developments, risks to, and vulnerabilities of, financial stability, and retail investment products.

### ***Supervision and regulation of the banking system at the national level***

Oversight of the Hungarian banking system is exercised by both the National Bank of Hungary (the **NBH**) and the Hungarian Financial Supervisory Authority (the **HFS**A).

#### ***National Bank of Hungary***

Act LVIII of 2001 on the National Bank of Hungary regulates the NBH and its current status in the system of European Central Banks. The NBH, in its capacity as the central bank, determines and implements Hungarian monetary policy and controls the volume of money in circulation through the traditional monetary policy instruments, including open market transactions, measures influencing interest rates and foreign exchange rates and the imposition of reserve requirements on financial institutions to hold a specified portion of their adjusted liabilities as reserve funds with the NBH. The NBH is also responsible for the management of the national foreign currency reserves.

The NBH may, at its discretion, act as a lender of last resort to assist credit institutions facing transitional liquidity problems, where such difficulties endanger the stability and smooth operation of the financial system, particularly in respect of payment functions. Any loan, granted by the NBH to a commercial bank in its "lender of last resort" capacity, constitutes an unguaranteed obligation on the part of that bank. Furthermore, the NBH may also provide liquidity to credit institutions in accordance with its monetary policy in effect from time to time, primarily through repo transactions. In addition, the NBH has ongoing consultations with banks, and holds on-site audits in its supervisory capacity.

In order to enhance the secure operation of the financial system, the NBH, in cooperation with the relevant authorities, supports the adoption and maintenance of an efficient policy on financial stability and the prudential supervision of credit institutions; in particular by identifying those economic risks, which endanger the stability of the financial system as a whole.

Further, the NBH has been designated as an "agency" for the purposes of the functions as set out in Section 1 of Article V of the Agreement of the International Monetary Fund.

The NBH reviews reports filed by banks and maintains a publicly available database on the Hungarian banking system. Furthermore, it continuously evaluates the status of, and publishes comprehensive information in relation to, the financial position and condition of Hungarian credit institutions as well as the Hungarian economy. The NBH also monitors compliance of credit institutions with the provisions of Act CXII of 1996 on credit institutions and financial enterprises (the **Credit Institutions Act**) and the orders issued by the Governor of the NBH (the **NBH Orders**).

#### *The European Central Bank and the National Bank of Hungary*

There is no official date indicated by the Hungarian government for Hungary to become a member of the Economic and Monetary Union (**EMU**). Prior to joining the EMU, Hungary needs to accede to the ERM-II system.

Hungary is presently at the second stage of the monetary integration, therefore it still retains the discretion to set its own monetary policy. Nevertheless, pursuant to the Treaty of Maastricht, it is bound to follow a strategy of convergence. The Governor of the NBH is a member of the Governing Council of the European Central Bank.

#### ***Hungarian Financial Supervisory Authority***

Since 1 April 2000, supervision of the banking sector has been carried out by the HFSA, which is the successor of the Hungarian Banking and Capital Market Supervisory Authority, the State Insurance Supervisory Authority and the State Pension Fund Supervisory Authority. The current regulation of the status, powers and organisation of the HFSA is set out in Act CLVIII of 2010 on the Hungarian Financial Supervisory Authority (the **HFSA Act**).

The HFSA is an independent state agency, accountable to Parliament, with national jurisdiction and exercises the statutory powers conferred on it by the HFSA Act. The HFSA is a member of the European System of Financial Supervisors.

The HFSA has been designated as "competent authority" for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies laying down conditions for issuing credit ratings and rules on the organisation and conduct of credit rating agencies to promote their independence and the avoidance of conflicts of interest.

The HFSA is headed by a president with the assistance of two vice presidents. The president of the HFSA is appointed by the President of Hungary on the nomination of the Prime Minister, whilst the vice presidents are appointed by the prime minister after proposal by the president of the HFSA. The efficient operation of the HFSA is supported by the Financial Stability Council (FSC). The FSC consists of the president of the NBH, the president of the HFSA and the minister responsible for the regulation of the financial markets. The presidency of the FSC is held by its members on the basis of annual rotation.

The HFSA holds wide-ranging powers under the Credit Institutions Act, Act CXXXVIII of 2007 on investment firms and commodity service providers and on the rules of their activities (the **Investment Firms Act**), the HFSA Act and Act CXX of 2001 on capital markets (the **Capital Markets Act**) to license and supervise the operation of credit institutions. The responsibilities of supervising banks and other credit institutions have largely been transferred to the HFSA, with the NBH retaining a more limited supervisory role (mainly related to the circulation of the national currency and the operation of the payment system).

As from 1 January 2006, the supervisory role of the HFSA has been harmonised with the relevant EU Directives with regard to insider dealing and market manipulation.

The HFSA is entitled to launch site audits, to take action in the interest of ensuring compliance with the Credit Institutions Act and to initiate proceedings where non-compliance has been detected. The HFSA is obliged to conduct comprehensive inspections, including on-site audits every three years, at banks, specialised credit institutions, insurance companies and reinsurers. The HFSA and the NBH co-operate in performing financial supervision. Accordingly, licensing by the HFSA of certain financial services requires a preliminary opinion from, or approval by, the NBH.

The HFSA can implement a variety of measures to eliminate deficiencies and irregularities detected at financial institutions engaged in lending: from notification and enforcement of mandatory decisions, restrictions or bans on certain functions of the offending institution and appointment of a supervisory officer (as described below), to the ultimate measure of withdrawing the financial institution's operating licence. Apart from the above administrative powers, the HFSA may also, as an exceptional measure, impose a fine for any of the following: infringement of legal regulations or NBH Orders pertaining to financial services and supplementary financial services; failure to comply with the Credit Institutions Act, HFSA decisions, internal rules and regulations of the supervised institutions; or for the late or insufficient compliance with the above. The maximum limit for such fines is the higher of either HUF 2 billion, or 200 per cent. of the annual supervision fee determined for the institution concerned.

The HFSA is obliged to appoint a supervisory officer upon the occurrence of any of the following events:

- 1) the solvency capital of the credit institution does not reach the mandatory level prescribed by law and
  - 1.1 the board of directors does not convene a shareholders' meeting when requested by the HFSA; or

- 1.2 the owner or the third country credit institution is unable, or unwilling, to restore the solvency capital or the own equity of the credit institution to the mandatory level prescribed by law or to the level imposed by the HFSA; or
  - 1.3 the credit institution fails to execute the restoration plan approved by the HFSA, or does so with significant delay or deviation; or
- 2) the solvency capital of the credit institution falls below 50 per cent. of the mandatory capital level, regardless of whether or not the above conditions are met; or
  - 3) the competent authority, supervising the parent company of the credit institution, notifies the HFSA of the occurrence of a crisis situation which jeopardises or endangers the financial stability of the parent company.

Nevertheless, there remain cases where the HFSA may exercise discretion as to the appointment of a supervisory officer. Such cases are where the (i) credit institution is in a situation where there is a chance that it may be unable to comply with its obligations, (ii) board of directors at the credit institution cannot perform its duties and this endangers the interests of the depositors, (iii) deficiencies revealed in the accounting and internal audit systems of the credit institution are so extensive that assessment of the real financial position of the credit institution has become impossible.

Upon the appointment of a supervisory officer becoming effective, the exercise of the rights and powers of the management of the relevant credit institution is delegated by virtue of law to that supervisory officer.

Furthermore, the HFSA is empowered to impose a ban or restriction on, or conditions for, the provision of financial services or the conclusion of such transactions by the credit institution involved for a maximum 90-day period, where significant risks arise that the continued performance of the activities concerned would endanger the stability of the financial system, and where such concerns may not be eliminated through other measures. This power is exercisable by legislative order issued by the president of the HFSA.

The HFSA Act confers a power on the president of the HFSA to make delegated legislation exercisable by order. Such power, however, is strictly limited to the subject matters set out in the HFSA Act and in acts regulating the different sectors of the Hungarian financial industry, such as detailed rules on the disclosure and reporting obligations of regulated entities, internal controlling procedures etc. Further, orders foreseen to be issued by the president of the HFSA may not be in contradiction to, and may not derogate from, acts of Parliament, orders of the government or NBH Orders.

The HFSA Act has also implemented, with effect from 1 January 2011, the provisions of CRD2 (as defined below) on colleges of supervisors, which sets out the cooperation of the supervisory authorities of the relevant EU member states in relation to the supervision of cross-border banking groups on a consolidated basis, and regulates the functions to be performed by the HFSA in its capacity as consolidating supervisor.

### **Main elements of the Hungarian banking regulations**

The current regulatory framework for the Hungarian banking system is primarily set out in the Credit Institutions Act, the Capital Markets Act and the Investment Firms Act, which transposed the relevant EU legislation into Hungarian law, including, *inter alia*, the CRD (as defined below), Directive 2004/39/EC on markets in financial instruments (the **MiFID**), the provisions of Directive 2007/64/EC of 13 November 2007

on payment services in the internal market (the **PSD**) on payment institutions and Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions (the **Electronic Money Institutions Directive**). Peculiar provisions applicable to specialised credit institutions, such as mortgage credit institutions, are set out in specific acts, including Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (the **Mortgage Credit Institution Act**). In addition, specific rules not regulated in detail under these acts are elaborated in government orders, orders of the governor of the NBH, orders issued by the minister responsible for the regulation of the financial markets, or orders of the president of the HFSA.

### ***Capital Adequacy***

#### *Basel III*

At its meeting held on 8 and 9 December 2009, the Basel Committee on Banking Supervision (the **BCBS**) approved a reform package (commonly referred to as **Basel III**) consisting of two proposals regarding capital (**Capital Proposal**) and liquidity (**Liquidity Proposal**).

The Capital Proposal sets out new standards on minimum tier-1 capital, the composition of the capital base, rules on counterparty risk, a leverage ratio and concepts for countercyclical capital buffers. A new "predominant form of tier-1 capital" consisting of common shares and retained earnings is to be established which will need to amount to a certain percentage (to be defined after an impact study) of the overall tier-1 capital.

The Liquidity Proposal introduces two new ratios for liquidity requirements: a short-term liquidity funding ratio and a long-term net stable funding ratio. The short-term liquidity funding ratio should ensure sufficient resources to survive an acute stress scenario (to be determined by regulators based on the actual events of the recent crisis) lasting for one month. Furthermore, the proposal foresees that the stock of high quality liquid assets must be greater than the net cash outflows over the 30-day period.

The Capital Proposal and the Liquidity Proposal have been reviewed by the Group of Governors and Heads of Supervision, the oversight body of the BCBS, to increase the quality, quantity, and international consistency of capital, to strengthen liquidity standards, to discourage excessive leverage and risk taking, and to reduce procyclicality. At its 12 September 2010 meeting, the Group of Governors and Heads of Supervision announced higher global capital standards on the footing of the broad agreement reached on 26 July 2010 on the overall design of the capital and liquidity reform package.

The BCBS's package of reforms will, *inter alia*, increase the minimum common equity requirement from 2 per cent. to 4.5 per cent.. In addition, banks will be required to hold a capital conservation buffer of 2.5 per cent. to withstand future periods of stress bringing the total common equity requirements to 7 per cent.. This reinforces the stronger definition of capital agreed on 26 July 2010 and the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011.

#### *EU legislation*

As regards the EU, the current EU framework for regulatory capital is primarily set out in the Capital Requirement Directive (the **CRD**), comprising two (amended) Directives, the recast 2006/49/EC Directive on the capital adequacy of investment firms and credit institutions, and the recast 2006/48/EC Directive on the taking up and pursuit of the business of credit institutions. The CRD aims to ensure the soundness and

stability of credit institutions and certain investment firms, on the basis of the three-pillar structure of the Basel II (Revised) Capital Framework.

Since its coming into force, various packages of changes have been adopted and further amendments are being proposed to the CRD by the European Commission.

As part of the ongoing process of revision that was already underway, and also as a response to the credit crisis, Directive 2009/111/EC and Commission Directive 2009/83/EC were adopted in 2009, known as the "CRD2" package (the **CRD2**).

Amongst other things, CRD2 introduced more stringent requirements to improve the:

- (i) quality of banks' capital by establishing EU-wide criteria for assessing the eligibility of 'hybrid' capital to be counted as part of a bank's overall capital;
- (ii) management of large exposures by restricting a bank's lending beyond a certain limit to any one party;
- (iii) risk management of securitisation, including a requirement to ensure that a bank does not invest in a securitisation unless the originator retains an economic interest;
- (iv) liquidity risk management; and
- (v) supervision of cross-border banking groups.

The deadline for establishing the necessary national laws, regulations and administrative provisions required for compliance with CRD2 was 31 October 2010, to be applied from 31 December 2010.

2010 saw further amendments to the CRD through the adoption of Directive 2010/76/EU amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations and the supervisory review of remuneration policies, known as the CRD3 package (the **CRD3**), to be transposed into national laws by 1 January 2011.

The modifications set out in CRD3, reflecting international developments and building on the agreements reached by the BCBS, include: (i) higher capital requirements for re-securitisations to ensure that banks take proper account of the risks of investing in such complex financial products; (ii) upgrading disclosure standards for securitisation exposures; (iii) strengthening capital requirements for the trading book; and (iv) imposing a tightened regime on the remuneration policies of credit institutions.

It is envisaged that in the near future the European Commission will publish a legislative proposal on additional amendments to the CRD (the **CRD4**). The possible changes foreseen by CRD4 are closely aligned with the amendments to the Basel II framework and the introduction of a global liquidity standard drawn up by the BCBS.

Further, CRD4 strives to (i) strengthen, harmonise and simplify the definition of capital; (ii) specify explicit minimum capital limits; and (iii) enhance disclosure requirements in respect of capital.

In addition, the latest proposal package suggests the introduction of certain countercyclical measures, consisting of through-the-cycle provisioning for expected credit losses and application of appropriate capital buffers with the cyclicity of minimum requirements.

Should CRD4 lead to the adoption of further EU legislation, further tightening can be expected with regard to the EU capital adequacy regime.

#### *Implementation of the relevant EU legislation by Hungary*

The capital adequacy requirements set out in the CRD, as amended by CRD2 and CRD3, have been transposed into Hungarian law through various amendments to the Credit Institutions Act and orders issued by the government and the minister responsible for the regulation of the financial markets.

Pursuant to the amended Credit Institutions Act, banks must maintain a registered capital of at least HUF 2 billion (approximately EUR 7.34 million). The minimum registered capital requirement amounts to at least HUF 3 billion (approximately EUR 11 million) for mortgage credit institutions as a type of specialist credit institutions. The amount of a credit institution's equity may not be less than the statutory minimum amount of its registered capital. In the event of the amount of a credit institution's equity falling below the registered capital, the HFSA may afford the credit institution a maximum of 18-month deadline to bring its equity to the required level.

In order to maintain its solvency and ability to satisfy its liabilities, a credit institution must at all times maintain solvency capital adequate to cover the risk of the financial and investment activities in which it engages.

The solvency capital must be at all times equal to, or above, the sum of:

- (i) 8 per cent. of its total risk weighted exposure, calculated in accordance with the relevant provisions of the Credit Institutions Act, for its credit risk;
- (ii) the capital requirement for its dilution risk;
- (iii) the capital requirement for counterparty credit risk in relation to items booked in, and out of, its trading book;
- (iv) the capital charge for position risk and large exposures in its trading book;
- (v) the capital charge for foreign exchange and commodities risk throughout all of its business activities; and
- (vi) the capital requirement for operational risk inherent in all of its business lines,

which may not in any event be less than the minimum amount of its registered capital.

The amended Credit Institutions Act provides for two broad methodologies to quantify a bank's risk-weighted exposure: the Standardised Method and the Internal Ratings Based Approach (the **IRB Approach**). The Standardised Method enables the credit institution to measure its risks in a standardised manner on the basis of the principles laid down in the Credit Institutions Act. Pursuant to this method, each exposure must be categorised into an exposure class, linked to the respective risk category. Alternatively, the IRB Approach, subject to the explicit approval of HFSA, allows banks to use their internal rating systems. In relation to the IRB Approach, the HFSA has already issued its own validation hand-book ("*PSZÁF Validációs Kézikönyv*").

### *Trading Book*

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price movements or to lock in arbitrage profits; including proprietary positions, positions arising from client servicing and market making. To be eligible for trading book capital treatment, financial instruments must be either free of any restrictive covenants on their tradability or capable of being hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

In order to ascertain a credit institution's capital requirements in respect of positions booked in the trading book, there must be clearly defined policies and procedures in place in order to determine which exposures to include in, and to exclude from, the trading book. Systems and control mechanisms must be sufficient to provide prudent and reliable valuation estimates.

The regulation of credit institutions' trading activities and the trading book are set out in the Investment Firms Act and the relating government orders (implementing MiFID and the relevant provisions of CRD).

### *General Reserves*

A credit institution must create general reserves against the possibility of losses not yet identified by setting aside 10 per cent. of its profit after tax prior to paying dividends or shares. The funds so set aside may be used only to offset the losses incurred by the credit institution from its business activities. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves provided that the amount of the credit institution's solvency capital is at least equal to 150 per cent. of the minimal amount of solvency capital as set out in paragraphs (1)-(2) of Section 76 of the Credit Institutions Act and if it has no negative profit reserves.)

### *Regulation on transactions*

In addition to the provisions on capital adequacy, the Credit Institutions Act imposes other requirements and restrictions on credit institutions, including reporting obligations and liquidity requirements, and contains limitations on large exposures and exposures related to the acquisition of ownership in companies and real estate, as well as other forms of investment restrictions. For example, the aggregate amount of the exposure of a credit institution from claims secured by real estate may not exceed 70 per cent. of the total market value of the real estate properties serving as collateral for such claims. The Credit Institutions Act also sets out requirements as to the fitness, probity and competence of the credit institutions' personnel.

### **Consumer protection legislation in the financial sector**

Recent Hungarian legislation, aimed at enhancing the protection of consumers in financial markets, relates partly to the implementation of Directive 2008/48/EC (the **Consumer Credit Directive**), partly to further narrowing the scope for unilateral amendments by credit institutions in respect of consumer credit agreements, and partly to other restrictions with a view to protecting the weaker party.

The Consumer Credit Directive has been implemented into Hungarian law by Act CLXII of 2009 on consumer credit (the **Consumer Credit Act**) and No. 361/2009 (XII. 30.) order of the government on the requirements of prudent residential lending and on the assessment of creditworthiness (the **Consumer**

**Credit Order**). The Consumer Credit Act, *inter alia*, confers two essential rights on consumers as foreseen by the Consumer Credit Directive: (i) they are allowed to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract; and (ii) they are entitled to prepayments or early repayment at any time, with limitations on creditors' rights to compensation for the losses incurred because of the prepayment by the consumer.

It is necessary to highlight however that the Consumer Credit Act goes beyond the EU requirements, as a number of its strict provisions also apply to mortgage-backed loans and financial lease agreements, which are excluded from the scope of the Consumer Credit Directive.

The most important implications for mortgage-backed loans arise in respect of prepayments and the assessment of creditworthiness.

As regards prepayments, the Consumer Credit Act imposes significant limitations on, and conditions for, a credit institution recovering its losses, stemming from the consumer borrower repaying the loan, in whole or in part, earlier than its scheduled maturity.

In the event of a prepayment made by a relevant borrower in respect of a consumer mortgage-backed loan, the credit institution is entitled to compensation for the costs deriving from the borrower's prepayment. Such compensation however is capped at (i) 2 per cent. of the prepaid amount; or (ii) 2.5 per cent. of the same in the case of consumer loans funded by mortgage bonds, including loans refinanced by mortgage credit institutions, where the prepayment falls within a period for which the interest rate is fixed, or within the interest rate bracket in respect of loans with a floating rate. The types of creditor compensation in (i) and (ii) above may not be claimed in respect of any consumer mortgage loan agreements: (a) in the event that the prepayment has been made under an insurance contract intended to provide a guarantee for the repayment obligations under the respective credit agreement; or (b) where the consumer borrower has fully discharged his/her obligations under his/her mortgage loan agreement by the prepayment, if the outstanding amount so repaid did not exceed HUF 1 million and no prepayment was made within the preceding 12 months.

Regulations in respect of housing loans granted to consumers have been further tightened by Act XCVI of 2010 (the **Residential Loan Restrictions Act**). The Residential Loan Restrictions Act, *inter alia*, caps the compensation in (i) and (ii) above at 1 per cent. and 1.5 per cent., respectively, in the case of housing mortgage loans (as defined therein) granted to consumers, except where prepayments are made through a refinancing loan provided by a credit institution other than that having made the original loan. The Residential Loan Restrictions Act also envisages broadening the events for which compensation for costs arising from prepayments may not be claimed. The provisions of the Residential Loan Restrictions Act also apply to prepayments made in respect of housing mortgage loans existing at the time of the Residential Loan Restrictions Act coming into force following a 15-day transitional period.

In addition, the Residential Loan Restrictions Act provides consumer borrowers that are over 90 days late on payments under their housing mortgage loans with the possibility of applying for the extension of the relevant housing mortgage loan by a maximum period of five years. Such applications may be made once only during the term of the relevant housing mortgage loan and may not be refused by the respective creditors without good cause.

### ***Requirements on credit rating in respect of residential loans***

The provisions set out in the Consumer Credit Order apply to credits (as defined in the Credit Institutions Act) and financial lease agreements granted to, and/or entered into with, natural persons in the territory of Hungary by financial, or payment institutions (as also defined in the Credit Institutions Act respectively) in the course of their lending activity.

Certain types of credit agreements are excluded from the scope of the Consumer Credit Order.

Further, the provisions of the Consumer Credit Order do not apply to those credits provided to refinance a natural-person borrower's debts, existing at the time of the Consumer Credit Order coming into force, by a creditor other than that having made the original loan being refinanced, insofar as such a transaction does not lead to an increase in the total amount of the borrower's indebtedness, existing at the time of the refinancing credit under the original loans, and the new credit is (i) denominated in HUF or EUR, or made as a EUR-based loan, where the credit was originally disbursed as a EUR-denominated or EUR-based loan, or a loan denominated in a currency other than HUF or EUR; or (ii) denominated in HUF if the credit was initially denominated in HUF. Limitations set out in the Consumer Credit Order on the amount of repayment instalments under foreign currency denominated loans and the requirements on the internal credit rating policies of creditors, however, will be applicable also to such transactions.

The new regime imposes caps on the extent of exposure which can be assumed by creditors (as measured at the time of the approval of the application for the respective credit) in respect of loans secured by a mortgage on real estate or financial lease agreements, with the maximum amount depending on the currency in which the loan and/or the financial lease is denominated. In the case of loans backed by a mortgage on real estate, the following limits apply, calculated on the basis of the market value of the property subject to that mortgage at the time of the approval of the application for the respective loan agreement or on completion of the construction in respect of properties under development: (i) 75 per cent. with regard to HUF-denominated loans, (ii) 60 per cent. in respect of EUR-denominated or EUR-based loans, and (iii) 45 per cent. as to loans denominated in currencies other than EUR (including CHF credits). The maximum amounts regarding financial lease agreements are 80 per cent., 65 per cent. and 50 per cent., respectively.

The requirements described above, are not applicable to loans granted to finance residential property, which are guaranteed by the state.

### ***Provisions on internal credit rating procedures***

The Consumer Credit Order sets out tightened requirements on the internal credit rating procedures of creditors. The new provisions, *inter alia*, prevent creditors from providing any credit to natural persons solely on the basis of the collateral, offered as security for the loan, and impose an obligation on them to assess the creditworthiness of the natural-person borrowers in each and every case.

Creditors falling under the scope of the Consumer Credit Order are obliged to adopt internal rules and regulations on credit rating, especially in relation to determining procedures and methods for the establishment of credit limits for natural-person borrowers, representing the maximum amount (calculated in HUF) of the repayment obligations that they are expected to be able to fulfil on a monthly basis in the light of their credit rating.

The calculation of such limits have to be based on the income of the natural person borrowers and their households, and must also take into account all known debts of such borrowers, including those existing against the creditor concerned and those owed to other financial or payment institutions. The instalments to be paid monthly may not exceed a certain proportion of the established credit limits (as at the time of the approval of the application for the respective credit), which is (i) 100 per cent. in the case of HUF-denominated, (ii) 80 per cent. with regard to EUR-denominated or EUR-based credits, and (iii) 60 per cent. in respect of loans denominated in currencies other than EUR. It is worth noting that the aforementioned ratios in respect of loans with foreign-currency denomination (see (ii) and (iii) above) will not apply where the natural person borrower has a regular income in the same currency as that of the loan for which they have applied, insofar as such income reaches the total amount of all of this borrower's monthly repayment obligations denominated in any currencies.

Furthermore, creditors must provide natural-person borrowers, before the assessment of their creditworthiness, with the guidance published on the websites of the NBH and HFSA on the risks associated with excessive indebtedness.

### ***Tightened regime for the calculation and disclosure of the APR***

As regards the calculation and disclosure of the annual percentage rate of charge (the **APR**), No 83/2010 (III. 25.) order of the government on the determination, calculation and disclosure of the annual percentage rate of charge (the **APR Order**), implementing the relevant provisions of the Credit Consumer Directive also takes Hungary beyond the content of EU standards. As opposed to the Consumer Credit Directive, the scope of the more stringent APR regime also covers loans secured by a mortgage on property which are to be granted to consumer borrowers (as defined in the Consumer Credit Act) within the territory of Hungary. The APR Order, *inter alia*, significantly broadens the scope of those expenses which must be included in the total cost of credit also in respect of such loans.

### ***Restrictions on unilateral amendments effected by credit institutions***

The past few years have seen various restrictions being introduced on the rights of financial institutions to effect unilateral amendments to existing loan agreements and financial lease agreements entered into between credit institutions and retail customers. The right of credit institutions to unilaterally amend the terms and conditions of existing customer agreements to the detriment of clients is limited to interest rates, costs or fees and is also subject to further conditions on the part of the relevant credit institution. Where the relevant borrower is not regarded as a retail customer, unilateral amendments to the detriment of the client by credit institutions are made conditional upon the respective agreement providing for such a possibility.

The Residential Loan Restrictions Act imposes further limitations on the scope for unilateral amendments by financial institutions (including credit institutions) in respect of housing loans granted to, and housing financial lease agreements concluded with, consumers (together, the **Housing Financing Agreements**). The Residential Loan Restrictions Act would permit unilateral amendments to the detriment of consumers only with respect to the interest payable under Housing Financing Agreements and on the conditions to be set out in an order of the government, where such amendments are required by certain changes in the base interest rates, refinancing interest rates, interest payable on term-deposits taken by the relevant credit institution, financial market indices, credit exposure or the regulatory environment. In addition, in circumstances where such changes allow for a reduction of the interest payable under the relevant Housing Financing Agreements, financial institutions are obliged to pass the benefits therefrom onto the respective borrowers through

reducing the interest payable by them accordingly. The provisions of the Residential Loan Restrictions Act also apply to housing loans granted to, and housing financial lease agreements concluded with, consumers which exist at the time of the Residential Loan Restrictions Act coming into force.

### ***Other restrictions***

The Credit Institutions Act imposes certain restrictions on taking security interests in relation to credit agreements concluded with consumers. Credit agreements concluded with consumers, which provide the financial institution with a right of option to purchase for security purposes in respect of residential property are rendered null and void in so far as the consumer obligor habitually lives in the so pledged property.

## **Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis**

### **I. Financial measures**

In response to the global financial crisis, the NBH adopted the following main measures to enhance the stability of the Hungarian banking and financial system:

#### ***Close link exemption***

Pursuant to the amendment of the General Terms of Business of the NBH in respect of HUF and FX markets transactions, the NBH accepts as collateral mortgage bonds issued by any entity having a close link to the respective counterparty for the relevant transaction with the NBH. On that basis, the NBH has harmonised its approach to the close link rule with that of the European Central Bank (the **ECB**).

#### ***Provision of euro liquidity through O/N FX-swap tenders***

On the basis of an agreement between the NBH and the ECB, by which the ECB provides a credit facility of up to EUR 5 billion to the NBH through repurchase transactions in order to support the NBH's instruments for facilitating euro liquidity, the NBH introduced an overnight FX swap facility providing euro liquidity. The facility is available for those domestic credit institutions that are members of the VIBER or the BKR payment clearing and settlement system and subject to the NBH's reserve requirements.<sup>5</sup>

#### ***Measures adopted to enhance liquidity of the government debt securities market***

The NBH concluded an agreement with the "Primary Dealers" in government securities on 16 October 2008, under which the Primary Dealers have undertaken to provide continuous market making for government securities denominated in HUF in order to reduce yield volatility and improve market transparency.<sup>6</sup>

#### ***The introduction of two credit facility tenders by the NBH***

In support of the liquidity management of credit institutions, the NBH introduced a two-week, collateralised credit facility tender with a fixed interest rate of 25 basis points above the NBH base rate and is available once a week for all credit institutions meeting the technical requirements set by the NBH until withdrawal.

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<sup>5</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

<sup>6</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

### ***Enhanced deposit insurance***

In response to the financial crisis, the guarantee provided by the National Deposit Insurance Fund ("*Országos Betétbiztosítási Alap*") (the **Fund**) on so called "registered" ("*névre szóló*") bank account deposits (as defined in the Credit Institutions Act) placed with the domestic credit institutions (being members of the Fund) was extended to an aggregate amount of EUR 50,000 per person in accordance with Act XLI of 2009 which came into force on 30 June 2009.

With effect from 1 January 2011, such aggregate coverage was further extended to EUR 100,000 per depositor.

### ***Extension of the range of eligible counterparties and eligible collateral***

From 2 February 2009, the NBH extended the range of counterparties eligible to participate in its six-month, floating rate collateralised credit facility tenders to include an identical range of counterparties for this tender as for the O/N collateralised credit facility. Eligible counterparties shall be direct members of VIBER or BKR and shall also have a securities account maintained with KELER (**Central Clearing House and Depository**).<sup>7</sup> In addition, as from 20 February 2009, the NBH also accepts municipality bonds as collateral.

<sup>8</sup>

## **II. Legislative measures**

### ***Financial Stabilisation Act***

The main legislative step in respect of financial stabilisation was the enactment of Act CIV of 2008 *on enhancing the stability of the financial system* (the **Financial Stabilisation Act**).

The Financial Stabilisation Act introduced certain stabilisation measures which could be applied to credit institutions having their registered seat in Hungary.

### ***Recapitalisation***

The main measure under the Financial Stabilisation Act was recapitalisation, which could be employed on the joint recommendation of the president of the HFSA and the governor of the NBH to inject new capital in the credit institution (i) upon the request or with the approval of the credit institution or (ii) *ex officio*, without the approval of the credit institution. If the recapitalisation is carried out at the request or with the approval of the credit institution, then the credit institution concerned was to (i) issue non-voting "dividend preference share(s)" and "voting preference share(s) with special veto right" to the Hungarian State and (ii) conclude an agreement with the Hungarian State providing for, amongst other things, the nominal value and the issue value of these two classes of preferential shares, the right of the Hungarian State to delegate board members, limitations on the remuneration of the senior officers of the credit institution until the ownership of the Hungarian State ceases, the detailed rules on exercising the put option and the call option by the respective parties (as indicated below). Upon issuance and for a period of five years from the date thereof, a call option exercisable by the relevant credit institution and a put option exercisable by the Hungarian State are attached by statute to the dividend preference share(s). The Hungarian State cannot otherwise sell these shares. The voting preference share with special veto right may only be issued to the Hungarian State. It does

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<sup>7</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

<sup>8</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

not entitle the holder to dividends, but it provides for a veto right at the shareholders' meeting with respect to resolutions: (i) on the payment of dividends, (ii) which are subject to the approval of the majority of holders' of the voting preference share class(es) and (iii) which may only be passed with 75 per cent. majority vote. Veto rights may not be exercised against certain types of resolutions detailed in the Financial Stabilisation Act.

#### *Right of ownership control*

The Financial Stabilisation Act also provides for another measure which could be used by the Hungarian State in the event that a credit institution failed to meet certain financial requirements specified by the Financial Stabilisation Act. In such case the government could declare by legislative order that the relevant credit institution met one or more of the criteria for the application of this special measure (if the criteria are no longer met, then the government must repeal such order). The credit institution concerned has the right to challenge such order, if issued, before the Metropolitan High Court). During the effective period of such government order, the Hungarian State is solely entitled to pass resolutions regarding matters normally falling into the competence of the shareholders' meeting of the relevant credit institution. For a period of 120 days from the effective date of the relevant government order, the shareholders of the relevant credit institution have a put option against the Hungarian State on their shares in that credit institution.

The Hungarian State was empowered to adopt any of the measures under the Financial Stabilisation Act until 30 December 2010, except for any decisions of the minister responsible for public finances on the exercise of the statutory put option with respect to the dividend preference shares referred to above.

#### ***On-demand state guarantee on a bridge loan relating to housing loans***

To mitigate the effects of the economic crisis, the government introduced certain measures in 2009 to ease loan repayment.

Pursuant to Act IV of 2009 on the on-demand state guarantee on housing loans (the **Guarantee Act**) (as amended by Act CXIV of 2009 and Act CLVIII of 2010) the Hungarian State undertook, with effect from 28 July 2009, an on-demand guarantee (the **Guarantee**) financed by the central budget of the Hungarian State in respect of certain bridging loans (the **Eligible Loans**) provided by credit institutions to those natural persons (the **Eligible Persons**), who, among other things:

- (i) have become unemployed after 30 September 2008 (the **Unemployed Eligible Persons**); or
- (ii) alternatively, have not become unemployed, but have certified that the altered financial position of their households temporarily does not enable them to duly repay the housing loans they have obtained (the **Other Eligible Persons**)

and in each case are able to effect certain limited regular payments at a later date, and fulfil further specific eligibility criteria set out in the Guarantee Act.

The Guarantee covers the payments of principal and interest payable on the Eligible Loans up to (a) 80 per cent. in the case of the Unemployed Eligible Persons; or (b) 70 per cent. with respect to the Other Eligible Persons.

Eligible Persons could apply for an Eligible Loan until 30 June 2011.

### ***Limitations in respect of foreign currency credits***

Recently, the Hungarian government has announced a package of measures aimed at enhancing financial stability. As part of that package, Parliament has adopted Act XC of 2010 on enacting and amending certain acts with economic and financial subject matter (the **Act of Parliament**).

In order to alleviate the widespread borrower default on residential mortgage loans, which has resulted from significantly heavier and excessive debt servicing burdens arising from the significant volatility of HUF as against other currencies in recent periods, the Act of Parliament has introduced certain restrictions in relation to mortgage loans granted to retail borrowers.

The Act of Parliament, *inter alia*, imposes a prohibition on creditors (including credit institutions and financial enterprises) from taking security interests in the form of a mortgage over real estate owned by natural persons with respect to loans denominated in, or based on, a currency other than HUF, in so far as the respective borrower is a retail customer (excluding individual entrepreneurs).

Further, the Residential Loan Restrictions Act envisages certain restrictions on the conversion rates that may be applied by financial institutions in relation to housing loans granted to, and housing financial lease agreements concluded with, consumers, where such loans or the financing provided under such financial lease agreements are accounted, or have been disbursed, in a foreign currency with repayments denominated, and to be fulfilled, in HUF. The provisions of the Residential Loan Restrictions Act also apply to payments of principal and interest as well as any charge, fee, commission and cost effected in respect of housing loans granted to, and housing financial lease agreements concluded with, consumers, which exist at the time of the Residential Loan Restrictions Act coming into force, following a 15-day transitional period.

### ***Moratorium on evictions and transitional restrictions on enforcement sales outside court enforcement***

Under the statutory moratorium recently introduced in Hungary, evictions sought in connection with housing loans or mortgages or suretyships securing such loans must, subject to further conditions, be postponed to the period following 1 July 2011 where the obligor is a natural person. In these circumstances, evictions may not be effected during the period of the statutory moratorium also in respect of enforcement proceedings simultaneously sought against the obligor to recover other claims insofar as the total amount of such other claims does not exceed a HUF 150,000 threshold. The Hungarian government has imposed transitional restrictions also on enforcement sales and auctions where the realisation of a mortgage interest in real estate is taking place outside court enforcement under the agreement of the respective lender and borrower in respect of a property in which the relevant obligor has his habitual residence. During a transitional period ending on 1 July 2011, such enforcement sales are conditional on the consent of that obligor to be given in person before the competent tax authority.

### ***Special "bank tax"***

Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010 and 2011 (the **Extra Tax**). In the case of credit institutions, the tax basis is the adjusted balance sheet total, as at 31 December 2009 (the **Tax Basis**). The Extra Tax is levied at 0.15 per cent. of the Tax Basis up to HUF 50 billion, whilst a 0.5 per cent. tax rate applies to that part of the Tax Basis which exceeds HUF 50 billion. The tax rate applicable to that part of the Tax Basis in excess of HUF 50 billion is set at 0.53 per cent. for the 2011 tax year.

In addition, Act CXXIII of 2010 imposes a special bank tax on credit institutions levied in 2011 (the **Bank Tax**). The tax basis is the before tax income generated in 2011 including the amount of the Extra Tax paid or payable by the respective credit institution in that year. The Bank Tax will be levied at 30 per cent. subject to a maximum amount equalling to the amount of Extra Tax payable by the respective credit institution in the 2011 tax year.

The amount of the Bank Tax payable in the relevant tax year is deductible from, and up to the amount of, the amount of the Extra Tax payable in that tax year, therefore the ultimate tax liability of credit institutions in respect of special taxes imposed with a view to enhancing financial stability will not change for the 2011 tax year as compared with the 2010 tax year.

## TAXATION

### Hungarian Taxation

*The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Instruments. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Instruments, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It is based on laws currently in force in Hungary and applicable on the date of this Base Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Instruments by non-Hungarian Holders, or the payment of interest under the Instruments may trigger additional tax payments in the country of residence of the Holder, which is not covered by this summary, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration. Prospective purchasers of Instruments are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Instruments, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.*

*Withholding tax (foreign resident individual Holders)*

The payments of interest on and capital gains realised upon the redemption or sale of publicly offered and traded Instruments (**Interest Income**) is taxed at 16 per cent. Instruments listed on a regulated market of an EEA member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EEA member state is considered as other income (**Other Income**) which is part of the individual's aggregated income and is taxed at 20.32 per cent. The capital gains realised on the sale of such Instruments is considered, as a general rule, capital gains income (**Capital Gains Income**). The tax rate applicable to Capital Gains Income is 16 per cent.

Foreign resident individual Holders are subject to tax in Hungary if they realise Interest Income from Hungarian sources or income that is otherwise taxable in Hungary if the international treaty or reciprocity so requires. Interest Income should be treated as having a Hungarian source where:

- (a) the Issuer is resident in Hungary for tax purposes;
- (b) the Issuer has a permanent establishment in Hungary and Interest Income realised on the basis of the Instruments is paid by the Hungarian permanent establishment of the Issuer;
- (c) the foreign resident individual Holder has a permanent establishment in Hungary to which the Interest Income is attributable.

The tax on payments of the Interest Income is to be withheld by the "Payor" (*kifizető*) (as defined below).

Pursuant to Act XCII of 2003 on the Rules of Taxation (the **ART**) a "Payor" means a Hungarian resident legal person, organization, or private entrepreneur who provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, "Payor" shall mean the borrower of a loan or, the issuer of a note, including, the investment service provider or credit institution providing the interest instead of it. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, "Payor" shall mean such stockbroker. The Hungarian permanent establishment of a foreign resident entity is also considered as a "Payor".

Interest, as defined by Schedule 7 of the ART (which implements the provisions of the Savings Directive), realised on the Instruments by citizens of any other Member State of the European Union is not subject to Hungarian tax where a paying agent based in Hungary provides data to the Hungarian state tax authority on the basis of Schedule 7 of the ART.

A foreign resident individual Holder who does not have a permanent establishment in Hungary is not subject to tax in Hungary if he realises Capital Gains Income from Hungary since such income is not considered as Hungarian source income.

Please note that the provisions of the applicable double tax convention, if any, should be considered when assessing the Hungarian tax liabilities of a foreign resident individual Holder.

#### *Withholding tax (foreign resident corporate Holders)*

Interest on Instruments paid to foreign resident corporate Holders, who do not have a permanent establishment in Hungary, by resident legal entities or other persons and any capital gains realised by such foreign resident Holders on the sale of the Instruments is not subject to tax in Hungary.

The tax liability of a foreign resident corporate Holder, which has a permanent establishment in Hungary is limited, in general, to the income from business activities realised through its Hungarian permanent establishment.

#### *Taxation of Hungarian resident individual Holders*

Act CXVII of 1995 on Personal Income Tax (the **Personal Income Tax Act**) applies to the tax liability of Hungarian and foreign private individuals. The tax liability of Hungarian resident private individuals covers the worldwide income of such persons.

According to the provisions of the Personal Income Tax Act, in the case of individual Holders, Interest Income is the income paid as interest and the capital gains realised upon the redemption or the sale of publicly offered and publicly traded debt securities. The withholding tax on Interest Income is currently 16 per cent. Instruments listed on a regulated market of an EEA member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EEA member state is considered as Other Income which is taxable as part of the individual's aggregated income and is taxed at 20.32 per cent. The capital gains realised on the sale or redemption of such Instruments is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 16 per cent. Under Act LXVI of 1998 on Healthcare Contributions (the **Healthcare Contribution Act**), Capital Gains Income realised by Hungarian resident individuals – subject to further conditions – is generally subject to a 14 per cent. healthcare contribution.

The rules of the Personal Income Tax Act may in certain circumstances impose a requirement upon the "Payor" (*kifizető*) (as defined below) to withhold tax on the interest payments to individual Holders.

Pursuant to the ART the definition of a "Payor" covers a Hungarian resident legal person, other organisation, or private entrepreneur that (who) provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, Payor shall mean the borrower of a loan or the issuer of a note including, the investment service provider or credit institution providing the interest instead of it. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, Payor shall mean such stockbroker. In respect of income that is earned in a foreign country and taxable in Hungary, Payor shall mean the "paying agent" (*megbízott*) (legal

person, organisation, or private entrepreneur) having tax residency in Hungary, except in cases where the role of a financial institution is limited to performing the bank transfer or payment.

#### *Taxation of Hungarian resident corporate Holders*

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the **Corporation Tax Act**), Hungarian resident taxpayers have a full, all-inclusive tax liability. In general, resident entities are those established under the laws of Hungary (i.e. having a Hungarian registered seat). Foreign persons having their place of management in Hungary are also considered as Hungarian resident taxpayers.

In general, interest and capital gains realised by Hungarian resident corporate Holders will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 10 per cent. up to the first HUF 500 million of the taxpayer's annual before tax income and 19 per cent. for the part exceeding the HUF 500 million threshold.

Pursuant to Act C of 1990 on Local Taxes (the **Local Taxes Act**), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Instruments.

#### **Luxembourg Taxation**

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Instruments should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

#### *Withholding Tax*

##### **(i) Non-resident Holders**

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident Holders, nor on accrued but unpaid interest in respect of the Instruments, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Instruments held by non-resident Holders.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg Paying Agent. Payments of interest under the Instruments coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

**(ii) *Resident Holders***

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended, (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Holders, nor on accrued but unpaid interest in respect of Instruments, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Instruments held by Luxembourg resident Holders.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg Paying Agent. Payments of interest under the Instruments coming within the scope of the Law would be subject to withholding tax of 10 per cent.

**EU Savings Directive**

Under EC Council Directive 2003/48 on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 31 May 2011, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Instruments. Any such agreement will extend to those matters stated under "*Form of the Mortgage Bonds*", "*Terms and Conditions of the Mortgage Bonds*", "*Form of the Mortgage Notes*", "*Terms and Conditions of the Mortgage Notes*", "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Instruments under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### ***United States***

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. Until 40 days after the commencement of the offering of any Series of Instruments, an offer or sale of such Instruments within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Instruments or Dual Currency Instruments shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Instruments which additional selling restrictions shall be set out in the applicable Final Terms.

### ***Japan***

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation

thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Instruments to the public** in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

### ***Hungary***

In addition to the rules applicable to the European Economic Area as described above, in connection with any private placement in Hungary, each Dealer has represented and agreed and each further Dealer appointed

under the Programme Agreement will be required to represent and agree that (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial and legal situation and its expected development, including that which was discussed in any personal consultation with an investor, and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY."

### **Italy**

The offering of the Instruments has not been registered pursuant to Italian securities legislation and, accordingly, no Instruments may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Instruments be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of 4 November 2003; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**).

Any offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus or any other document relating to the Instruments in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### **France**

Each of the Dealers and the Issuer has represented and agreed that it has only made and will only make an offer of Instruments to the public (*appel public à l'épargne*) in France in the period beginning (i) when a prospectus in relation to those Instruments has been approved by the *Autorité des marchés financiers* (**AMF**), on the date of such publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the base prospectus all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF.

## ***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Instruments or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Instruments under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Mortgage Bonds was duly authorised by resolution 43/2002 of the Board of Directors of the Issuer dated 25 September 2002 and resolution 96/2003 of the Asset and Liability Committee of the Issuer dated 5 November 2003. The first update of the Programme was authorised by resolution 49/2004 of the Board of Directors of the Issuer dated 27 October 2004 and resolution 96/2004 of the Asset and Liability Committee of the Issuer dated 26 October 2004. The update of the Programme completed on 21 December 2005 was authorised by resolution No 30/2005 of the Board of Directors of the Issuer dated 27 June 2005 and resolution No 92/2005 of the Asset and Liability Committee of the Issuer dated 27 October 2005. The update of the Programme completed on 8 March 2007 and the increase of the Programme amount was authorised by resolution No 4/2007 of the Board of Directors of the Issuer dated 31 January 2007 and resolution No 76/2006 of the Asset and Liability Committee of the Issuer dated 15 November 2006. The update of the Programme completed on 4 March 2008 was authorised by resolution No 2/2008 of the Board of Directors of the Issuer dated 18 February 2008 and resolution No 21/2008 of the Asset and Liability Committee of the Issuer dated 15 February 2008. The update of the Programme completed on 24 April 2009 was authorised by resolution No 5/2009 of the Board of Directors of the Issuer dated 4 February 2009 and the resolution No 12/2009 of the Asset and Liability Committee of the Issuer dated 29 January 2009. The update of the Programme completed on 28 May 2010 was authorised by resolution No 27/2010 of the Board of Directors of the Issuer dated 18 March 2010 and the resolution No 43/2010 of the Asset and Liability Committee of the Issuer dated 24 March 2010. The update of the Programme completed on 31 May 2011 was authorised by resolution No 37/2011 of the Board of Directors of the Issuer dated 26 April 2011 and the resolution No 62/2011 of the Asset and Liability Committee of the Issuer dated 14 April 2011.

### Approval, listing and trading of Instruments

Application has been made to the CSSF to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available (in the case of (d) below, for inspection only) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with English translations thereof) of the Issuer;
- (b) the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2009 and 2010 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published unaudited interim (quarterly) financial statements of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;

- (d) the Programme Agreement, the Agency Agreement, the KELER Agreement (as defined in the Agency Agreement), the Mortgage Note Deed of Covenant, the Note Deed of Covenant, the forms of the Global Mortgage Notes, the Global Notes, the Mortgage Notes in definitive form, the Notes in definitive form, the receipts, the coupons and the talons;
- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that the Final Terms relating to an Instrument which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Holder of such Instrument and such Holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Instruments and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Instruments listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

This Base Prospectus and the Final Terms applicable to each issue of Instruments will be available on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).

## Clearing Systems

### *Mortgage Bonds*

The Mortgage Bonds have been accepted for clearance through KELER and, through a bridge with this clearing system, Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). Unless waived under the rules of the Luxembourg Stock Exchange for an individual Tranche of Mortgage Bonds, KELER is required to provide, for each issue of Mortgage Bonds to be listed on the Official List of the Luxembourg Stock Exchange, certification as to, *inter alia*, the existence of a bridge with Clearstream, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The appropriate Common Code and ISIN for each Tranche of Mortgage Bonds allocated by Clearstream, Luxembourg and/or Euroclear or KELER, as the case may be, will be specified in the applicable Final Terms. If the Mortgage Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of KELER is Asbóth u. 9-11., 1075 Budapest, Hungary, the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg and the address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels.

### *Mortgage Notes and Notes*

The Mortgage Notes and Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Mortgage Notes and Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Conditions for determining price**

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial position of the Issuer or its group which has occurred since 31 March 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2010.

### **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

### **Auditors**

The auditors of the Issuer are Ernst & Young Audit Ltd. of Váci út 20, H-1132 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2009, and 31 December 2010. The auditors of the Issuer have no material interest in the Issuer. Ernst & Young Audit Ltd. are members of the Chamber of Hungarian Auditors.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus. As far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Post-issuance information**

The Issuer does not intend to provide post-issuance information in relation to any issues of Instruments, if not otherwise required by all applicable laws and regulations.

### **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

**REGISTERED OFFICE OF THE ISSUER**

**FHB MORTGAGE BANK CO. PLC.**  
**(FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)**

Váci út 20.  
1132 Budapest  
Hungary

**PRINCIPAL PAYING AGENT**

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**OTHER PAYING AGENT AND LUXEMBOURG LISTING AGENT**

**Deutsche Bank Luxembourg S.A.**

2 Boulevard Konrad Adenauer  
1115 Luxembourg  
Luxembourg

**LEGAL ADVISERS**

*To the Issuer as to Hungarian law*

**Bolton May Martonyi Law Firm**

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1051 Budapest  
Hungary

*To the Dealers as to English law*

**Allen & Overy LLP**  
One Bishops Square  
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United Kingdom

*To the Dealers as to Hungarian law*

**Morley Allen & Overy Iroda**  
Madách Trade Center  
Madách Imre utca 13-14.  
1075 Budapest  
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## **AUDITORS TO THE ISSUER**

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