BASE PROSPECTUS

OTP MORTGAGE BANK LTD.

(*OTP JELZÁLOGBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG*)

(incorporated with limited liability in the Republic of Hungary)

EUR 3,000,000,000

Euro Mortgage Securities Programme for the issuance of Hungarian Mortgage Bonds and Mortgage Notes (*jelzáloglevelek*)

Under this EUR 3,000,000,000 Euro Mortgage Securities Programme (the **Programme**), OTP Mortgage Bank Ltd. (*OTP Jelzálogbank Zártkörűen Működő Részvénytársaság*) (the **Issuer**) may from time to time issue Hungarian Mortgage Bonds (the **Mortgage Bonds**) and Mortgage Notes (the **Mortgage Notes**, being together with the Mortgage Bonds, the **Mortgage Securities**) (*jelzáloglevelek*) 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 will be issued in bearer form.

The maximum aggregate nominal amount of all Mortgage Securities 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 the Mortgage Securities involves certain risks. For a discussion of these risks, see ''*Risk Factors*'' beginning on page 10 of this Base Prospectus.

The Mortgage Securities may be issued on a continuing basis to one or more of the Dealers specified under ''*General Description of the Programme*'' and to 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 Mortgage Securities being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Mortgage Securities.

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 Mortgage Securities issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Mortgage Securities, interest (if any) payable in respect of Mortgage Securities, the issue price of Mortgage Securities 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*'' or ''*Terms and Conditions of the Mortgage Notes*'', respectively) of Mortgage Securities will be set out in final terms (the **Final Terms**) which, with respect to Mortgage Securities to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Programme provides that Mortgage Securities 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 Mortgage Securities and/or Mortgage Securities not admitted to trading on any market.

The Issuer may agree with any Dealer that Mortgage Securities may be issued in a form not contemplated by the Terms and Conditions of the Mortgage Bonds or the Terms and Conditions of the Mortgage Notes, respectively set out herein, in which event (in the case of Mortgage Securities intended to be listed or admitted to trading or publicly offered) a supplement to the Base Prospectus, if appropriate, may be made available which will describe the terms and conditions of, and the effect of the agreement reached in relation to, such Mortgage Securities.

Joint Arrangers

DEUTSCHE BANK | **THE ROYAL BANK OF SCOTLAND PLC**

Dealers

BNP PARIBAS | **CALYON**
COMMERZBANK | **DEUTSCHE BANK**
DZ BANK AG | **HSBC**

THE ROYAL BANK OF SCOTLAND PLC

The date of this Base Prospectus is 29 October 2009.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the Prospectus Directive).

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 Mortgage Securities being listed (and all related references) shall mean that such Mortgage Securities have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been listed on 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).

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 Royal Bank of Scotland plc and Deutsche Bank Aktiengesellschaft, in their capacity as Joint Arrangers, and the other 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 Mortgage Securities 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 Mortgage Securities (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 Mortgage Securities should purchase any Mortgage Securities. Each investor contemplating purchasing any Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Mortgage Securities 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 Mortgage Securities of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Mortgage Securities.

The Mortgage Securities 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, Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Mortgage Securities 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 Mortgage Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Mortgage Securities. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Mortgage Securities in the United States, the European Economic Area (including the United Kingdom, the Republic of Hungary (Hungary) and Italy) and Japan (see "*Subscription and Sale*").

This Base Prospectus has been prepared on the basis that any offer of Mortgage Securities 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 Mortgage Securities. Accordingly any person making or intending to make an offer in that Relevant Member State of Mortgage Securities which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Mortgage Securities 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 Mortgage Securities 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 establishing the European Community, as amended from time to time.

As at 27 October 2009, the euro/HUF spot exchange rate published by the National Bank of Hungary was euro 1.00 = HUF 268.82.

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.

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 Securities (as so capitalised) mean mortgage bonds in bearer form. The use of "mortgage bonds" herein is generic and should be construed to include both Mortgage Bonds and Mortgage Securities.

In connection with the issue of any Tranche of Mortgage Securities, 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 Mortgage Securities or effect transactions with a view to supporting the market price of the Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities and 60 days after the date of the allotment of the relevant Tranche of Mortgage Securities. Any stabilisation action or over-allotment 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.

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GENERAL DESCRIPTION OF THE PROGRAMME

This section "*General Description*" must be read as an introduction to this Base Prospectus and any decision to invest in any Mortgage Securities should be based on a consideration of this Base Prospectus as a whole, including the 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*", "*Terms and Conditions of the Mortgage Bonds*" and "*Terms and Conditions of the Mortgage Notes*" shall have the same meanings in this description.

Issuer:	OTP Mortgage Bank Ltd. (*OTP Jelzálogbank Zártkörűen Működő Részvénytársaság)*
Description:	Euro Mortgage Securities Programme for the issuance of Mortgage Bonds and Mortgage Notes
Arranger:	Deutsche Bank Aktiengesellschaft The Royal Bank of Scotland plc
Dealers:	BNP Paribas CALYON Deutsche Bank Aktiengesellschaft Commerzbank Aktiengesellschaft DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main HSBC Bank plc The Royal Bank of Scotland plc and any other Dealers appointed in accordance with the Programme Agreement.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Mortgage Securities issued under the Programme. These are set out under "*Risk Factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Mortgage Securities issued under the Programme. These are set out under "*Risk Factors*" and include the fact that the Mortgage Securities may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Mortgage Securities and certain market risks.
Certain Restrictions:	Each issue of Mortgage Securities 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 "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus. **Mortgage Securities having a maturity of less than one year** Mortgage Securities 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*".
Principal Paying Agent:	Deutsche Bank AG, London Branch

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:	Mortgage Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. Any issue of Mortgage Securities under this Programme is purported to be made to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Mortgage Securities either at issue or subsequently on any regulated or other secondary market or through an over-the-counter transaction.
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 Mortgage Securities 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 and in Condition 3 of the Terms and Conditions of the Mortgage 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:	Mortgage Securities may be issued on a fully-paid or a partly-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount.
Type of Mortgage Securities:	For a description of certain aspects relevant to the Mortgage Securities, see "*Overview of Hungarian Mortgage Securities Regulation*".
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 and to the extent permitted by the relevant clearing system(s)) integral multiples of the Tradeable Amount 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 the Tradeable Amount in excess thereof.

Fixed Rate Mortgage Securities:	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 Mortgage Securities:	Floating Rate Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities.
Index Linked Mortgage Securities:	Payments of principal in respect of Index Linked Redemption Mortgage Securities or of interest in respect of Index Linked Interest Mortgage Securities 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 Mortgage Securities and Index Linked Mortgage Securities:	Floating Rate Mortgage Securities and Index Linked Mortgage Securities may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Mortgage Securities and Index Linked Mortgage Securities 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 Mortgage Securities:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Mortgage Securities will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Mortgage Securities:	Zero Coupon Mortgage Securities will be offered and sold at a discount to their nominal amount and will not bear interest.
Partly Paid Mortgage Bonds:	Subject to receipt of 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.

Redemption:	The applicable Final Terms will indicate either that the Mortgage Securities cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Mortgage Securities 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. Mortgage Securities having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions*" above.
Denomination of Mortgage Securities:	Mortgage Securities will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Mortgage Security 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 Mortgage Security 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 50,000 (or, if the Mortgage Securities are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Mortgage Securities 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 and Condition 7 of the Terms and Conditions of the Mortgage Notes unless such deduction is required by law. 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 Securities, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The Terms and Conditions of the Mortgage Securities will not contain a negative pledge provision.
Cross Default:	The Terms and Conditions of the Mortgage Securities will not contain a cross default provision.
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 jelzálog-hitelintézetről és a jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*).
Subordination:	Mortgage Securities may not be issued on a subordinated basis.
Listing and admission to trading:	Application has been made to the Luxembourg Stock Exchange for Mortgage Securities issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Mortgage Securities may also 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 in relation to each Series.

	Unlisted Mortgage Securities and/or Mortgage Securities not admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the Mortgage Securities are to be listed and, if so, on which stock exchange(s).
Clearing:	Mortgage Bonds will clear through Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**), 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*" below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in "*Form of the Mortgage Notes*" below. See also "*Risk Factors – Trading in clearing systems*".
Governing Law:	The Mortgage Securities will be governed by, and construed in accordance with, Hungarian law. In relation to the Mortgage Securities, any Dispute 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.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Mortgage Securities in the United States, Japan, the European Economic Area (including the United Kingdom, Hungary and Italy) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Mortgage Securities (see "*Subscription and Sale*").
United States Selling Restrictions:	Mortgage Bonds – Regulation S, Category 1. TEFRA C. Mortgage Notes – Regulation S, Category 1. TEFRA D.
Representation of the holders of the Mortgage Securities:	There is no provision for the representation of holders of the Mortgage Securities.

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

(a) the euro equivalent of Mortgage Securities denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Mortgage Bonds, described under "*Form of the Mortgage Bonds*" and, in relation to Mortgage Notes, described under "*Form of the Mortgage Notes*") 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 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 Dual Currency Mortgage Securities, Index-Linked Mortgage Securities and Partly Paid Mortgage Securities (each as specified in the applicable Final Terms, in relation to the Mortgage Bonds, described under "*Form of the Mortgage Bonds*" and, in relation to Mortgage Notes, described under "*Form of the Mortgage Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Mortgage Securities (in the case of Partly Paid Mortgage Securities regardless of the subscription price paid); and

(c) the euro equivalent of Zero Coupon Mortgage Securities (as specified in the applicable Final Terms in relation to the Mortgage Bonds, described under "*Form of the Mortgage Bonds*" and, in relation to Mortgage Notes, described under "*Form of the Mortgage Notes*") and other Mortgage Securities 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.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Mortgage Securities 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 Mortgage Securities issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Mortgage Securities issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Mortgage Securities may occur for other reasons which are as yet unknown, which may not be considered significant risks by the Issuer based on information currently available to them or which they may not currently be able to anticipate, and the Issuer does not represent that the statements below regarding the risks of holding any Mortgage Securities 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.

A. Factors that may affect the Issuer's ability to fulfil its obligations under Mortgage Securities issued under the Programme

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

As a result of the Issuer's activities as a mortgage company and the relevant specific legal regulations, the Issuer has a special assets-liabilities structure within the Hungarian banking system. It means that the Issuer is financing the granting of mortgage loans by issuing mortgage bonds. The mortgage loans have a long-term maturity and provide for repayments in the form of annuities. The mortgage bonds, on the other hand, are shorter-term obligations of the Issuer providing for bullet repayments. Although the structure of the Issuer's assets and liabilities can be co-ordinated with the maturity structure of bonds to be issued, there is no guarantee that maturity adequacy will prevail at all times. Consequently the financing of the mortgage loans by issuing mortgage bonds results in liquidity and interest risks to the Issuer. The main reason of the currency risk's presence are the facts that the typical currency of income from customers may be different from the currency of funds and lending denominated in foreign exchange and funds raised in foreign exchange do not necessarily mean that the Issuer's receivables and obligations arise in the same currency.

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

A significant risk relating to the legislative environment may stem from the amendment of the decree on housing subsidies (see "*Description of the Issuer – Government Participation – Government Housing Policy and Subsidised Loan Scheme*"). There were two major changes in 2003, both of which had an influence on the demand for loans, and thus affected the Issuer's future operation and profitability. A major change in the state interest subsidy regime occurred on 1 July 2009 when the subsidy system was abolished. The Issuer monitors changes in the legislative environment and draws up models to explore their short-term and long-term impact on 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 the existing loan agreements or the Issuer's ability to perform its obligations under the Mortgage Securities.

Banks and their 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. Additionally, further operational risks may stem from inadequate or failed internal processes, people and systems or from external events. Failure to manage such risks may affect the Issuer's ability to fulfil its obligations under Mortgage Securities issued under the Programme.

The retail home lending market is a multi-agent market (with the participation of commercial banks, mortgage companies, savings banks, savings co–operatives and insurance companies). Competition is also noticeable in mortgage banking. EU accession facilitates for foreign banks to offer their services in Hungary, thus it is conceivable to expect a further increase in the number of agents in the housing loans market.

The competition is more intensive on the market of FX denominated mortgage loans, since there is no state subsidy for the interest payments under FX denominated loans, Hungarian mortgage banks compete with the commercial banks in this segment of the mortgage market.

The credit risk mainly is in connection with the creditworthiness of the borrowers. The repayment of the mortgage loans depend on the performance of the borrowers. A greater number of borrowers being in default of payment may adversely affect the credit quality of the Issuer's loan portfolio, which may cause negative impact on the Issuer's liquidity and the ability to fulfil its obligation under the Mortgage Securities issued under the Programme. Such risk may be mitigated by a prudent loan approval process and an effective enforcement policy in case of the defaulting loans.

B. Risk factors stemming from the Hungarian economy

- Due to its size and openness, the Hungarian economy is prone to international, particularly European, market trends. Deteriorating internal and external indicators may force successive governments to adopt further austerity measures. Moreover, it may be that governments take economic policy, budgetary or monetary decisions that may have a negative impact on the Issuer's profitability.
- International trends have a quick and powerful bearing on the changes in 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 of raising them. In an effort to mitigate its vulnerability to risk in the capital markets and to expand future opportunities, the Issuer launched its mortgage bond programme in the international markets in 2004.
- 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 disbursable housing loans and the quality of the property portfolio through the size of disposable income of the population. On the other hand, the budget and balance of payments deficits, inflation, interest rates and the volatility of the foreign exchange rate of the forint against other currencies have an effect on mortgage bond issues and the demand for them, and, as such, on the cost of funds, and thus, ultimately, on the Issuer's profitability.
- Investors must be particularly aware of the risks deriving from the changes in the economic cycle which, along with negative market trends on the international capital markets, may have an effect on the volume and profitability of mortgage lending and may increase the ratio of defaulting loans.
- A possible negative trend in the real estate market may result in the need for supplementary coverage on mortgage bonds.

The maturity date of Mortgage Securities to be issued under this Base Prospectus may extend beyond the date of the introduction of the euro in Hungary meaning that payments in respect of HUF denominated Mortgage Securities will be effected in euro, at a HUF-to-EUR exchange rate to be determined at a future date.

C. Rating risk

One or more independent credit rating agencies may assign credit ratings to the Mortgage Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this section, and other factors that may affect the value of the Mortgage Securities. 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 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 rating agency may in particular suspend, downgrade or withdraw a rating. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Mortgage Securities. A downgrading of the rating may also lead to a restriction of the access to funds and, consequently, to higher refinancing costs.

D. 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 credit risk:

The secondary market generally

Although application has been made to list the Mortgage Securities on the Luxembourg Stock Exchange, Mortgage Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Mortgage Securities easily 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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities. The possibility to sell the Mortgage Securities might additionally be restricted by country-specific reasons.

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 Mortgage Securities. 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 Mortgage Securities issued under the Programme'' above). A materialisation of the credit risk may result in 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 Mortgage Securities 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 Mortgage Securities, (2) the Investor's Currency-equivalent value of the principal payable on the Mortgage Securities and (3) the Investor's Currency-equivalent market value of the Mortgage Securities.

Interest rate risks (market price)

The development of market prices of the Mortgage Securities 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 Mortgage Securities. The holder of Mortgage Securities is therefore exposed to the risk of an unfavourable development of market prices of its Mortgage Securities which materialises if the holder sells the Mortgage Securities prior to the final maturity of such Mortgage Securities.

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

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

A credit spread is the margin payable by the Issuer to the holder of any Mortgage Security 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, probability of default, recovery rate, remaining term to maturity of the Mortgage Securities 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 trade in the Mortgage Securities

The listing of the Mortgage Securities may – depending on the rules applicable to such stock exchange – be suspended or interrupted by the respective stock exchange or a competent regulatory authority upon the occurrence of a number of reasons, including violation of price limits, breach of statutory provisions, occurrence of operational problems of 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 Mortgage Securities may be terminated, either upon decision of the stock exchange, a regulatory authority or upon application by the Issuer.

Inflationary risk

Inflation risk describes the possibility that the value of assets such as the Mortgage Securities or income therefrom will decrease as inflation shrinks the purchasing power of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on any Mortgage Securities, the yield on such Mortgage Securities will become negative.

E. Factors which are material for the purpose of assessing market risks associated with Mortgage Securities issued under the Programme

The Mortgage Securities may not be a suitable investment for all investors

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

1. have sufficient knowledge and experience to make a meaningful evaluation of the Mortgage Securities, the merits and risks of investing in the Mortgage Securities and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

2. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Mortgage Securities and the impact the Mortgage Securities will have on its overall investment portfolio;

3. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Mortgage Securities, including Mortgage Securities 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;

4. understand thoroughly the terms of the Mortgage Securities and be familiar with the behaviour of any relevant indices and financial markets; and

5. 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 Mortgage Securities 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 Mortgage Securities which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Mortgage Securities will perform under changing conditions, the resulting effects on the value of the Mortgage Securities and the impact this investment will have on the potential investor's overall investment portfolio.

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) Mortgage Securities are legal investments for it, (2) Mortgage Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Mortgage Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Mortgage Securities under any applicable risk-based capital, or similar, rule.

Risks related to Mortgage Securities generally

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

Modification

The conditions of the Mortgage Securities contain provisions for calling meetings of Holders to consider matters affecting their interests generally. 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

If, following implementation of this Directive, 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 was 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 Mortgage Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following 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 conditions of the Mortgage Securities are based on Hungarian law in effect as of 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.

Integral multiples of less than EUR 50,000

It is possible that certain Mortgage Securities may be traded in the clearing systems in amounts in excess of EUR 50,000 (or its equivalent) that are not integral multiples of EUR 50,000 (or its equivalent). In such a case, should definitive Mortgage Securities be required to be issued, Mortgage Bondholders who hold Mortgage Securities 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 Mortgage Securities such that their holding is an integral multiple of a Specified Denomination.

Trading in 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 Euroclear's agent bank's account with KELER.

The tax impact of an investment in the Mortgage Securities should be carefully considered

Interest payments on Mortgage Securities, or profits realised by an investor upon the sale or repayment of Mortgage Securities, may be subject to taxation in that investor's 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 Mortgage Securities. 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 Mortgage Securities

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

Mortgage Securities subject to optional redemption by the Issuer

An optional redemption feature of Mortgage Securities is likely to limit their market value. During any period when the Issuer may elect to redeem Mortgage Securities, the market value of those Mortgage Securities 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 Mortgage Securities when its cost of borrowing is lower than the interest rate on the Mortgage Securities. 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 Mortgage Securities 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 Mortgage Securities and Dual Currency Mortgage Securities

The Issuer may issue Mortgage Securities 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 Mortgage Securities with principal or interest payable in one or more currencies which may be different from the currency in which the Mortgage Securities are denominated. Potential investors should be aware that:

(i) the market price of such Mortgage Securities 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 Mortgage Securities 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 likely will 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 historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Mortgage Securities. Accordingly, investors should consult their own financial and legal advisers about the risk entailed by an investment in any Index Linked Mortgage Securities and the suitability of such Mortgage Securities in light of their particular circumstances.

Partly-paid Mortgage Securities

The Issuer may issue Mortgage Securities 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 Mortgage Securities with a multiplier or other leverage factor

Mortgage Securities 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.

Fixed/Floating Rate Mortgage Securities

Fixed/Floating Rate Mortgage Securities may bear interest at a rate that the Issuer may elect to convert from a fixed to a floating rate, or from a floating to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Mortgage Securities 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 to a floating rate, the spread on the Fixed/Floating Rate Mortgage Securities may be less favourable than then prevailing spreads on comparable Floating Rate Mortgage Securities tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Mortgage Securities. If the Issuer converts from a floating to a fixed rate, the fixed rate may be lower than then prevailing rates on its Mortgage Securities.

Mortgage Securities 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.

F. Risk Factors attributable to the Regulatory Environment of the Issuer

The Issuer's businesses and earnings can be affected by the fiscal or other austerity policies and other actions of various governmental and regulatory authorities in Hungary, the European Union.

Areas where changes could have an impact include:

1. the monetary, interest rate and other policies of central banks and regulatory authorities;
2. general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Issuer operates;
3. 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;
4. changes and rules in competition and pricing environments;
5. further developments in the financial reporting environment;
6. expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
7. any change in a relevant jurisdiction's legislation, including but not limited to, taxation, banking regulations and customer protection rules;
8. any failure or malfunction of any relevant judicial system, including but not limited to, the failure or substantial delay in court proceedings and/or in enforcement matters;
9. any circumstance resulting in judgments becoming unenforceable or any substantial delay in the enforceability of the judgments rendered by any relevant court, including any courts of arbitration; and
10. other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Issuer's products and services.

G. Risk factors stemming from the global economic crisis

Hungary's economy could 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. For example, the sub-prime mortgage financial crisis began in the United States in 2007 and became a global financial crisis in July 2008. This has 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. This has been associated with declines in stock markets worldwide, a loss in investment value by several hedge funds, co-ordinated central bank interventions and the insolvency of several mortgage lenders.

A change in international investor sentiment has been widely recognised as adversely affecting the availability of capital and funding. The "credit crisis" has seen the availability of funding in the wholesale markets which the Issuer has accessed be severely disrupted with, in certain markets, no funding being available for extended periods of time. The profitability of the Issuers' businesses could be adversely affected by a worsening of general economic conditions in Hungary, globally or in certain individual markets such as 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.

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

Credit risk

An economic downturn or significantly higher interest rates and/or depreciation of the HUF against the relevant borrowing currency 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.

The repayment of the mortgage-backed loans depends on the due performance of the borrowers. The risk which results from borrower defaults can be mitigated, *inter alia*, by enforcement action taken against the encumbered real property serving as collateral to the mortgage-backed loans. The market value, on which such real properties can be sold, and the realisation of such enforcement actions are determined by the current real estate market prices and the legal environment, as amended from time to time. The occurrence of such events could 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 Mortgage Securities.

Credit risk may also be manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset of the Issuer.

Another form of credit risk is settlement risk, which is the possibility that the Issuer may pay a counterparty – for example, a bank in a foreign exchange transaction – but fail to receive the corresponding settlement in return.

Liquidity risk

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 which could adversely affect the Issuer's ability to service payment obligations under Mortgage Securities.

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.

Refinancing risk

The limited availability of funds on the capital markets, and the significant changes in the funding costs (i.e. the widening of the credit spread) as a result of the global financial crisis could adversely affect the Issuer's ability to access the market and its profitability.

The fundamental objective of liquidity management is to eliminate this type of risk.

Credit spread risk

As a result of the global economic crisis a significant increase in the credit spread of the Mortgage Securities could be experienced on the capital markets, which adversely affected the market price of the Mortgage Securities and could cause the devaluation of the Mortgage Securities. This trend may continue and may result in a further negative impact on the value of the Mortgage Securities.

Risk of changing regulatory circumstances

Pursuant to the officially published statistics of the National Bank of Hungary, the Central Statistics Office of the second quarter performance and status of the Hungarian economy, the introduction of some further restrictive measures may be possible and such governmental actions imposing further austerity measures may have a direct or indirect negative impact on the domestic real-estate market, housing financing and the profitability of the Issuer.

For example, according to the recent Hungarian legislative changes on the provision of state subsidy on interest payments on HUF denominated housing loans financed by the issue of mortgage bonds, effective as of 1 July 2009, state subsidy can no longer be granted on the above interest payments. As a consequence, the interest rates of the HUF denominated housing loans have relatively increased as compared to the previous levels before 1 July 2009. Such increase in the interest rate levels of HUF denominated housing loans may result in a decline in the demand in this market segment which could have a negative impact on the income/profitability of the Issuer.

The government and the 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 at all.

Rating risk

Since the beginning of the global economic crisis, the Rating Agencies have downgraded the participants and instruments of the mortgage business which has an adverse effect on the market value and trading price of the Mortgage Securities. This trend may continue and result in further negative impacts on the value of the Mortgage Securities.

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) the audited unconsolidated annual financial statements for each of the financial years ended 31 December 2007 and 31 December 2008 and the audit reports thereon;

(b) the semi-annual non-audited, unconsolidated condensed financial statements for the half year ended 30 June 2009; and

(c) the Deed of Foundation of the Issuer translated as the Articles of Association in the English translation thereof.

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 this Base Prospectus and documents incorporated by reference in this Base Prospectus can be obtained from the website of the Luxembourg Stock Exchange, www.bourse.lu. In addition, such documents will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. at 2 boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg for Mortgage Securities listed on the Luxembourg Stock Exchange.

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 Mortgage Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Mortgage Securities.

The following documents shall be incorporated in, and form part of, this Base Prospectus:

Document	Section incorporated
IFRS Financial Statements for the financial year ended 31 December 2007	Pages 1 to 41
– Independent Auditors' Report	Page 1
– Financial Statements:	
– Balance Sheet	Page 2
– Statement of Operations	Page 3
– Statement of Cash Flows	Pages 4 to 5
– Statement of Changes in Shareholders' Equity	Page 6
– Notes to the Financial Statements	Pages 7 to 41
IFRS Financial Statements for the financial year ended 31 December 2008	Pages 1 to 47
– Independent Auditors' Report	Page 1
– Financial Statements:	
– Balance Sheet	Page 2
– Statement of Operations	Page 3
– Statement of Cash Flows	Pages 4 to 5
– Statement of Changes in Shareholders' Equity	Page 6
– Notes to the Financial Statements	Pages 7 to 47

Non-audited, unconsolidated, condensed financial statements prepared in accordance with IFRS for the half year ended 30 June 2009	Pages 1 to 16
– Financial Statements:	
– Balance Sheet	Page 2
– Statement of Operations	Page 3
– Statement of Cash Flows	Page 4
– Statement of Changes in Shareholders' Equity	Page 5
– Notes to the Financial Statements	Pages 6 to 16

The Deed of Foundation of the Issuer and any other documents incorporated by reference but not set out in the table above are incorporated by reference for information purposes only. Financial information incorporated by reference and also set out in this Base Prospectus shall be deemed to be incorporated by reference for information purposes only.

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-hitelintézetről 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) form part of the related Document or new Document, as the case may be, and supplement 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 accounts 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 and Euroclear's standard procedures. For the avoidance of any doubt, payments of principal or interest on the Mortgage Bonds held on the securities accounts 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 respective accounts 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, which has its registered office at Asbóth u. 9-11., 1075 Budapest, Hungary; through 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 II, 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, to the extent that such modification relates only to Conditions 1, 3, 4, 5, 6, 10, 11 (insofar as such Mortgage Bonds are not listed or admitted to trade on any stock exchange) 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 I (Euroclear Free of Payment)

Upon the issue of a Tranche of Mortgage Bonds, KELER, as the Hungarian national central securities depositary, 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 depositary, 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 depositary 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 and/or Euroclear 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 I (Euroclear Free of Payment)

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depositary 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 CCB, in the relevant currency, to transfer the purchase price with value date being the settlement date, to the Issuer's CCB, which in turn will credit the purchase price on the Issuer's cash account.

Version 2 (Clearstream Delivery against Payment)

Upon 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 via 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 with 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 code; 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 note (a **Temporary Global Mortgage Note**) or, if so specified in the applicable Final Terms, a permanent global 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; and

(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 depositary (the **Common Depositary**) 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 (the **Deed of Covenant**) dated 29 October 2009 and executed by the Issuer.

FORM OF FINAL TERMS

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*]

OTP MORTGAGE BANK LTD.
(*OTP JELZÁLOGBANK ZÁRTKÖRŰEN 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 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 29 October 2009, which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). 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 OTP Mortgage Bank Ltd. at Nádor u. 21., 1051 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.

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.

[*The following alternative language applies if the first tranche of an issue of Mortgage Bonds 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 (the **Conditions**) set forth in the Base Prospectus dated [*original date*]. This document constitutes the Final Terms of the Mortgage Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 29 October 2009, save in respect of the Conditions which are extracted from the Base Prospectus dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Mortgage Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 29 October 2009 and [*original date*]. Copies of such Base Prospectuses are available for viewing at and collection from the registered office of OTP Mortgage Bank Ltd. at Nádor u. 21., 1051 Budapest and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying Agent) at 2 boulevard Konrad Adenauer, 115 Luxembourg, Luxembourg.]

[*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:	OTP Mortgage Bank Ltd. (*OTP Jelzálogbánk Zártkörűen 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:	[ ]
4.	Aggregate Nominal Amount:	
	(a) Series:	[ ]
	(b) Tranche:	[ ]
5.	[(a)] Issue Price (per Mortgage [Bond/Note]):	[ ] per cent. of the Specified Denomination [plus 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 tradeable 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 Tradeable 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 traded in KELER, they will be tradeable only in principal amounts of at least the Specified Denomination.*]
		(*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 50,000 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:	[*specify*/Issue Date/Not Applicable]
		(*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][1] [*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 [Mortgage Bond/Mortgage Note]:	[ ] per Calculation Amount

[1] Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.

	(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 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 the 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 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/365 or Actual/Actual Actual/365 (Fixed) Actual/365 (ÁKK) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 *Other*] (*See Condition 4 for alternatives*)
(l)	Fall back 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:	[Condition 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:	[*give name*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	[ ]
	(d)	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*]

	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	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 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 of each Mortgage [Bond/Note] 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 of each Mortgage [Bond/Note] 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 of each Mortgage [Bond/Note]:	[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. In relation to any issue of Mortgage [Bonds/ 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/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 of each Mortgage [Bond/Note] payable 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 [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:	[Not Applicable/*give details*][2]
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*))

[2] Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.

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 Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager (if any):	[Not Applicable/*give name*]
29.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
30.	TEFRA rules applicable:	[TEFRA C/TEFRA D][3]
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 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 Mortgage Notes [only upon an Exchange Event/at any time at the request of the Issuer]] *(N.B. If the Specified Denominations of the Mortgage Notes in item 6 include language substantially to the following effect: ''EUR 50,000 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*] (*Consider including a term providing for tax certification if required to enable interest to be paid gross by insurers*)]][4]

[3] TEFRA C is applicable to Mortgage Bonds; TEFRA D is applicable to Mortage Notes.

[4] Only relevant for Mortgage Notes.

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Bourse de Luxembourg of Mortgage [Bonds/Notes] described herein pursuant to the EUR 3,000,000,000 Euro Mortgage Securities Programme of OTP Mortgage Bank Ltd. (*OTP Jelzálogbank Zártkörűen 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:	By: ....
Duly authorised	*Duly authorised*

OTP JELZÁLOGBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	Luxembourg/other (*specify)*/None
(ii)	Admission to trading:	[Application has been made for the Mortgage [Bonds/Notes] to be admitted to trading on [ ]/ 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 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.*)

[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, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Mortgage Bonds/Mortgage Notes only*)

[*Need to include details of where past and future performance and volatility of the index/formula can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Need to include a description of any market disruption or settlement disruption events that affect the underlying and any adjustment rules in relation to events concerning the underlying (if applicable).*]

[*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. Where the underlying is not an index, need to include equivalent information. Where the underlying is a security, need to include the name of the issuer of the security and the International Securities Identification Number (ISIN) or equivalent identification number. Where the underlying is a basket of underlyings, need to include the relevant weightings of each underlying in the basket.*]

[*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/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 Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER*)

(v)	Delivery:	Delivery [free of/against] 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][5]
(x)	Number of Mortgage Bonds:	
	(a) Series:	[ ]
	(b) 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 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 Mortgage Notes must be issued in NGN form*]
[(xii)	Serial number of the Mortgage Notes:	[ ]][6]

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(3)(n) of Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről).

5. Only required for issues of Mortgage Bonds.
6. 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 OTP Mortgage Bank Ltd. (*OTP Jelzálogbank Zártkörűen 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 29 October 2009 and made between the Issuer, Deutsche Bank AG, London Branch 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 jelzáloghitelintézetről és a jelzáloglevélről*) (the **Mortgage Bank Act**), issue and deposit with the clearing system 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) form part of the related Document or new Document, as the case may be, and supplement 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 the Specified Denomination (or equivalent) and integral multiples of such other Tradeable Amount(s) as shown in the Final Terms.

(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 Bank 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 Mortgages 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 - *névreszóló*), 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 presented (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, 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, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Mortgage Bonds (other than Dual Currency Mortgage Bonds or Index Linked 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 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, 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 ''.''; and

(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 jelzálog-hitelintézetről 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 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 Bond comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Bond 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; 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 Community regulations) into euro established by the Council of the European Union pursuant to Article 123 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 establishing the European Community, 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 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 Bond comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Bond 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.

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 (if other than Budapest and any Additional Business Centre) and 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 (TARGET) System (the **TARGET2 System**) is open; and

(C) a day on which 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 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.

(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 for the relevant Interest Period 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 Floating Rate Mortgage Bond or an Index Linked Interest Mortgage Bond comprises more than one Calculation

Amount, the Interest Amount payable in respect of such Mortgage Bond 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 4(b):

(A) if ''Actual/365'' 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:

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

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;

(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:

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

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; 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:

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

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 and in which case D_2 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 fourth 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 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 (if other than Budapest and any Additional Financial Centre and 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, 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 179 of Act CXIX of 2005 on Amendments to Acts on Taxes, Contributions and Other Budgetary Payments 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.

To exercise the right to require redemption of this Mortgage Bond the holder, as appropriate, 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 accounts 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 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.

(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 paragraphs (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 Condition 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 Mortgage Bondholders 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) presented for payment by or on behalf of a Holder who 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

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):

(a) 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

(b) the Issuer defaults in the performance or observance of or compliance with any other material 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 received by the Issuer from a Holder; or

(c) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, which in each case is not discharged or stayed within 90 days, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

(d) any order is made or an effective resolution is passed for the winding-up of the Issuer and any resulting winding-up process remains undismissed for 90 days (save for the purposes of reorganisation, reconstruction, amalgamation, merger, consolidation or similar),

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 the Mortgage Bank Act, 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 mortgage bonds (the **New Mortgage Bonds**) to the Holders of the Mortgage Bonds so cancelled on the same terms and conditions as those of the Mortgage Bonds so cancelled. 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, although this will not prejudice any rights a Holder may have under the New Mortgage Bonds.

In the event of such transformation, restructuring or liquidation of the Issuer pursuant to the Mortgage Bank Act, the Issuer will immediately seek the approval of the Hungarian Financial Supervisory Authority for the transfer of its obligations arising from the Mortgage Bonds, together with the relevant asset cover, to another mortgage loan credit institution and the Issuer shall use its best endeavours to effect such transfer at the earliest opportunity.

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) 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

(b) 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 daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxembourger Wort* in Luxembourg. So long as the Mortgage Bonds are listed on 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. 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 AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Mortgage Bonds and any non-contractual obligations arising therefrom or in connection therewith are governed by, and 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 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.

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 the 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 OTP Mortgage Bank Ltd. (*OTP Jelzálogbank Zártkörűen 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 Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(b) any Global Note; and

(c) any definitive Mortgage Notes issued in exchange for a Global 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 29 October 2009 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 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 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 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 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 (the **Deed of Covenant**) dated 29 October 2009 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 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 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 and 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 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 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 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 Note and the expressions **Mortgage Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Mortgage 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.

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-hitelintézetről 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 presented (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 50,000 and/or such higher amounts as the Agent may determine and notify to the Mortgage Noteholders and any remaining amounts less than euro 50,000 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 Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Note; and

(B) in the case of definitive Mortgage Notes, by applying the Rate of Interest to 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; 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 Community regulations) into euro established by the Council of the European Union pursuant to Article 123 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) 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 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty establishing the European Community, 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 Note, the aggregate outstanding nominal amount of the Fixed Rate Mortgage Notes represented by such Global 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;

(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 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).

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(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 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 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 (if other than London and any Additional Business Centre and which if the

Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, 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 **TARGET System**) is open; and

(C) a day on which KELER, Clearstream, Luxembourg and Euroclear are offsetting 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 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 (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(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 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 Condition 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 Condition 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 a Global Note, the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global 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 (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:

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

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;

(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:

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

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:

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

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 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 Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed and to the 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(vi), 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 of wilful default or bad faith) 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, upon due presentation thereof, 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 Holders 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 Sydney and Auckland, 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) only 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, its territories, its possessions and other areas subject to its jurisdiction)).

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) only 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) 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 Notes*

Payments of principal and interest (if any) in respect of Mortgage Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Mortgage Notes and otherwise in the manner specified in the relevant Global Note 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 against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Mortgage 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 Mortgage 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 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) 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 (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

(iii) a day on which 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 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 179 of Act CXIX of 2005 on Amendments to Acts on Taxes, Contributions and Other Budgetary Payments 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 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 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 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 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 Mortgage 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 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 a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

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:

Early Redemption Amount = $RP \times (1+AY)^{y}$

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 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) *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.

(g) *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.

(h) *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.

(i) *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) presented for payment by or on behalf of a holder who 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 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

(d) 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

(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

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):

(a) 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

(b) the Issuer defaults in the performance or observance of or compliance with any other material 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 received by the Issuer from a Holder; or

(c) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, which in each case is not discharged or stayed within 90 days, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

(d) any order is made or an effective resolution is passed for the winding-up of the Issuer and any resulting winding-up process remains undismissed for 90 days (save for the purposes of reorganisation, reconstruction, amalgamation, merger, consolidation or similar),

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 the Mortgage Bank Act, 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 mortgage notes (the **New Mortgage Notes**) to the Holders of the Mortgage Notes so cancelled on the same terms and conditions as those of the Mortgage Notes so cancelled. 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, although this will not prejudice any rights a Holder may have under the New Mortgage Notes.

In the event of such transformation, restructuring or liquidation of the Issuer pursuant to the Mortgage Bank Act, the Issuer will immediately seek the approval of the Hungarian Financial Supervisory Authority for the transfer of its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution and the Issuer shall use its best endeavours to effect such transfer at the earliest opportunity.

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) 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

(b) 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 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 daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxembourger Wort* in Luxembourg. So long as the Mortgage Notes are admitted to trading on, 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. It is expected that any such publication in a newspaper will be made in the *Luxembourger Wort* 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.

Until such time as any definitive Mortgage Notes are issued, there may, so long as any Global 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 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 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.

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 and any non-contractual obligations arising therefrom or in connection therewith are governed by, and 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 ten per cent. in nominal amount of the Mortgage Notes 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 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, in the sole opinion of the Issuer, 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.

DESCRIPTION OF THE ISSUER

History and General Introduction

OTP Mortgage Bank Private Company Limited by Shares (abbreviated name: OTP Mortgage Bank Ltd., *OTP Jelzálogbank Zártkörűen Működő Részvénytársaság*, abbreviated Hungarian name: *OTP JB Zrt.*, the **Issuer**) was established on 15 May 2001 under Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds (the **Mortgage Credit Institution Act**) and Act CXII of 1996 on Credit Institutions and Financial Enterprises (the **Credit Institutions Act**) and was registered in Hungary by the Court of Registration of the Budapest Metropolitan Court under registration number Cg. 01-10-044659 on 9 October 2001. The operating permit of the Issuer was issued on 10 January 2002 by the Hungarian Financial Supervisory Authority (the **HFSA**). The Issuer's registered office is at 1051 Budapest, Nádor u. 21., Hungary; telephone: +36 1 354 7443. 100 per cent. of the shares of the Issuer are owned by OTP Bank Nyrt. (**OTP Bank**). The Issuer operates exclusively in Hungary as a specialised credit institution in the corporate form of a private company limited by shares.

On 31 December 2008, the issued share capital of the Issuer was HUF 27,000,000,000 which comprised 270,000 registered ordinary shares each with a nominal value of HUF 100,000. OTP Bank holds 100 per cent. of the shares of the Issuer. Due to the high volatility in the relevant foreign exchange rates, OTP Bank decided to grant the Issuer CHF 15,000,000 subordinated loan on 30 January 2009 with a term of eight years in order to strengthen the capital position of the Issuer.

The development of the legislation in respect of mortgage lending and the expansion of the system of state subsidies in Hungary created the opportunity for new mortgage lending institutions to enter the market and compete for home loans by offering housing loans at favourable interest rates financed through funds raised from subsidised mortgage bond issues. This was the Issuer's primary sphere of operation. OTP Bank incorporated the Issuer as a vehicle through which the OTP Banking Group (the **Group** or the **OTP Group**) could effectively penetrate the developing mortgage lending market in Hungary and become an active participant in the emerging mortgage bond market. OTP Bank also identified as a major objective the diversification of the portfolio of products offered by the Group to its customers.

In line with the strategy of OTP Bank, the operations of the Issuer are linked to the Group in an attempt to utilise the synergies of Group affiliation in a way that will contribute to the efficient operation of companies within the Group. Whilst competing for customers, the Issuer expects to benefit from the traditional role of OTP Bank in housing finance, as OTP Bank provides the Issuer with its market knowledge and professional expertise accumulated through the OTP Bank branch network.

Until the third quarter of 2007, OTP Bank and the Issuer jointly offered loans to customers. This service was based on an agreement between the two entities. The original business model was restructured in order to utilise the synergies within the Group more efficiently. Since the end of 2007, the Issuer offers to its customers most of the loan products available on the markets.

The lending policy of the Issuer focuses exclusively on providing retail loan products secured by a mortgage on residential property. The core business of the Issuer involves the granting of home loans for the financing of the purchase, renovation and development of residential property. The Issuer provides not only mortgage loans for the above-mentioned purpose but also bundled products such as insurance and savings products. In the first couple of years of its operation, the Issuer's operation concentrated on the granting of subsidised HUF denominated loan products, while the subsidy scheme became stricter from the end of 2003 and the proportion of FX denominated loans within the new origination scheme became more significant. At the end of 2008, more than 50 per cent. of the loan portfolio of the Issuer was denominated in foreign currency. Due to the consequences of the global economic crisis as from November 2008 JPY and as from March 2009 CHF denominated loan products, save for some exceptional cases, were no longer offered by the Issuer. As an element of the austerity package introduced by the Hungarian government, as from 1 July 2009, the Hungarian government abolished the state subsidies of the newly granted mortgages loans (for details of the loan portfolio see "*Loan Portfolio* " and "*Business Overview of the Issuer*").

The Issuer's lending activity is mainly financed through the issuing of mortgage bonds. The Issuer issues its HUF denominated bonds under its domestic issuance programmes. The first domestic programme was established in 2002 and the latest was approved by the HFSA in 2009 pursuant to Directive 2003/71/EC (the **Prospectus Directive**) (for details see "*Business Overview of the Issuer*").

In December 2004, the Issuer entered the international mortgage bond markets with the establishment of its Euro Mortgage Bond Programme (the **EMTN Programme)**, which was updated in 2006, 2007 and 2008.

Moody's changed the rating of the mortgage bonds in March 2007 to Aa1. In April 2009, Moody's downgraded the rating of the Mortgage Securities issued by the Issuer to Aa2 as a result of the downgrade of the rating of the Republic of Hungary, the weakening economic environment in Hungary and the exposure of covered bondholders to both significant refinancing risk and foreign denominated liabilities risk. In May 2009 the rating of the Mortgage Securities changed to A2 as a result of reassessing the risks related to the Hungarian legal environment for Covered Bonds, the credit strength of the Issuer, the cover pool assets, material currency mismatch and the minimum over-collateralisation requirements.

Ratings (Moody's) of the EUR denominated mortgage bonds issued by the Issuer:

Date of the rating	*Rating*
2 March 2007	Aa1
8 April 2009	Aa2
20 May 2009	A2

The ratings of Moody's are: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C

Description of OTP Group and the Issuer's Position within it

Group Legal Status, Structure and Ownership

The Issuer is 100 per cent. owned by OTP Bank and is a member of the OTP Group. OTP Bank is a retail oriented credit institution and, together with its subsidiaries, is considered to be the leading financial service provider in the Hungarian financial sector, based on the information published by the Hungarian Banking Association (see below) and the financial newspaper Figyelo Top 200 issued in 2008.

The success of OTP Bank derives from the activities of its subsidiaries. The product portfolio of the subsidiaries supplement OTP Bank's portfolio. Further, the subsidiaries provide vital services to their parent enhancing the competitiveness of the whole group.

The most important subsidiaries and their fields of operation are:

Merkantil Bank Plc – Consumer loans, car financing
Merkantil-Car Plc – Vehicle leasing
Merkantil Bérlet Ltd. – Vehicle rental (long term)
Merkantil Ingatlan Lízing – Property leasing
OTP Lakástakarékpénztár Plc – Housing savings and loans
OTP Mortgage Bank Ltd. – (the Issuer) mortgages
DSK Bank – Universal bank, foreign subsidiary
OTP Banka Slovensko a.s. – Universal bank, foreign subsidiary
OTP Bank Romania SA – Universal bank, foreign subsidiary
OTP Banka Hrvatska – Universal bank, foreign subsidiary
OTP Alapkezelő Plc – Fund management
OTP Ingatlan Alapkezelő Plc – Property fund management
Hungarian International Finance Ltd. – International trade finance
OTP Ingatlan Plc – Property development and sales, related services
OTP Faktoring Követeléskezelő Plc – Factoring activities
OTP Faktoring Vagyonkezelő Ltd. – Wealth management
OTP Pénztárszolgáltató Plc– Creation and administration of pension funds
OTP Országos Egészségpénztár – Voluntary health fund
OTP Önkéntes Nyugdíjpénzár – Voluntary pension fund
OTP Magánnyugdíjpénztár – Private pension fund
OTP Lakáslízing – Housing leasing
OTP Életjáradék – Offers real estate covered life annuity
OTP Hungaro-Projekt – Services for use of EU funds
OTP Travel Plc – Travel Company
CJSC OTP Bank – Universal bank, foreign subsidiary
Crnogorska Komercijalna Banka – Universal bank, foreign subsidiary
OTP Bank Russia – Universal bank, foreign subsidiary

OTP Banka Srbija – Universal bank, foreign subsidiary

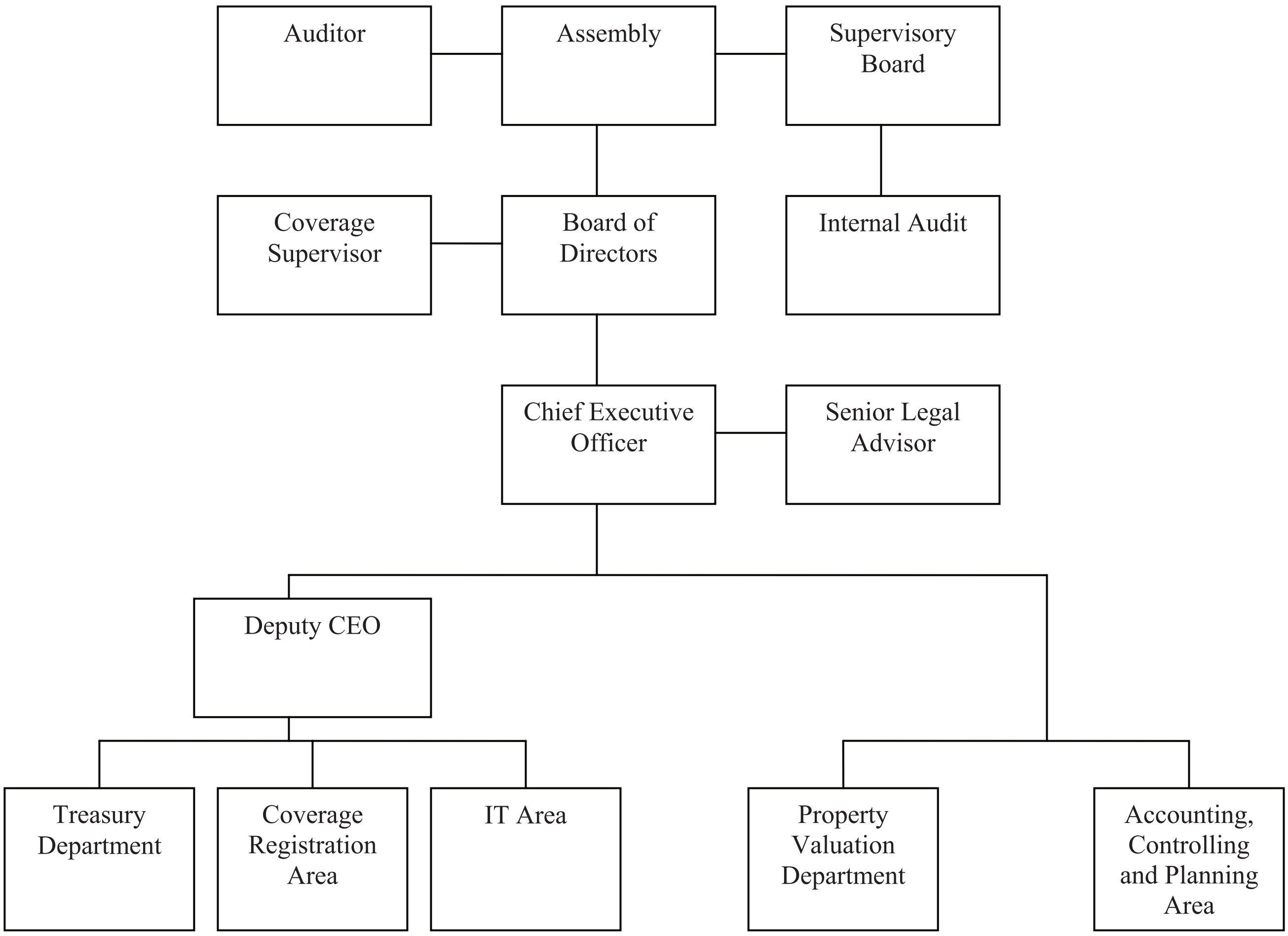
According to data in the Annual Report 2008 of OTP Bank Plc., the Group holds a market leading position in the Hungarian retail banking market, accounting for 30.4 per cent. of household deposits and 29.6 per cent. of household credits as at 31 December 2008. The market share of OTP Group in the segment was 29.4 per cent. in respect of household HUF deposits, 36 per cent. in respect of FX deposits, 32.3 per cent. in respect of the housing loan market and 26.8 per cent. in respect of the market share in consumer loans. OTP Bank administers almost three million household bank accounts and has a market leader position for both card issuances and electronic banking. OTP Bank issued almost four million cards, which are accepted by approximately 27,000 POS terminals. The OTP Group is a key player in corporate and leading player in municipal financing. The strength of the OTP Group lies in its multi-channel sales network. It has over 400 branches, 2,003 ATMs, effective call centres and internet banking capabilities.

Together with its foreign subsidiaries, OTP Group has a key role in the region, offering banking and other financial services in Bulgaria, Slovakia, Romania, Croatia, Serbia, Montenegro, Russia and the Ukraine.

The Issuer's sole shareholder is OTP Bank. Pursuant to Section 52 of Act IV of 2006 on Business Associations, OTP Bank has a qualifying majority interest in the Issuer. The Issuer has no subsidiaries.

The Organisational Structure of the Issuer

OTP Mortgage Bank Ltd.



Management and supervisory bodies of the Issuer

Members of the Board of Directors

Zsolt Oszlányi (65), Chairman and CEO. Appointed in 2001. Since 2001 he has been the Chairman and CEO of the Issuer. He is a founding member of the Association of Hungarian Mortgage Banks.

Address: 1364 Budapest Pf. 280 Tel.: +36 1 354-7443 Fax: +36 1 266-7132

Antal Kovács (57), Member of the Board of Directors. Appointed in 2002. Deputy CEO of Retail Division at OTP Bank Plc.

Address: 1051 Budapest, Deák Ferenc utca 7-9., Tel.: +36 1 486 6601, Fax: + 36 1 486 6699

Csaba Nagy (37), Deputy CEO. Appointed in 2003. Since 2003 he has been the Deputy CEO of the Issuer, and is a founding member of the Association of Hungarian Mortgage Banks.

Address:1364 Budapest Pf. 280, Tel.: +36 1 354 7444 Fax: +36 1 354 7449

Zoltán Illés (36), Member of the Board of Directors. Appointed in 2007. He is the Retail Managing Director of OTP Bank.

Address: 1051 Budapest., Deák Ferenc utca 7-9., Tel.: +36 1 486 6302, Fax: + 36 1 266 7367

Members of the Supervisory Board

Anna Mitkova Florova (41), Chairman of the Supervisory Board. Appointed in 2009. She is the Head of the Retail Lending Department of OTP Bank. Between 2008 and 2009 she was Member of the Board of Directors at OTP Mortgage Bank.

Address: 1052 Budapest, Deák Ferenc u. 7-9., Tel.: +36 1 486 6667, Fax: +36 1 266 7367

Ágota Selymesi (61), Member of the Supervisory Board. Appointed in 2001. She is the Department Manager at the Retail Directorate of OTP Bank.

Address: 1051 Budapest, Nádor u. 16. Tel.: +36 1 298 3152 Fax:+36 1 298 3613

Cecília, Nádasné Gajzágó (38), Member of the Supervisory Board. Appointed in 2007. She is Manager of Product Development Department.

Address: 1051 Budapest, Deák Ferenc utca 7-9., Tel.: +36 1 486 6719, Fax: + 36 1 266 7367

Conflicts of Interest

There are no conflicts of interest between the duties of the members of the Board of Directors or the Supervisory Board of the Issuer, and their private interests and other duties.

Business Overview of the Issuer

Spheres of Activity

Under the Mortgage Credit Institution Act, the business activities of Hungarian mortgage banks are strictly limited. The Mortgage Credit Institution Act permits, amongst others, the following activities: (1) extending mortgage loans either (i) secured by mortgage on real estate located in the EEA or (ii) secured by on-demand suretyship provided by the State of Hungary, (2) undertaking of bankers' liabilities, (3) appraising coverage value, (4) managing real estate used to secure mortgage loans, (5) providing custody services, arranger services and administrative services in connection with issues of mortgage bonds by the Issuer and (6) providing ancillary activities. A mortgage bank may not take deposits, and its investment in real estate (except for operating premises) may not exceed 5 per cent. of its capital. A mortgage bank may conclude derivative agreements only for hedging its exposures and only for liquidity or risk management purposes.

As a consequence of the legal environment applicable to mortgage banks in Hungary, the business activities of the Issuer focus on extending residential mortgage loans and issuing mortgage bonds to finance these loans.

The Issuer has the official authorisation necessary for the performance of the following activities:

TEÁOR 6512: Other monetary activity

TEÁOR 6522: Other credit granting

TEÁOR 6713: Activities auxiliary to financial intermediation

The Issuer's activity is in line with the activities carried out by companies within the Group to maximise Group synergies.

The Issuer offers loans to customers in line with a mortgage syndication agreement between OTP Bank and the Issuer (the **Mortgage Syndication Agreement**), which governs their cooperation and classifies their functions in relation to the mortgage loan granting process.

Under the Mortgage Syndication Agreement, tasks relating to the administration of loans and customer care are performed by OTP Bank as the agent of the Issuer. Since the Issuer has no independent network of branches, the loans are marketed and sold through the branch network of OTP Bank, which has about 350 branches engaged in the housing loans business.

Prior to granting a loan, the assessment of the willingness and ability of a prospective customer to repay the loan is completed by an OTP Bank branch, which assessment is in compliance with the rules applicable to the Issuer. The assessment of the value and marketability of the property offered as security for the purpose of determining the loan to value ratio (the LTV) of the real estate is done by the Issuer, pursuant to its statutes, as approved by the HFSA. According to procedure the Issuer solely and completely deals with the real estate appraisal related tasks and it is directly in contact with the subcontractors in this field. This activity has been overtaken by the Property Valuation Department of the Issuer. Further, the existing database, know-how, human knowledge and experience can be utilised to offer this service to other credit institutions in the open market. Property appraisal, which was previously performed only in connection with mortgage lending, is now part of ordinary market activities. Although property appraisal remains an important interim step in the process of mortgage lending, the Issuer expects that this activity will be able to generate profit as an independent service as well.

When the lending value of the relevant property is approved by the Issuer, in the course of concluding contracts, OTP Bank has the discretion to make decisions in the name and on behalf of the Issuer. A loan may be granted to a respective customer subsequent to the registration with the Land Registry of the mortgage and the prohibition on transfer and encumbrance in favour of the Issuer in respect of the respective mortgaged real estate.

During the term of the loan, OTP Bank, as an agent, is responsible for dealing with the customers, managing the loan accounts and making reports about them.

Granting of loans is funded through the regular issuance of mortgage bonds. To avoid liquidity problems, the Issuer has alternative funding facilities provided, on a continuous basis, by its parent, OTP Bank. These alternative funding methods are the following:

(a) OTP Bank may purchase mortgage bonds from the Issuer up to a maximum amount of HUF 550,000,000,000;

(b) the Issuer has a HUF 200,000,000,000 interbank credit facility maintained with OTP Bank for the purpose of extending the supplementary coverage or of providing funds to comply with obligations arising from the outstanding mortgage bond portfolio; and

(c) the Issuer has a HUF 100 billion credit facility with OTP Bank for purchasing loans.

As the parent of the Issuer, OTP Bank is solely liable for ensuring that the Issuer is able to meet its minimum capital adequacy requirements. On 31 December 2008, the issued share capital of the Issuer was HUF 27,000,000,000 which was comprised of 270,000 registered ordinary shares, each with a nominal value of HUF 100,000. OTP Bank holds 100 per cent. of the shares of the Issuer. Due to the high volatility of the exchange rates, on 30 January 2009 OTP Bank decided to grant a CHF 15,000,000 subordinated loan for an eight year term to strengthen the capital position of the Issuer.

The Mortgage Syndication Agreement and OTP Bank's statement regarding its provision of the necessary capital were filed with the HFSA.

According to procedure, after the mortgage is registered in the land registry, the Coverage Supervisor examines it and, upon approval, makes it part of the ordinary coverage within the coverage pool. Finally, the Issuer issues mortgage bonds, the value of which is in accordance with the legal regulations.

The source of financing of the loans granted by the Issuer is mainly the proceeds received from the issuance of mortgage bonds. The sources realised from the issue of mortgage bonds are temporally supplemented by interbank loans that are entered into with OTP Bank pursuant to the provisions of the Mortgage Syndication Agreement. Such interbank loans have an arm's length interest rate generally applicable on the Hungarian interbank market.

As for the non-performing loans, OTP Bank is obliged to buy them back at full loan value (i.e. principal plus interest and charges) under the terms of the Mortgage Syndication Agreement concluded between the Issuer and OTP Bank. The maximum period for which a payment under a loan can be in arrears is 90 days. When a loan is overdue by more than this 90-day period, a repurchase process is initiated. The volume of loans repurchased so far (from 2003) is HUF 53,100,000,000, i.e. close to 3.8 per cent. of the total loan value. As a result, the Issuer only has performing loans in its portfolio.

Finally, the Issuer regularly pays a guarantee fee and commission to OTP Bank in consideration for the services used.

In order to reduce administrative duplications in the operations within the Group, accounting, controlling, IT and other administrative operations are outsourced to OTP Bank. This outsourcing did not affect the provision of the core business fields such as the process of the lending and the practice of funding through mortgage bond issuance.

Support of the Assessment of the Lending Value

The Issuer constantly monitors and appraises the value of real estate pledged to the loans. In accordance with Decree No. 25/1997 of the Ministry of Finance, the Issuer developed a real estate valuation system called Real Estate Map. The data of this system are officially updated in each quarter on the basis of the database of the Hungarian Stamp Duties Office (which contains a variety of information relating to property values in Hungary) such system and the Group's own database together enabling the Issuer to carry out a reliable assessment of the lending value, an activity which is a significant factor in the lending and monitoring process.

Mortgage Products and Services

Loan products offered by the Issuer until 1 July 2009 can be split into three distinct groups:

- loans with asset and liability side subsidy;
- loans with liability side subsidy; or
- foreign exchange based loans without subsidy.

The Issuer may, at any time, change the terms and conditions of these products. These terms and conditions can currently be obtained at the sales branches.

Among the HUF-based housing related loans, only those were offered until 1 July 2003 which were subsidised by the Hungarian state through the interest rates of the funding mortgage bonds. Due to several changes to the Decree, the portfolio of the Issuer contains loans granted under varying subsidy rules.

<u>Mortgage loans with asset side subsidy purpose of loans:</u>

Under the state subsidy regime effective until 1 July 2009, mortgage loans with asset side subsidy were granted for the purpose of:

- home building; or
- the purchase of new residential property.

Loans with an asset side subsidy were only available for married persons for the purpose of building or buying new homes. With regard to these loans, the Issuer was able to claim both an asset side state subsidy (so-called supplementary interest subsidy) and a liability side state subsidy.

<u>Mortgage loans with liability side subsidy purpose of loans:</u>

- home building;
- purchase of new and existing residential property;
- enlargement of homes; or
- modernisation of homes.

Those applicants who did not fulfil the requirements of asset side subsidy or wanted to obtain a mortgage loan for the purpose of modernisation or renovation were able to apply for loans without an asset side subsidy. In relation to these loan products, the Issuer was only entitled to claim for a liabilities-side state subsidy.

<u>Foreign exchange based mortgage loans:</u>

- EUR based;
- CHF based; or
- JPY based.

<u>Foreign exchange unrestricted use mortgage loans:</u>

- EUR based;
- CHF based; or
- JPY based.

In March 2005 the product offerings of the Issuer were enhanced by the introduction of foreign exchange based mortgage loans. However, no state subsidy was claimable for these loans even under the former state subsidy regime.

Between 1 October 2007 and 2009 the Issuer offered CHF denominated loans with an exchange rate guarantee for two years and, by the end of 2007, the Issuer purchased the portfolio of this loan from OTP Bank.

In the third quarter of 2007 the Issuer started to offer a special loan product, the "*World Loan*" ("*Világhitel*"), which allows the borrower to change the denomination of the loan to either HUF, CHF, EUR or JPY.

As stated above, due to the consequences of the global economic crisis, OTP Mortgage Bank decided to suspend the majority of its CHF and JPY denominated lending activity, including the offering of its special loan product, the "*World Loan*".

As an element of the austerity package enacted by the Hungarian government, the Hungarian government abolished the state subsidies of the newly granted mortgages loans as from 1 July 2009.

Customer Base

The customer base of the Issuer is made up exclusively of Hungarian residents.

The Loan Portfolio of the Issuer

Overall Growth in the Business of the Issuer

The following table shows the growth in the number of mortgage loan contracts concluded by the Issuer for the years 2007 to 2009.

(Note: figures in the tables are rounded up by using conventional rounding methods, therefore, the sum of the numbers in each row may not be equal to the respective total sum. Information as of 30 June 2009 excludes loans with a negative value.)

Outstanding Volume of Loan Contracts of the Issuer

	31 December 2007	**31 December 2008**	**30 June 2009**
Number of Contracts	278,761	310,771	306,862
Outstanding Amount (*HUF million*)	1,125,369	1,445,925	1,419,267

The loan portfolio increased steadily throughout 2008. This trend changed in the first half of 2009 and, because of the decreasing demand, pursuant to the Issuer's database, for mortgage loans a stricter lending policy has been implemented by the Issuer in respect of granting mortgage loans.

The subsidised loans constitute an important element of the Issuer's loan portfolio. Prior to the introduction of the CHF, EUR and JPY denominated loan products at the beginning of 2005, the loan portfolio consisted only of subsidised loans. On 30 June 2009, the subsidised loans accounted for 46.27 per cent. of the total loan portfolio, which amounted to HUF 656.7 billion.

The loans within the loan portfolio of the Issuer are denominated in HUF, EUR, CHF and JPY. The ratio of FX denominated loans has increased in recent years. From 1 July 2009, the Issuer continues its lending activity solely in respect of loans denominated in EUR and HUF denominated loans. The Issuer expects a further decrease in the ratio of loans denominated in CHF and JPY within the loan portfolio.

Breakdown of loan portfolio by currency as at 30 June 2009

	Total HUF (HUF million)	**%**
HUF	665,916	46.92
EUR	11,423	0.80
CHF	607,088	42.77
JPY	134,841	9.50
Total	**1,419,267**	**100.00**

Size of the Loan Portfolio

The Issuer's loan portfolio is well diversified, which is a result of OTP Bank's traditional retail bank status. The average size of an outstanding loan is HUF 4.6 million. The following table shows the breakdown of outstanding loans by size as at 30 June 2009:

Breakdown of loan portfolio by loan size as at 30 June 2009

Size (HUF)	No. of loans	Total HUF (HUF million)	%
up to 5 million	202,386	518,145	36.51
5-10 million	82,028	573,911	40.44
10-15 million	16,713	202,092	14.24
15-20 million	3,180	54,469	3.84
over 20 million	2,567	70,650	4.98
Total	**306,874**	**1,419,267**	**100.00**

Maturity of the Loan Portfolio

The maximum maturity of HUF denominated loans is 35 years, and 25 years for FX denominated loans. The average maturity of the loan portfolio is 16.34 years. As at 30 June 2009 the remaining contractual maturity of loans as a proportion of the total portfolio was as follows:

Maturity structure of the mortgage loan portfolio as at 30 June 2009

Maturity	Total HUF (HUF million)	%
less than 1 year	1,352	0.10
1 – 5 years	41,526	2.93
5 – 10 years	173,500	12.22
10 – 15 years	363,958	25.64
15 – 20 years	522,672	36.83
20 – 25 years	289,814	20.42
Over 25 years	26,445	1.86
Total	**1,419,267**	**100.00**

Purpose of the Loans

The loan portfolio of the Issuer is mainly constituted of loans granted to purchase existing residential property. In recent years, due to the relatively poor quality of housing in Hungary, the dominance of loans for purchasing existing residential property has declined along with an increase in the number of loans granted to finance reconstruction and renovation projects. The ratio of home equity loans has been increasing continuously.

Breakdown of outstanding loans portfolio by loans purpose
(HUF million)

	As at 30 June 2009	
	Loans outstanding	**%**
Purchase of new residential property	136,099	9.59
Purchase of existing residential property	622,313	43.85
Construction	201,848	14.22
Renovation, improvement	136,748	9.64
Home equity loans*	310,611	21.89
Total	**1,419,267**	**100.00**

*The purpose of the loan is not disclosed by the borrower.

(In the portfolio analysis, the principal of the loans is disclosed, while accrued interest and charges are excluded.)

Mortgage Bond Portfolio

Mortgage bonds became the most advantageous source of funding for the mortgage banks up until the state interest subsidy regime existed, (for details see ''*Government Participation*''). To maximise the amount of the government interest subsidy, the subsidised mortgage loan portfolio had to be funded entirely by the issuance of mortgage bonds. The Issuer organised auctions, arranged private placements and developed mortgage bonds aimed at retail investors within the framework of its domestic programmes. The Issuer dominates the market in the HUF denominated mortgage bond market, but as the financial strength of domestic investors is relatively weak, and with the introduction of FX denominated loan products, access to the international capital markets has become important. The Issuer established its EMTN Programme in 2004 and updated it in 2006, 2007 and 2008.

The Issuer's funding activity relies on four types of investors:

- OTP Group;
- domestic institutional investors;
- domestic retail investors; and
- international investors.

Investor base of the Issuer as at 30 June 2009

	Total HUF (HUF million)	**%**
OTP Bank	519,500	39.50
Institutional investors	727,227	55.29
Retail investors	68,483	5.21
Total	**1,315,210**	**100.00**

Historically, the companies within OTP Group have been the main investors in the Issuer's mortgage bond portfolio with a decreasing share between the second half of 2003 and the second half of 2008. This trend has changed due to the decreasing demand by the financial and capital markets and, since 1 January 2009, the amount of mortgage bonds purchased by OTP Bank is increasing.

The following table shows the outstanding mortgage bonds at 30 June 2009:

Series	Currency	Placement	Principal (million HUF)	Date of first settlement	Maturity date	Coupon
OJB2009_IV	HUF	Public	18,763.55	2006.08.31	2009.08.31	7.50%
OJB2009_V	HUF	Public	759.69	2006.12.01	2009.12.01	7.50%
OJB2009_XIX	HUF	Public	41,000.00	2008.10.30	2009.09.30	9.26%
OJB2009_XVI	HUF	Public	7,064.56	2008.08.08	2009.08.08	8.50%
OJB2009_XVII	HUF	Public	10,463.27	2008.09.05	2009.09.19	10.00%
OJB2009_XVIII	HUF	Public	6,674.90	2008.10.17	2009.10.31	10.00%
OJB2010_I	HUF	Private	2,700.00	2002.11.25	2010.03.31	8.00%
OJB2010_II	HUF	Public	1,991.07	2007.02.16	2010.02.16	8.75%
OJB2010_III	HUF	Public	3,280.04	2008.09.05	2010.09.06	10.00%
OJB2010_IV	HUF	Public	38,800.00	2008.10.30	2010.03.31	8.00%
OJB2011_I	HUF	Public	16,110.98	2002.12.20	2011.02.12	8.00%
OJB2011_II	HUF	Public	8,780.00	2004.05.28	2011.09.12	10.00%
OJB2011_III	HUF	Public	5,002.17	2005.02.28	2011.11.30	9.00%
OJB2011_IV	HUF	Public	7,932.09	2006.08.31	2011.08.31	8.00%
OJB2011_V	HUF	Public	1,116.07	2008.02.08	2011.02.08	7.50%
OJB2012_I	HUF	Public	13,870.00	2004.03.17	2012.03.21	9.83%
OJB2012_II	HUF	Public	95,063.00	2004.04.14	2012.05.16	10.00%
OJB2012_III	HUF	Public	20,000.00	2004.11.19	2012.08.15	10.50%
OJB2012_IV	HUF	Public	5,507.93	2005.02.28	2012.01.31	9.00%
OJB2013_A	HUF	Public	8,515.87	2008.10.30	2013.10.30	Floating
OJB2013_II	HUF	Public	17,000.00	2002.12.20	2013.08.31	8.25%
OJB2013_III	HUF	Public	80,000.00	2009.05.29	2013.05.29	12.00%
OJB2014_I	HUF	Public	13,500.00	2003.11.14	2014.02.12	8.00%
OJB2014_J	HUF	Public	758.90	2004.09.17	2014.09.17	8.69%
OJB2015_I	HUF	Public	3,242.90	2005.06.10	2015.06.10	7.70%
OJB2015_J	HUF	Public	475.43	2005.01.28	2015.01.28	8.69%
OJB2016_I	HUF	Public	1,268.53	2006.02.03	2016.02.03	7.50%
OJB2016_II	HUF	Public	4,692.00	2006.08.31	2016.08.31	10.00%
OJB2016_III	HUF	Public	150,000.00	2009.02.17	2016.02.17	10.75%
OJB2016_J	HUF	Public	388.29	2006.04.18	2016.09.28	7.59%
OJB2019_I	HUF	Public	39,250.00	2004.03.17	2019.03.18	9.48%
OJB2020_I	HUF	Public	10,000.00	2004.11.19	2020.11.12	9.00%
OJB2024_I	HUF	Public	150,000.00	2009.02.18	2024.02.18	10.00%
OMB2010_I	EUR	Private	1,000.00	2008.03.03	2010.03.04	4.50%
OMB2011_I	EUR	Private	750.00	2006.07.10	2011.07.11	4.25%
OMB2014_I	EUR	Private	200.00	2004.12.15	2014.12.15	4.00%

Coverage of Mortgage Bonds

The coverage for the Issuer's obligations arising from the outstanding mortgage bond portfolio consists of two parts: (a) the ordinary coverage consisting of the underlying loan portfolio and (b) the supplementary coverage. Supplementary coverage consists primarily of cash and obligations of the State of Hungary, Hungarian National Bank, member states of the EEA or OECD, EIB, IBRD, CEB, EBRD, or other assets convertible to such obligations (for details see "*Overview of Hungarian Mortgage Bonds Regulation*"). The mortgaged real estates form the ultimate security for the mortgage bonds.

The HUF 1,419.3 billion principal value of mortgage loans outstanding as of 30 June 2009 – covered by real estate valued at HUF 2,965.6 billion – and government bonds of HUF 10.87 billion face value were the coverage for outstanding mortgage bonds with a face value of HUF 1,315.21 billion.

The following table shows the status of the collateralisation as at 30 June 2009:

Mortgage bonds and coverage (HUF billion)

	31 December 2007	31 December 2008	30 June 2009
Face value of mortgage bonds	972	1,312	1,315
Total principal of coverage	1,017	1,366	1,332
Coverage ratio	104.68%	104.15%	101.31%

Coverage ratios have developed as follows:

Security coverage of loans

	31 December 2007	31 December 2008	30 June 2009
(1) Loan principal outstanding (HUF billion)	1,125.4	1,445.9	1,419.3
(2) Real estate coverage[1] (HUF billion)	2,537.7	3,011.4	2,965.6
(3) Total principal of coverage (HUF billion)	1,017.3	1,366.3	1,332.5
(3a) Ordinary coverage	1,017.3	1,334.0	1,321.6
(3b) Substitute coverage	0.0	32.3	10.9

[1] This is the value at the time when the mortgage is granted.

The following table shows the breakdown of the LTV ratio as at 30 June 2009:

LTV ratio breakdown as at 30 June 2009

LTV ratio	Total HUF (million)	%
Under 30%	169,044	11.91
30-40%	151,649	10.68
40-50%	238,180	16.78
50-60%	258,004	18.18
60-70%	223,518	15.75
Over 70%	378,871	26.69
Total	**1,419,267**	**100.00**

The Issuer continuously monitors and appraises the value of the coverage pool and the mortgaged real estate portfolio. This takes place jointly with, and is supervised by, KPMG, its Coverage Supervisor.

The following table shows the asset classification of the mortgage loans granted by the Issuer as at 31 December 2008 and 30 June 2009:

Asset Classification

Classification	**as at 31 December 2008** Total HUF (million)	%	**as at 30 June 2009** Total HUF (million)	%
0 days' delay in payment	1,316,783	91.07	1,211,449	85.36
Between 1 and 30 days' delay in payment	106,347	7.35	140,051	9.87
Standard	1,423,130	98.42	1,351,500	95.23
Watch	22,795	1.58	67,767	4.77
within Watch: Doubtful (to be repurchased by OTP)	0	0.00	0	0.00
Total	**1,445,925**	**100.00**	**1,419,267**	**100.00**
Repurchased by OTP Bank	12,422 (2008 total)		19,525 (2009 H1)	

Solvency

There are no recent events which are to a material extent relevant to the evaluation of the Issuer's solvency.

Risk Management

Under Hungarian law, the sphere of activities of mortgage banks is strictly limited. As a result of the Issuer's activities as a mortgage company and the relevant legal regulations, the Issuer has a special assets-liabilities structure within the Hungarian banking system. The asset side is made up of mortgage loans. This portfolio can be described as a diversified portfolio of low risk profile, containing mostly annuity type mortgage loans with long maturities. On the liability side are the mortgage bonds issued by the Issuer. This portfolio contains mainly a series of bullet redemption securities with a relatively larger volume and shorter maturities in comparison with the mortgage loans. Market risks that the Issuer faces are determined by the different structure of the asset and liability portfolios. In 2008 the level of prepayment increased by a considerable extent, which created a new risk factor in the operation of the Issuer. The Issuer manages this risk primarily with the application of the prepayment fee included in the loan agreements.

As with all other important fields of the Issuer's operations, risk management is determined at Group level by the Mortgage Syndication Agreement.

Pursuant to the Mortgage Syndication Agreement and the Issuer's business model, as presented in "*Business Overview of the Issuer*":

(a) during the conclusion of loan contracts, the credit scoring takes place in the branches of OTP Bank in compliance with the regulations of the Issuer;

(b) the assessment of real estate serving as mortgage to secure loans is managed by using the Issuer's internal system based on its own database of approximately 300,000 properties and the database of the Hungarian Stamp Duties Office of approximately 1 million properties. Pursuant to Decree No. 25/1997 of the Ministry of Finance, the Loan to Value ratio of the properties is constantly monitored by the Issuer and controlled by the Coverage Supervisor;

(c) the registration of loans in the coverage register, which identifies the coverage for the outstanding mortgage bonds and on which the bond issuances are based, is done by the Issuer's Coverage Supervisor; and

(d) OTP Bank is obliged to repurchase non-performing loans at book value. As a result, the Issuer is not exposed to potential loss stemming from qualified loans.

The business activities of Hungarian mortgage banks are strictly limited, and as a consequence, the treasury activities of the Issuer are limited as well. The management committee (*in Hungarian: Vezetői Értekezlet*) (the "**Management Committee**"), which meets weekly, monitors the overall consistency of the Issuer's asset and liability management. The Board of Directors also decides on the methodologies for the risk measurement guidelines and on the assumptions for scenarios. The Board of Directors takes into account the economic and financial environment, the interest rate outlook, and the overall level of market risk affecting the Issuer's on- and off-balance sheet transactions.

The Issuer has a very conservative treasury policy. The primary objective of such treasury policy is to find the best funding for its lending activities in the short and long term, and simultaneously to minimise the market risk, in order to create a limited risk position from an asset and liability management perspective.

Between issuances, the Issuer's treasury manages liquidity and takes care of the interest rate and currency risk primarily through money market deals. In the long term, the mortgage bond issuances and long term derivative contracts are the basic tools by which the main targets are achieved.

The above-mentioned are supported by the facts below:

(a) the Issuer has a very conservative investment policy. Liquidity is invested in government bonds and government treasury bills. This portfolio constitutes the supplementary coverage to strengthen the position of the bondholders;

(b) the Issuer has built up business connections with a limited number of international banks;

(c) the Issuer gets involved in derivative contracts only for hedging purposes (regulated by law), and the activity is based on ISDA and credit support annexes documentation;

(d) the risk management related connection is online and contact is made on a daily basis with OTP Bank's risk department;

(e) the Issuer constantly monitors its position by calculating net present value and value at risk figures and, carrying out stress test calculations in accordance with the regulations (this is administered by the Coverage Supervisor); and

(f) OTP Bank has an obligation to provide short-term liquidity facilities and capital to the Issuer in order to ensure that the Issuer fulfils capital adequacy requirements.

The Former Subsidy Regime

Government Housing Policy and Subsidised Loan Scheme

The main method by which home ownership was stimulated through the interest subsidy regime given to mortgage banks on mortgage bonds covered by residential mortgage loans meeting the criteria set out in Government Regulation No. 12/2001 (I.31.), as amended from time to time (the **Decree**). Through the interest subsidy scheme, the government aimed to cap mortgage loan interest rates at a level affordable to the majority of potential customers. The effect of the interest subsidy regime was to encourage mortgage banks to grant mortgage loans with a rate of interest which does not exceed a certain cap as set out in the Decree. The interest subsidy compensated mortgage banks for the reduced rate of interest they applied to the mortgage loans they granted. In addition to the maximum interest rate of the mortgage loan, the following were the main criteria set out in the Decree:

(a) the loan could be granted for the purchase, construction, enlargement or modernisation of residential property;

(b) a loan could not be granted to finance the purchase of real estate which was owned by a spouse, common law spouse or close relative;

(c) at least one of the debtors had to be a subsidised person or a foreign citizen having received permission from the competent minister to receive direct subsidy from the state. For the purposes of this criterion, subsidised persons were: Hungarian citizens or citizens of EU Member States that fell within the definition of persons set out in Council Regulation 1612/68/EC on the free movement of citizens within the EU, who were employed in Hungary and had a valid residency permit;

(d) the amount of the loan could not exceed HUF 15,000,000 in the case of building or purchasing a new flat, or HUF 5,000,000 in the case of the purchase, enlargement or modernisation of an existing flat; and

(e) family members in a household could only obtain one state subsidised loan with a favourable interest rate. If one of the family members had already obtained a state subsidised loan, that "old" loan had to be repaid within 360 days after the execution of a new subsidised loan agreement. In the case of a family failing to repay the old loan amount within 360 days, the interest rate payable on the outstanding loan amount would have ceased to be favourable and would have become market based.

On 1 July 2009, the Hungarian government abolished the provision of interest subsidy on HUF denominated housing loans granted after 30 June 2009. The former interest subsidy scheme and the description of such subsidy scheme as provided for in this section is only applicable in respect of those mortgage loans which were obtained before 30 June 2009. In respect of such mortgage loans, the method of interest subsidy calculation is fixed for a mortgage bond of any maturity.

In accordance with the above, an interest subsidy was available for the whole period of maturity of a mortgage bond, which in terms of the life of the underlying loan agreement was a maximum period of 20 years.

In respect of those mortgage loans still outstanding which were originated under the regulation applicable before 30 June 2009, interest subsidy payments are made according to an agreement between a mortgage bank and the Ministry for the Regional Development and Rehabilitation with consent of the Ministry of Finance, and monies are transferred from the Hungarian State Treasury (*Magyar Államkincstár*). Interest subsidies on loans granted on the basis of the Decree could be obtained only in respect of those mortgage bonds which served to finance mortgage loans granted by the mortgage bank with specific objectives determined by the Decree.

Even in respect of the few recent years, when the government's interest subsidy regime was still effective, it represented a diminishing source of income for the Issuer.

Within the former regime, there were two types of subsidies. In respect of outstanding mortgage loans granted before 30 June 2009, liability side subsidies were claimed by mortgage banks on eligible mortgage bonds which were covered by residential mortgage loans meeting the criteria set out in the Decree. Asset side subsidies were also claimed by mortgage banks. However, the latter type of subsidy did not require the bank to finance the subsidised loans through mortgage bonds.

Hungary is a member of the European Union and is subject to European law and legislation including the state aid rules of the Treaty of Rome establishing the European Communities, as amended. The Subsidy Supervision Office of the Hungarian Ministry of Finance reviewed the Decree on state subsidies for housing purposes, and in September 2003, in relation to this investigation, stated that the Decree in effect did not contain elements that would be incompatible with either Hungarian or European Union legal provisions governing state subsidies. While the need for and, if any, the scope of amendments to the current Hungarian regime are unclear, potential amendments may occur.

The Decree has been amended a number of times with regards to the amount of the interest subsidy and its method of calculation (as an element of the authority package the latest amendment came into effect on 1 July 2009, and the Hungarian government abolished the state subsidies of the newly granted mortgages loans). Mortgage bonds issued at a particular point in time benefit from the interest subsidy regime applicable at the time that the underlying mortgage loans were granted. Changes to the interest subsidy regime do not have a retroactive effect.

Levy of New Taxes in Respect of Hungarian Credit Institutions

As of 1 January 2007, credit institutions assess and pay a ''banking contribution'' at the rate of 5 per cent. on their interest and similar income earned during the tax year from loans which are directly or indirectly affected by an interest subsidy or interest compensation system.

Principal Market of the Issuer

The Hungarian Housing and Mortgage Loan Market

In contrast to other Central and Eastern European countries, home ownership was possible in Hungary during Communist rule. A significant part of individual savings was invested in real estate. In addition, during the 1990s, local municipalities and the Hungarian government sold most of the state owned housing stock relatively cheaply to the then tenants. As a result, over 90 per cent. of Hungarian homes are owner-occupied which means that the volume of available rental accommodation is not sufficient to meet demand.

However, house prices are still high relative to salary levels with the purchase or building of a dwelling costing, on average, between seven and eleven years' average Hungarian salary.

During the 1990s, construction of new houses in Hungary fell below official targets of 40,000 homes per annum, partly due to a lack of affordable finance for prospective new homeowners and developers. While in 1990 close to 44,000 new dwellings were constructed, this number declined to below 20,000 in 1999. Currently, there are approximately four million flats and houses in Hungary with a ratio of 400 flats per

1,000 residents which is close to the European average. However, of the existing housing stock, at least 25 per cent is in need of renovation.

From the end of 1990 to mid-1999, the proportion of total bank lending for housing purposes fell from 16.6 per cent to 1.8 per cent. The volume of housing-related loans dropped from HUF 192 billion in 1993 to HUF 129 billion in 1999.

This situation prompted the government to introduce a new housing policy in February 2000 to stimulate the housing market (see subsection). This has had the desired effect of stimulating investment in residential construction, increasing turnover in the housing market and contributing to economic growth. The number of new homes constructed started to grow and reached approximately 21,583 in 2000, 28,054 in 2001, 31,511 in 2002, 35,500 in 2003, 43,913 in 2004, 41,084 in 2005, 33,864 in 2006, 36,159 in 2007 and 36,075 in 2008.

Total banking sector mortgage loans grew from less than HUF 130 billion in early 2000 to HUF 335 billion in 2001, HUF 787 billion in 2002, HUF 1,394 billion in 2003, HUF 1,910 billion in 2004, HUF 2,283 billion in 2005, HUF 2,699.5 billion in 2006, HUF 3,137.3 billion in 2007 and HUF 3,918.8 in 2008.

Competition

As a result of the widening of the government subsidy scheme, starting in 2000, there has been a dynamic increase in housing loan demand in the first part of the current decade. After several decades of stagnation due to the government housing policy, the mortgage market started to pick up. Considering the situation caused by the government subsidy scheme, namely that in the housing loan sector only a mortgage bank or a bank connected to a mortgage bank was competitive, it became obvious that the banks active in that sector were to build effective relationships with the mortgage banks.

The widening of the subsidy system made it possible for new mortgage banks to enter the market and offer products with favourable conditions, funding the products from subsidised mortgage bond issuances, thereby creating competitive market conditions.

As a result of the developing commercial potential of mortgage lending, two competing mortgage banks have been established in Hungary: FHB Mortgage Bank Co. Plc (*FHB Jelzálogbank Nyilvánosan Muködő Részvénytársaság*) (**FHB**) and Unicredit Mortgage Bank Ltd. (*Unicredit Jelzálogbank Zártkörűen Működő Részvénytársaság*) (**Unicredit JB**), a Unicredit (formerly HypoVereinsbank) subsidiary.

Currently there are three mortgage banks active in Hungary: the Issuer, FHB and Unicredit JB. All three mortgage banks are involved in granting mortgage loans to private individuals and purchasing their mortgage loans.

Mortgage banks are engaged in mortgage lending either independently or in syndicates with commercial banks. They purchase the independent lien on the property pledged to secure home loans from commercial banks. The mortgage pools of FHB and Unicredit JB also include mortgage loans extended to entrepreneurs, but they are primarily engaged in the provision of residential loans to individuals. The historical reason for this was the government subsidy system, which subsidised the interest rate of the housing loans through the interest from the issued mortgage bonds.

In comparison with its competitors, FHB has a longer track record in mortgage lending and issuing mortgage bonds. FHB concluded co-operation agreements with several commercial banks and, as a result, its portfolio of outstanding loans has grown in recent years. As of the end of 2008, its portfolio of mortgage bonds exceeded HUF 613 billion.

Unicredit JB began its operations in 2002 and entered the market for home loan financing later than its competitors. It launched its home loan campaign in co-operation with its parent bank in the second half of 2002. Unicredit JB has co-operation agreements in place with several financial institutions for the sale of credit products. By the end of 2008, it had issued mortgage bonds in a nominal value of HUF 63 billion.

The Issuer has a consortium with its parent OTP Bank when granting mortgage loans. Within the framework of the Mortgage Syndication Agreement, the Issuer and OTP Bank jointly grant these loans. (The original business model is being restructured for the purpose of utilising the synergies within the group – for details see "*Business Overview of the Issuer*".) In 2008, the Issuer granted mortgage loans in an amount of HUF 338 billion. On 31 December 2008, the mortgage loan portfolio of the Issuer amounted to HUF 1,446 billion.

In the competition among mortgage banks, the Issuer has captured a significant share of the market (see the table below), mainly because of the relationship with its parent bank. The Issuer is the largest market participant, as illustrated by the table below. By the end of 2008, the Issuer had surpassed its main rival FHB and has acquired 66.6 per cent. of the Hungarian mortgage lending market.

In 2008, the Issuer issued a net amount of HUF 340 billion mortgage bonds, as a result of which the company accounted for 69.7 per cent. of mortgage bonds issued in Hungary.

The following table shows the market share (in terms of percentages of total mortgage loans) of the Issuer, FHB and Unicredit JB.

	Market share of mortgage loans (%)		
	OTP	**FHB**	**Unicredit JB**
2006	62.3	33.0	4.7
2007	63.2	31.4	5.4
2008	66.5	28.2	5.2

*Source: Annual reports of mortgage banks

The following table shows the market share (in terms of percentages of covered mortgage bonds) of the Issuer, FHB and Unicredit JB.

	Market share of Hungarian mortgage credit institutions (%)		
	OTP	**FHB**	**Unicredit JB**
2006	66.1	29.1	4.8
2007	64.0	31.5	4.5
2008	69.7	26.9	3.4

* Source: Annual reports of mortgage banks

The Issuer is not aware of any current plans by potential competitors to establish a mortgage lending institution to compete with the three existing mortgage banks.

Another example of the fierce market competition is the increasing volume of the EUR, CHF and JPY denominated mortgage loan. The ratio of the FX denominated mortgage loans within the newly granted mortgage loans portfolio of the Issuer accounts for more than 80 per cent. Since these loans are not subsidised, the Hungarian mortgage banks compete with the commercial banks in this sector of the mortgage loan market.

Future Trends

Save as set out under ''*Construction Industry*'', ''*Housing Market*'', ''*Housing Loans of Households*'', ''*Government Participation*'' and ''*Levy of New Taxes in Respect of Hungarian Credit Institutions*''*,* there are no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for at least the current financial year.

However, as set out in the publication dated 14 February 2008 on the Luxembourg Stock Exchange by the Issuer, the Hungarian Competition Authority has initiated an administrative procedure against the Issuer for the alleged infringement of the prohibition of abuse of dominant position. The procedure is, as of the date of this Base Prospectus, ongoing.

Given the officially published statistics of the *National Bank of Hungary* and the *Central Statistical Office* of the second quarter performance of the Hungarian economy and the global economic crisis and its impact on the world-wide financial and housing markets, which the Issuer has not had the chance to comprehensively analyse at the closing date of the compilation of this Base Prospectus, the statements in the following section must be taken considered together with further analysis on the Hungarian and international markets.

Regarding the above mentioned facts, the investors must be particularly aware of risks deriving from changes in the economic cycle which have impact not only on the real estate market, real estate construction and purchase, but also on mortgage lending. In certain economic circumstances the volume and the profitability of mortgage lending may decrease and the default ratio of the borrowers may increase.

The following analysis is extracted from the forecast of the GKI economic research institute (**GKI**). Source: Current Situation and Perspectives on the Hungarian Real Estate Market (on the basis of the survey conducted in July 2009).

General Overview

In the third quarter of 2008 the economy of the world entered a serious and downwards-spiralling economic and confidence crisis. The 2009 Q1 data are worse, worldwide, than the most pessimistic forecasts ever. At the same time, the deep pessimism and the market panic that characterised the market has clearly diminished. The confidence indices, both within the EU and in Hungary, still reflect very unfavourable expectations but have been improving somewhat since April. The performance of the Hungarian economy will fall this year by approximately 6.5per cent.; the external balance will improve spectacularly, and the domestic balance will meet international requirements. The rock bottom of the recession can be expected in the third quarter of 2009 but a quick recovery is hardly likely anywhere.

Any countries in need of foreign resources, such as Hungary, got into a very difficult position. In Hungary, with the exception of stagnating public services, output dropped from all sectors in the first quarter. As a result of lack of external financing and the IMF-EU loan taken as a response, Hungary was not in a position to respond to the crisis with strong and expansionist fiscal, monetary and income policies, only with the general improvement of its balance, and with some smaller invigorating and restructuring steps and the acceleration of structural reforms.

Real wages dropped by 2.2 per cent. in the first five months of the year, and a 2.5 per cent. fall can be expected for the whole year. The household disposable income is decreasing more than real wages, due to an increasing unemployment rate and credit repayments, a decrease in borrowing and the strengthening propensity (and urge) to save.

The balance of the general government budget will be nearly HUF 350 billion worse than was initially planned. According to the European methodology it means a deficit of around 3.8 per cent.

In the first six months of the year the inflation rate was 3.3 per cent.. However, in April the trend that prevailed since August 2008 (according to which the rise of consumer prices within 12 months was decreasing from one month to the next) has changed, moreover in May inflation jumped up to 3.8 per cent., partly due to the weather and partly due to the durably weak forint. In the second half of 2009, as an effect of the increase in VAT and excise tax rates, the consumer price index will temporarily rise, and the value of the annual index will be close to 7 per cent. by December. On an annual average a 5 per cent. price rise in the consumer price index can be expected.

The effects of accelerating international inflation, the result of the economy boosting measures that have been introduced in several countries, can be expected only from the middle of 2010.

The improvement of the external and internal balance improved Hungary's international assessment and the success of the euro bond issue by the Hungarian State can also be attributed to such improvement of the external and internal balance. At the end of July the National Bank of Hungary decreased the base rate by 100 basis points. This step was favourably perceived by the international financial environment and it has had hardly any effect on the forint's exchange rate. By the end of 2009 further interest rate reductions are likely to be decided on and the base rate could reach the 7 per cent. level by the end of December.

(Previous year = 100)

	2006	2007	2008	Month I to V 2009	2009
1. Volume Index of GDP	104.1	101.2	100.6	93.6*	93.5
2. Volume Index of Industrial Production	110.1	108.1	98.9	76.7	82.0
3. Volume Index of National Economy Investments	93.8	101.5	97.0	92.3*	92
4. Volume Index of Construction and Installation Activities	98.4	85.9	94.9	93.1	93.0
5. Volume Index of Retail Turnover	104.4	97.0	98.2	96.2	95.0
6. Index of Export Change (in current prices and EUR)	116.6	115.7	105.6	73.5	86
7. Index of Import Change (in current prices and EUR)	113.9	111.9	105.6	69.3	82.5
8. Balance of External Trade (in billion HUF)	-2.4	-0.1	-0.2	1.5	2.8
9. Index of Gross Average Wages	108.1	108.2	107.5	101.4	102.4
10. Unemployment rate at the and of the period (per cent.)	7.5	7.7	8.0	9.8****	10.5
11. Consumer Price Index	103.9	108.0	106.1	103.3**	105.0
12. EUR – HUF exchange rate	264.3	251.3	251.2	287.5***	280
13. USD – HUF exchange rate	209.8	183.8	171.8	214.6	223
14. Base rate (in %)	8.0	7.5	10	8.5	7
15. General government deficit per GDP in %	9.3	5.0	3.4	—	3.8

The employment and wage processes are gradually adapting to the recession. There are no statistics on redundancies but it is assumed that 100,000 to 130,000 workers have been affected, at the beginning mainly in the processing export sectors, and later in large and medium companies.

So far the unemployment rate reached its peak at 9.9 per cent.; then it sank to 9.8 per cent. for seasonal reasons (it was 7.7 per cent. a year earlier), but it is expected to grow during the year.

During the first quarter gross average wages grew by 4.8 per cent. in sectors affected by competition. In January wages in the budgetary sector decreased (in January 2008 even half of the 13th month salaries were paid), but the February-March salary outputs show stagnation. All in all, real wages decreased by 2.2 per cent. during the first five months.

The public is holding back its postponable and/or credit-intensive consumption, mainly the purchase of durable consumer goods. As a result, the net savings rate as a share of GDP is increasing. In the first quarter of 2009 loan repayments were already greater than new loans. The level of consumer loans fell back to one – sixth, and home loans to one-third.

The decline in manufacturing halted by the end of spring 2009. Following the earlier huge drops in May a moderate production increase – 2.6 per cent. compared to the previous month – took place. The outlook of the European Union as a whole and Germany (our most important export markets) also reflect decreasing pessimism. There are no signs suggesting the start of growth in manufacturing yet; and it is also unclear which industries will be the first where a recovery might occur.

The drop in retail sales did not accelerate further in May – following the decrease at the beginning of the year – but from July on the decline is expected to speed up again. For the whole year the biggest decrease can be expected in the sales of furniture, technical items, construction materials and cars.

Construction Industry

The output generated by the construction industry has decreased for the last three years, the world economic crisis has only accelerated such decrease. According to Central Statistical Office data, in the first five months of 2009 the volume of construction output was 6.9 per cent. lower than a year earlier. At the same time civil engineering (construction of other structures) grew by 7.9 per cent., however building construction shows a fall of 24.1 per cent. This development in civil engineering can be explained by the acceleration of highway and public utility construction works.

According to CSO data, at the end of May 2009 the total contract volume in the construction industry was 26.4 per cent. higher than a year earlier. In terms of existing contracts there are still material differences between the construction industry sub-sectors. Compared to the previous year the contract volume grew by 40.3 per cent. in civil engineering and by 11.6 per cent. in building construction.

In 2009 the decrease in construction output is expected to continue. The demand for house-building is clearly decreasing, and is expected to further worsen due to the government's package of measures (abolition of social policy and interest rate subsidies).

Financing opportunities (that were rather restricted due to the crisis) are slowly increasing. The government package offers several solutions for the problem of limited resources: subsidised loans, financial aid, and state guarantees.

In addition to demand restraints the construction industry is exposed to liquidity problems and debt chains.

Professional and interest protecting organisations have drawn up several suggestions in order to handle this situation. From these proposals, the Hungarian Parliament adopted the establishment of a collateral handling body (that would be responsible for paying out the collateral necessary for the completion of construction projects and the related financial securities). The government received authorisation for drawing up the detailed rules on collateral handling.

For 2009, GKI forecasts a decrease of some 7 – 8 per cent. in construction output. Private investments will further decrease this year, therefore the performance of building construction will significantly fall. By contrast to civil engineering, some performance growth can be expected as a result of the growing volume of public and EU investments. This year the government's incentive package will suffice only to mitigate decrease in the construction output.

Housing Market

Home construction and construction in general is a time-consuming investment activity. The average time frame for home construction projects is around two to three years. In addition to market rules, the effect of the state regulations and home financing and their changes is significant in this field. The structure of the ownership in residential property has a stabilising effect. For this reason home construction does not react quickly to business cycles or (according to the data) to the economic slide. Due to the above mentioned features, changes in incomes and financing opportunities affect the home building sector only in the longer term.

In the first half of 2009 a total of 13,080 flats in the country received final occupation permit, which represents a 16 per cent. increase compared to the same period in 2008. The increase was outstanding in Budapest, where the number of completed new homes grew by 35 per cent., but the first half of the year brought growth in other settlement categories as well.

The number of homes built for sale grew by 28 per cent. and those built for own use grew by 5 per cent., i.e. the growth is still mainly generated by home construction by undertakings. Construction of family houses grew by nearly 8 per cent., that of new condominium flats by 14 per cent. and of condominium complexes by 73 per cent. in the first half of the year, compared to the same period a year earlier.

The floor space of delivered homes decreased by some average 2 square metres (from 91.5 to 89.4 square metres) and the proportion of homes under 60 sqm grew from 31.9 per cent. to 33.4 per cent.

As regards the future, there are a lot of uncertainties. The number of issued construction permits was 17,003 in the first six months of 2009, showing a significant fall of 19 per cent. The decrease is below the average in Budapest (-13 per cent.) and in the major towns situated in the respective counties (-16 per cent.), and above the average in other towns (-24 per cent.) and villages (-20 per cent.). The abolition of the social based subsidy will further contribute to the decrease of future demand. For the time being, not even the outlines of the state housing policy's future set of tools can be seen. GKI's expectation is that home construction in 2009 as a whole will drop and at most 29 – 31,000 new homes are likely to be completed. The significant drop in the number of building permits reflects the expected long-term drop in home construction.

Home financing

The volume of households' home credit portfolio was much affected by the extremely volatile HUF exchange rate. Recently, several measures have been taken to protect the most adversely affected group of homeowners such as an opportunity to apply for a state secured interim loan, and enabling municipalities to purchase the homes from those in trouble without using the municipality's own resources, from MFB loans. Housing loan extension is continuously decreasing, on one hand due to more restrictive banking behaviour and, on the other hand, due to the decreasing demand by households for such loans (most people postpone any investments that can be postponed).

Expectations concerning the housing market have further worsened, with the exception of Western Hungary. In Budapest the supply in all housing types increased, which trend was the most noticeable in downtown Pest. For the next 12 months, real estate developers expect the real estate market to stagnate in the countryside. In respect of real estate prices, the overall picture has not changed significantly: some price decrease (1 – 3 per cent.) is expected in various areas of Budapest, but an overall greater price decrease can be expected in the countryside (4 – 9 per cent.).

Household expectations have further worsened with regard to both buying and construction.

Households' plans to build, purchase or remodel homes
(4-quarter moving average values, thousand households)

Quarter	Build or purchase a home		Remodel a home, add-ons	
	Certain	Likely	Certain	Likely
2002. 01.	28	101	147	487
2002. 02.	39	114	159	523
2002. 03.	51	123	158	518
2002. 04.	56	132	172	517
2003. 01.	58	141	174	503
2003. 02.	59	140	159	474
2003. 03.	57	134	152	451
2003. 04.	54	127	139	430
2004. 01.	61	103	134	392
2004. 02.	59	94	120	359
2004. 03.	55	84	125	355
2004. 04.	51	79	117	339
2005. 01.	52	97	123	380
2005. 02.	50	98	119	402
2005. 03.	53	99	125	396
2005. 04.	52	109	123	407
2006. 01.	49	108	122	413
2006. 02.	55	116	138	414
2006. 03.	51	130	116	422
2006. 04.	53	128	118	413
2007. 01.	50	122	112	391
2007. 02.	39	128	97	371
2007. 03.	36	111	95	344
2007. 04.	32	100	84	317
2008. 01.	27	96	71	296
2008. 02.	26	78	59	247
2008. 03.	30	83	51	233
2008. 04.	26	74	45	207
2009. 01.	27	60	37	164
2009. 02.	25	46	32	153
2009. 03.	22	32	37	144

Source: GKI household surveys

According to data, household expectations for home building and purchase have further deteriorated from the previous quarter and there is a significant drop compared to the same period of 2008. In July the proportion of households certain to purchase or build a home in the next year again decreased. Furthermore, the proportion of those not being certain in their intentions has also decreased.

MATERIAL CONTRACTS

The Issuer has not entered into any material contracts outside its ordinary course of business which could result in any Group member being under an obligation or in any entitlement that is material to the Issuer's ability to perform its obligations under the Mortgage Securities.

OVERVIEW OF HUNGARIAN MORTGAGE BONDS REGULATION

The Coverage System of Mortgage Bonds

Coverage Requirements

Article 14 of the Act XXX of 1997 on Mortgage Credit Institutions and Mortgage Bonds (the " **Mortgage Credit Institution Act**") provides for the coverage of mortgage bonds. Article 14(1) provides that mortgage credit institutions, at all times, must hold available security or coverage ("*fedezet*") that is at a value higher than the amount of nominal value and interest for the outstanding mortgage bonds in circulation. Article 14(2) provides that the above requirement must be fulfilled in a way that:

(a) the combined value of principal receivables considered as coverage minus the loss in value must exceed 100 per cent. of the nominal value of the outstanding mortgage bonds in circulation, and

(b) the combined value of the aggregate interest due on the principal receivables considered as coverage minus the loss in value must exceed 100 per cent. of the nominal value of interest due on the outstanding mortgage bonds in circulation.

Article 14(4) of the Mortgage Credit Institution Act provides that mortgage credit institutions must ensure that the above coverage is also available as calculated on a present value basis.

The Role of the Coverage Supervisor

Control of the existence of coverage items

Articles 16 and 17 of the Mortgage Credit Institution Act provide the mandate and the tasks of the Coverage Supervisor (in Hungarian: *Vagyonellenőr*). The Coverage Supervisor carries out its activities to protect the interests of investors (holders of the mortgage bonds). The Coverage Supervisor monitors the existence of the required coverage for the mortgage bonds and the registration of (i) the mortgaged property items that serve as a collateral for the mortgage bonds (i.e. through securing the mortgage loans which constitute the ordinary coverage of mortgage bonds), (ii) the data and lending value of these mortgaged property items and (iii) the ordinary and supplementary coverage to the coverage registry. The commissioning of the Coverage Supervisor is valid with the authorisation granted by the HFSA. The Coverage Supervisor of the Issuer is KPMG Hungária Kft., 1139 Budapest, Váci út 99.

A security has to meet certain formal requirements in order to qualify as a mortgage bond. One of these requirements is the certification of the Coverage Supervisor on the mortgage bond that the level of prescribed coverage is appropriate and such coverage is registered in the registry of coverage.

Valuation of the coverage items

The Mortgage Credit Institution Act and the Credit Institution Act provide for the valuation of coverage items. The principles and methods for the establishment of lending value are regulated by law: by Decree No. 25/1997. (VIII.1.) of the Ministry of Finance on the principles for the methodology applicable to the establishment of the lending value of real estate not qualifying as agricultural land and by the Decree No. 54/1997. (VIII.1.) of the Ministry of Agriculture on the principles for the methodology of the establishment of the lending value of agricultural land. Accordingly, the key tasks for the valuation of the coverage items are as follows:

(a) preliminary evaluation of the acceptability of the coverage item from the aspect of legal requirements (as a general rule, the Issuer accepts only unencumbered real estate);

(b) assessment of the long-term permanent nature of the value of the real estate;

(c) the time requirement for the sale of the real estate;

(d) establishment of its lending value.

Registration of Coverage Items

Pursuant to the applicable legal requirements, the Issuer maintains a coverage registry for (i) the mortgaged property items securing the ordinary coverage for the mortgage bonds and for (ii) the value of the ordinary and (iii) supplementary coverage. The coverage registration rules of the Issuer were approved by the Board of Directors (resolution number is 11/2007, and by the HFSA by its Resolution No. E-I-886/2007 with effect from 17 September 2007 and have been reviewed by the Coverage Supervisor. The statements of the coverage registry of the Issuer record, at a portfolio level and on an individual basis, the updated data of the coverage items underlying the mortgage bonds. The aim of the portfolio level statements is to check compliance with the proportionateness requirements and that of the maturity matching between the mortgage bonds and the credit receivables.

Secured Position of a Holder of Mortgage Bonds in the Ranking of Creditors

The Mortgage Credit Institution Act provides for the rules applicable in the case of the insolvency of a mortgage credit institution, as follows:

Liquidation proceedings against a mortgage credit institution shall be governed by the rules applicable to the liquidation of credit institutions with the following differences:

The court will appoint a coverage administrator (the **Coverage Administrator**, in Hungarian: *fedezeti gondnok*), whose main objective is to ensure the satisfaction of all of the claims of the holders of the mortgage bonds in due course. The Coverage Administrator will be the only person entitled to dispose over those assets of the Issuer which constitute the coverage over the mortgage bonds.

The Coverage Administrator will satisfy the claims of the holders of the mortgage bonds and the contracting parties of those derivative transactions which were registered in the registry of coverage as being part of the ordinary coverage. The claims of these contracting parties will rank *pari passu*, with the claims of the holders of mortgage bonds in right of satisfaction.

After the settlement of the fee of the Coverage Administrator, the costs of the independent Coverage Supervisor, the costs of registration and enforcement of the claims of the holders of the mortgage bonds, the following items must be used exclusively for the settlement of the liabilities owed to holders of the mortgage bonds and contracting parties of derivative transaction included in the coverage:

(a) ordinary and supplementary coverage registered in the coverage registry on the date of the commencement of the liquidation; and

(b) the portion of the ordinary coverage which could not be taken into account as ordinary coverage for the reason that they exceed 60 per cent. or 70 per cent. of lending value statutory limit until which a receivable may account for ordinary coverage and those parts of the liquid assets of the mortgage credit institution that exist at the time of the commencement of the liquidation and that did not account for coverage but satisfy the requirements set out by the Mortgage Credit Institution Act for supplementary coverage.

The coverage and the liquid assets defined in (a) and (b) above do not constitute part of the liquidation assets (for further details see "*Detailed Rules of the Coverage System Relating to the Mortgage Securities*"). The Coverage Administrator will satisfy the claims arising from the mortgage bonds on the dates for interest payment and redemption indicated on the mortgage bond.

Special Status of the Mortgage Bonds

As a summary of the rules laid out in this section, the following is a list of the seven basic pillars on which the special strength and security of mortgage bonds rely:

(1) ***Coverage system***

Please see a detailed description of the coverage system under Section "*Detailed Rules of the Coverage System relating to the Mortgage Securities*".

(2) ***Strictly defined coverage proportions***

From among the coverage items, the supplementary coverage may only account for a maximum of 20 per cent. from the third year of the operation of the bank, while in accordance with Section 14 (7) of the Mortgage Credit Institution Act, the mortgage bond refinancing limit (i.e. the amount of (i) principal receivables arising from mortgage loans or (ii) repurchase price of individual/independent liens which may be considered as a collateral coverage) may be up to 60 per cent. or 70 per cent. respectively of the lending value in the case of each loan if the aforementioned amount of (i) principal receivables or (ii) repurchase price exceeds 60 per cent. of the lending value of the real estate.

(3) ***Independent Coverage Supervisor***

The registration, current portfolio and the mortgage bond issues are supervised and controlled by the independent Coverage Supervisor appointed to provide for the protection of the investors.

(4) ***Special status of the holders of mortgage bonds***

Pursuant to the amendment of the Mortgage Credit Institution Act effective from 1 January 2007, the claims arising from the mortgage bonds and those derivative agreements that were registered in the coverage registry will be settled, by a Coverage Administrator appointed by the court, separately from the liquidation proceeding. Please see a detailed description of the Coverage Administrator and the liquidation process of a mortgage bank under "*Detailed Rules of the Coverage System relating to the Mortgage Securities*".

If all of the above-mentioned claims have been settled, the remaining assets will be transferred to the liquidation assets, where all other creditors can enforce their claims pursuant to the rules of liquidation.

(5) ***Special supervision by the HFSA***

Pursuant to the Mortgage Credit Institution Act, the HFSA is obliged to carry out annually a special on-site audit of the mortgage credit institutions on the basis of an audit plan determined by the HFSA.

(6) ***Increased publicity***

A mortgage credit institution is obliged to provide information to the HFSA and to the public periodically in each quarter, regarding the aggregate amount of the nominal value and interest outstanding but not due of the outstanding, mortgage bonds in circulation and the value of the available coverage items certified by the coverage supervisor.

There are no recent events which are to a material extent relevant to the evaluation of the Issuer's solvency.

(7) ***Specialised credit institution***

Mortgage bonds can only be issued by mortgage credit institutions with certain content requirements set out by the Mortgage Credit Institutions Act. If any of the elements of the statutory content are missing, the bond will not qualify as a mortgage bond.

Additionally, a mortgage credit institution is only able to pursue those activities which are listed in the Mortgage Credit Institutions Act. Therefore, the operation of a mortgage credit institution is restricted as compared to the operation of a non-specialised credit institution, thereby ensuring a less risky operation to the mortgage credit institution.

Mortgage Securities created in an EEA Member State other than Hungary

Pursuant to the amendment of the Mortgage Credit Institution Act which entered into force on 1 December 2007, a mortgage credit institution may issue mortgage bonds which are created in an EEA Member State other than Hungary. In such case the amendment of the Mortgage Credit Institution Act provides that certain provisions of Hungarian law shall not be applicable to the issue of such mortgage bonds and to the formal requirements to qualify a security as mortgage bonds.

Consequently, in the event the mortgage bonds are created in an EEA member state other than Hungary:

(a) section 6(3) of the Capital Markets Act, stating that publicly issued securities must be in a dematerialised and registered form, shall not be applicable;

(b) a mortgage bond need not specify the name of its owner. In such case, a mortgage bond qualifies as a registered security provided that the name of the owner of the account on which it is registered can be clearly identified; and

(c) section 12 (2) of the Mortgage Credit Institution Act, stating that coupons shall be issued in respect of interest and principal instalment payments to be made in connection with mortgage bonds created in a physical form, shall not be applicable.

DETAILED RULES OF THE COVERAGE SYSTEM 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 Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről*) (the **Mortgage Credit Institution Act**).

Mortgage credit institutions grant financial loans secured by mortgages on real estate located in the territory of the Republic of Hungary or another member state of the European Economic Area, the funds for which they procure by way of issuing mortgage bonds.

Mortgage credit institutions must at all times have ''coverage'' (*fedezet*) available at a value which is more than the equivalent of the outstanding principal and interest of all outstanding mortgage bonds. In order to achieve this the mortgage credit institution must ensure that: (a) the total amortised value of those principal claims which are taken into consideration as coverage, exceed 100 per cent. of the outstanding principal of all outstanding mortgage bonds, and (b) that the total amount of interest payable on the amortised value of those principal claims which are taken into consideration as coverage must exceed 100 per cent. of the interest payable on the outstanding principal of 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 the mortgage bonds is provided for by mortgage loans adjusted with the lending values established on the basis of detailed and strict statutory regulations. Each mortgage loan may only be taken into account as coverage to an extent not exceeding 60 per cent. of the lending value. If the mortgaged real estate is residential real estate, the mortgage loan may only be taken into account as coverage for up to 70 per cent. of the lending value. Where there is no sufficient ordinary coverage, supplementary coverage must be used on a mandatory basis, which may only comprise (a) money held on a separate blocked account at the National Bank of Hungary; (b) securities issued by the European Central Bank or the national banks of the member states of the European Union, the European Economic Area (**EEA**) and the Organisation for Economic Co-operation and Development (**OECD**); (c) securities issued by the member states or full members of the European Union, and the EEA and the OECD; (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank, European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship provided by the Hungarian government (in Hungarian: *állami készfizető kezesség*); (f) securities the principal and interest payment of which are guaranteed by any of the issuers listed in (c) and (d) above; or (g) certain loans extended with first demand suretyship provided by the Hungarian government.

The repurchase price of the individual (independent) liens may also serve as ordinary coverage. In addition, the value of derivative transactions may account for the ordinary coverage, provided that certain conditions are met and the balance of the receivables and liabilities arising from the derivative transactions on a present value basis shall not exceed 12 per cent. of the present value of the liabilities arising from the outstanding mortgage bonds in circulation. Further, the capital and the interest claims as well as management fees arising from the so–called ''connected loan'' (part of the credit facility which is granted by a state guarantee and not encumbered by the mortgage) may also serve as ordinary coverage.

The supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) money held on a separate blocked account at the National Bank of Hungary; (b) securities issued by the European Central Bank or the national banks of the member states of the European Union, the EEA and the OECD; (c) securities issued by member states or full members of the European Union, EEA and OECD (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank, 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 of which are guaranteed by any of the issuers listed in (c) and (d) above; or (g) certain loans extended with first demand suretyship provided by the Hungarian State. The total amount of claims towards any of the obligors listed in (c), (d) and (f) above may not exceed at any time 2 per cent. of the total amount of supplementary coverage.

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, also be included in the ordinary coverage.

In the event of the transformation or liquidation of a mortgage credit institution it may transfer wholly or partially to another mortgage credit institution its obligations arising from mortgage bonds and those derivative transactions which are included in the coverage. 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 contracting parties in 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 accepting the portfolio must offer new mortgage bonds on the original terms and conditions.

Effective from 1 January 2007, the following rules apply to the liquidation of mortgage credit institutions. Upon ordering the liquidation, the competent court also appoints a Coverage Administrator. In the event of the liquidation of a mortgage credit institution, claims arising from 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. It satisfies the claims arising from the mortgage bonds using the designated assets of the mortgage credit institution when the interest and principal payments become due. The contracting parties in those derivative transactions which are registered in the coverage are in the same position as the holders of the mortgage bonds with respect to their claims from such derivative transactions. The rules on satisfying claims arising from the mortgage bonds must be applied duly to satisfying claims arising from such derivative transactions.

Following the settlement of the fees of the Coverage Administrator, the fees relating to the administration and enforcement of certain claims in relation to the liquidation and the costs relating to the activities of the coverage supervisor, the following assets (the **Restricted Assets**) may be only used for the satisfaction of obligations owed to holders of mortgage bonds and contracting parties of derivative transactions included in the ordinary coverage:

(a) the ordinary and supplementary coverage registered in the coverage registry at the commencement of the liquidation;

(b) that part of the ordinary coverage which cannot be included in the coverage because it exceeds the statutory limits set out in Section 14 paragraph (7) of the Mortgage Credit Institution Act; and; those liquid assets of the mortgage credit institution which:

  (i) exist at the time of the commencement of the liquidation,

  (ii) are not included in the coverage; and

  (iii) meet the criteria for supplementary coverage.

The 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 contracting parties of derivative transactions included in the coverage are satisfied or transferred to another mortgage credit institution.

When the claims from the 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 the mortgage bonds and the relevant partners in the derivative transactions will be satisfied *pro rata* to their claims. In this case, proceeds arising from the Restricted Assets at a later stage must be paid to settle unsatisfied claims as they fall due or *pro rata* if claims fall due at the same time. In the case of late payment, the holders of the mortgage bonds may claim the default interest specified in the terms and condition of the mortgage bonds (the default interest accrued from the original maturity is payable after satisfaction of the principal and interest claims arising from 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 from 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 rate of the ordinary coverage in the total coverage may be less than 80 per cent. If the Coverage Administrator sells Restricted Assets, the purchase price may only be used for satisfying obligations owed to the holders of the mortgage bonds. The Coverage Administrator must take all actions in order 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 claims, irrespective of their maturity, *pro rata* to their principal claims.

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 the mortgage bonds. After two years this right is forfeited. Only the Coverage Administrator may act with respect to the assets so supplemented.

The court may only resolve on the conclusion of the liquidation proceedings and the dissolution of the mortgage credit institution, if: (a) all the claims arising from the mortgage bonds and the derivative transactions included in the coverage have been satisfied or transferred to another mortgage credit institution; or (b) all the assets serving as coverage for such claims have been distributed.

Effective from 1 January 2007, only the holders of the mortgage bonds and the contracting parties in the derivative transactions included in the coverage (to the extent of their claims arising from the mortgage bonds and such derivative transactions) may commence enforcement proceedings with respect to the Restricted Assets. Payment to these persons in the enforcement proceedings is subsequent to the payment of the statutory enforcement costs.

THE HUNGARIAN BANKING SYSTEM

The history of the Hungarian banking system

The first phase of the modernisation of the banking sector commenced in the early 1980s with the relaxation of the centralised capital allocation regime that had been established in the one-tier banking system. After two years of preparations and a year of simulation experiments, the two-tier banking system was introduced in early 1987, when banks performing their operations on a commercial basis were institutionally separated from the Hungarian National Bank (the **NBH**), which was performing the tasks of the central bank. Besides commercial banks and savings co-operatives licensed to perform a wide range of banking operations, financial institutions have appeared. The transformation of the Hungarian banking system was accompanied by an increase in the number of banks. The Act on Financial Institutions (the **Financial Institutions Act**) entered into effect in 1991 and established the foundations for regulation and supervision along with the guidelines for the Bank for International Settlements (**BIS**).

The main functions of the Financial Institutions Act were as follows: creation of a secure and prudent banking system; reinforcement of savings; strengthening of investors' trust; promotion of lending operations in conformity with the demands of economic development; expansion and upgrading of the choice of services offered by banks; regulation of undertaking risk; and expedition of the integration of the Hungarian banking system in international money and capital markets and in the international banking business.

The establishment of certain supplementary institutions promoted the strengthening of the Hungarian financial sector. They included Hitelgarancia Ltd. (Credit Guarantee Plc.), which was founded in 1992 to provide guarantees primarily for loans to medium-sized enterprises for limiting the credit risks involved with this particular segment. Országos Betétbiztosítási Alap (National Deposit Insurance Fund) has been operating since 1993, providing guarantees for both the principal and interest amounts of the bank account deposits. As a result of the implementation of Directive 2009/14/EC by an amendment of the Credit Institutions Act, the guarantee provided by the Országos Betétbiztosítási Alap on bank account deposits has been extended to a total amount of EUR 50,000 per person since 30 June 2009. Since 1993, OTIVA (National Institution Protection Fund of Savings Co-operatives), the joint organisation of savings co-operatives, has been co-ordinating legislation pertaining to savings co-operatives based on the participants' mutual interests. Eximbank and MEHIB Ltd. (Hungarian Export Credit Insurance Company) are also important supplementary institutions promoting the banking system in the areas of export credit insurance and insurance coverage against exchange rate risks.

State consolidation – twice

Owing to the portfolios of bad debts they inherited, the difficulties of the transformation of the economy, a diminishing propensity of households to save, the sizeable deficit of the budget, and the collapse of the former CMEA market, banks experienced a progressive deterioration in their positions starting in 1991. Banks suffered substantial losses as a result of the new and increasingly tough regulations and laws, and ultimately the State decided to assist the banking system. The bank consolidation scheme implemented in 1993 by the State restored the operability of banks; however, it did not improve their profitability. Consequently, this was followed by another set of State interventions. In 1994 the state effected capital increases – providing subordinated loan capital – in the majority of banks. The result was a substantial increase of State ownership in the banking sector.

From mid-1996 the balance sheet positions of banks started to gradually improve, their balance sheet totals grew, decision making improved, and consequently the quality of their lending portfolios also improved. In 1997, total balance sheet growth substantially increased, primarily due to an increasingly dynamic growth in the economy of Hungary, which started at about the same time. The privatisation of banks also accelerated in the same year, and the largest Hungarian banks were taken over by foreign owners.

In 1997 the Financial Institutions Act was replaced by the Act CXII of 1996 on Credit Institutions and Financial Enterprises (the **Credit Institutions Act**). One of its major purposes was to facilitate the Hungarian banking system's adoption of the unified banking standards of the European Union. Legislation on the Hungarian money and capital markets is aimed at helping Hungarian banks catch up with the leaders in the industry.

The development and evolution of the Hungarian banking market has been following the relevant international trends: the directives aimed at creating a single European market give preference to the universal banking model. Hungary was the first country in the region to pass new laws (regulating certain specialist lending institutions, home savings funds and mortgage loan institutions), which promoted specialisation, and at the same time – in line with the principle of universal banking – enabled lending institutions to provide traditional investment banking services, to trade in securities and to participate in the public issuance of securities as lead managers or co-managers. The provision of investment services is regulated by Act CXXXVIII of 2007 on Investment Firms and Commodity Service Providers and on the rules of their activity (the **Investment Firms Act**). From the three types of credit institutions (banks, specialised credit institutions or co-operative credit institutions), only banks are entitled to provide the full range of banking and investment services. Since 1998, foreign lending institutions have been permitted, in line with the EU standards, to establish branch offices in Hungary pursuant to European procedures. The new regulation on sovereign risks establishing the mandatory level of reserves to be generated was also introduced in 1998.

In the mid-1990s a drastic reduction began in the number of lending institutions. In the first half of 2000, the co-operative sector was primarily affected by this trend. Despite the mergers observed in the domestic banking sector in recent years, the concentration of the banking market diminished somewhat – while in 1989 the asset portfolio of the five largest lending institutions accounted for 80 per cent. of the market, in late 2000 the corresponding figure was only 50 per cent. In the period between 2002 and 2004, in the wake of some of the latest mergers (BACA-Hypobank, KHB-ABN-Amro, Erste-Postabank) concentration has increased again. With its 12 per cent. market share, the new K&H has become the second, and HVB Bank Hungary the fifth, largest banks in Hungary.

Following the phase of intensive development starting in 2000, the increase in the establishment of branch offices has slowed down, but competition between banks for retail customers has been intensifying. Cost cutting and staff reduction have become essential for lending institutions with diminishing profitability. The introduction and rapid spread of electronic banking services has played an important role in this process.

The effects of EU accession

The Republic of Hungary became a member of the European Union on 1 May 2004. Membership of the EU has resulted in Hungary adopting and implementing various EU directives. Changes have therefore been made to Hungarian banking law and accounting rules in order to harmonise them with EU directives. EU accession has greatly enhanced the international integration of the domestic money market and has strengthened the close relationship between credit institutions and their foreign parent banks, the majority of Hungarian banks being owned by foreign credit institutions.

As of 1 January 2006, Hungary has implemented Commission Directive 2003/6/EC on insider dealing and market manipulation (the **Market Abuse Directive**) and Commission Directive 2004/72/EC implementing directive 2003/6/EC as regards accepted market practices, the definition of insider information in relation to derivatives and commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

Within the framework of the harmonisation of the financial regulatory system, the Credit Institutions Act was amended by new rules with regard to the Hungarian central credit information system. As a result, the new rules aim to broaden the rights of individuals to receive information from the database on their registered data and to seek legal redress in case of incorrectly or unlawfully registered personal data.

The amendment to the regulation on the Hungarian central credit information system has enlarged the scope of persons that are subject to registration therewith, thereby enhancing the safety of investment credit, securities lending activities and financial stability.

In the framework of the harmonisation of national law with EU law, Hungary has implemented Directive 2004/39/EC on markets in financial instruments (the **MiFID**) and Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the **Transparency Directive**). Hungary has implemented the Transparency Directive by means of implementing Directive 2007/14/EC on detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Hungary has also implemented (i) Directive 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive and (ii) Directive 2007/16/EC implementing Council Directive 85/611/EEC on the co–ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (**UCITS**) as regards the clarification of certain definitions. As from 14 December 2007, Hungary implemented Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorism financing. As a result of the implementation of the above-mentioned directives, the Hungarian Parliament has passed the Investment Firms Act, which entered into force on 1 December 2007. Further, the Credit Institutions Act and the Act CXX of 2001 on the capital markets (the **Capital Markets Act**) were amended in various respects.

Supervision and regulation of the banking system

The legal framework of the present banking system is based on the Credit Institutions Act, the Investment Firm Act and the Capital Markets Act and decrees of the Finance Minister and the government. Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

In the Hungarian banking system both the NBH and the Hungarian Financial Supervisory Authority (the **HFSA**) perform supervisory functions. The two institutions supervise all of the legal entities engaged in banking in Hungary.

National Bank of Hungary

Act LVIII of 2001 on the National Bank of Hungary regulates the NBH and its current position in the system of European Central Banks. The NBH controls the volume of money in circulation and foreign exchange management; it adopts decisions and resolutions on the governance of the money market, interest rates, foreign exchange transactions and the supply of statistics. The NBH requires that all lending institutions create reserve funds amounting to a specified portion of their adjusted liabilities.

The NBH may act as a last resort to assist lending institutions faced with transitional liquidity problems. Any loan that the NBH extends to a commercial bank will become an unguaranteed obligation of the borrowing bank. Furthermore, the NBH may also grant liquidity to credit institutions in accordance with the current monetary policy through repo transactions. In addition, the NBH has ongoing consultations with the banks, and holds on-site audits in its capacity of supervisory organisation.

The NBH reviews reports filed by banks and maintains a publicly available database on the Hungarian Banking System. Furthermore, it continuously evaluates the status and publishes all information regarding the financial position and condition of Hungarian credit institutions and the Hungarian economy. The NBH also monitors compliance of credit institutions with the provisions of the Credit Institutions Act and the decrees issued by the Governor of the NBH.

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, the Republic of Hungary will accede to the ERM-II system.

The Republic of Hungary is presently at the second stage of 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 HFSA's establishment, status and activity are regulated by Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority (the **HFSA Act**).

The HFSA is an administrative agency of the government and has national jurisdiction. It is headed by a Council consisting of from three to five members and managed by the Chairman of the Council. The Chairman of the Council is elected by the Hungarian Parliament on the proposal of the Prime Minister. The other members of the Council are appointed by the President of Hungary and proposed to the President of Hungary by the Prime Minister. The Chairman of the Council reports to the government through the minister supervising the HFSA.

The Office, as administrative body of the HFSA, is responsible for the operative functioning of the HFSA. The Office is headed by the Director and two Deputy Directors. The Director and the two Deputy Directors are appointed by the Prime Minister and on the proposal of the minister supervising the HFSA.

The HFSA holds wide-ranging powers under the Credit Institutions Act, the Investment Firm Act, the HFSA Act and the Capital Markets Act to license and supervise the operation of credit institutions. Supervision of banking activities in the Republic of Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the HFSA, with the National Bank of Hungary retaining a more limited supervisory role (mainly related to the circulation of currency).

As of 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 actions in the interest of ensuring compliance with the Credit Institution Act, and to initiate proceedings. From 3 May 2009, the HFSA is obliged to conduct comprehensive inspections once in every three years including on–site audits at banks (credit institutions), specialised credit institutions, insurance companies and reinsurers. The HFSA and the NBH co-operate in performing the supervisory tasks. The licensing by the HFSA of certain financial services requires a preliminary opinion or approval from the NBH.

The HFSA can avail itself of a large choice of methods to eliminate deficiencies and irregularities detected at lending institutions: from notification and enforcement of mandatory decisions, restrictions or bans on certain functions of the offending institution, delegation of a superintendent, to the ultimate measure of withdrawing the operation licence of the credit institution. Apart from the above administrative powers, as an exceptional measure, the HFSA may also impose a fine for the infringement of legal regulations and the NBH's orders pertaining to financial services and supplementary financial services; for the failure to comply with the Credit Institutions Act, and the HFSA's decisions; or for late or insufficient compliance with the above.

In accordance with Act XIII of 2009 *on the amendment of certain acts on the supervision of the financial intermediation system* the set of circumstances and conditions which give rise to a mandatory delegation of a superintendent by HFSA have materially broadened. While earlier the HFSA exercised discretion in deciding whether it delegates a superintendent, currently, from 3 May 2009, the HFSA is obliged to delegate the superintendent upon the occurrence of the following events:

1) the solvency capital of the credit institution does not reach the mandatory level prescribed by the law; and

    1.1 the board of directors does not convene the shareholders meeting when requested by the HFSA; or

    1.2 the owner or the third country credit institution is unable to or does not intend to restore the solvency capital or the own equity of the credit institution to the mandatory level prescribed by the law or to the level prescribed by the HFSA; or

    1.3 the credit institution does not execute, or only with a significant delay or differences, the restoration plan approved by HFSA; or

2) the competent supervisory authority of the parent company of the credit institution notifies the HFSA on the occurrence of a crisis situation which jeopardises or endangers the financial stability of the parent company.

Nevertheless, there remain events when the HFSA may exercise discretion as to the delegation of a superintendent. Such events are when (i) the credit institution is in a situation where there is a chance that it may be unable to comply with its obligations, (ii) the board of directors cannot perform its tasks and this endangers the interests of the depositors, (iii) the deficiencies revealed in the accounting and internal audit systems of the credit institution are on such a great scale or are so extensive that the valuation of the real financial position of the credit institution has become impossible.

Further, the HFSA shall take appropriate measures set forth in detail in the Credit Institutions Act if the solvency capital of a credit institution does not reach 60 per cent. of the mandatory level of solvency capital (the aforementioned threshold was increased from 50 per cent. to 60 per cent. from 3 May 2009).

Banking Regulations

The Features of Regulation

The Credit Institutions Act, the Investment Firms Act and the Capital Markets Act set out the regulatory framework for the Hungarian banking system. Specific rules not regulated in detail under these Acts are set out in government decrees or decrees issued by the Ministry of Finance. The HFSA does not have the power to issue regulatory decrees, or any other legally binding regulation.

Capital Adequacy

In 2001, the Republic of Hungary harmonised its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU Directive 93/6.

According to the Credit Institutions Act and in line with European regulations, banks must have a registered capital of at least HUF 2 billion (circa EUR 7.44 million). The minimal amount of the registered capital of mortgage credit institutions shall be at least HUF 3 billion (circa EUR 11.16 million). The amount of a credit institution's equity may not be less than the minimum amount of its registered capital. If the amount of a credit institution's equity falls below the registered capital, the HFSA will give the credit institution a maximum of 18 months to bring its equity to the required level.

In order to maintain solvency and its ability to satisfy its liabilities, a credit institution must at all times have its own funds equal to the amount of the risk of the financial and investment activities it engages in, and its own funds may not in any event be less than the minimum amount of its registered capital.

Trading Book

In order to ascertain a credit institution's capital requirements, a trading book must be kept to record the investment instruments in the trading portfolio that are exposed to the market risks fundamentally connected with investment and financial services and the risks undertaken in connection with these. Only such assets (financial instruments, commodities) can be registered to the trading book, (i) which can be subject to hedging transactions and (ii) in respect of which there is no restriction on alienation.

As of 1 December 2007, a new regulation entered into force with respect to the Trading Book with the implementation of the MiFID. The new rules on the Trading Book set out in the Investment Firm Act contain further criteria for the credit institutions to elaborate new by-laws on the maintenance of the Trading Book and set out the principles that will have to be followed in the by-laws. Among the new rules, credit institutions are required to have an information, registration and valuation system ensuring the up-to-date assessment of the risks and capital requirements involved in trading. The currently operating credit institutions were permitted to remain compliant with the ''old regulations'' as before the implementation of the MiFID until 31 December 2008.

General Reserves

A credit institution must create general reserves from its after-tax profits to offset the losses incurred during its activities prior to paying dividends and shares. A credit institution must place 10 per cent. of its annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves if 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 by paragraph 76 sections (1) and (2) of the Credit Institutions Act and if it has no negative profit reserves.)

Solvency Capital and Risk Provisions

Based on the implementation of Directive 2006/49/EC of the European Parliament and of the Council passed on 14 June 2006 regarding the capital adequacy of investment firms and credit institutions (the **Capital Adequacy Directive**), a bank must have a sufficient amount of solvency capital. Act XV of 2008 on the amendment of certain acts on financial service providers introduced further amendments regarding the calculation of the solvency capital in order to harmonise the Hungarian legislation to be in line with the Directive 2006/48/EC relating to the taking up and pursuit of business of credit institutions and the Capital Adequacy Directive.

The Capital Adequacy Directive is in line with the framework agreement of the Basel Committee on Banking Supervision on the international convergence of capital measurement and capital requirements (the **Basel II**). The minimal amount of the solvency capital of credit institutions is determined by the

Credit Institutions Act. The solvency capital must be enough to secure, at all times, the risk of a bank's business activity to provide continuous solvency and to assure that the bank's obligations are fulfilled.

The solvency capital cannot be less than the minimal capital requirement of a bank and it is calculated by means of adding the capital requirements in respect of lending and partner risks, exposures registered in the trading book, market risks deriving from FX and other risks and capital requirements for operational risks.

Pursuant to the amendment of the Credit Institutions Act entered into effect on 1 July 2007, there are two methods to calculate the value of a bank's risk-weighted exposure: the Standardised Method and the Internal Ratings Based Approach. The Standardised Method is based on certain principles laid down in the Credit Institutions Act, and the Internal Ratings Based Approach is based on the previous records of a bank. In some portfolio segments it is possible to apply the two methods simultaneously for the reason that the Internal Ratings Based Approach (**IRB**) may apply the Standardised Method. Regarding the introduction of IRB approach, the HFSA has already issued its own validation hand-book (in Hungarian: *PSZÁF Validációs Kézikönyv)*.

Pursuant to the Standardised Method, each exposure must be categorised into an exposure class and each exposure class is linked to a risk category. A bank may only use the IRB Approach provided that it complies with certain conditions set out in the Credit Institutions Act and the HFSA has approved the application of the IRB Approach.

In addition to the rules in the Credit Institutions Act, Act LI of 2007 on the amendment of the Credit Institutions Act sets out further rules in accordance with the Capital Adequacy Directive pertaining to (i) the date when the amendments enter into force and (ii) the method of how the banks shall implement the calculation methods and rules introduced by the Basel II.

With respect to the IRB Approach, Act LI of 2007 sets out a progressive transition into the new regime. Pursuant to Act LI of 2007, credit institutions may continue to apply the calculation methods applicable before the implementation of the Capital Adequacy Directive during a transitional period in such a way that the minimal amount of solvency capital is continuously decreasing on a year by year basis (95 per cent. of the minimum requirement until 31 December 2007, 90 per cent. until 31 December 2008 and 80 per cent. until 31 December 2009).

Most provisions of Directive 2006/48/EC and Capital Adequacy Directive were successfully implemented into Hungarian law. The implementation measures included various levels of the available statutory instruments (e.g. amending acts adopted by the Hungarian Parliament and decrees adopted by the Ministry of Finance).

Recent laws on consumer protection against abusive unilateral amendment of loan agreements, financial lease agreements

Act XIII. of 2009 *on the amendment of certain acts on the supervision of the financial intermediation system* has introduced various restrictions of the rights of financial institutions to effect unilateral amendment in the existing loan agreements, financial lease agreements entered into between the credit institutions and retail clients or micro enterprises. Pursuant to the restrictions, the right of the credit institutions to unilaterally amend the conditions of existing customer agreements to the detriment of clients is limited to the interest rates, costs or fees and such unilateral amendment is also linked to further conditions on the part of the relevant credit institution. In respect of loan agreements financed by mortgage bonds, in case of their termination by the client on the grounds that the interest rates, costs or fees have been amended to the detriment of the client, as a general rule, the credit institution is entitled to claim its expenses arising from prepayment before maturity.

For the avoidance of doubt, such regulations imposing restrictions on the unilateral detrimental amendment rights of credit institutions in respect of their client agreements shall also apply, with respect to all client agreements falling into the above-mentioned client scope, to existing client agreements concluded before the entry into force of provisions of Act XIII. of 2009. Such unilateral amendment restrictions do not apply to loan agreements financed by mortgage bonds by virtue of a contract.

Regulation on Transactions

The Credit Institutions Act also contains limits on large exposures and the exposures related to acquisition of ownership, as well as real estate and other sorts of investment restrictions.

Legislative and Financial Measures Intended to Stabilise the Markets as a Response to the Global Financial Crisis

Financial Measures

In response to the global financial crisis, the NBH has accepted 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 the HUF and FX markets transactions, the NBH accepts as collateral the mortgage bonds issued by any entity having a close link with the respective counterparty of the NBH in a respective transaction. On that basis, the NBH has harmonised its approach as to the close link rule, with the European Central Bank (the **ECB**) .

Provision of euro liquidity through O/N FX-swap tenders

On 16 October 2008, the NBH and the ECB jointly announced their agreement which aims to support the NBH's instruments of providing euro liquidity. Pursuant to such agreement on repurchase transactions, the ECB provides a credit facility of up to EUR 5 billion to the NBH in order to provide additional support to the NBH's operations.[1]

Based on the above-mentioned agreement, the NBH has introduced an overnight FX swap facility providing euro liquidity from 16 October 2008 until withdrawal. Under such overnight FX-swap facility, the counterparties of the NBH may place, on each business day, forint amounts at a pre-determined price with the NBH, in exchange for euro amounts, in the framework of FX swap transactions. The facility is available for those domestic credit institutions falling under the Hungarian National Bank's reserve requirement that are members of VIBER or BKR.[2]

Measures adopted to enhance liquidity of the government debt securities market

The NBH and the ''Primary Dealers'' of government securities reached an agreement on 16 October 2008 about their respective roles in the market for HUF-denominated government securities. In the framework of the agreement, the Primary Dealers undertook to provide continuous market making of the government securities in order to reduce yield volatility and improve market transparency.[3]

The introduction of two credit facility tenders by the NBH

In support of the liquidity management of credit institutions, the Monetary Council of the NBH decided to introduce two credit facility tenders to be available from 21 October 2008.

The first type of tender provides a two-week, collateralised credit facility, 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 out by the NBH. The second type of tender is a six-month, floating rate collateralised credit facility for counterparty credit institutions. This six- month credit facility may also be available once a week.

Enhanced Deposit Insurance

Pursuant to the amendment of the Credit Institutions Act adopted on 13 October 2008 by the Hungarian Parliament, the guarantee provided by the National Deposit Insurance Fund (in Hungarian: *Országos Betétbiztosítási Alap*) (the **Fund**) on the so–called ''individual'' (in Hungarian:*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 entered into force on 30 June 2009.

Stand-By Arrangement with the IMF

On 28 October 2008, the European Union (**EU**) and the World Bank announced a joint financing package for Hungary subject to agreement of the International Monetary Fund's (**IMF**) Management and Executive Board. The package totalling USD 25.1 billion under a 17–month stand-by arrangement is

1 Source: www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=ecb_mnb_repo_press_release_magyarfinal

2 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

3 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

aimed at bolstering Hungary's economy. The package was approved on 6 November 2008 to avert a deepening of financial market pressures. The approval makes SDR 4.2 billion (about EUR 4.9 billion or USD 6.3 billion) immediately available and the remainder will be available in five instalments subject to quarterly reviews. The stand-by arrangement entails exceptional access to IMF resources, amounting to 1,015 per cent. of Hungary's quota, and was approved under the Fund's fast-track Emergency Financing Mechanism procedures.[4]

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 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**).[5]

NBH Arrangement with the SNB for the Provision of CHF Liquidity

Starting on 2 February 2009, the NBH joined the weekly EUR/CHF foreign exchange swap operations conducted under the umbrella of the Swiss National Bank (**SNB**). Under this arrangement, the SNB provided the NBH with Swiss francs against Euro. The EUR/CHF swap operations will be conducted with a term of seven days at a fixed price.[6]

This facility, like the ones existing between the SNB, the European Central Bank and the National Bank of Poland (*Narodowy Bank Polski*), will allow the NBH to provide Swiss franc funding to banks in its jurisdiction in the form of foreign exchange swaps.[7]

NBH Measures in Support of the Banking System

As from 5 February 2009, the NBH introduced a new longer-term instrument designed to assist Hungarian banks to access euro liquidity with six-month maturity in an amount up to EUR 5 billion. In addition, as from 20 February 2009, the NBH also accepts as collateral municipality bonds.[8]

Enhanced Liquidity through EUR/HUF Swap Tenders

From 2 March 2009, the NBH introduced six-month EUR/HUF swap tenders providing euro liquidity. Those domestic credit institutions will be eligible to participate in the weekly FX swap tenders that fulfil the specific participation criteria published by the NHB. One of the conditions precedent set by the NBH is that participating commercial banks shall undertake to maintain their domestic corporate loans portfolio throughout 2009 at least at end-2008 levels.[9]

A further criteria is that counterparty credit institutions shall undertake (i) to draw in foreign funds (liabilities) in the course of 2009 with a maturity over one year, up to the amount of the euro credit facility to be obtained by them and/or (ii) decrease the aggregate value of their foreign receivables calculated net of changes in foreign exchange rate.[10]

Legislative Measures

Financial Stabilisation Act[11]

The European Commission has approved under EC Treaty state aid rules a Hungarian legislative package intended to stabilise the markets as a response to the global financial crisis. The package will provide eligible credit institutions with new capital and guarantees on short and medium term newly issued debt, under strict conditions. The Commission found the measures to be in line with its guidance communications on state aid to overcome the financial crisis.

4 Source: official website of IMF: (http://www.imf.org/external/np/sec/pr/2008/pr08275.htm)

5 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

6 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

7 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

8 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

9 Source: official website of the Hungarian National Bank (http://www.mnb.hu)

10 Source: official website of the Hungarian National Bank (http://www.mnb.hu; http://www.mnb.hu/engine.aspx?page=fx-swap_tenderek_gyorstenderek)

11 Source: Act 104 of 2008 on the Enhancement of the Stability of the Financial Intermediation System

The first legislative step in respect of financial stabilisation was the enacting of Act 104 of 2008 on Enhancing the Stability of the Financial Intermediary System (the **Financial Stabilisation Act**).

The Financial Stabilisation Act envisages the creation of a special purpose account held with the NBH on which the Hungarian State will credit a sum of HUF 600 billion denominated in foreign currency which would be utilised between 2008-2010 from the credit facility provided by the IMF for Hungary (in the framework of the Stand-By Arrangement concluded between the IMF and the Hungarian State).

Further, the Financial Stabilisation Act introduces the following stabilisation measures which may be applied to credit institutions having their registered seat in Hungary.

Either of the two measures discussed below may only be applied, on a case by case basis, pursuant to the joint recommendation of the chairman of the board of the HFSA and the governor of the NBH.

- **recapitalisation measure** 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 it shall (i) issue ''dividend preference share(s)'' and ''voting preference share(s) with special veto right'' (for details see description below) to the State and (ii) conclude an agreement with the State which must provide for, amongst other things, the nominal value and the issue value of the two classes of preferential shares, the right of the State to delegate board members, limitations on the remuneration of the senior officers of the credit institution until the ownership of the State ceases, the detailed rules on exercising the put option and the call option by the respective parties (as indicated below). The dividend preference share(s): (i) entitle the State to a priority payment of dividend *vis-á-vis* other shareholders and in higher amount, (ii) are non-voting, (iii) the credit institution has a call option on these shares and (iv) the State has a put option towards the credit institution on these shares after five years from their issue date. The State cannot otherwise sell these shares. The voting preference share with special veto right may only be issued to the State. It does not entitle the holder to dividend, 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.

  According to the Act CLXIX of 2007 *on the fiscal budget of 2008 of the Republic of Hungary* the minister of finance may acquire ownership or any other participation rights in a credit institution, with the prior approval of the Hungarian government, in the name and on behalf of the Hungarian State. Any payments for such acquisitions may be performed until 31 December 2009 in an amount up to HUF 300 billion.

- **guarantee measure** to guarantee obligations of the credit institution (i) arising from a debt security or a credit facility agreement between 23 December 2008 and 31 December 2009, (ii) denominated in HUF, EUR or CHF and to be performed in the same currency, (iii) with a maturity between three months and five years. The guarantee may be provided (i) upon the request of the credit institution, (ii) provided that the credit institution's solvency capital complies with the statutory requirements, (iii) further provided that the credit institution would undertake to comply with the terms of the agreement to be entered into between the State and the relevant credit institution and (iv) the credit institution shall issue a ''voting preference share with special veto right'' to the State (if no recapitalisation has been initiated until the provision of the guarantee). The special rights attached to the voting preference share with special veto right cease to exist by law on the 31st day following the end of the guarantee period if (i) there were no disbursements by the State under the guarantee or the credit institution repaid any such disbursement (including default interest) to the State and (ii) until such date there was no capital injection provided by the State to the credit institution. The agreement to be concluded with the State must provide for, at least, (i) the fee for the guarantee (which shall be in line with the relevant recommendations and communications of the EU Commission), (ii) the nominal value and issue value of the voting preference share with special veto right to be issued, (iii) the rights attached to such special preference shares of the State and (iv) limitations on the remuneration of the senior officers of the credit institution during the term of the guarantee. The government Decree of 89/2009 lays down the rules of procedure on the state guarantee, the sample form of agreement and the sample application form.

Management Right

The Financial Stabilisation Act also provides for a third measure which may be used by the State in the event that a credit institution would fail to meet certain financial requirements specified by the Financial Stabilisation Act. In such case the government may pass a decree stating that the relevant credit institution has 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 decree. The credit institution has the right to challenge such decree before the courts). During the effective period of such government decree, the State is solely entitled to pass resolutions regarding matters normally pertaining to the competence of the shareholders' meeting of the credit institution. Further, in such an event an *ex officio* capital injection may be provided to the credit institution as set out above in the subsection ''recapitalisation measure''. Within 120 days from the effective date of the relevant government decree the shareholders of the credit institution have a put option towards the State on their shares in the credit institution. The Financial Stabilisation Act shall remain in force until 31 December 2009.

Implementation of the Directive 64/2007 (Payment Services Directive)

The implementation of the Directive 64/2007 **(Payment Services Directive)** is forthcoming. Act LXXXV of 2009 on Payment Services implements the Payment Services Directive and it will enter into force on 1 November 2009.

Upon implementation of the Payment Service Directive, it will facilitate the efficiency and security of cross–border payments.

On-demand state guarantee on a bridge loan relating to housing loans

According to Act IV of 2009 *on the on-demand state guarantee on housing loans*, the Hungarian State undertook, with effect from 28 July 2009, an on-demand guarantee financed from the central budget of the Hungarian State in respect of either (i) the payment 80 per cent. of the principal and interest payable on a so–called ''bridge loan'' provided by credit institutions to natural persons or (ii) the payment of 70 per cent. of the principal and interest payable on a so-called ''bridge loan'' provided by credit institutions to natural persons.

In both cases, the scope of eligible natural persons is determined according to the fulfilment by any such person of, among others, the below criteria;

(i) the eligible natural persons shall have lost their jobs after 30 September 2008 for reasons within the field of interest of the employer, or

(ii) alternatively, such persons will have not lost their jobs but shall certify that the altered financial position of their households temporarily does not enable them to duly repay the housing loans they have obtained.

In both events, the eligible persons shall be able to effect certain limited regular payments further on and perform other financial eligibility criteria specified by the Act IV of 2009 *on the on-demand state guarantee on housing loans*.

Eligible persons may request the provision of such a bridge loan until 30 June 2010.

TAXATION

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Mortgage Securities. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Mortgage Securities, 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 Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Mortgage Securities by non-Hungarian Holders, or the payment of interest under the Mortgage Securities 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 Mortgage Securities are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Mortgage Securities, 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 yield realised upon the redemption or sale of publicly offered and traded Mortgage Securities (**Interest Income**) is taxed at 20 per cent. Mortgage Securities listed on a regulated market of an EEA member state are considered publicly offered and traded Mortgage Securities.

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EEA member state is considered as other income (**Other Income**) which is taxable progressively (the highest tax rate is 36 per cent, which is expected to be reduced to 32 per cent. as of 1 January 2010). The capital gains realised on the sale of such Mortgage Securities is considered, as a general rule, capital gains income (**Capital Gains Income**). The tax rate applicable to Capital Gains Income is 25 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 Mortgage Securities 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 (**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 Mortgage Securities by citizens of any other Member State of the European Union is not subject to Hungarian tax where a paying agent based in Hungary is obliged to provide data to the Hungarian state tax authority on the basis of Schedule 7 of the ART.

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 Mortgage Securities 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 Mortgage Securities is not subject to tax in Hungary. As of 1 January 2010, Hungarian corporate income tax will be required to be withheld by the Payor from interest paid to corporate Holders established in a country which has no double tax convention with Hungary (with the exception of any interest paid to any Hungarian permanent establishment of such corporate Holders). The tax rate applicable to such interest will be 30 per cent. As of 28 October 2009 Hungary has a double tax convention in particular with the following countries: Albania, Australia, Austria, Azerbaijan, Belgium, Belarus, Bosnia and Herzegovina (under the former double tax convention with Yugoslavia), Brazil, Bulgaria, Canada, Czech Republic, China, Cyprus, Croatia, Denmark, East Uruguay, Egypt, Estonia, Finland, France, Germany, Greece, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia, Montenegro, Morocco, Norway, Pakistan, Poland, Portugal, Republic of Korea, Republic of Moldova, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, the Netherlands, the Philippines, Tunisia, Turkey, Ukraine, the United Kingdom and Northern Ireland, USA, Uzbekistan and Vietnam (Source: website of the Ministry of Foreign Affairs (www.kulugyminiszterium.hu)).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.

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

The 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 20 per cent. Mortgage Securities listed on a regulated market of an EEA member state are considered publicly offered and traded Mortgage Securities.

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EEA member state is considered as Other Income which is taxable progressively (the highest tax rate is 36 per cent which is expected to be reduced to 32 per cent. as of 1 January 2010). The capital gains realised on the sale or redemption of such Mortgage Securities is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 25 per cent. Pursuant to Act LXVI of 1998 on Healthcare Contributions (the Healthcare Contributions Act), Capital Gains Income realised by Hungarian resident individuals – subject to further conditions – is generally subject to 14 per cent. healthcare contributions.

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 on the Mortgage Securities will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 16 per cent, which is expected to be increased to 19 per cent. as of 1 January 2010.

According to the provisions of Act LIX of 2006 on the Extra Tax and Tax Payable on Interest Subsidies Received from Budgetary Sources Aimed to Enhance the Balance of the State Budget (the **Solidarity Tax Act**), a new tax (**Solidarity Tax**) was introduced from 1 September 2006 of 4 per cent, calculated on the basis of the pre-tax profit. The Solidarity Tax applies in general to corporate entities as determined by the Solidarity Tax Act and is expected to be abolished as of 1 January 2010.

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 Mortgage Securities.

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 Mortgage Bonds 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 of Mortgage Bonds

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 of the Mortgage Bonds, nor on accrued but unpaid interest in respect of the Mortgage Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Mortgage Bonds held by non-resident holders of Mortgage Bonds.

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 in, 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 Mortgage Bonds coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) Resident holders of Mortgage Bonds

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 of Mortgage Bonds, nor on accrued but unpaid interest in respect of Mortgage Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Mortgage Bonds held by Luxembourg resident holders of Mortgage Bonds.

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 Mortgage Bonds 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/EC 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, Belgium, 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).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirement described above.

If a payment were to be made or collected through a Member State which has adopted 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 Mortgage Securities as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement (the **Programme Agreement**) dated 29 October 2009, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Mortgage Securities. Any such agreement will extend to those matters stated under ''*Form of the Mortgage Securities*'', ''*Form of the Mortgage Bonds*'', ''*Terms and Conditions of the Mortgage Notes*'' and ''*Terms and Conditions of the Mortgage Bonds*''. 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 Mortgage Securities under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Mortgage Securities 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 the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

The Mortgage Securities 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.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Mortgage Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Mortgage Securities on a syndicated basis, the relevant lead manager, of all Mortgage Securities of the Tranche of which such Mortgage Securities are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Mortgage Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Mortgage Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Mortgage Securities, an offer or sale of such Mortgage Securities 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 Mortgage Securities or Dual Currency Interest Mortgage Securities 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 Mortgage Securities, which additional selling restrictions shall be set out in the applicable Final Terms.

Japan

The Mortgage Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law 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 Mortgage Securities, 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 Control Law (Law No. 228 of 1949), 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 Mortgage Securities 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 Mortgage Securities to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospective Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Mortgage Securities referred to in (a) to (d) 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 Mortgage Securities to the public'' in relation to any Mortgage Securities 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 Mortgage Securities to be offered so as to enable an investor to decide to purchase or subscribe the Mortgage Securities, 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 includes any relevant implementing measure in each Relevant Member State.

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 Mortgage Securities having 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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities 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 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 or 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 Mortgage Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Mortgage Securities may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Mortgage Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined in 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 Mortgage Securities or distribution of copies of the Base Prospectus or any other document relating to the Mortgage Securities 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 requirements imposed by CONSOB or other Italian authority.

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 Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities 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.

Any issue of Mortgage Securities under this Programme is purported to be made to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Mortgage Securities either at issue or subsequently on any regulated or other secondary market or through an over-the-counter transaction.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Mortgage Bonds have been duly authorised by resolution 35/2004 of the Board of Directors of the Issuer dated 30 September 2004. The update of the Programme and the issue of Mortgage Securities was authorised by resolution 13-1/2009 of the Board of Directors of the Issuer dated 31 July 2009.

Listing and admission to trading of Mortgage Securities

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 Mortgage Securities 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 a 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 non-consolidated annual audited financial statements of the Issuer in respect of the financial years ended 31 December 2007 and 31 December 2008 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited non-consolidated accounts on an annual basis;

(c) the semi-annual financial non-audited unconsolidated, condensed financial statements for the half year ended 30 June 2009;

(d) the Programme Agreement, the Agency Agreement and the KELER Agreement (as defined in the Agency Agreement);

(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 a Mortgage Bond which is neither admitted for 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 Mortgage Security and such Holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Mortgage Securities 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 Mortgage Securities 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 Mortgage Securities will be available on the website of the Luxembourg Stock Exchange, www.bourse.lu.

Clearing Systems

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 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 Mortgage Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and ISIN for each Tranche of Mortgage Securities 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 Securities 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 S.A./N.V. 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium.

Conditions for determining price

The price and amount of Mortgage Securities 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 since 30 June 2009 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2008.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Mortgage Securities (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 Deloitte Auditing and Consulting Kft. of Dózsa György út 84/c, 1068 Budapest, Hungary, who have audited the Issuer's non-consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2007 and 31 December 2008. The auditors of the Issuer have no material interest in the Issuer. Deloitte Auditing and Consulting Kft. 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 any post-issuance information, except as required by any 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

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