



OTP MORTGAGE BANK LTD.
(OTP JELZÁLOGBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)
(incorporated with limited liability in Hungary)

EUR 5,000,000,000
Euro Mortgage Securities Programme for the issuance of
Hungarian Mortgage Bonds and Mortgage Notes (*jelzáloglevelek*)
unconditionally and irrevocably guaranteed by
OTP BANK Plc.

(incorporated with limited liability in Hungary)

Under this EUR 5,000,000,000 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 payments of all amounts due in respect of the Mortgage Securities will be unconditionally and irrevocably guaranteed by OTP Bank Plc. (the **Guarantor**) pursuant to an Irrevocable Payment Undertaking dated 7 July 2010 (as amended or supplemented from time to time, the **Irrevocable Payment Undertaking**), the form of which is set out herein. See "*Form of Irrevocable Payment Undertaking*" herein.

The maximum aggregate nominal amount of all Mortgage Securities from time to time outstanding under the Programme will not exceed EUR 5,000,000,000 (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 12 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. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. 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. 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 Official List of 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 rating of certain Series of Mortgage Securities to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Mortgage Securities will be issued by a credit rating agency established in the European Union and registered under Regulation (EU) No 1060/2009 (the **CRA Regulation**) will be disclosed in the Final Terms.

The Issuer and the Guarantor 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

BNP PARIBAS

**THE ROYAL BANK OF
SCOTLAND**

Dealers

**BNP PARIBAS
CRÉDIT AGRICOLE CIB
DZ BANK AG
THE ROYAL BANK OF
SCOTLAND**

**CITIGROUP
DEUTSCHE BANK
HSBC
UBS INVESTMENT BANK**

The date of this Base Prospectus is 18 May 2012.

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

The Issuer and the Guarantor (the Responsible Persons) accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (each 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.

BNP Paribas and The Royal Bank of Scotland plc, 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 or the Guarantor 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 or the Guarantor in connection with the Programme.

No person is or has been authorised by the Issuer or the Guarantor 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, the Guarantor 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, the Guarantor 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 and/or the Guarantor. 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 the Guarantor 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 and/or the Guarantor 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 or the Guarantor 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, the Guarantor 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, the Guarantor 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 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 Issuer or any Dealer to publish or supplement a base prospectus for such offer.

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:

- (i) 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 to the Base Prospectus;
- (ii) have access to, and knowledge of, the 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;
- (iii) 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;
- (iv) understand thoroughly the terms of the Mortgage Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some 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.

All references in this document to *U.S. dollars* refer to United States dollars. All references to *HUF* and *Forint* refer to Hungarian Forint. All references to *Sterling* and *£* refer to pounds sterling. All references to *euro*, *EUR* and *€* refer

to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time.

As at 16 May 2012, the euro/HUF spot exchange rate published by the National Bank of Hungary was euro 1.00 = HUF 295.81.

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 Notes (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 Notes.

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 overallotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

TABLE OF CONTENTS

General Description of the Programme	6
Risk Factors	11
Documents Incorporated by Reference	40
Form of the Mortgage Bonds.....	45
Settlement Procedures for the Mortgage Bonds	46
Form of the Mortgage Notes	49
Form of Final Terms.....	51
Terms and Conditions of the Mortgage Bonds.....	65
Terms and Conditions of the Mortgage Notes.....	84
Description of the Issuer.....	104
Material Contracts	123
Form of irrevocable payment undertaking	124
Overview of the Hungarian Mortgage Bond Regulation.....	127
Detailed Rules of the Coverage System relating to the Mortgage Bonds.....	130
The Hungarian Banking System.....	133
Taxation.....	151
Subscription and Sale	154
General Information	157

GENERAL DESCRIPTION OF THE PROGRAMME

This section "*General Description of the Programme*" 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*)
- Irrevocable Payment Undertaking:** OTP Bank Plc. (as defined below) has issued an unconditional and irrevocable payment undertaking in respect of all outstanding and future Unsubordinated Debt Instruments (as defined therein) issued by the Issuer, including the Mortgage Securities issued under the Programme.
- Guarantor:** OTP Bank Plc. (**OTP Bank** or the **Guarantor**) was incorporated under the laws of Hungary as a company limited by shares ("*részvénytársaság*") for an unlimited period of time and registered in the Company Register under registration No Cg 01-10-041585, having its registered head office at 16 Nádor Street, Budapest, Hungary, H-1051 (telephone number: +36 1 473 5000). OTP Bank together with its Hungarian subsidiaries operate under Hungarian law, in particular under Act CXII of 1996 on credit institutions and financial enterprises, Act CXX of 2001 on the capital markets and Act CXXXVIII of 2007 on investment firms, commodity service providers and on the rules governing their activities.
- OTP Bank and its subsidiaries provide universal banking services to approximately 13 million customers through 1,431 branches, agent networks and electronic channels.
- Description:** Euro Mortgage Securities Programme for the issuance of Mortgage Bonds and Mortgage Notes.
- Arranger:** BNP Paribas
The Royal Bank of Scotland plc
- Dealers:** BNP Paribas
Citigroup Global Markets Limited
Crédit Agricole Corporate and Investment Bank
Deutsche Bank Aktiengesellschaft
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
HSBC Bank plc
The Royal Bank of Scotland plc
UBS Limited
- 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 certain risks relating to the structure of particular Series of Mortgage Securities and certain market risks.
- Risk Factors relating to the Guarantor:** There are certain risks that may affect the ability of the Guarantor to fulfil its obligations under the Irrevocable Payment Undertaking. These include risks relating to Hungary, and in particular, the banking industry therein. The Guarantor's business may be impacted by factors such as credit risk, market risk, operational risk and liquidity risk. These are set out under "*Risk Factors*" below.

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 " <i>Subscription and Sale</i> ") 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 " <i>Subscription and Sale</i> ".
Principal Paying Agent:	Deutsche Bank AG, London Branch
Programme Size:	EUR 5,000,000,000 (or its equivalent in other currencies calculated as described under " <i>General Description of the Programme</i> ") 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 " <i>Overview of Hungarian Mortgage Bonds Regulation</i> ".
Form of Mortgage Bonds:	The Mortgage Bonds will be issued in dematerialised registered form as described in " <i>Form of the Mortgage Bonds</i> ". 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 " <i>Form of the</i>

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 100,000 (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 or, as the case may be, the Guarantor will, save in certain limited circumstances 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, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The Terms and Conditions of the Mortgage Bonds and the Terms and Conditions of the Mortgage Notes will not contain a negative pledge provision.

Cross Default:

The Terms and Conditions of the Mortgage Bonds and the Terms and Conditions of the Mortgage Notes will not contain a cross default provision.

Status of the Mortgage Securities:

The Mortgage Securities will constitute direct, unconditional, 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-hitelintézetéről és a jelzáloglevélről) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*).

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 Official List of 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/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

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 for the Mortgage Bonds*" below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in "*Form of the Mortgage Notes*" below. See also "*Risk Factors – Trading in the clearing systems*".

Governing Law:

The Mortgage Securities and any non-contractual obligations arising out of or in connection with the Mortgage Securities will be governed by, and shall be 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 Bonds and the Terms and Conditions of the Mortgage Notes.

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

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its respective obligations under the Mortgage Securities issued under the Programme or, as the case may be, under the Irrevocable Payment Undertaking. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is 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 the Mortgage Securities issued under the Programme are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Mortgage Securities issued under the Programme, but the inability of the Issuer or the Guarantor 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 or the Guarantor based on information currently available to them or which they may not currently be able to anticipate, and the Issuer and the Guarantor do 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.

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

General

During the life of each Series of Mortgage Securities, the risks specified in each of the sections below may impact on such Mortgage Securities at different points in time and for different lengths of time. Each Series of Mortgage Securities may have a risk profile that changes over time. Prospective investors should seek advice from professional financial advisers in order to further discuss and understand how the risk profile of a particular Series of Mortgage Securities may affect their overall investment portfolio.

More than one risk factor may have a simultaneous effect with regard to the Mortgage Securities such that the impact of a particular risk factor may not be predictable. In addition, more than one risk factor may have a compounding effect which may not be foreseeable. No assurance can be given as to the impact that any combination of risk factors may have on the value of the Mortgage Securities.

Where the Mortgage Securities are linked to one or more Relevant Factors (as defined below), an investment in such Mortgage Securities should only be made after assessing the direction, timing and magnitude of potential future changes in the value of such Relevant Factor(s), and/or in the composition of, or the method for calculating, such Relevant Factor(s), as the return of any such investment will be dependent, *inter alia*, upon such changes.

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

A. Risks relating to the global financial crisis

The global financial system has been experiencing difficulties since August 2007, when the sub-prime mortgage financial crisis began in the United States. The financial markets have deteriorated dramatically since the bankruptcy filing by Lehman Brothers in September 2008, culminating in a global financial crisis by the second half of 2008 with unprecedented levels of illiquidity. This resulted in the collapse of equity prices of some large lenders in the mortgage industry and a severe curtailment of the availability of credit, threatening the solvency of a number of banks and other financial institutions. The credit crisis saw the availability of funding in the wholesale markets to which the Issuer, the Guarantor and the OTP Group (as defined below) had access become severely disrupted, with, in certain markets, no funding being available for extended periods of time.

The crisis has been accompanied by declines in stock markets worldwide and a loss in investment value. A change in international investor sentiment, resulting from these events, has also been widely recognised as adversely affecting the availability of capital and funding. In response to market instability and illiquidity, a number of governments have intervened in order to inject liquidity and capital into, and to stabilise, financial markets, and, in some cases, to prevent the

failure of these financial institutions. Despite such measures, the volatility and disruption of the capital and credit markets continued at unprecedented levels. In addition, recessionary conditions are still present in certain markets where the Issuer, the Guarantor and the OTP Group operate. Demand for housing loans and for residential and commercial real estate properties has also fallen considerably. Any continued deterioration in property prices in Hungary could further adversely affect the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations.

Although financial markets have shown some degree of stabilisation, the recovery has been fragile, meaning that comparatively small events can cause powerful reactions. Moreover, the effects of high national debts on the business environment cannot be entirely assessed yet.

The Issuer's, the Guarantor's and the OTP Group's business, earnings and financial condition may still be affected by the deterioration in, and uncertainty of, the global economic outlook deriving from the credit crisis.

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

Concerns over sovereign risk and the Eurozone crisis

The continuing concern as to sovereign risks in the Eurozone has also intensified progressively in recent periods, in particular in relation to Greece, Ireland, Portugal, Spain and Italy, and was compounded by concerns about the debates in the United States over raising the debt ceiling and as to the sustainability of Chinese economic growth in mid-2011. High public budget deficits and vulnerable economies necessitated rescue packages for Greece, Ireland and Portugal. Despite such assistance packages and the creation of the joint EU-IMF European Financial Stability Facility in May 2010 (which will be replaced by the permanent European Stability Mechanism from mid-2012), yields on government bonds of certain Eurozone countries, including Greece, Portugal and Spain, have continued to rise and sovereign credit default swap spreads for a number of Eurozone countries with large fiscal imbalances, such as Greece, Ireland, Italy, Portugal and Spain, have also widened progressively. The sovereign debt ratings of several European countries (including Portugal, Ireland, Spain, Greece, Italy, Slovenia and, more recently, Austria, Belgium and France) have suffered downgrades since July 2010. In addition, the United States has also experienced a downgrade in respect of its long-term sovereign credit rating. Ongoing concerns about the Eurozone sovereign crisis and uncertainties over the outcome of the Fiscal Compact recently agreed by most member states of the European Union (the EU) may also have a negative effect on economic recovery. Furthermore, the European sovereign crisis has necessitated the adoption, in a number of EU countries, of measures to reduce public debt and fiscal deficits to more sustainable levels, which might, in turn, lead to a further slowdown of, or negative, economic growth. Austerity measures in certain Eurozone countries (such as Greece) have also caused increased political instability and social unrest. If the Eurozone sovereign crisis persists or worsens, it could impede the effective implementation of stability measures and may give rise to concerns that sovereigns might become unable to obtain refinancing or new funding and may default on their existing debt. It cannot be excluded that one or more Eurozone countries may come under increasing pressure to leave the European Monetary Union or that the euro as the single currency of the Eurozone might cease to exist. Any of these developments, or the perception that any of these developments may occur, could have a material adverse effect on the economic development of the countries affected by the Eurozone sovereign crisis and could jeopardise the stability of the financial and monetary system. There is no guarantee that the market disruptions in the Eurozone, including the increase in the cost of funding for certain Eurozone countries, will not spread to other countries across the EU and to Central and Eastern European (CEE) countries outside the EU (including Ukraine and Russia), nor can there be assurance that future assistance packages will be available or sufficiently robust to address a market contagion in the Eurozone or elsewhere. Likewise, no assurance can be given that the downgrades of the sovereign ratings of Portugal, Ireland, Spain, Greece, Italy, Slovenia and, more recently, Austria, Belgium and France will not affect in a negative way the sovereign ratings assigned to the countries where the OTP Group operates and, eventually, the ratings of the OTP Group (see also "*C. Rating risk*" below). If the sovereign debt rating of the countries where the OTP Group operates were to be downgraded, such downgrades, or the perception that such downgrades may occur, would be likely to have a material effect by, potentially, depressing economic activity and restricting the availability, or increasing the costs, of funding for individuals and companies, which, in turn, could have a negative impact on the Issuer's, the Guarantor's and the OTP Group's businesses, financial condition and results of operation. The high levels of sovereign debt and/or fiscal deficit in a number of European countries, particularly in the peripheral economies of the EU, have also given rise to concerns as to the financial condition of European financial institutions and their exposure to such countries. These concerns might have a material adverse effect on the ability of European banks (including the Issuer, the Guarantor and other bank members of the OTP Group) to access the funding they need, or may increase the costs of such funding, which, in turn, may result in such banks experiencing liquidity stress. Such effects may also extend to countries outside the EU, including certain CEE

countries (including Ukraine and Russia) where the OTP Group operates. If the current concerns over sovereign and bank solvency continue to subsist, there is a danger that funding from the interbank or capital markets may become generally unavailable or available only at elevated costs, which, in turn, might have a negative impact on the OTP Group's ability to access funding and liquidity on commercially acceptable financial terms or at all. Any of the foregoing might have an adverse effect on the OTP Group's business, financial condition and results of operations.

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

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

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

In response to the severe market conditions, central banks and governments throughout the world have adopted several measures aimed at increasing liquidity in, and promoting the stability of, the financial markets. In particular, numerous governments in the European Union have provided additional capital and funding facilities to financial institutions and are implementing other measures, including increased regulatory oversight and administrative restrictions, as well as additional capital requirements. (For more information on the recapitalisation scheme for credit institutions and other legislative measures adopted in Hungary in response to the global financial crisis, see "*The Hungarian Banking System – Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures*" below.)

Such measures, if implemented, could lead to increased government ownership of, and control over, financial institutions, disparate competitive positions and further consolidation in the banking sector. Furthermore, a direct or indirect governmental acquisition of ownership in, or control over, financial institutions might result in interference with the business and commercial operations of the relevant financial institutions, which may include the imposition on such financial institutions (whether in the form of legislative measures, direct orders or guidance) of commercial, business, financial and transactional strategies and policies or the requirement to take up certain activities, which may be based (wholly or partially) on political or fiscal rather than rational, commercial or market-based considerations. No assurance can be given that the Hungarian government will not acquire directly or indirectly (whether by contractual arrangements, operation of law, on the open market or otherwise) an ownership interest in, or control over, the Guarantor as the parent bank of the OTP Group or, if it does so, it will not interfere with the business and operations of the OTP Group.

Should any of the foregoing measures materialise in the markets where the Issuer, the Guarantor and the OTP Group operate, this could have a negative impact on the Issuer's, the Guarantor's and the OTP Group's businesses, financial condition and results of operations.

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

B. Factors that may affect the Issuer's or the Guarantor's ability to fulfil its respective obligations under Mortgage Securities issued under the Programme or under the Irrevocable Payment Undertaking

Like all other banks, both the Issuer and the Guarantor are mainly exposed to credit risk, operational risk and market risk (e.g. risks from liquidity, interest rate movements and foreign exchange rate movements).

The banking industry, the markets for financial services and, therefore, the earnings and business of the Issuer, the Guarantor and the OTP Group are also affected by a number of unpredictable factors, including, *inter alia*, general economic conditions, the performance of the financial markets and the real economy, changes in laws and regulations, changes in the policies of central banks, particularly the National Bank of Hungary (the **NBH**) and the European Central Bank (the **ECB**), competitive factors, expectations in the capital markets and consumer investment and savings behaviour, in each case on a national, regional and international scale.

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

General economic and business conditions

The profitability of the Issuer's and the Guarantor's businesses could be adversely affected by a worsening of general economic conditions in Hungary, globally or in certain markets such as the European Economic Area (the **EEA**). Factors

such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the prospects of the Issuer and the Guarantor.

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

A market downturn would also be likely to lead to a decline in the volume of transactions the Issuer or the Guarantor executes and, therefore, may result in a decrease in the income it receives from fees, commissions and interest. For example, in response to the increased risk of default by borrowers on loans, which has resulted from the global financial crisis, banks have tightened lending requirements, which has, in turn, had a negative effect on the real economy, private consumption and investments in durable means of production (e.g. factories, equipment and machinery). Furthermore, lower demand for, and origination of, new loans, as a result of more stringent lending requirements may expose the OTP Group to the risk of losing customers to competitors with less strict lending requirements. Adverse economic developments may also have a negative impact on the customers of the Issuer, the Guarantor and the OTP Group in a number of ways, including, *inter alia*, their income, solvency or financial wealth, which, in turn, could reduce the credit quality of the Issuer, the Guarantor or the OTP Group and demand for the mortgage loan products of the OTP Group. An economic downturn or further financial turmoil may lead to social and economic dislocations or an erosion of confidence in financial institutions, which might also trigger 'bank runs'.

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

In addition, steep or protracted declines in the capital markets may have an adverse effect on the investment banking, securities trading, brokerage activities, asset management services and private banking operations of the OTP Group, as well as on its investment in, and sales of, products linked to financial asset performance.

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

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

Credit risk

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

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

Credit risk tends to be aggravated during periods of economic downturn or stagnation, which are typically characterised by higher rates of insolvencies and defaults.

Credit risk also includes country risk, which is the risk of losses arising from economic difficulties or political unrest in a country where the Issuer, the Guarantor or the OTP Group operates. The credit risk faced by the Guarantor and other OTP Group members is increased by the fact that a substantial part of the OTP Group's business is conducted in markets with generally higher risk.

The Issuer, the Guarantor and the OTP Group continuously monitor credit quality and operate a comprehensive risk management system. However, there is no guarantee that such monitoring and risk management will suffice at all times.

The negative development of the Issuer's, the Guarantor's and the OTP Group's operating performance, loan-loss levels, write-downs and impairments could adversely affect their results and may result in capital requirements that could constrain their operations, thereby reducing the Issuer's or the Guarantor's ability to service its respective payment obligations under the Mortgage Securities or, as the case may be, under the Irrevocable Payment Undertaking, and potentially adversely affecting the trading price of the Mortgage Securities.

Specific credit risks from the Issuer's mortgage lending business

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

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

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

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

The Issuer's and the Guarantor's current credit approval and monitoring procedures (see "*Description of the Issuer – Business overview of the Issuer – Cooperation between the Issuer and OTP Bank in mortgage loan origination*" below) focus, *inter alia*, on the borrower's cash flow and ability to repay mortgage loans in an effort to improve the quality of the Issuer's mortgage loan portfolio and mitigate future allowances for loan losses and credit impairments. However, there is no assurance that these credit approval and monitoring procedures will reduce the amount of provisions for mortgage loans that become non-performing in the future. The OTP Group, on a consolidated basis, sets aside provisions for loan losses in accordance with International Financial Reporting Standards (IFRS). The provisions made are, however, based on available information, historical data, estimates and assumptions and are subject to uncertainties and external factors. Furthermore, actual credit impairments vary over the business cycle and, due to prevailing market conditions, additional credit impairments may occur at a rate higher than that experienced in the past. Moreover, the uncertainties and unusual market conditions that have arisen in the aftermath of the global financial crisis may result in models currently used by the OTP Group for credit assessment purposes being inadequate and might have a negative impact on the OTP Group's ability to reliably assess default and credit migration risks. Future provisions for non-performing loans and an increase in the amount of allowances for credit impairments and credit impairments not covered by allowances could have a materially adverse effect on the Issuer's, the Guarantor's and the OTP Group's operating results. In addition, a downturn in the global economy would potentially result in a higher proportion of non-performing loans.

No assurance can be given that the provisions made by the OTP Group will be sufficient to cover the amount of loan losses as they occur.

Risks relating to the realisation value of collateral taken by the Issuer and members of the OTP Group

A substantial proportion of the loans originated by the Issuer, the Guarantor and other members of the OTP Group are secured by real estate as collateral.

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

For example, the fair market value of real estate which is mortgaged as security for loans, particularly in the real estate financing business, is subject to significant fluctuations over the course of time, caused in particular by changes in supply and demand, construction deficiencies and delays, land contamination and environmental hazards, leasing status (vacancies) or potential buyers and their financial resources, changes in the general legal framework such as tax treatment, and other factors that are beyond the control of the Issuer, the Guarantor and the OTP Group (such as natural disasters and terrorist attacks). Such market developments and changes may in particular reduce the value of real estate collateral. Furthermore, a continued decline in economic conditions in the markets where the OTP Group operates, an economic downturn in any industries in which borrowers of the OTP Group operate, or in markets where the real estate collateral is located, or a deterioration of the financial standing of the OTP Group's borrowers may result in decreases in the value of such collateral below the principal balance outstanding on the relevant mortgage loans. A decline in the value of collateral taken by the Issuer, the Guarantor and other members of the OTP Group or the inability of the Issuer, the Guarantor and other members of the OTP Group to obtain additional collateral may require the Issuer, the Guarantor and the OTP Group (both at the level of the OTP Group's individual members and on a consolidated basis) to reclassify the relevant loans, set aside additional provisions for loan losses and could result in increased reserve and/or capital requirements.

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

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

The ability of the Issuer, the Guarantor or the OTP Group to enforce the security interest it has taken over real estate properties may be adversely affected by regulatory or governmental measures such as the transitional moratorium and quota regime imposed in Hungary in respect of evictions and enforcement sales outside court enforcement in certain circumstances. For more information, see the subsection headed "*Risk Factors – Risk factors stemming from the Hungarian market and regulatory environment –Mortgage relief programme and early repayment scheme –Mortgage relief programme*" below. No assurance can be given that the values of the relevant real estate properties will not decline or, since origination, have not declined and it cannot be excluded that the Issuer may have to increase its loan loss provisions in the future, for example if the market value of the underlying collateral decreases, which in turn may be detrimental to the Issuer's interest revenues and its profitability.

There is no guarantee that governments or legislative bodies in other countries where the OTP Group operates will not adopt similar or other measures adversely affecting the ability of the Issuer, the Guarantor or the OTP Group to enforce any security interest it has taken over real estate property or that the Hungarian government will not introduce further restrictions in relation to foreclosure proceedings against mortgaged properties.

Any failure to recover the expected value of real estate collateral taken by the Issuer, the Guarantor or other members of the OTP Group in the case of foreclosure may expose the Issuer, the Guarantor and the OTP Group to losses, which may have a material adverse effect on the Issuer's, the Guarantor's and the OTP Group's businesses, financial condition and results of operations.

Counterparty credit risk

The Guarantor and the OTP Group routinely execute transactions (including, without limitation, securities, futures, options, currency or commodity trades, securities lending, repos, swaps, derivative contracts) with counterparties in the financial services industry, including commercial banks, investment banks, funds, brokers and dealers, as well as other institutional and corporate clients. Although the activities of the Issuer as a mortgage credit institution are strictly limited by statute (see "*Description of the Issuer – Business overview of the Issuer – Spheres of activity*" below), many of the hedging and other

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

Many of these transactions expose the Issuer, the Guarantor and the OTP Group to the risk of the relevant counterparty defaulting on its obligations prior to maturity when the Issuer, the Guarantor or a member of the OTP Group has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the Issuer, the Guarantor or a member of the OTP Group cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. Also, the Guarantor and certain members of the OTP Group permit their clients in certain transactions to purchase securities on margin, in other words, to borrow a proportion of the purchase price from the Guarantor or the relevant member of the OTP Group and to provide collateral for such credit with a set percentage of the securities purchased. During declines in securities prices, the value of the collateral securing margin purchases may fall significantly below the amount of these clients' indebtedness. The inability of such clients to provide additional collateral may expose the Guarantor or the relevant member of the OTP Group to significant losses on these margin transactions. In addition, counterparty credit risk also arises from holding debt instruments as the issuers (including financial institutions, sovereigns, supranational entities and corporations) of such debt instruments may default on their obligations thereunder due to insolvency, political events, lack of liquidity, operational failure or a number of other reasons. Furthermore, the deteriorating solvency of such counterparties may impair the efficacy of the Issuer's, the Guarantor's and the OTP Group's hedging and other risk management strategies. In addition, as a result of the global financial crisis and its aftermath, the counterparty credit risk associated with municipality borrowers of the OTP Group and issuers of municipality bonds held by the OTP Group has also increased, which might necessitate the OTP Group restructuring a certain proportion of their debts.

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

Settlement risk

Settlement risk means the possibility that the Issuer, the Guarantor or other members of the OTP Group have already paid a counterparty (for example, a bank in a securities or foreign exchange transaction) or given an irrevocable instruction for a transfer of securities, but the corresponding delivery of securities or, as the case may be, return payment does not settle at the agreed time as a consequence of default or a failure in the relevant settlement system.

Market risk

Fluctuations in debt and equity markets or changes in trading parameters influencing market prices (including, *inter alia*, interest rates, credit spreads, foreign exchange rates, bond prices, other securities and commodities prices, derivatives prices, prices of other marketable assets, indirect indicators such as implied volatility of, and correlations between, the foregoing and general financial markets liquidity risks (e.g. the possibility of obtaining needed funding or selling assets)) may affect the market value and liquidity of the Issuer's, the Guarantor's and the OTP Group's assets. Changes in interest rate levels, yield curves and spreads may affect the Issuer's, the Guarantor's and certain OTP Group members' net interest margin. Changes in currency exchange rates affect the value of assets and liabilities denominated in foreign currencies and the value of the Issuer's, the Guarantor's and the OTP Group's assets in foreign currencies.

Furthermore, the value of the real estate investments of the OTP Group and the Issuer's mortgage loan assets secured by real estate property is in particular exposed to price changes in the real estate markets.

The investment banking activities, revenues from trading operations (whether for its own account or for the account of its customers), asset-liability management activities and hedging strategies of the OTP Group (or the availability of such hedging strategies) may also be adversely affected by market volatility.

Sustained market downturns may lead to a decline in the volume of capital market transactions that the OTP Group executes for its customers and, therefore, a decrease in the revenues from commissions and spreads earned from such trades. Furthermore, the fair value of financial instruments held by the OTP Group, including bonds (government, corporate and bank bonds), equity investments, cash in various foreign currencies, investments in private equity, hedge, credit and other investment funds, commodities and derivatives are also subject to the volatility of, and correlations between, market prices and trading parameters. The financial results of the OTP Group depend, to a significant extent, on its ability to identify and mark to market with accuracy, changes in the fair value of such financial instruments caused by changes in market prices and other trading parameters. To the extent that volatile market conditions persist or recur, the fair value of the OTP Group's bond, derivative and structured credit portfolios, as well as other classes, could fall more than estimated, and therefore cause the OTP Group to record write-downs. Future valuations of the assets for which the OTP Group has already recorded or estimated write-downs, which will reflect the then-prevailing market conditions, may result in significant changes in the fair

value of these assets. Furthermore, the value of certain financial instruments are recorded at fair value, which is determined by using financial models based on assumptions, judgements and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Any of these factors could require the OTP Group to recognise further write-downs or realise impairment charges, which may have a material adverse effect on the OTP Group's business, financial condition and results of operations.

The Issuer, the Guarantor and the OTP Group have implemented risk management methods to mitigate and control these and other market risks to which the Issuer, the Guarantor and the OTP Group are also exposed. However, it is difficult to predict with accuracy any changes which may occur in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's, the Guarantor's and the OTP Group's financial performance and business operations. These developments may lead to material losses if the Issuer, the Guarantor or members of the OTP Group cannot close out deteriorating positions. Monitoring the deterioration in the value of positions taken may, at the same time, be particularly difficult in the case of assets which are not traded on stock exchanges or on organised OTC markets, such as certain derivative contracts between banks, and whose value is calculated by using financial models, rather than on the basis of publicly quoted prices. Adverse market movements and/or a failure to identify and adequately manage any of the foregoing risks may have a negative impact on the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations, and thus on the Issuer's or the Guarantor's ability to service its respective payment obligations under the Mortgage Securities or, as the case may be, under the Irrevocable Payment Undertaking.

Liquidity risk

Liquidity risk is the risk that the Issuer, the Guarantor or other members of the OTP Group will be unable to meet their obligations as they fall due, or meet their liquidity commitments only at increased costs.

Liquidity risk mainly arises from maturity mismatches in respect of the Issuer's, the Guarantor's and the OTP Group members' assets and liabilities.

A substantial part of the liquidity and funding requirements of the Issuer, the Guarantor and other members of the OTP Group is met through reliance on ongoing access to wholesale lending markets and, as the case may be, reliance on customer savings and cash transmission balances, as well as by means of the issuance of longer-term debt instruments such as bonds or mortgage bonds. The ability of the Issuer, the Guarantor and the members of the OTP Group to access wholesale and, as the case may be, retail funding sources on adequate economic terms is dependent on a variety of factors, including numerous factors beyond their control. The volume of these funding sources, in particular long-term funding, may be constrained during periods of liquidity stress. Turbulence in the global financial markets and economy may adversely affect the willingness of certain counterparties to do business with the Issuer, the Guarantor and other members of the OTP Group.

There is also the risk that term deposits placed with the Guarantor or certain other commercial bank members of the OTP Group may be withdrawn prematurely or that lending or other contingent commitments undertaken by the OTP Group may be drawn down unexpectedly. Volatility, and a tense situation, in the capital, currency and credit markets and adverse developments in the cost and availability of funding in the interbank funding markets (as has occurred, and still occurs, since the beginning of the global financial crisis) may make wholesale financing in the form of debt or equity issues or interbank loans more expensive or unavailable for the OTP Group.

Difficulties in refinancing may also cause the OTP Group to dispose of its assets at a loss, increase the rates paid on funding or limit its business activities. A lack of liquidity or refinancing opportunities may, *inter alia*, result in a limitation of business volume in the financing business, which may, in turn, lead to a reduction of the OTP Group's interest income and could adversely affect its businesses, financial position and results of operations.

Special asset-liability structure of the Issuer

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

Furthermore, as the activities of a mortgage credit institution, such as the Issuer, are strictly limited by statute (see "*Description of the Issuer – Business overview of the Issuer – Spheres of activity*" below), the Issuer may not take deposits

and, therefore, its refinancing possibilities heavily depend on its ability to issue mortgage bonds (including the Mortgage Securities) and access wholesale lending markets on adequate economic terms. To the extent that the volume of, or the Issuer's ability to access on commercially reasonable terms and/or in a timely manner, these funding sources becomes constrained, the Issuer may face funding gaps, in particular, in periods of turmoil or in the event of unexpected governmental interventions in the markets where it operates. The Guarantor, as the parent bank of the Issuer and the OTP Group, provides intragroup refinancing to the Issuer to, *inter alia*, close such funding gaps (see also "*Description of the Issuer – Business overview of the Issuer – Cooperation between the Issuer and OTP Bank in mortgage loan origination*" below). A significant decline in capital market transactions and/or liquidity stress in the wholesale lending markets or unexpected losses from governmental measures that interfere with existing contractual arrangements (such as the early repayment scheme for certain foreign currency denominated loans, recently introduced in Hungary; see "*Risk Factors – Risk factors stemming from the Hungarian market and regulatory environment – Mortgage relief programme and early repayment scheme – Early repayment scheme for certain foreign currency denominated loans*") might, therefore, necessitate the Guarantor increasing such intragroup refinancing or providing the Issuer with other forms of financial support. This may result in a diversion of funds from other businesses of the OTP Group, which may, in turn, have a negative effect on the OTP Group's businesses, financial position and results of operations.

The Issuer and OTP Group face significant refinancing and prepayment risks

Refinancing risk

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

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

In addition, present uncertainties as to the liquidity and solvency of, and the risks associated with, the banking sector in Hungary and in the CEE region may result in an outflow of funds and increased refinancing costs in such countries, which may have an adverse effect on the Issuer's, the Guarantor's and the OTP Group's profitability and access to refinancing.

Prepayment risk

The volatility of interest rates and foreign exchange rates will increase demands for prepayment among the Issuer's, the Guarantor's and the OTP Group's customers, which could adversely affect the Issuer's, the Guarantor's and the OTP Group's profitability.

Prepayment risk means an increasingly significant exposure for the Issuer, especially due to the legislative provisions applicable to mortgage loans which are granted to consumers (see "*The Hungarian Banking System – Consumer protection legislation in the financial sector*" below). Pursuant to the Consumer Credit Act (as defined below), consumer borrowers are entitled at any time to discharge, in whole or in part, their obligations under their credit agreements, including mortgage-backed loans. Furthermore, the provisions of the Consumer Credit Act impose limitations on the right of credit institutions to recover their losses and costs incurred as a consequence of a prepayment by consumer borrowers. This in turn requires more stringent asset-liability management, further increasing the cost of funding for the Issuer.

Any legislative measure that may facilitate prepayments and/or early repayments by borrowers or impose further restrictions on the Issuer's, the Guarantor's and the OTP Group's ability to recoup possible losses from such prepayments and/or early repayments, such as the early repayment scheme for certain foreign currency denominated loans, recently introduced in Hungary (see "*Risk Factors – Risk factors stemming from the Hungarian market and regulatory environment – Mortgage relief programme and early repayment scheme – Early repayment scheme for certain foreign currency denominated loans*"), may have an adverse effect on the financial condition and results of operations of the Issuer, the Guarantor and other members of the OTP Group.

Although liquidity risk can be mitigated to a significant extent by converging the maturities of the Issuer's, the Guarantor's and the OTP Group members' assets and liabilities or, as the case may be, the maturities of the mortgage bonds to be issued

in order that the Issuer's, the Guarantor's and the OTP Group members' overall asset-liability structure be balanced, there is no guarantee that such balance will prevail at all times.

Failure to manage liquidity risk may affect the Issuer's or the Guarantor's ability to fulfil its respective obligations under the Mortgage Securities issued under the Programme or, as the case may be, under the Irrevocable Payment Undertaking.

Interest rate risk

Interest rate risk originates primarily from the differences between the structure and/or levels of interest rates applicable in respect of the Issuer's, the Guarantor's and other OTP Group members' asset side and liability side respectively. For example, the Issuer may fund its assets with fixed and/or relatively high interest rates, by liabilities obtained at floating and/or lower interest rates, and vice versa. Interest rate risk may also arise when interest rate fixing periods on assets and liabilities do not coincide.

As with all other banks, the Issuer, the Guarantor and certain members of the OTP Group earn interest from loans and other assets, and pay interest to their creditors. Interest rates are highly sensitive to many factors beyond the Issuer's, the Guarantor's and other OTP Group members' control, including monetary policies and domestic and international economic and political conditions. As with any bank, changes in market interest rates (including changes in the difference between prevailing short-term and long-term rates) and correlations between changes in interest rates in the reference markets and those in interest margins could affect the interest rates the Issuer, the Guarantor and certain members of the OTP Group charge on their interest-earning assets in a different way to the interest rates they pay on their interest-bearing liabilities. This difference could reduce the Issuer's, the Guarantor's and other OTP Group members' net interest income.

Interest rate risks specific to the Issuer

As a consequence of its distinctive asset-liability structure, the Issuer earns interest primarily from mortgage loans and pays interest mainly to the holders of mortgage bonds. An increase in interest rates may reduce the demand for mortgage loans and the Issuer's ability to originate such loans. Conversely, a decrease in the general level of interest rates may adversely affect the Issuer through, *inter alia*, increased prepayments on the Issuer's mortgage loan portfolio. Likewise, a decrease in interest rates may affect the Issuer's ability to issue mortgage bonds.

A mismatch in interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material adverse effect on the financial condition and results of operations of the Issuer, the Guarantor and other members of the OTP Group.

Foreign exchange risk

Foreign exchange rate risk derives primarily from the fact that the assets of the Issuer, the Guarantor and the members of the OTP Group may be denominated in a currency different from those of the liabilities funding such assets. For example, lending denominated in foreign currency and funds raised in foreign currency do not necessarily mean that the Issuer's, the Guarantor's and certain other OTP Group members' receivables and obligations arise in the same currency.

The credit risk of the Issuer's, the Guarantor's and certain other OTP Group members' foreign currency-based loans is increased by the fact that the typical currency of income from customers may be different from the currency of proceeds from collateral sales.

Mortgage loans originated by the OTP Group in non-HUF currencies

The share of mortgage loans originated by the OTP Group in non-HUF currencies (primarily in CHF, EUR and JPY) represents a significant proportion of the Issuer's mortgage loan portfolio. Borrowers (whether individuals or corporations) under such loans at the same time typically receive their main income in HUF or in the respective local currencies of the CEE markets, where the OTP Group operates, which leaves them exposed to foreign exchange rate risk as there is no obligation on the part of borrowers to hedge against fluctuations in exchange rates. Movements in foreign exchange rates and a significant devaluation of HUF as against the currencies in which such loans are denominated may result in such unhedged borrowers encountering difficulties in repaying their loans, and thereby an increase in the credit risk associated with them, which could lead to borrowers being unable to meet their repayment obligations on mortgage loans and ultimately to default under such loans. As foreign currency lending to unhedged borrowers converts their exposure to movements in foreign exchange rates into an increase in the credit risk associated with such borrowers, the Issuer and the OTP Group are, besides increased credit risk, also exposed indirectly to foreign exchange risk in respect of loans denominated in non-HUF currencies. Defaults under such loans may have a negative impact on the financial results of the Issuer and the OTP Group. Moreover, recent restrictions introduced in Hungary on the conversion rates that may be applied by financial institutions in relation to foreign-currency-denominated housing loans granted to consumers, with repayments denominated, and to be fulfilled, in HUF (see "*The Hungarian Banking System – Legislative and financial measures*

intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits" below), may have a further negative impact on the Issuer's ability to recoup its cost of funding such loans.

In addition, the Issuer, the Guarantor and the OTP Group may become subject to governmental interventions and measures in the markets where they operate, which aim to alleviate the effects of increased delinquency rates on foreign currency denominated loans granted to borrowers without matching foreign currency income as a result of the significant foreign exchange rate volatility in recent periods, such as the mortgage relief programme and early repayment scheme for certain foreign currency denominated loans, which have been recently introduced in Hungary. For more information, see the subsection headed "*Risk Factors – Risk factors stemming from the Hungarian market and regulatory environment – Mortgage relief programme and early repayment scheme*" below.

The Guarantor and the OTP Group face increased foreign exchange risk resulting from CEE operations

A significant portion of the Guarantor's and the OTP Group's operations, assets and customers is located in the CEE countries, including Russia and Ukraine, and, therefore, a large proportion of the OTP Group's business and financial transactions is carried out in the local currencies of the CEE countries where the OTP Group operates, or in non-HUF currencies. This, in turn, gives rise to substantial foreign exchange risks in relation to the CEE operations of the OTP Group, the materialisation of which may have an adverse effect on the Guarantor's and the OTP Group's businesses, operations, financial condition or prospects.

In addition, because some of the OTP Group's consolidated risk-weighted assets, against which the OTP Group is required to hold a minimum level of capital, are denominated in local currencies, any significant depreciation of the currency in which such capital charges are denominated as against these local currencies may have a negative impact on the capital adequacy ratio of the Guarantor and the OTP Group.

Furthermore, movements in the exchange rates between the HUF and the local currencies of the CEE countries where the OTP Group operates might have an adverse effect on the consolidated balance sheet positions of the OTP Group and, in the longer term, on its consolidated financial results, which are stated in its functional currency, the HUF. The financial statements of the OTP Group's CEE subsidiaries are stated in their respective local currencies and their financial results, therefore, are converted into HUF for consolidation purposes.

Whilst the Issuer, the Guarantor and other members of the OTP Group seek to match the currency of their assets with that of the liabilities funding them, no assurance can be given that the Issuer, the Guarantor and the OTP Group will, at all times, be able to successfully mitigate some or all of their foreign exchange rate exposure.

Operational risk

The business operations of the OTP Group are dependent on its ability to process a large number of complex transactions across different markets in many currencies. Operations are carried out through a number of entities. Operational risk is the risk of losses (including monetary damages, reputational damage, costs, direct and indirect financial losses and/or write-downs) arising from inefficiencies, inadequacies or failures in internal processes, systems, licences from external suppliers, fraud or other criminal actions, employee error and unauthorised transactions, outsourcing, failure to properly document transactions or agreements with customers, vendors, sub-contractors, co-operation partners and other third parties, or to obtain or maintain proper authorisation, or from customer complaints, failure to comply with regulatory requirements, including, but not limited to, anti-money laundering, data protection and anti-trust regulations, conduct of business rules, equipment failures, failure to protect the assets of the OTP Group, including intellectual property rights and collateral, failure of physical and security protection, natural disasters or the failure of external systems, including those of the OTP Group's suppliers or counterparties, and failure by such suppliers and counterparties to fulfil their obligations (whether contractual or of other nature). Operational risks also include legal, personnel and environmental risks as well as risks associated with the security of information systems.

Operational risk is inherent in all activities of the Issuer, the Guarantor and the OTP Group and cannot be eliminated. In particular, as with all other credit institutions, the Issuer's, the Guarantor's and the OTP Group's activities are increasingly dependent on highly sophisticated information technology (IT) systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions. Neither the Issuer nor the Guarantor can provide assurances that such failures or interruptions will not occur or, if they do occur, they will be adequately addressed. The occurrence of any failures or interruptions could result in a loss of customer data and an inability to service the Issuer's or the Guarantor's customers, which could have a material adverse effect on the Issuer's, the Guarantor's and the OTP Group's reputation, financial condition and results of operations.

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

Legal risks relate to, *inter alia*, the validity and effectiveness of transactions entered into by the Issuer, the Guarantor or other OTP Group members and the collateral created in respect of them.

The Issuer, the Guarantor and the OTP Group are also exposed to personnel risks, in particular qualification, fluctuation, availability and motivation risks. The Issuer's, the Guarantor's and the OTP Group's current senior management team includes a number of executives who the Issuer and the Guarantor believe contribute significant experience and expertise to their management in the banking sectors in which the Issuer and the Guarantor operate. The continued success of the Issuer's, the Guarantor's and the OTP Group's businesses and the Issuer's or the Guarantor's ability to execute its business strategy will depend, in large part, on the efforts of their senior management. Compensation is a key element of retaining highly qualified employees. At the same time, recent legislation, adopted in the EU and Hungary, imposes significant restrictions as to the remuneration policies that may be applied by credit institutions (such as the Issuer, the Guarantor and other bank members of the OTP Group) including, *inter alia*, the requirement that remuneration policies be consistent with, and promote, sound and effective risk management and do not encourage risk-taking that exceeds the level of tolerated risk in respect of the relevant credit institution. Banking regulators in the European Union have also adopted, and are in the process of further developing, principles, regulations and guidance as to what is deemed sound remuneration practices and policies. As the new European framework for remuneration policies is currently being implemented, the manner in which it will be interpreted and applied is still evolving and, therefore, subject to uncertainties. Any such legislation, regulation or guidance may impose an obligation on the Issuer, the Guarantor and the OTP Group to restrict or modify their compensation policies, which may have an adverse affect on the Issuer's, the Guarantor's and the OTP Group's ability to hire, retain and motivate key employees. If a substantial portion of the Issuer's, the Guarantor's and the OTP Group's senior management leaves the Issuer, the Guarantor or the OTP Group, their business may be materially adversely affected.

Like other credit institutions, the Issuer, the Guarantor and the OTP Group have implemented comprehensive risk management strategies aimed at adequately identifying and measuring the risks they face, such as the incidence of loan losses or delinquency, and at mitigating those risks. Although the Issuer, the Guarantor and the OTP Group invest substantial time and effort in their risk management strategies and techniques, such procedures may nonetheless fail under some circumstances, particularly when confronted with risks that are not identified or anticipated.

Furthermore, the methods and models applied by the OTP Group for risk measurement and control only model reality and cannot, therefore, guarantee with any certainty that each and every risk in every circumstance will be identified, hedged and controlled. Any failure of the risk management system and strategies of the OTP Group may lead to unexpected losses from unidentified or incorrectly evaluated market developments, trends or other circumstances. In particular, an increase in financial market volatility or adverse changes in the liquidity of its assets could impair the OTP Group's ability to value certain of its assets and exposures or result in significant changes in the fair value of these assets and exposures, which may be materially different from the current or estimated fair value. Any of these factors could require the OTP Group to recognise write-downs or realise impairment charges, any of which may adversely affect its financial condition and results of operations.

Failure to manage such risks may affect the Issuer's or the Guarantor's ability to fulfil its respective obligations under the Mortgage Securities issued under the Programme or, as the case may be, under the Irrevocable Payment Undertaking.

Litigation Risk

The Issuer, the Guarantor and the OTP Group, like all other commercial entities, may from time to time be subject to litigation, whether of a substantive or vexatious nature. Such litigation, if not dismissed at an early stage or if decided contrary to the Issuer's or the OTP Group's best commercial interests, may have an adverse impact on the operations of the Issuer or the OTP Group. Furthermore, such cases may include claims or actions in which the petitioner or plaintiff has not specifically, or not in whole, quantified the penalties or damages sought (such as certain punitive class actions initiated by

the Holocaust Victims of Bank Theft against the Guarantor and other financial institutions in the United States in 2010). In these circumstances, it may, in particular, be difficult to predict the outcome of a dispute and estimate possible losses in a reliable manner and, therefore, to set aside adequate provisions for such possible losses.

Risks related to the regulatory, political, operational and competitive environment

Effect of government policy and regulation

The Issuer's, the Guarantor's and the OTP Group's businesses and earnings may be affected by measures of legislative bodies and the fiscal or other policies and other actions of various governmental and regulatory authorities in the countries in which the Issuer, the Guarantor and the OTP Group operate.

Areas where changes could have an impact include:

- (i) the monetary, interest rate and other policies of central banks and regulatory authorities in markets where the OTP Group operates;
- (ii) general changes in government or regulatory policy that may significantly influence investor decisions, in particular markets in which the OTP Group operates;
- (iii) 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;
- (iv) the costs, effects and outcomes of other regulatory reviews, actions or litigation, including any additional compliance requirements;
- (v) changes in the bankruptcy legislation in the principal markets in which the OTP Group operates and the consequences thereof;
- (vi) initiatives by local, state and national regulatory authorities or legislative bodies to revise the practices, pricing or responsibilities of financial institutions serving the interests of their consumers;
- (vii) changes in rules on competition and the pricing environment;
- (viii) further developments in the financial reporting environment;
- (ix) the expropriation, nationalisation or confiscation of assets and changes in the legislation relating to foreign ownership;
- (x) any change in a relevant jurisdiction's legislation, including, but not limited to, taxation, banking regulations, foreign exchange control and customer protection rules, in particular, legislative or administrative measures imposing restrictions and limitations on the ability of financial institutions to set their prices or recoup their costs of operation (including, *inter alia*, the imposition of caps on interest rates, exchange rates, annual percentage rates, asset management and other fees, commissions and/or fixing lending interest rates and/or linking such interest rates to reference rates with predetermined maximum spreads);
- (xi) governmental, regulatory or legislative intervention into existing contractual relations (such as, but not limited to, existing loan or deposit agreements), direct or indirect fixing (whether by legislation, administrative governmental measures or direct orders or in the form of guidance or in other forms) of foreign exchange rates, or specifying other commercial or legal terms that must be applied to, or become, by operation of law, part of, such existing agreements (such as terms under which the provision of loans, settlement of claims, repayment of deposits, repayment of loans or other banking services or operations are required to take place or provisions that give borrowers under existing loan agreements the right to reduce or defer monthly repayments (whether with or without compensation to the lender financial institution) or oblige financial institutions to provide additional lending in relation to such existing loan agreements);
- (xii) any failure or malfunction of any relevant judicial system, including, but not limited to, the failure of, or substantial delay to, court proceedings and/or in respect of enforcement procedures;
- (xiii) any circumstance resulting in judgments becoming unenforceable or any substantial delay to the enforcement of judgments rendered by any relevant court, including any courts of arbitration; and
- (xiv) other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Issuer's, the Guarantor's or the OTP Group's products and services.

The evolution of such risks may have an adverse effect on the Issuer, the Guarantor or the OTP Group or on their products and services offered or the value of their assets. Although the Issuer and the Guarantor work closely with their regulators and continuously monitor the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer and the Guarantor.

The Issuer, the Guarantor and certain members of the OTP Group are also subject to financial services laws, regulations and banking supervision and it is widely expected that there may be a substantial increase in government regulation and the supervision of the financial industry. If any violation of such regulations is detected, this may lead to higher scrutiny by the supervising authority and therefore to an increase in administrative expenses. Furthermore, should orders or fines imposed on the Issuer, the Guarantor and certain members of the OTP Group by supervisory authorities become publicly known, this may lead to a loss of confidence among clients and business partners which may also have a negative effect on the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations.

The regulatory risk, faced by the OTP Group, is further increased by the fact that a substantial proportion of the operations of the OTP Group is carried out in CEE countries, which are not members of the EU and whose financial and banking laws are not, therefore, harmonised with the relevant EU legislation as implemented in the EU member states, which may give rise to significant differences or, in certain circumstances, conflicts between EU financial and banking laws (including their application and interpretation) and the laws of CEE countries outside the EU. All this, in turn, creates uncertainty and may have a negative impact on the ability of the OTP Group to harmonise, and monitor the implementation of, its compliance policies and/or lead to increased compliance costs. Any of the foregoing may have an adverse effect on the OTP Group's results of operations.

Tightened capital adequacy requirements

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

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

Should such new global capital standards be implemented in the jurisdictions where the Issuer, the Guarantor and the OTP Group operate, this would result in more stringent capital requirements or, as the case may be, the need for additional capital injections into the Issuer, the Guarantor or other members of the OTP Group that could constrain the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations.

Furthermore, on 20 July 2011, the European Commission published a legislative proposal for a Regulation and a Directive, which, if adopted, will replace the current EU capital requirements directives (see "*The Hungarian Banking System – Main elements of the Hungarian banking regulations – Capital Adequacy – EU legislation*" below).

Significant uncertainty remains as to the implementation of some of these initiatives. To the extent certain of these measures are implemented as currently proposed or announced, in particular the changes proposed or announced by the Basel Committee, they would be expected to have a significant impact on the capital and asset-liability management of the OTP Group.

Such changes in the regulatory framework and in the way such regulations are applied may have a material effect on the OTP Group's business and operations. The implementation of these changes might also prevent the OTP Group from continuing current lines of operations, restrict the types or volume of transactions the OTP Group may execute, limit the payment of dividends by the members of the OTP Group to the Guarantor, as the parent bank of the OTP Group, or set limits on, or require the modification of, rates or fees that the OTP Group charges on loans or other financial products. As the new framework for the financial and banking laws and regulations affecting the OTP Group is currently being implemented, the manner in which those laws and related regulations will be applied to the operations of financial institutions is still evolving. No assurance can be given that such laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the OTP Group. The OTP Group may also face a substantial increase in compliance costs and potential material limitations on its ability to pursue business activities.

Changes in accounting standards

The Issuer's, the Guarantor's and the OTP Group's accounting policies and methods are fundamental to how they record and report their financial condition and results of operations. From time to time amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Issuer's, the Guarantor's and the OTP Group's

financial statements. These changes can be hard to predict and can materially impact how the Issuer, the Guarantor and the OTP Group members record and report their financial condition and results of operations.

Changes in mandatory deposit guarantee and investor compensation schemes

On 12 July 2011, the European Commission published a legislative proposal on possible amendments to the existing EU legislation on mandatory deposit guarantee and investor compensation schemes (including the provisions on their financing), which envisages, *inter alia*, faster payouts and additional ex-post contributions by credit institutions under mandatory deposit guarantee schemes and an increase in the coverage available under mandatory investor compensation schemes from EUR 20,000 to EUR 50,000 per investor.

Should such proposal lead to the adoption of the respective EU legislation, the level of the annual contributions to national deposit guarantee and investor compensation schemes by the Guarantor and certain other members of the OTP Group may increase in the future or the Guarantor and certain other members of the OTP Group may, potentially, become exposed to unexpected expenses in connection with such schemes that they participate in. It is currently unclear what effects such amendments, if implemented, would have on deposit guarantee and investor compensation schemes in which the Guarantor or certain members of the OTP Group participate. Such changes could increase the OTP Group's membership costs or, if they are perceived as adverse by the OTP Group's customers, could adversely affect the OTP Group's businesses or reputation.

Risk factors stemming from the Hungarian market and regulatory environment

Due to its size and openness, the Hungarian economy is affected by international, particularly European, market trends. Hungary's economy may, therefore, 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 the international credit markets. Furthermore, deteriorating internal and external indicators may force successive governments to adopt further austerity measures. Moreover, it may be the case that governments take economic policy, fiscal or monetary decisions that may have a negative impact on the Issuer's, the Guarantor's and the OTP Group's profitability. For example, Hungary has been significantly affected by the ongoing concerns over the Eurozone countries (see also "*Risk Factors – A. Risks relating to the global financial crisis – Concerns over sovereign risk and the Eurozone crisis*" above) due to, *inter alia*, the fact that its main export markets are Eurozone countries (primarily Germany). The cost of refinancing Hungarian public debt has also increased significantly, which has, in turn, led to the Hungarian government adopting restrictive fiscal measures with a view to reducing the level of government debt.

International trends have an immediate and powerful bearing on the development of Hungarian interest rates as well as on stock and financial market prices. Such changes have a significant effect on the Issuer's access to funds and the conditions for raising them. In an effort to mitigate its exposure to risks relating to capital markets and to expand future opportunities, the Issuer launched its mortgage bond programme in the international markets in 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 disburseable housing loans and the quality of the property portfolio through the amount of disposable income of the population. On the other hand, the state budget and balance of payments, deficits, inflation, interest rates and the volatility of the foreign exchange rate of the Hungarian forint as against other currencies will have an effect on mortgage bond issuances and on the demand for them. All these may in turn have a negative impact on the Issuer's cost of funding, and thus, ultimately, on the Issuer's profitability.

A possible negative trend in the real estate market may result in the need for increased coverage for mortgage bonds. Investors must be particularly aware of the risks deriving from changes in the economic cycle which, along with negative market trends on international capital markets, may have an effect on the volume and profitability of mortgage lending and may increase the ratio of defaulting loans.

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

Changes in the Hungarian taxation environment

The Issuer, the Guarantor and the OTP Group may, from time to time, be subject to special taxation obligations. For example, measures adopted by the Hungarian government in response to the financial crisis include the imposition of transitional tax obligations levied on the financial sector (see "*The Hungarian Banking System – Legislative and financial*

measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Special "bank tax" below).

In addition, no assurance can be given that governments or legislative bodies in other countries where the OTP Group operates will not impose similar or other special taxes on the financial sector, which may adversely affect the profitability of the OTP Group's operations in such countries. For example, Slovakia has also imposed a bank tax from 1 January 2012, the taxable basis of which is the total liabilities of a credit institution reduced by deposits covered by a deposit guarantee scheme, shareholder's equity and subordinated debt.

The imposition of such special taxes may have an adverse effect on the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations.

Changes in Hungarian housing policy

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

Mortgage relief programme and early repayment scheme

Mortgage relief programme

In mid-2011, the Hungarian government introduced a comprehensive package of measures (the **Mortgage Relief Programme**) aimed at alleviating increased borrower default on residential mortgage loans and mitigating significant potential distortions in the real estate market, which may arise from a large number of simultaneous enforcement actions resulting from such defaults. For more information, see the subsection headed "*The Hungarian Banking System – Legislative measures and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Mortgage relief programme*" below.

As part of the package, a fixed exchange rate scheme as recently modified (the **Fixed Rate Scheme**) is available for a transitional period ending on 30 June 2017 for qualifying borrowers who opt into the Fixed Rate Scheme between 1 April 2012 and 31 December 2012. Under the Fixed Rate Scheme, regular repayments on certain housing mortgage loans denominated in CHF, EUR or JPY and certain residential loans denominated in such currencies and secured by a specific state guarantee (the **Covered Mortgage Loans**) are calculated at exchange rates fixed by statute (the **Fixed Rates**) rather than at market rates. The Fixed Rate Scheme also covers certain retail housing finance leases under which the financing provided is denominated in EUR, Swiss Francs or Japanese Yen and regular lease payments are to be made in HUF.

The Fixed Rate Scheme envisages the operation of effective exchange rate bands for the Swiss Franc, EUR and Japanese Yen against the HUF and also sets statutory cap rates for these currencies above the Fixed Rates, which will, in effect, serve as the floor rates of such exchange rate bands.

The shortfall resulting from the difference between the Fixed Rates, as the effective floor rates, and the prevailing market rates (the **Shortfall**) in respect of monthly repayments of principal on Covered Mortgage Loans (the **Principal Shortfall**) will be borne by the relevant borrowers and financed by lending in HUF to such borrowers under a special 'overflow' credit line (to be provided by the relevant creditor financial institution) up to an amount which is calculated on the basis of the difference between the floor rate of the relevant exchange rate band and, up to the cap rate of that exchange rate band, the prevailing market rates for the relevant currency. Borrowings against the 'overflow' credit line will accumulate in a separate loan accumulation account and are repayable on a deferred basis.

- (i) The Shortfall in respect of monthly payments of interest (the **Interest Shortfall**) and that part of the Principal Shortfall which results from the prevailing market rates for the relevant currency exceeding the cap rate of the relevant exchange rate band will be waived by operation of law (the **Waived Shortfall**).
- (ii) The relevant creditor's losses from the Waived Shortfall will be borne by the Hungarian State and, to a certain extent, by the relevant creditor financial institutions pursuant to a loss sharing arrangement, under which 50 per cent. of that part of the Interest Shortfall which results from foreign exchange rate movements between the floor rate and the cap rate of the exchange rate band for the relevant currency will be borne by the relevant creditor

financial institutions, whilst the remaining part of the Waived Shortfall will be reimbursed to the relevant creditor financial institutions by the Hungarian State on the basis of quarterly subsequent settlement.

The Fixed Rate Scheme may expose the Issuer, the Guarantor or the OTP Group to a number of risks to the extent that a large number of its borrowers under Covered Mortgage Loans included in its mortgage loan portfolio who qualify for the Fixed Rate Scheme elect to participate in it.

As losses from the Interest Shortfall will be borne by the relevant creditor financial institutions to a certain extent, a depreciation of the HUF against CHF, EUR or JPY may lead to direct or accounting losses to the Issuer, the Guarantor or the OTP Group.

A depreciation of the HUF against CHF, EUR or JPY may also increase the Shortfall and, consequently, the amount of loans to be provided by the Issuer, the Guarantor or the OTP Group under the 'overflow' credit line attached to the relevant Covered Mortgage Loans included in its mortgage loan portfolio, which in turn may require additional funding to finance such increased lending as a result of foreign exchange movements between these currencies. Furthermore, there is no guarantee that the Issuer, the Guarantor or the OTP Group will be able to obtain sufficient funds on adequate economic terms to finance such increased lending in periods when the HUF significantly depreciates against CHF, EUR or JPY. This might require more stringent asset-liability management, which in turn may increase the funding and operational costs of the Issuer, the Guarantor and the OTP Group.

In addition, the Fixed Rate Scheme, if elected by the relevant borrowers under the Covered Mortgage Loans included in the Issuer's, the Guarantor's or the OTP Group's mortgage loan portfolio, will impose an obligation on the Issuer, the Guarantor and the OTP Group to provide additional credit under the 'overflow' credit line attached to the relevant Covered Mortgage Loans to borrowers who may already be in distress and/or to reschedule their debt servicing obligations. This in turn may also increase the Issuer's, the Guarantor's and the OTP Group's credit exposure. Furthermore, following the expiry of the Fixed Rate Scheme, when the exchange rates, at which repayments on Covered Mortgage Loans are calculated, switch back to market rates, the relevant borrowers may face significantly increased debt servicing obligations resulting from potentially still high regular repayments on their Covered Mortgage Loans (unless the HUF appreciates against CHF, EUR or, as the case may be, JPY) coupled with the need to start repaying the loans made under the 'overflow' credit line attached to such Covered Mortgage Loans. No assurance can be given that the financial situation of borrowers under the Covered Mortgage Loans included in the Issuer's, the Guarantor's and the OTP Group's mortgage loan portfolios and loan performance will recover as a result of the Fixed Rate Scheme, or that they will be able to service their monthly debt obligations on their Covered Mortgage Loans and under the corresponding 'overflow' credit line following the expiry of that scheme.

Another element of the Mortgage Relief Programme is a transitional quarterly quota regime (the **Quota Regime**), expiring on 31 December 2014, for court enforcement and non-judicial forced sales (together, the **Foreclosure Proceedings**) against residential properties mortgaged to secure housing mortgage loans granted to consumers (the **Covered Properties**). Under the Quota Regime, Foreclosure Proceedings are subject to quotas set for each creditor in respect of each county and the capital as calculated against the total number of residential properties included in the relevant creditor's mortgaged property portfolio and situated in the relevant county or, as the case may be, in the capital. The quarterly quota for each creditor will be increased annually until the expiry of the Quota Regime.

Although the Quota Regime has replaced the blanket moratorium on evictions and non-judicial forced sales previously imposed in Hungary, the quarterly quotas envisaged under the Quota Regime may still not be sufficient and may therefore result in protracted 'cleaning up' of Hungarian banks' loan books and balance sheets. This may in turn lead to higher provisioning requirements for extended periods and may constrain the Issuer's, the Guarantor's and the OTP Group's ability to provide new lending. This might be the case in particular, where a large proportion of Covered Properties, securing housing mortgage loans included in the Issuer's, the Guarantor's or the OTP Group's loan books, is concentrated in a particular county or, as the case may be, in the capital.

In addition, if, upon the expiry of the Quota Regime, Foreclosure Proceedings in respect of lots of similar mortgaged properties are initiated at the same time by credit institutions or other market participants, this may result in an oversupply in the market for real estate without sufficient demand and/or a significant decrease in prices at which the relevant mortgaged properties can be sold through such Foreclosure Proceedings. All this in turn could, at least in the medium term, adversely affect the Issuer's, the Guarantor's or the OTP Group's ability to enforce the security interest it has over real estate properties and/or on the proceeds that can be realised through Foreclosure Proceedings against the relevant mortgaged properties. Furthermore, no assurance can be given that the Hungarian government will not impose similar restrictions on Foreclosure Proceedings following the expiry of the Quota Regime.

Moreover, the Mortgage Relief Programme may also make the relevant consumer borrowers less responsible in respect of their debt servicing obligations on housing mortgage loans, as they may defer repayments on such loans and, instead, increase present consumption in the expectation of similar future restrictive and protective governmental measures.

The measures envisaged under the Mortgage Relief Programme may, to the extent implemented, expose the Issuer, the Guarantor and the OTP Group to a number of other risks. However, as the Mortgage Relief Programme are currently being implemented and the underlying legislation and the manner in which they will be applied to the relevant operations of financial institutions are still evolving, the precise nature of all risks that may arise in relation to the Mortgage Relief Programme and its potential effects on the Issuer's, the Guarantor's and the OTP Group's businesses and operations cannot be predicted or entirely assessed yet.

No assurance can be given that governments or legislative bodies in other countries where the OTP Group operates will not adopt similar or other measures adversely affecting the profitability of mortgage lending in general or that the Hungarian government will not introduce further restrictions in relation to retail mortgage loans.

Any of the foregoing may adversely affect the Issuer's, the Guarantor's and the OTP Group's profitability and may result in additional capital or reserve requirements that could constrain their businesses and operations.

Early repayment scheme for certain foreign currency denominated loans

In addition, the Hungarian government introduced an early repayment scheme (the **FX Early Repayment Scheme**) in 2011 in respect of certain retail mortgage loans (irrespective of their purpose) and certain retail residential loans secured by a specific state guarantee, which are denominated in, or linked to, CHF, EUR or JPY (the **Affected FX Loans**). The FX Early Repayment Scheme granted borrowers under Affected FX Loans an option (which was exercisable until 30 December 2011) to repay early in full the balance outstanding on their Affected FX Loans in HUF (irrespective of whether the relevant loan is to be serviced in HUF or in the currency in which it is denominated) with conversion at the respective statutory fixed exchange rates envisaged under the Fixed Rate Scheme, subject to certain conditions. These conditions included, *inter alia*, the requirement that qualifying borrowers under Affected FX Loans, by no later than 30 January 2012, either deposit with the relevant financial institution creditor the full amount outstanding on their Affected FX Loans (together with any attached credits) or present a binding, irrevocable and unconditional letter of commitment by another financial institution that has committed to lending that amount within 60 days from the early repayment notification by the relevant borrower. Furthermore, the FX Early Repayment Scheme prohibits the relevant financial institution creditor from seeking any compensation from qualifying retail borrowers to recover its losses (including losses from a possible Shortfall) resulting from the exercise of the option conferred on such borrowers under the FX Early Repayment Scheme or imposing any fee or charge in relation to such early repayment. For more details, see the subsection headed "*The Hungarian Banking System – Legislative measures and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits – Early repayment scheme*" below.

A certain proportion of losses from the FX Early Repayment Scheme is recoverable from the Hungarian State through a tax refund on the extra tax payable in the 2011 tax year by financial institutions (including credit institutions, such as the Issuer and the Guarantor) that are creditors under Affected FX Loans up to 30 per cent. and subject to an ultimate threshold equalling to the amount of such extra tax payable by them in that tax year. In the case of banking groups, the excess tax refund entitlement of a financial institution can be allocated to other eligible members of the relevant banking group, subject to certain limitations and the thresholds for such tax refund applicable to that member (see also "*The Hungarian Banking System – Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Special "bank tax"*" below). However, no assurance can be given that such tax refund will be sufficient to cover losses that the Issuer, the Guarantor, or the OTP Group may incur in relation to the FX Early Repayment Scheme or to reduce such losses to a commercially acceptable level.

As the market rates for CHF, EUR or JPY have continued to remain above the statutory fixed exchange rates in recent periods, early repayments under the FX Early Repayment Scheme have led to direct and/or accounting losses for the Issuer, the Guarantor and the OTP Group. However, the actual effects of early repayments under the FX Early Repayment Scheme on the Issuer's, the Guarantor's and the OTP Group's businesses and results of operations are influenced by a number of factors (including, *inter alia*, foreign exchange movements between the HUF and CHF, EUR or JPY at the time of the repayment of the funds financing the Affected FX Loans included in the Issuer's, the Guarantor's and the OTP Group's loan books, which have been repaid early by the relevant borrowers and can be reliably measured only upon the next financial statements of the Guarantor (as the parent bank of the OTP Group) for the first quarter of 2012 and the Issuer for the first half of 2012. Therefore, the effects of such early repayments are, at the level of the OTP Group and on a consolidated basis, disclosed in the Guarantor's (unaudited) interim management report for the period ended 31 March 2012 (incorporated by reference into this Base Prospectus) and will, on an individual institution basis in respect of the Issuer, be disclosed in the

Issuer's (unaudited) financial statements for the half year ending 30 June 2012 be disclosed in the Issuer's (unaudited) financial statements for the half year ending 30 June 2012 (see also "*Description of the Issuer – Business overview of the Issuer – Changes in relation to the FX Early Repayment Scheme*" below).

No assurance can be given that the Hungarian government will not adopt similar or other measures adversely affecting the profitability of foreign currency lending in general or that the Hungarian government will not introduce further restrictions in relation to foreign currency denominated loans. In addition, if a market perception evolves that similar measures may be introduced by the Hungarian government in the future, this may increase the risks associated with retail housing mortgage loans granted by Hungarian mortgage credit institutions, such as the Issuer, which may, in turn, reduce the sale value of such mortgage loans included in the coverage for the mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer. Any such market perception may increase the risk premium on the mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer. Furthermore, any such market perception or the risks associated with the FX Early Repayment Scheme may result in a downgrade, placement on review for possible downgrade or placement on negative watch of the ratings which relate to the Issuer, the Guarantor or issues of their financial instruments, or a downgrade or placement on negative watch of the Hungarian sovereign rating, which might, in turn, have an adverse effect on the ratings assigned to the Issuer, the Guarantor, or other members of the OTP Group or on those relating to their financial instruments. (For information on the issuer credit ratings assigned to the Issuer, see the subsection headed "*Rating developments*" at pages 99 to 101 in the section headed "*Description of the Issuer*" of the Guarantor's base prospectus dated 5 October 2011 with respect to its EUR 5,000,000,000 Euro Medium Term Note Programme (the **GEMTN Base Prospectus**), incorporated by reference into this Base Prospectus in the manner set out in "*Documents incorporated by reference*" below. See also "*Description of the Issuer – History and general introduction – Rating developments*" and "*Recent developments – Recent rating developments in respect of the Issuer, the Guarantor and certain members of the OTP Group*" and "*Risk Factors – C. Rating risk*" below.) Any of these factors might increase the Issuer's cost of refinancing and/or limit the Issuer's ability to fund itself through the issuance of mortgage bonds on adequate economic terms.

There is no guarantee that governments or legislative bodies in other countries where the OTP Group operates will not adopt similar or other measures adversely affecting the profitability of foreign currency lending in general or that the Hungarian government will not introduce further restrictions in relation to foreign currency denominated loans.

Any of the foregoing may adversely affect the Issuer's, the Guarantor's and the OTP Group's profitability and may result in additional capital or reserve requirements that could constrain their businesses and operations.

Redenomination commitment by the Hungarian Banking Association

On 15 December 2011, the Hungarian government and the Hungarian Banking Association reached an accord on, *inter alia*, measures to address the situation of distressed retail (consumer) borrowers under certain housing mortgage loans which are denominated in, or linked to, foreign currencies and in arrear for over 90 days and where the total market value of the underlying mortgaged property did not exceed HUF 20 million (approximately EUR 67,610) at the time when the mortgage loan agreement was concluded (the **Overdue FX Mortgage Loans**).

On the basis of that broad agreement, the Hungarian government introduced a redenomination scheme for Overdue FX Mortgage Loans (the **Redenomination Scheme**), under which financial institution creditors under Overdue FX Mortgage Loans (such as the Issuer and the Guarantor), will be required to redenominate Overdue FX Mortgage Loans into HUF, at an exchange rate specified by statute and to waive 25 per cent. of their claims from those Overdue FX Mortgage Loans after such redenomination by 31 August 2012, if certain conditions are met. For more information, see the subsection headed "*The Hungarian Banking System – Legislative measures and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Redenomination of certain overdue foreign currency mortgage loans*" below.

As part of this agreement, the Hungarian government introduced a tax relief from the Extra Tax levied in the 2012 tax year, which allows financial institution creditors under Overdue FX Mortgage Loans to deduct from the Extra Tax payable by them in that tax year losses from such redenomination and waiver, if effected by no later than 15 May 2012 and certain other conditions are met. This tax relief will be available up to 30 per cent. of such losses and up to an ultimate threshold equalling to the amount of Extra Tax payable by financial institution creditors under Overdue FX Mortgage Loans in the 2012 tax year. In the case of banking groups, the excess tax relief entitlement of a financial institution creditor can be allocated to other eligible members of the relevant banking group subject to certain limitations and the thresholds for such tax relief applicable to that member (see also "*The Hungarian Banking System – Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Special "bank tax"*" below). The Hungarian government also introduced a subsidised HUF-denominated remortgaging loan to remortgage

Overdue FX Mortgage Loans, which will be available to qualifying borrowers (subject to certain conditions) and may be applied for at the financial institution creditor under the relevant Overdue FX Mortgage Loan that is being remortgaged. Although this measure has been notified to the European Commission under EU state aid rules, it has not received official clearance yet and the European Commission might raise objections to it (for more information, see "*Description of the Issuer – Business overview of the Issuer – Government subsidised loan scheme*" below).

Should a large number of borrowers with Overdue FX Mortgage Loans included in the Issuer's, the Guarantor's or the OTP Group's loan book become eligible for the redenomination envisaged under the Redenomination Scheme this may lead to significant direct or accounting losses to the Issuer, the Guarantor or certain other members of the OTP Group on an individual institution basis and at the level of the OTP Group. No assurance can be given that the tax relief from the Extra Tax on account of such redenomination and waiver (whether on an individual institution basis or at the level of the OTP Group) will be sufficient to cover losses that the Issuer, the Guarantor, or the OTP Group may incur in relation thereto or to reduce such losses to a commercially acceptable level. Furthermore, there is no guarantee that the financial situation of distressed borrowers under Overdue FX Mortgage Loans included in the Issuer's, the Guarantor's and the OTP Group's mortgage loan portfolios and loan performance will recover as a result of such redenomination/remortgaging and waiver.

Any of the foregoing may adversely affect the Issuer's, the Guarantor's and the OTP Group's profitability and may result in additional capital or reserve requirements that could constrain their businesses and operations.

As the measures envisaged by the accord of 15 December 2011 between the Hungarian government and the Hungarian Banking Association are currently being implemented and the underlying legislation and the manner in which they will be applied to the relevant operations of financial institutions are still evolving, the precise nature of all risks that may arise in relation to that broad agreement and the redenomination commitment made by the Hungarian Banking Association on behalf of its bank members thereunder and their potential effects on the Issuer's, the Guarantor's and the OTP Group's businesses and operations cannot be predicted or entirely assessed yet.

The Guarantor and the OTP Group face political and economic risk

The Guarantor has subsidiaries in certain CEE countries (including Russia and Ukraine) and, as a result, the OTP Group's operations are exposed to risks common to all regions undergoing rapid political, economic and social changes, including currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic recession, local market disruption and labour unrest. As certain CEE countries (in particular Russia and Ukraine) do not possess the well-developed legal and regulatory infrastructure that would generally exist in a more matured free-market economy, the OTP Group may face uncertainty with respect to the interpretation of laws and regulations imposed in such jurisdictions and, in the event of dispute, may have limited recourse within the current or future legal and political systems, which can result in a number of risks for the OTP Group in relation to such markets. These risks include the lack of judicial and administrative guidance on interpreting legislation, a potentially higher degree of discretion on the part of governmental authorities (which could result in arbitrary or selective actions against the OTP Group, including suspension or termination of licences the OTP Group needs to operate), working with less developed bankruptcy, insolvency and corporate reorganisation procedures, including procedures for enforcing collateral and other security interests taken by the OTP Group, that are subject to abuse; and incidents or periods of high crime or corruption that could disrupt the OTP Group's ability to conduct its business effectively. The occurrence of one or more of these events may also affect the ability of the Guarantor's clients or counterparties located in the affected country or region to obtain foreign currency or credit and, therefore, to perform their obligations towards the Guarantor or other members of the OTP Group. These risks could have an adverse effect on the OTP Group's operations.

Most of the CEE countries were adversely affected by the recent worldwide economic downturn, and certain countries of the region that are members of the EU may face further challenges in coming years due, in part, to EU legal, fiscal and monetary policies, which may limit a country's ability to respond to local economic circumstances. A decrease in the availability of liquidity, the region's dependence on foreign funding, a widening of credit spreads, downgrades of the ratings assigned to a number of CEE countries and many CEE banks, as well as pressure on the region's currencies have contributed to a review of the growth prospects of the region. In particular, Ukraine has experienced a significant currency devaluation and reduction in gross domestic product, causing a deterioration of its banking system. In addition, a delay in, or the disruption of, the EU accession process in relation to Croatia (where the OTP Group also operates) may have material adverse consequences for the economy of Croatia and may, therefore, have a negative effect on the OTP Group's Croatian operations.

Integration of the OTP Group's business within Central and Eastern Europe

The acquisitions by the Guarantor in the CEE markets, and the expansion and integration of the acquired businesses, may have an impact upon the consolidated financial results of the OTP Group. The ongoing integration also requires the Guarantor to monitor the risk of these operations and incur continued capital expenditure which may give rise to execution risk in respect of implementation. There is no assurance as to the future profitability of the Guarantor's CEE acquisitions and their continued strategic viability as part of the OTP Group.

The integration of these acquisitions has involved and will involve integration challenges, particularly where management information and accounting systems differ materially from those used elsewhere in the OTP Group. Furthermore, the OTP Group may face unknown actual or potential liabilities arising from any of these acquisitions, which, in turn, may result in unexpected losses in relation to the acquired businesses. Unexpected losses or a failure to establish clear governance rules within the OTP Group and to align the strategies of the members of the OTP Group with the overall strategy of the OTP Group as a whole, as well as a failure to integrate the businesses of the OTP Group, could result in an inability to implement some or all of the OTP Group's strategic goals or to fully realise expected synergies, all of which could have a material adverse effect on the OTP Group's business, financial condition and results of operations.

Effects of competition

Credit institutions such as the Issuer and the Guarantor are subject to intense competition, which is expected to increase further in the future with the implementation of the European single market in the financial services sector. The retail home lending market is a multi-agent market (with the participation of commercial banks, mortgage credit institutions, savings banks, savings co-operatives and insurance companies). Competition is also apparent in mortgage banking. Besides local competitors, other international banks may enter the banking market in the CEE region (including Russia and Ukraine), thus increasing the pressure on the OTP Group's profit margins. In addition, a persisting downturn in the Hungarian economy may increase competitive pressure in that market through, for example, increased price pressure and/or lower business volumes for which to compete.

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

Systemic risk

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

Other risks associated with the Issuer and the Guarantor

Capital risk

The Issuer and the Guarantor bear capital risks when they have insufficient capital resources to:

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

In addition, debt and equity investors, analysts and other market professionals may require higher capital buffers due to, *inter alia*, the continued general uncertainty as to the financial services industry and the uncertain global economic conditions. Any such market perception could increase the OTP Group's borrowing costs, limit its access to capital markets or result in a downgrade in its ratings, which might have a material adverse effect on its results of operations, financial condition and liquidity. Such market perceptions may also lead to interventions by financial regulators. For example, the deterioration of the Eurozone sovereign crisis (see also "*Risk Factors – A. Risks relating to the global financial crisis –*

Concerns over sovereign risk and the Eurozone crisis" above) and its negative effects on banks' access to term funding and, consequently, the credit flow to the real economy have triggered exceptional measures by the European Banking Authority (the **EBA**) and national regulators in the EU with a view to restoring investor confidence in the EU banking system to maintain lending into the real economy. These included, *inter alia*, an EU-wide capital exercise conducted in late 2011 with the participation of several banks across the EU, including the Guarantor. The objective of this capital exercise is to create an exceptional and temporary capital buffer, as a one-off measure, to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment. This buffer would not explicitly be designed to cover losses in sovereigns but to provide reassurance to markets about the banks' ability to withstand a range of shocks and still maintain adequate capital. In addition, it is also envisaged that banks will be required to establish an exceptional and temporary buffer such that their 'Core Tier 1' capital ratio reaches a level of 9 per cent. by the end of June 2012 (see also "*Description of the Issuer – Recent developments – Other recent developments at the OTP Group*" below). Any similar measure may result in additional or more stringent capital requirements or, as the case may be, the need for additional capital injections into the Issuer, the Guarantor or other members of the OTP Group that could constrain the Issuer's, the Guarantor's and the OTP Group's financial condition and results of operations. Furthermore, lower internal credit ratings of customers, substantial market volatility, widening credit spreads, changes in the general capital adequacy regulatory framework or regulatory treatment of certain positions, changes in foreign exchange rates, decreases in collateral ratios as a consequence of the deterioration of the market value of the underlying assets, or a further deterioration of the economic environment could, *inter alia*, result in an increase in the OTP Group's risk-weighted assets, which may, in turn, potentially reduce the OTP Group's capital adequacy ratios. If the OTP Group were to experience a reduction in its capital adequacy ratios, and were not able to raise further capital, it would have to reduce its lending activities or investments in other operations.

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

The Issuer's dependence on the OTP Group

The Issuer, as a member of the OTP Group, is dependent to a significant extent on the OTP Group in relation to the origination and servicing of residential mortgage loans, financing, administration and accounting services, treasury services, hedging arrangements, equity and regulatory capital and services relating to the issuance of Mortgage Securities.

In addition, the Issuer's credit rating is, to a large extent, determined by the credit ratings assigned to the Guarantor as the Issuer's parent bank. Any decision by a rating agency to suspend, downgrade, put on negative watch or withdraw a rating which relates to the Guarantor may have an adverse effect on the Issuer's credit rating and thereby on the market value and trading price of the Mortgage Securities.

The OTP Group's pension business is subject to changes in regulations in the countries where it operates

The ability of the OTP Group to generate profit from its pension fund manager subsidiary generally depends on the aggregate amount of assets under management and the level of management fees that may be charged for pension fund management by the OTP Group. Any governmental, legislative or regulatory measure that affects the amount of assets under management or imposes restrictions on the level of such fees may have an adverse effect on the profitability of the OTP Group's pension business.

For example, the Hungarian Parliament has adopted new legislation that has substantially modified the Hungarian pension regime, which was historically based on a three-pillar system including a pay-as-you-go state pension scheme (**Pillar I**), a mandatory private pension scheme with a system of individual retirement accounts and private pension funds managed by pension fund manager companies (**Pillar II**) and a voluntary pension saving scheme (**Pillar III**).

The new legislation has, *inter alia*, lifted the obligation to join a Pillar-II pension fund and channelled assets accumulated in such funds to the Pillar-I state pension system, except where the relevant pension fund member has explicitly opted for remaining in the respective private pension fund by 31 January 2011.

In addition, the new legislation has significantly decreased, with effect from 1 January 2011, the maximum threshold for management fees that may be charged by pension fund managers from 0.8 per cent. to 0.2 per cent. (as measured against the total gross value of assets under management). For more information, see the subsection headed "*Recent developments at the OTP Group in 2011*" at pages 97 to 98 in the section headed "*Description of the Issuer*" of the GEMTN Base Prospectus, incorporated by reference into this Base Prospectus in the manner set out in "*Documents incorporated by reference*" below.

No assurance can be given that governments or legislative bodies in other countries where the OTP Group operates will not adopt similar or other measures adversely affecting the profitability of the private pension fund management business in

general or that the Hungarian government will not introduce further restrictions on the activities of private pension fund managers.

Any of the foregoing may have an adverse effect on the OTP Group's financial condition and results of operations.

Risk of impairment of goodwill

The Guarantor and the OTP Group regularly perform impairment tests on goodwill and other intangible assets at least once a year or whenever there are indications for a decrease in the value of goodwill or other intangible assets. The outcome of any impairment test model depends, *inter alia*, on key input data on macroeconomic factors and long-term growth assumptions. Should the economic conditions worsen either in any of the markets where the OTP Group operates or in general, an impairment charge or a write-down may need to be recognised with respect to goodwill of the members of the OTP Group, which may have a material adverse effect on the Group's financial position and results of operations.

C. Rating risk

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

The IMF regularly conducts reviews and holds consultations under Article IV of the Agreement of the International Monetary Fund or, as the case may be, under a credit facility or other arrangement granted by the IMF in respect of economic developments in Hungary. A possible negative outcome of these reviews or consultations or a delay in finalising any respective review or any governmental decision in relation thereto may have an adverse effect on the Hungarian economic and business environment and/or the overall assessment of Hungary and its economy. In addition, current concerns about whether Hungary will succeed in negotiating a stand-by arrangement with the IMF or precautionary balance-of-payments assistance with the EU may also have a negative effect on the assessment of Hungary and its sovereign rating. Any downgrade of the Hungarian sovereign rating may, in turn, have an adverse effect on the issuer credit ratings assigned to the Issuer, the Guarantor or certain other members of the OTP Group. Such negative changes in the ratings of the Issuer, the Guarantor or certain other members of the OTP Group may result in higher costs for interbank market transactions or limit access to interbank markets generally and could also lead to withdrawals of deposits. Such negative changes may also result in, *inter alia*, a requirement for them to provide further collateral under existing collateral arrangements for derivative transactions, which may, in turn, require additional liquidity. Furthermore, downgrades of the issuer ratings of the Issuer, the Guarantor or certain other members of the OTP Group or the ratings assigned to the securities issued by them (including the Mortgage Securities issued under the Programme) may have a negative effect on their ability to access the liquidity facilities or refinancing lines of the ECB, the NBH and/or other central banks in the countries where the OTP Group operates, in particular, if such downgrades are coupled with the introduction of more restrictive eligibility criteria for collateral that can be used for such liquidity facilities or refinancing lines.

All these may, in turn, have a negative effect on the OTP Group's businesses, financial condition and results of operations.

D. Risks relating to the Mortgage Securities issued under the Programme

Risks related to the market generally

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

The secondary market generally (liquidity risk)

An application has been made to admit the Mortgage Securities issued under the Programme to trading on the Luxembourg Stock Exchange. Regardless of whether the Mortgage Securities are listed or not, there can be no assurance that a liquid secondary market for the Mortgage Securities will develop or, if it does develop, that it will continue. In an illiquid market, an investor might not be able to sell its Mortgage Securities at any time at fair market prices or at prices that will provide it 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 that 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 the

Mortgage Securities. The possibility of selling the Mortgage Securities might additionally be restricted by country-specific reasons.

Counterparty credit risk

Investors are subject to the risk of a partial or total failure of the Issuer or the Guarantor to make interest and/or redemption payments that the Issuer or the Guarantor is obliged to make under the Mortgage Securities or, as the case may be, under the Irrevocable Payment Undertaking. The worse the creditworthiness of the Issuer, the higher the risk of loss (see also "*Factors that may affect the Issuer's or the Guarantor's ability to fulfil its respective obligations under Mortgage Securities issued under the Programme or under the Irrevocable Payment Undertaking*" above). A materialisation of the credit risk may result in the partial or total failure of the Issuer to make interest and/or redemption payments.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the 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.

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

Interest rate risks (market price risk)

The development 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 the 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.

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

Credit spread risk

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.

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, *inter alia*, the creditworthiness and rating of the Issuer and the Guarantor, the probability of default, the recovery rate, the remaining term to maturity of the Mortgage Securities and the obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation, the general level of interest rates, overall economic developments, and the currency in which the relevant obligation is denominated may also have a positive or negative effect.

Risk of suspension, interruption or termination of trading in the 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 for a number of reasons, including a violation of price limits, a breach of statutory provisions, the 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 upon a decision of the stock exchange, a regulatory authority or an application by the Issuer.

Inflationary risk

Inflation risk describes the possibility that the value of assets such as the Mortgage Securities or income thereon will decrease as inflation shrinks the purchasing value 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.

Credit ratings may not reflect all risks

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 the structure, market or additional factors discussed above, 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 credit rating agency may from time to time alter the methodology employed by it for rating the Mortgage Securities, and such modification may affect ratings attributed to the Mortgage Securities issued under the Programme.

Since the beginning of the global financial crisis, credit rating agencies have downgraded the participants in, and instruments of, the mortgage business, which has had 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.

In general, European regulated investors are restricted under Regulation (EC) No 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus and/or the Final Terms, is set out in the section titled "*Description of the Issuer*" of this Base Prospectus and will be disclosed in the Final Terms.

Form of New Global Note

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

Withdrawal of the Irrevocable Payment Undertaking

Potential investors should consider that, pursuant to the Irrevocable Payment Undertaking, the Guarantor may withdraw from its obligations under the Irrevocable Payment Undertaking on the conditions set out therein (for the full text of the Irrevocable Payment Undertaking, please see "*Form of Irrevocable Payment Undertaking*" below). Notwithstanding such expiry however, the Irrevocable Payment Undertaking shall remain in full force and effect with respect to all Mortgage Securities issued under the Programme, which are outstanding at the time of such expiry, and may not be terminated until all amounts which may be or become payable by the Guarantor under or in connection with such Mortgage Securities have been irrevocably paid in full.

Withdrawal of the Irrevocable Payment Undertaking, if exercised by the Guarantor, may have an adverse effect on the ratings assigned to the Issuer or the Mortgage Securities issued under the Programme.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) 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 rules.

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

Risks related to Mortgage Securities generally

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

Modification

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

EU Savings Directive

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

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

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any 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.

U.S. Foreign Account Tax Compliance Withholding

The Issuer and other non-U.S. financial institutions through which payments on the Mortgage Securities are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made on or after 1 January 2017 in respect of (i) any Mortgage Securities issued on or after 1 January 2013 (and (ii) any Mortgage Securities which are treated as equity for U.S. federal tax purposes, whenever issued) pursuant to the U.S. Foreign Account Tax Compliance Act (**FATCA**). This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (**FFI**) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Issuer a **Participating FFI**), (ii) the Issuer has a positive "passthru percentage" (as defined in FATCA), and (iii) (a) an investor holds a 'financial account' (which pursuant to regulations currently proposed by the IRS does not include holders of the debt of certain banking institutions) with the Issuer in respect of the Mortgage Securities and does not provide information sufficient for the Participating FFI (or the Guarantor, if payment is required under the Irrevocable Payment Undertaking) to determine whether the investor is a U.S. person or should otherwise be treated as holding a 'United States Account' of such Issuer, or (b) any FFI through which payment on such Mortgage Securities is made is not a participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Mortgage Securities is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Mortgage Securities as a result of a holder's failure to comply with these rules or as a result of the presence in the

payment chain of a non-Participating FFI, neither the Issuer nor the Guarantor nor any paying agent nor any other person would, pursuant to the conditions of the Mortgage Securities be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of Mortgage Securities should consult their own tax advisers on how these rules may apply to payments they receive under the Mortgage Securities.

The application of FATCA to Mortgage Securities issued on or after 1 January 2013 (or whenever issued, in the case of Mortgage Securities treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a Supplement to the Base Prospectus, as applicable.

Change of law

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

Trading in the clearing systems

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

In relation to any issue of Mortgage Securities which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are not integral multiples of such minimum denomination, should definitive Mortgage Securities be required to be issued, a holder who does not have an integral multiple of the minimum denomination on his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Mortgage Securities unless and until such time when his holding becomes an integral multiple of the minimum denomination.

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

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

Other risks

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

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 its home jurisdiction or in other jurisdictions in which it is required to pay taxes. The tax impact on investors generally is described under "*Taxation*" below; 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 of such 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 the 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 the reinvestment risk in the 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 the Mortgage Securities in conjunction with a multiplier greater than one or if it contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The past performance of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked 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 the 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 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 converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such conversion, this will affect the secondary market and the market value of the 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 rate to a floating rate, the spread on the Fixed/Floating Rate Mortgage Securities may be less favourable than 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 rate to a fixed rate in such circumstances, the fixed rate may be lower than the 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.

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 annual financial statements of the Issuer for each of the financial years ended 31 December 2010 and 31 December 2011 and the audit reports thereon;
- (b) the audited consolidated annual financial statements of the Guarantor for each of the financial years ended 31 December 2010 and 31 December 2011 and the audit reports thereon;
- (c) the audited unconsolidated financial statements of the Guarantor for each of the financial years ended 31 December 2010 and 31 December 2011 and the audit reports thereon;
- (d) the unaudited interim management report – first three months 2012 results of the Guarantor dated 15 May 2012;
- (e) the unaudited unconsolidated condensed financial statements of the Guarantor for the three-month period ended 31 March 2012;
- (f) the Deed of Foundation of each of the Issuer and the Guarantor translated as the Articles of Association in the English translation thereof; and
- (g) the "Description of the Issuer" section at pages 85 to 118 of the base prospectus dated 5 October 2011 issued by the Guarantor in relation to the EUR 5,000,000,000 Euro Medium Term Note Programme (the **GEMTN Base Prospectus**).

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 Official List of the Luxembourg Stock Exchange. Copies of documents of the Guarantor incorporated by reference in this Base Prospectus may be obtained free of charge upon request from the registered office of the Guarantor and from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. at 2 boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg, and available for viewing on the Guarantor's website at www.otpbank.hu. 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 of the Issuer shall be incorporated in, and form part of, this Base Prospectus:

Document	Section incorporated
Audited annual financial statements of the Issuer for the financial year ended 31 December 2010	Pages 2 to 50
– Independent Auditors' Report	Pages I to II
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the Financial Statements	Pages 8 to 50

Audited annual financial statements of the Issuer for the financial year ended 31 December 2011	Pages 2 to 54
– Independent Auditors' Report	Pages I to II
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the Financial Statements	Pages 8 to 54

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

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

Document	Section incorporated
Audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2010	Pages 2 to 92
– Independent Auditors' Report	Pages I to II
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2010	Pages 8 to 92
Audited consolidated financial statements of the Guarantor for the financial year ended 31 December 2011	Pages 2 to 100
– Independent Auditors' Report	Page 1/2 to 2/2
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the audited consolidated financial statements of the Guarantor for the financial year ended 31 December 2011	Pages 8 to 100
Audited unconsolidated annual financial statements of the Guarantor for the financial year ended 31 December 2010	Pages 2 to 79
– Independent Auditors' Report	Pages I to II

Document	Section incorporated
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the audited unconsolidated annual financial statements of the Guarantor for the financial year ended 31 December 2010	Pages 8 to 79
Audited unconsolidated financial statements of the Guarantor for the financial year ended 31 December 2011	Pages 2 to 84
– Independent Auditors' Report	Pages 1/2 to 2/2
– Financial Statements:	
– Statement of Financial Position	Page 2
– Statement of Recognised Income	Page 3
– Statement of Comprehensive Income	Page 4
– Statement of Cash Flows	Pages 5 to 6
– Statement of Changes in Shareholders' Equity	Page 7
– Notes to the audited separate financial statements of the Guarantor for the financial year ended 31 December 2011	Pages 8 to 84
Unaudited interim management report – first three months 2012 results of the Guarantor dated 15 May 2012	Pages 2 to 50
– Financial Statements:	
– Unconsolidated and Consolidated IFRS Statement of Financial Position (unaudited)	Page 37
– Unconsolidated and Consolidated IFRS Statement of Recognised Income (unaudited)	Page 38
– Unconsolidated and Consolidated IFRS Statement of Cash Flows (unaudited)	Page 39
– Unconsolidated Statement of Changes in Shareholders' Equity (unaudited)	Page 40
– Ownership Structure of the Guarantor	Page 41
– Shareholders with over/around 5% stake	Page 41
Unaudited unconsolidated condensed financial statements of the Guarantor for the three-month period ended 31 March 2012	Pages 2 to 13
– Financial Statements:	
– Unconsolidated Statement of Financial Position (unaudited)	Page 2
– Unconsolidated Condensed Statement of Recognised Income and Statement of Comprehensive Income (unaudited)	Page 3
– Unconsolidated Condensed Statement of Cash Flows (unaudited)	Page 4
– Unconsolidated Statement of Changes in Shareholders' Equity (unaudited)	Page 5
– Selected Explanatory Notes.	Pages 6 to 13

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

Cross-reference list in respect of the section "Description of the Issuer" in the GEMTN Base Prospectus

All page references in the cross-reference list below are to GEMTN Base Prospectus unless otherwise stated.

A11.4	INFORMATION ABOUT THE GUARANTOR	
A11.4.1.	<u>History and development of the Guarantor:</u>	
A11.4.1.1.	the legal and commercial name of the guarantor;	85
A11.4.1.2.	the place of registration of the guarantor and its registration number;	85
A11.4.1.3.	the date of incorporation and the length of life of the guarantor, except where indefinite;	85
A11.4.1.4.	the domicile and legal form of the guarantor, the legislation under which the guarantor operates, its country of incorporation, and the address and telephone number of its registered office (or principal place of business if different from its registered office);	85
A11.4.1.5	Any recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency	96-101
A11.5	BUSINESS OVERVIEW	
A11.5.1.	<u>Principal activities:</u>	
A11.5.1.1.	A brief description of the guarantor's principal activities stating the main categories of products sold and/or services performed;	85, 86, 105-112
A11.5.1.2.	An indication of any significant new products and/or activities.	86, 105-107
A11.5.1.3.	<u>Principal markets</u> A brief description of the principal markets in which the guarantor competes;	105-112
A11.5.1.4	The basis for any statements in the registration document made by the Guarantor regarding its competitive position.	95, 107-109
A11.6	ORGANISATIONAL STRUCTURE	
A11.6.1.	If the guarantor is part of a group, a brief description of the group and of the guarantor's position within it.	85-86, 92-95
A11.7	ORGANISATIONAL STRUCTURE	
A11.7.2	Information on any known 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.	95-112 and 136-139
A11.9	ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES	
A11.9.1.	Names, business addresses and functions in the guarantor of the following persons, and an indication of the principal activities performed by them outside the guarantor where these are significant with respect to that guarantor: (a) members of the administrative, management or supervisory bodies; (b) partners with unlimited liability, in the case of a limited partnership with a share capital.	87-92

A11.4	INFORMATION ABOUT THE GUARANTOR	
A11.9.2.	Administrative, Management, and Supervisory bodies conflicts of interests Potential conflicts of interests between any duties to the issuing entity of the persons referred to in item 9.1 and their private interests and or other duties must be clearly stated. In the event that there are no such conflicts, make a statement to that effect.	92
A11.10	MAJOR SHAREHOLDERS	
A11.10.1.	To the extent known to the guarantor, state whether the guarantor is directly or indirectly owned or controlled and by whom, and describe the nature of such control, and describe the measures in place to ensure that such control is not abused.	94-95
A11.11.6.	<u>Legal and arbitration proceedings</u> Information on any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the guarantor is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the guarantor and/or group's financial position or profitability, or provide an appropriate negative statement.	98
A.11.12	<u>MATERIAL CONTRACTS</u>	
A11.12	A brief summary of all material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or entitlement that is material to the issuer's ability to meet its obligation to security holders in respect of the securities being issued.	119

Any other information not listed above but contained in the section "*Description of the Issuer*" in the GEMTN Base Prospectus is incorporated by reference for information purposes only. Those parts of the GEMTN Base Prospectus, which are not incorporated by reference are not relevant for the investor.

The Deed of Foundation of the Issuer and the Guarantor 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.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to herein are deemed not relevant for an investor.

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 jelzáloghitelintézetéről 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 for the Mortgage Bonds*".

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 1 (Euroclear Free of Payment)

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

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

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

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

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

Version 2 (Clearstream Delivery against Payment)

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

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

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

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

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

In turn, Clearstream, Luxembourg 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 1 (Euroclear Free of Payment)

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depository will first credit the nominal amount of such Tranche to the Issuer's securities (creation) subaccount. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) subaccount 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 depository (the **Common Depository**) for, Euroclear and Clearstream, Luxembourg.

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

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

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

The applicable Final Terms will specify that a Permanent Global Mortgage Note will be exchangeable (free of charge), in whole but not in part, for definitive Mortgage Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. **A Permanent Global Mortgage Note will not be exchanged for a definitive Mortgage Note for any reason other than as set out in the Permanent Global Mortgage Note.** The Issuer will promptly give notice to Mortgage Noteholders in accordance with Condition 11 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Mortgage Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Mortgage Notes which have an original maturity of more than 1 year 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 18 May 2012 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]
Guaranteed by OTP BANK Plc.
under the EUR 5,000,000,000
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 18 May 2012, which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area). This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer, the Guarantor 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**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented by a relevant Member State of the European Economic Area) and must be read in conjunction with the Base Prospectus dated 18 May 2012, 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, the Guarantor 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 18 May 2012 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, 1115 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. | (a) | Issuer: | OTP Mortgage Bank Ltd.
(OTP Jelzálogbank Zártkörűen Működő Részvénytársaság) |
| | (b) | Guarantor | OTP Bank Plc. |

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: []
- (N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Mortgage Bonds/Mortgage Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Mortgage Bonds/Mortgage Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of EUR 100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*
- [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 KELEER, 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 an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the EUR 100,000 or equivalent minimum denomination is not required).*
- (b) Calculation Amount: []

(If only one Specified Denomination, insert the Specified Denomination)

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

7. (a) Issue Date (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 and year]]
9. Interest Basis: [] per cent. Fixed Rate]
[[BUBOR/LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at the Specified Denomination]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]*
[specify other]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Mortgage Bonds/Mortgage Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
11. Change of Interest Basis or Redemption/ Payment Basis: [Specify details of any provision for change of Mortgage Bonds/Mortgage Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. [Date [Board] approval for issuance of Mortgage [Bonds/Notes] obtained: [] [and []], respectively]]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Bonds/Mortgage Notes)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]

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

(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
- (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 (A' KK)
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][†]
26. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
27. Other final terms: [Not Applicable/give details]
(When adding any other final terms, consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)
(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers.)

DISTRIBUTION

28. (a) If syndicated, names of 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][‡]
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 100,000 and integral multiples of EUR 1,000" the Temporary Global Mortgage Note must not be exchangeable for Definitive Mortgage Notes)
- (b) New Global Note: [Yes/No]
33. Talons for future Coupons or Receipts to be attached to Definitive Mortgage Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
34. Details relating to Instalment Mortgage Notes:

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

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

- (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)][§]

[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 5,000,000,000 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 ZÁRTKÖRŪEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

[§] Only relevant for Mortgage Notes.

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 [Notes/Bonds] to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

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

*[[Insert the legal name of the relevant credit rating agency entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [*insert the legal name of the relevant credit rating agency entity*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]*

*[[Insert the legal name of the relevant non-EU credit rating agency entity] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended). [*Insert the legal name of the relevant non-EU credit rating agency entity*] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]*

*[[Insert the legal name of the relevant non-EU credit rating agency entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings have been endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation. [As such [*insert the legal name of the relevant EU credit rating agency entity*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.]] The European Securities Markets Authority has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong*

Kong/Singapore/Argentina/Mexico (*delete as appropriate*)] which have been endorsed by [*insert the legal name of the relevant EU CRA entity that applied for registration*] may be used in the EU by the relevant market participants.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it [is]/[has applied to be] certified in accordance with the CRA Regulation [EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation] [OR:] although notification of the corresponding certification decision has not yet been provided by the European Securities and Markets Authority and [*insert the legal name of the relevant non-EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

[[*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the European Securities and Markets Authority [and [*insert the legal name of the relevant credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation].]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*], although notification of the corresponding registration decision has not yet been provided by the European Securities and Markets Authority and [*insert the legal name of the relevant EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation]. The European Securities Markets Authority has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong Kong/Singapore/Argentina/Mexico (*delete as appropriate*)] which have been endorsed by [*insert the legal name of the relevant EU CRA entity that applied for registration*] may be used in the EU by the relevant market participants.]

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 Official List of 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/Notes]: [Hungary/Outside Hungary]
- (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: []**

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-hitelintézetéről és a jelzáloglevélről).

** 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 18 May 2012 and made between the Issuer, OTP Bank Plc. as guarantor (the **Guarantor**), 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).

The payment of all amounts in respect of the Mortgage Bonds has been guaranteed by the Guarantor pursuant to an Irrevocable Payment Undertaking (the **Irrevocable Payment Undertaking**) dated 7 July 2010 and executed by the Guarantor.

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 and the Irrevocable Payment Undertaking 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 Irrevocable Payment Undertaking and the applicable Final Terms which are applicable to them. The statements in the Terms and Conditions of the Mortgage Bonds include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

1. TYPE, FORM, KIND AND TITLE

(a) *Type*

The Mortgage Bonds are registered securities.

(b) *Form*

The Mortgage Bonds are in dematerialised form. The Issuer will, in accordance with Act CXX of 2001 on the Capital Markets (*2001. évi CXX. törvény a tőkepiacról*) (the **Capital Markets Act**) and Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézettről 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 **Holder**s 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 - *névvészoló*), 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 and its possessions)).

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 words " currency deposits)" the words " in the relevant place of presentation and in";
- (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 AND THE IRREVOCABLE PAYMENT UNDERTAKING

(a) Status of the Mortgage Bonds

The Mortgage Bonds constitute direct, unconditional, 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-hitelintézetéről és a jelzáloglevélről) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds ("jelzáloglevelek").

(b) Status of the Irrevocable Payment Undertaking

The obligation of the Guarantor under the Irrevocable Payment Undertaking will be a direct, unconditional and unsecured obligation of the Guarantor and will rank *pari passu* (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time.

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 Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

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

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

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

4. INTEREST

(a) *Interest on Fixed Rate Mortgage Bonds*

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

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each 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 which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively, or (2) in relation to any sum

payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and

- (C) a day on which KELER, 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 (A' KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

"D₂" 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 D₁ is greater than 29, in which case D₂ 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:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30;

"D₂" 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 D₂ 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:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" 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 D₁ will be 30; and

"D₂" 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 D₂ 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 Guarantor, 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, the Guarantor 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 any Additional Financial Centre specified in the applicable Final Terms;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and

Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

(iii) a day on which KELER, 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, or, as the case may be, the Guarantor 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 or, as the case may be, the Guarantor 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 and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

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 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case 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 or, as the case may be, the Guarantor 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 or, as the case may be, the Guarantor 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 or, as the case may be, two Directors of the Guarantor 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 or, as the case may be, the Guarantor 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 or the Guarantor 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 or the Guarantor 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 or, as the case may be, the Guarantor 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 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 or, as the case may be, the Guarantor 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 or, in the case of payments in respect of which a payment notice has been duly submitted in accordance with the Irrevocable Payment Undertaking in the form as set out in the Annex thereto, the Guarantor fails to make payment in the Specified Currency 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) the Guarantor defaults in the performance or observance of or compliance with any other material obligation on its part under the Irrevocable Payment Undertaking and such default continues for a period of 30 days after written notice of such default shall have been received by the Guarantor from a Holder; or
- (d) the Irrevocable Payment Undertaking ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect in respect of this Mortgage Security save in circumstances where:
 - (i) any claim that the Guarantor may have as against the Issuer relating to any sums due and payable by the Guarantor pursuant to the terms of the Irrevocable Payment Undertaking becomes unenforceable against the Issuer as a result of the conduct of the Holders; or
 - (ii) the Issuer is substituted by any entity as principal debtor under the Mortgage Securities (*tartozásátvállalás*) with the approval of the Holders granted pursuant to the Agency Agreement; or
- (e) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer or the Guarantor, which in each case is not discharged or stayed within 90 days, or the Issuer or the Guarantor makes a general arrangement for the benefit of some or all of its creditors; or
- (f) any order is made or an effective resolution is passed for the winding-up of the Issuer or the Guarantor 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 or the Guarantor 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, except for such notice as provided in the Irrevocable Payment Undertaking. 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 or, from the effective date of withholding on "passthru payments" (as defined pursuant to Sections 1471 of the U.S. Internal Revenue Code of 1986 and any regulations thereunder or official interpretations thereof), where the Paying Agent is an FFI and does not become, or ceases to be, a Participating FFI, 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 the Guarantor 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 *Luxemburger Wort* in Luxembourg. So long as the Mortgage Bonds are listed on the Official List of the Luxembourg Stock Exchange, the Issuer will also request that notices to holders of the Mortgage Bonds be published on the website of the Luxembourg Stock Exchange. 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, the Guarantor 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 or the Guarantor and shall be convened by the Issuer if required in writing by Holders holding not less than 10% 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% 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, the Issuer and the Guarantor 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 and the Guarantor, 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 18 May 2012 and made between the Issuer, OTP Bank Plc. as guarantor (the **Guarantor**), 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.

The payment of all amounts in respect of the Mortgage Notes has been guaranteed by the Guarantor pursuant to an Irrevocable Payment Undertaking (the **Irrevocable Payment Undertaking**) dated 7 July 2010 and executed by the Guarantor.

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 18 May 2012 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, the Irrevocable Payment Undertaking 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 Irrevocable Payment Undertaking, 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, the Guarantor 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, the Guarantor 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, the Guarantor 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 AND THE IRREVOCABLE PAYMENT UNDERTAKING

(a) *Status of the Mortgage Notes*

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

(b) *Status of the Irrevocable Payment Undertaking*

The obligation of the Guarantor under the Irrevocable Payment Undertaking will be a direct, unconditional and unsecured obligation of the Guarantor and will rank *pari passu* (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time.

3. REDENOMINATION

(a) *Redenomination*

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

The election will have effect as follows:

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

to the Mortgage Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Mortgage Notes;

- (v) after the Redenomination Date, all payments in respect of the Mortgage Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Mortgage Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Mortgage Notes are Fixed Rate Mortgage Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (A) in the case of the Mortgage Notes represented by a Global 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 Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

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

Redenomination Date means (in the case of interest bearing Mortgage Notes) any date for payment of interest under the Mortgage Notes or (in the case of Zero Coupon Mortgage Notes) any date, in each case specified by the Issuer in the notice given to the Mortgage Noteholders pursuant to Condition 3(a) and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

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

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

4. INTEREST

(a) *Interest on Fixed Rate Mortgage Notes*

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

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

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

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

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

In the Conditions, **Business Day** means a day which is 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 (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 **TARGET2 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 (A' KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

"D₂" 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 D₁ is greater than 29, in which case D₂ 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:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" 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 D₂ will be 30;

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

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" 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 D₁ will be 30; and

"D₂" 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 D₂ 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(b)(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 Guarantor, 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 Guarantor, the Mortgage Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

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

(d) *Interest on Partly Paid Mortgage Notes*

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

(e) *Accrual of interest*

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

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

Payments of instalments of principal (if any) in respect of definitive Mortgage Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) 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, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

(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 or, as the case may be, the Guarantor 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 or, as the case may be, the Guarantor 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 and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation;
 - (B) each Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be 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 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case 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 or, as the case may be, the Guarantor 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 or, as the case may be, the Guarantor 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, or as the case may be, two Directors of the Guarantor 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 or, as the case may be, the Guarantor 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 depository 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:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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 or the Guarantor 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 or the Guarantor 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 or, as the case may be, the Guarantor 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 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 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 or, as the case may be, the Guarantor 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 or in the case of payments in respect of which a payment notice has been duly submitted in accordance with the Irrevocable Payment Undertaking in the form as set out in the annex thereto, the Guarantor fails to make payment in the Specified Currency 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) the Guarantor defaults in the performance or observance of or compliance with any other material obligation on its part under the Irrevocable Payment Undertaking and such default continues for a period of 30 days after written notice of such default shall have been received by the Guarantor from a Holder; or
- (d) the Irrevocable Payment Undertaking ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect in respect of this Mortgage Security save in circumstances where:
 - (i) any claim that the Guarantor may have as against the Issuer relating to any sums due and payable by the Guarantor pursuant to the terms of the Irrevocable Payment Undertaking becomes unenforceable against the Issuer as a result of the conduct of the Holders; or
 - (ii) the Issuer is substituted by any entity as principal debtor under the Mortgage Securities (*tartozásátvállalás*) with the approval of the Holders granted pursuant to the Agency Agreement; or
- (e) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer or the Guarantor, which in each case is not discharged or stayed within 90 days, or the Issuer or the Guarantor makes a general arrangement for the benefit of some or all of its creditors; or
- (f) any order is made or an effective resolution is passed for the winding-up of the Issuer or the Guarantor 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 or the Guarantor 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, except as provided in the Irrevocable Payment Undertaking. 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 or, from the effective date of withholding on "passthu payments" (as defined pursuant to Sections 1471 through 1474 of U.S. Internal Revenue Code of 1986 and any regulations thereunder or official interpretations thereof), where the Paying Agent is an FFI and does not become, or ceases to be, a Participating FFI, 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 the Guarantor 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 *Luxemburger 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 *Luxemburger 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, the Guarantor 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 or the Guarantor and shall be convened by the Issuer if required in writing by Mortgage Noteholders holding not less than 10% 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% 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, the Issuer and the Guarantor 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 and the Guarantor, 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 credit institutions and mortgage bonds (the **Mortgage Credit Institutions 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 1051 Budapest, Nádor u. 21., Hungary; telephone: +36 1 354 7443. The Issuer operates exclusively in Hungary as a specialised credit institution in the corporate form of a private company limited by shares.

As at 31 December 2011, the issued share capital of the Issuer was HUF 27 billion, which comprised 270,000 registered ordinary shares each with a nominal value of HUF 100,000. 100 per cent. of the shares of the Issuer are owned by OTP Bank Plc. (**OTP Bank** or the **Guarantor**). Due to the high volatility in the relevant exchange rates, OTP Bank decided to grant a CHF 15 million subordinated loan to the Issuer 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 provided an opportunity for new mortgage credit institutions to enter the market and to compete for home loans by offering such 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 established 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 with a view to diversifying the product portfolio of the Group. Following its establishment, the Issuer became an active participant in the emerging mortgage bond market.

The Issuer's lending strategy focuses 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 financing the purchase, construction, modernisation or extension of residential properties. Besides mortgage loans for such housing purposes, the Issuer also engages in the provision of bundled products such as insurance and savings products. In the first couple of years of its operation, the Issuer's business activities concentrated on the granting of subsidised HUF-denominated loan products. As the state housing subsidy scheme narrowed considerably from the end of 2003, the portion of foreign currency denominated loans in the Issuer's loan portfolio became more significant. At the end of 2011, more than 50 per cent. of the loan portfolio of the Issuer was denominated in foreign currency. The global financial crisis and the resulting significant volatility of HUF as against certain currencies led to the Issuer discontinuing its JPY and CHF-denominated lending activities as from November 2008 and March 2009, respectively, save for certain exceptional cases (for details on the Issuer's loan portfolio, see "*Business overview of the Issuer*" and "*The Issuer's loan portfolio*" below).

The Issuer's lending activity is financed primarily through the issuance of mortgage bonds. The HUF-denominated mortgage bonds are issued under the Issuer's domestic issuance programmes. The first domestic programme was established in 2002 and the latest update was approved by the HFSA in January 2012 in accordance with Directive 2003/71/EC (the **Prospectus Directive**) (for details, see "*Business overview of the Issuer*").

The Issuer entered the international mortgage bond markets in December 2004 with the establishment of its Euro Mortgage Securities Programme (the **Programme**), which was updated in 2006, 2007, 2008, 2009 and 2011, respectively.

Rating developments

Ratings (Moody's) of the EUR-denominated mortgage bonds issued by the Issuer (including the Mortgage Securities issued under the Programme) from 2 March 2007 until 29 November 2011:

<i>Date of rating</i>	<i>Rating</i>
2 March 2007	Aa1
8 April 2009	Aa2
20 May 2009	A2
10 December 2010	Baa1
29 November 2011	Baa3

(The main categories of ratings assigned by Moody's ranges from: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C).

On 5 October 2011, Moody's Deutschland GmbH (**Moody's GmbH**) placed on review for downgrade the rating assigned to mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer. Pursuant to Moody's GmbH's press release, the review was prompted by the review of the Issuer's issuer ratings, which in turn was prompted by a Hungarian law, approved on 19 September 2011, which gives foreign currency mortgage borrowers the option to repay the full outstanding amount of such loans at exchange rates that are lower than the prevailing market rates.

On 29 November 2011, Moody's GmbH downgraded the rating assigned to mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer to Baa3 (remaining on review for downgrade) from Baa1 (on review for downgrade). Pursuant to Moody's GmbH's press release, this rating action followed the downgrade by Moody's Italia S.r.l of the senior unsecured ratings of OTP Bank to Ba1 from Baa3 on 25 November 2011. Pursuant to that press release, Moody's GmbH uses the senior unsecured ratings of OTP Bank as the "issuer ratings" for its covered bond analysis on the Issuer's mortgage bonds since OTP Bank, as the parent bank of the Issuer, provides a full, irrevocable and unconditional guarantee in respect of the Issuer's obligations under, *inter alia*, the Mortgage Securities issued under the Programme (see "*Issuance of an irrevocable payment undertaking by OTP Bank in favour of the Issuer*" below). The downgrade of the issuer ratings of OTP Bank was, in turn, prompted by the downgrade of Hungary's sovereign debt ratings to Ba1 with negative outlook from Baa3 with negative outlook. On 20 December 2011, Moody's GmbH confirmed the rating assigned to the mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer at Baa3 in conclusion of its review commenced on 5 October 2011. The rating confirmed by Moody's GmbH on 20 December 2011 remains in force and effect as of the date of this Base Prospectus.

Each of Moody's GmbH and Moody's Italia S.r.l. is established in the European Union and is registered under Regulation (EC) No 1060/2009 (as amended). As such, each of Moody's GmbH and Moody's Italia S.r.l. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Description of the OTP Group and the Issuer's position within the OTP Group

Group legal status, structure and ownership

The Issuer is solely owned by OTP Bank and is a member of the OTP Group. The Issuer has no subsidiaries.

For a description of OTP Bank and the OTP Group, see the section on pages 85 to 118 entitled "*Description of the Issuer*" of OTP Bank's base prospectus dated 5 October 2011 with respect to its EUR 5,000,000,000 Euro Medium Term Note Programme (the **GEMTN Base Prospectus**) incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above.

Issuance of an irrevocable payment undertaking by OTP Bank in favour of the Issuer

In August 2009, Moody's published a brochure on its new approach to rating financial institutions specialising in the issuance of covered bonds (the **Specialised Covered Bond Issuers**) on behalf of an owner bank or a group of banks (the **Parent Bank**). The new approach, *inter alia*, envisages increased parental support by the Parent Bank in order to ensure the same ratings may be assigned by Moody's to the Specialised Covered Bond Issuers as are assigned to the Parent Bank.

On 7 July 2010, an agreement was concluded between OTP Bank (the **Guarantor**) and the Issuer as its subsidiary, whereby OTP Bank issued an unconditional and irrevocable payment undertaking (the **Irrevocable Payment Undertaking**) with respect to all outstanding and future Unsubordinated Debt Instruments (as defined therein) issued by the Issuer, including the Mortgage Securities issued under the Programme. (The full English text of the Irrevocable Payment Undertaking is included in "*Form of Irrevocable Payment Undertaking*" below.)

Recent developments

Recent rating developments in respect of the Issuer, the Guarantor and certain members of the OTP Group

On 25 November 2011, Moody's Italia S.r.l. (**Moody's S.r.l.**) downgraded the Guarantor's (i) local currency deposit ratings to Ba1/Not-Prime from Baa3/Prime-3, (ii) foreign currency deposit ratings to Ba2/Not-Prime from Baa3/Prime-3, (iii) foreign-currency senior unsecured debt rating to Ba1 from Baa3, (iv) foreign currency subordinated debt rating (Lower Tier 2) to Ba2 from Ba1, and (v) foreign currency junior subordinated debt rating (Upper Tier 2) to Ba3 (hyb) from Ba2 (hyb). The bank financial strength rating (**BFSR**) assigned to the Guarantor remained unchanged at D+, although its corresponding standalone rating was lowered to Ba1 from Baa3. All these ratings remained on review for downgrade. Moody's S.r.l. also downgraded the Issuer's local currency deposit ratings to Ba1/Not-Prime from Baa3/Prime-3 and foreign currency deposit ratings to Ba2/Not-Prime from Baa3/Prime-3. The BFSR assigned to the Issuer remained unchanged at D+, although its corresponding standalone rating was lowered to Ba1 from Baa3. All these ratings remained on review for downgrade until

16 December 2011. Pursuant to Moody's S.r.l.'s press release, these rating actions reflected the downgrade of Hungary's sovereign debt rating to Ba1 and its foreign currency deposit ceiling to Ba2 on 24 November 2011.

In concluding its review of the above ratings, Moody's S.r.l. confirmed on 16 December 2011 the Guarantor's (i) standalone BFSR at D+ (mapping to Ba1 on the long-term scale), (ii) long-term local currency deposit rating at Ba1, (iii) long-term foreign currency deposit rating at Ba2, (iv) foreign currency senior debt rating at Ba1, (v) foreign currency subordinated debt rating at Ba2, and (vi) foreign-currency junior subordinated debt rating at Ba3 (hyb). Pursuant to Moody's S.r.l.'s relevant press release, such confirmation primarily reflected that the OTP Group has demonstrated relative resilience in the face of the euro-area crisis. Moody's S.r.l. also confirmed the Issuer's (i) standalone BFSR at D+ (mapping to Ba1 on the long-term scale), (ii) long-term local currency deposit rating at Ba1, and (iii) long-term foreign currency deposit rating at Ba2. Pursuant to that press release, the ratings assigned to the Issuer are the same as those of the Guarantor, as the parent bank of the Issuer, given that the Issuer is 100 per cent. owned, and its obligations under, *inter alia*, the mortgage bonds issued by it are fully guaranteed by, the Guarantor. The outlook on all the above ratings is negative, which reflects (i) pressures in the Hungarian operating environment; (ii) the fact that the increased number of non-performing loans and provisioning needs exerts pressure on the OTP Group's profitability; and (iii) turbulent market conditions which make foreign currency denominated funding more difficult and costly. The ratings confirmed by Moody's S.r.l. on 16 December 2011 remain in force and effect as of the date of this Base Prospectus.

On 16 December 2011, Moody's Investors Service Limited (**Moody's Ltd**) changed the outlook to negative from stable on its long-term foreign currency deposit rating of B3 assigned to the Guarantor's Ukrainian subsidiary, JSC OTP Bank (**OTPB**). On 20 December 2011, Moody's Ltd confirmed (i) OTPB's long-term local currency (UAH) deposit rating at Ba2 with negative outlook, and (ii) the long-term local currency (RUB) and foreign currency deposit ratings of the Guarantor's Russian subsidiary, OJSC OTP Bank (**OTPR**) at Ba2 with a stable outlook.

On 23 December 2011, Standard & Poor's Credit Market Services Europe Limited (**S&P CMSE**) downgraded the Guarantor's and the Issuer's long- and short-term counterparty credit ratings to BB+/B from BBB-/A-3 with negative outlook and removed them from its CreditWatch, where they had been placed on 15 November 2011. Pursuant to S&P CMSE's press release, this rating action was prompted by the downgrade of the long- and short-term sovereign ratings on Hungary to BB+/B from BBB-/A-3 with negative outlook on 20 December 2011 and, in respect of the Issuer, also reflects the Issuer's status as a core subsidiary of the Guarantor.

On 12 January 2012, Fitch Polska S.A. (**Fitch S.A.**) affirmed the Guarantor's support rating at '3' and, on 13 January 2012, the long-term issuer default ratings (**IDRs**) assigned to OTPR at BB. On 13 January 2011, Fitch Ratings CIS Limited (**Fitch CIS**) changed the outlook on OTPR's IDRs to negative from stable.

The table below shows the most recent rating developments in respect of the Issuer, the Guarantor and certain other members of the OTP Group between 25 November 2011 and 13 January 2012:

OTP Bank	Rating	Date	Movement	Outlook	
Moody's	Bank Financial Strength Rating	D+	16/12/2011	Confirmed	Negative
	Long Term Foreign Currency Deposit	Ba2	16/12/2011	Confirmed	Negative
	Long Term Local Currency Deposit	Ba1	16/12/2011	Confirmed	Negative
	Short Term Foreign Currency Deposit	NP	25/11/2011	Downgrade	
	Short Term Local Currency Deposit	NP	25/11/2011	Downgrade	
	Senior Unsecured Foreign Currency Debt	Ba1	16/12/2011	Confirmed	Negative
	Subordinated Foreign Currency Debt (LT2)	Ba2	16/12/2011	Confirmed	Negative
	Subordinated Foreign Currency Debt (UT2)	Ba3	16/12/2011	Confirmed	Negative
Standard & Poor's	Long Term Counterparty credit rating (LT)	BB+	23/12/2011	Downgrade	Negative
	Short Term Counterparty credit rating (ST)	B	23/12/2011	Downgrade	Negative
Fitch	Support Rating	3	12/01/2012	Affirmed	
Subsidiary	Moody's Rating	Date	Movement	Outlook	
OJSC OTP Bank (Russia)	Long Term Foreign Currency Deposit	Ba2	20/12/2011	Confirmed	Stable
	Long Term RUB Deposit	Ba2	20/12/2011	Confirmed	Stable
JSC OTP Bank (Ukraine)	Long Term Foreign Currency Deposit	B3	16/12/2011	Unchanged	Negative
	Long Term UAH Deposit	Ba2	20/12/2011	Confirmed	Negative

OTP Bank	Rating		Date	Movement	Outlook
OTP Mortgage Bank	Bank Financial Strength Rating	D+	16/12/2011	Confirmed	Negative
	Long Term Foreign Currency Deposit	Ba2	16/12/2011	Confirmed	Negative
	Long Term HUF Deposit	Ba1	16/12/2011	Confirmed	Negative
	Short Term Foreign Currency Deposit	NP	25/11/2011	Downgrade	
	Short Term HUF Deposit	NP	25/11/2011	Downgrade	

Subsidiary	Fitch Rating		Date	Movement	Outlook
OJSC OTP Bank (Russia)	Long Term Issuer Default Rating	BB	13/01/2012	Affirmed	Negative

Each of S&P CMSE, Fitch S.A., Fitch CIS, Moody's Ltd and Moody's S.r.l. is established in the European Union and is registered under Regulation (EC) No 1060/2009 (as amended). As such, each of S&P CMSE, Fitch S.A., Fitch CIS, Moody's Ltd and Moody's S.r.l. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

For further information on the previous rating history of the OTP Group, refer also to the subsection entitled "*Rating Developments*" on pages 99 to 101 of the section entitled "*Description of the Issuer*" in the GEMTN Base Prospectus, incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above.

Additional financial support by the Guarantor

On 10 October 2011, the Guarantor, as the parent bank of the Issuer, and the Issuer concluded an agreement, pursuant to which the Guarantor provides a coverage facility (the **Coverage Facility**) to the Issuer in respect of losses that the Issuer may incur in connection with the early repayment scheme (the **FX Early Repayment Scheme**) recently introduced by the Hungarian government in relation to certain retail mortgage and housing loans denominated in CHF, EUR or JPY (see "The Hungarian Banking System – Legislative measures and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits - Early repayment scheme" below). The Coverage Facility may be drawn on by the Issuer to cover its losses directly arising from early repayments effected by borrowers under the FX Early Repayment Scheme on the relevant loans included in the Issuer's mortgage loan portfolio.

Recent changes in respect of the Guarantor's Board of Directors

The Guarantor's 2012 Annual General Meeting, held on 27 April 2012 (the **2012 AGM**), appointed Tamás Erdei and Dr István Gresa as new members to the Guarantor's Board of Directors with effect from 27 April 2012.

Conflicts of interest

There are no actual or potential conflicts of interest between the private interests or duties of the new members of the Board of Directors of the Guarantor and their duties to the Guarantor.

Capital increases in certain members of the OTP Group

The Guarantor, as the parent bank of the OTP Group, effected a capital increase in its (i) Serbian subsidiary, OTP banka Srbija a.d. on 29 September 2011 in the amount of RSD 547,813,320 (approximately HUF 1,435,270,900) with an increase in its direct and indirect ownership interest from 91.43 per cent. to 92.08566 per cent. and on 12 January 2012 in the amount of RSD 495,400,000 (approximately HUF 1,297,948,000) with an increase in its direct and indirect ownership interest from 92.08566 per cent. to 92.59859 per cent. and (ii) Slovakian subsidiary, OTP banka Slovensko a.d. on 18 January 2012 in the amount of EUR 10,019,496 with an increase in its direct and indirect ownership interest from 98.82 per cent. to 98.94 per cent. The Guarantor has also decided on a capital increase in its Montenegrin subsidiary, Crnogorska komer čijalna banka a.d., which is currently in progress as of the date of this Base Prospectus.

Final and binding retrial judgment in the litigation initiated by Nitrogénművek Vegyipari Zrt. against the Guarantor

In 2009, Nitrogénművek Vegyipari Zrt. as plaintiff (the **Plaintiff**) initiated civil proceedings against the Guarantor as defendant in seeking to enforce a claim for damages (the **Claim**). For further information, refer to "*Description of the Issuer – Recent developments at the OTP Group in 2011 – Recent developments concerning litigation – (1) Litigation initiated by*

Nitrogénművek Vegyipari Zrt" at page 98 of the GEMTN Base Prospectus, incorporated by reference into this Base Prospectus in the manner set out in "*Documents incorporated by reference*" above.

After the Court of Appeal had sent the case back to the court of first instance for retrial, the Claim was rejected again at retrial. As the Plaintiff has not appealed such decision within the statutory deadline this retrial judgement has become final and binding.

Fixed exchange rate scheme for municipality customers

On 24 February 2012, the Guarantor introduced a fixed exchange rate scheme product to certain of its municipality customers, which are financed by the Guarantor through the purchase of, and holding, their municipality bonds denominated in Swiss Francs and to be serviced in HUF (the **Municipality CHF Fixed Rate Scheme**), with a view to easing their debt servicing obligations. Monthly payments of principal on such bonds by covered municipality customers of the Guarantor, which have opted into the Municipality CHF Fixed Rate Scheme, will be calculated at a fixed exchange rate rather than at market rates during an agreed fixed rate period up to 31 December 2014. After the expiry of such agreed fixed rate period, the exchange rate, at which payments of principal on the relevant municipality bonds are calculated will switch back to market rates. The fixed exchange rate offered is set at HUF 200 to the Swiss Franc and can be modified upwards on request by the relevant participating municipality customer. The shortfall resulting from the difference between this fixed rate and the prevailing market rates will be financed by lending in HUF to participating municipality customers under a credit line provided by the Guarantor. Loans made under such credit line will bear interest at a rate of three-month BUBOR plus margin. Participating municipality customers will need to start repaying the balance outstanding under their credit line after the expiry of the agreed fixed rate period in equal instalments at the principal payment dates for the underlying municipality bonds.

Other recent developments at the OTP Group

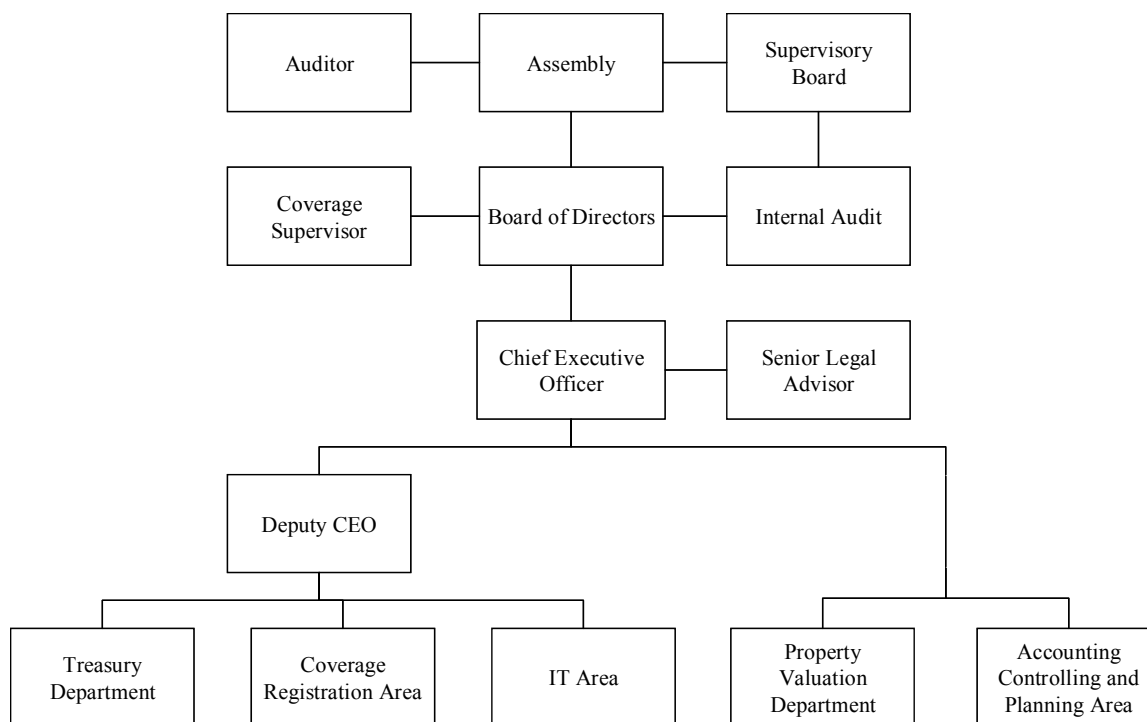
In late 2011, the Guarantor was subject to an EU-wide capital exercise proposed by the European Banking Authority (the **EBA**) and agreed by the European Council on 26 October 2011 with a view to, *inter alia*, strengthening banks' capital position through the creation of an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risks related to the current difficult market environment and a requirement that banks establish a capital buffer such that their 'Core Tier 1' capital ratio reaches a level of 9 per cent. by the end of June 2012.

Following completion of the capital exercise conducted by the EBA, in close cooperation with the HFSA, the exercise has determined that the Guarantor, on the basis of figures as at 30 September 2011, met the 9 per cent. 'Core Tier 1' ratio requirement after the removal of the prudential filters on sovereign assets in its available-for-sale asset portfolio and prudent valuation of sovereign debt in the held-to-maturity and loans and receivables portfolios, reflecting current market prices.

The detailed results of the capital exercise as well as information on the Guarantor's exposures to central and local governments are provided in the accompanying disclosure tables based on the common format provided by the EBA (available at <http://www.eba.europa.eu/capitalexercise/2011/2011-EU-Capital-Exercise.aspx>).

The organisational structure of the Issuer

OTP Mortgage Bank Ltd.



Management and supervisory bodies of the Issuer

Members of the Board of Directors

Dániel Gyuris (52), Chairman and CEO, appointed in November 2010. He is also Deputy CEO and Head of the Property, Agriculture and SME Financing Division at OTP Bank.

Address: 1051 Budapest, Nádor utca 21., Hungary, Tel.: +36 1 354-7385, Fax: +36 1 354-7464

Antal Kovács (58), Member of the Board of Directors, appointed in 2002. He is also Deputy CEO and Head of the Retail Division of OTP Bank.

Address: 1052 Budapest, Deák Ferenc utca 7-9., Hungary, Tel.: +36 1 486 6601, Fax: + 36 1 486 6699

György Máriás (48), Deputy CEO and Member of the Board of Directors, appointed in October 2011.

Address: 1051 Budapest, Nádor utca 21., Hungary, Tel.: +36 1 354-7472, Fax: +36 1 354-7449

Dr. István Meskó (38), Member of the Board of Directors, appointed in March 2011. He is also the Head of the Real Estate and Small Enterprises Department of the Real Estate, Small Enterprises and Agriculture Division at OTP Bank.

Address: 1051 Budapest, Nádor utca 21., Hungary, Tel.: +36 1 354-7265, Fax: +36 1 354-7464

Members of the Supervisory Board

Ibolya Dr. Rajmonné Veres (38) Chairman of the Supervisory Board, appointed in 2012. She is also the Managing Director of the Retail Directorate at OTP Bank.

Address: 1052 Budapest, Deák Ferenc utca 7-9., Hungary, Tel.: +36 1 486 6710, Fax: +36 1 266 8356

Ágota Selymes (62), Member of the Supervisory Board, appointed in 2001. She is also a Department Manager at the Retail Directorate of OTP Bank.

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

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Conflicts of interest

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

Business overview of the Issuer

Spheres of activity

The business activities of the Issuer as a Hungarian mortgage credit institution are strictly limited under the Mortgage Credit Institutions Act to, *inter alia*, the following activities: (1) the granting of mortgage loans that are secured by either (i) a mortgage over a real estate located in the European Economic Area (the **EEA**), or (ii) on-demand suretyship provided by the Hungarian State; (2) undertaking of suretyships, bank guarantees and other bankers' commitments in favour of those to whom a mortgage loan has been provided by the Issuer on condition that any exposure from such commitments is covered by real estate; (3) appraisal of market and coverage (lending) value of real estate; (4) custody services in respect of securities issued by the Issuer; (5) arranging services in connection with the offerings of securities issued by the Issuer; (6) the provision of an 'overflow' credit line ("*gyűjtőszámlahitel*") in relation to certain housing mortgage loans denominated in CHF, EUR or JPY and included in the Issuer's mortgage loan portfolio; and (7) certain other ancillary services. Mortgage credit institutions are not allowed to take deposits, and their investments in real estate (excluding those properties serving as premises for their operations) may not exceed 5 per cent. of their solvency capital. A mortgage credit institution may conclude derivative transactions only for liquidity or risk management purposes to hedge its exposures.

As a consequence of the statutory restrictions applicable to mortgage credit institutions in Hungary, the business activities of the Issuer consist primarily of the provision of residential mortgage loans and the issuance of mortgage bonds to finance those loans.

Cooperation between the Issuer and OTP Bank in mortgage loan origination

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 identifies their functions in relation to the process for granting mortgage loans.

Under the Mortgage Syndication Agreement, tasks relating to the origination and administration of loans and customer relations management are performed by OTP Bank as the agent of the Issuer. Since the Issuer has no independent network of branches, loans are marketed and sold through the branch network of OTP Bank, which has over 380 branches engaged in the housing loans business.

Prospective customers' credit ratings (i.e. the assessment of their willingness and ability to repay the respective loan) are completed by an OTP Bank branch prior to granting each loan in accordance with the rules applicable to the Issuer. The assessment of the value and marketability of the real estate property offered as security for the purpose of determining the loan-to-value ratio (the **LTV**) of such property is performed by the Property Valuation Department of the Issuer, pursuant to its internal rules and procedures, as approved by the HFSA. The Issuer relies on the existing database, know-how, human resources and expertise to also offer real estate appraisal and lending value assessment services to other credit institutions in the market. Therefore, property appraisal, which was previously performed only in connection with the Issuer's own mortgage lending business, has become part of the Issuer's regular market activities and is also expected to generate profit as an independent service.

Following the establishment of the lending value of the relevant property by the Issuer, it is for OTP Bank to decide in the name and on behalf of the Issuer whether to grant the respective loans. The provision of each loan is conditional on the due registration of the respective mortgage interest and prohibition on transfer of title in, or the creation of any encumbrance over, the relevant real estate property in the land registry in favour of the Issuer.

After such registration, the respective mortgage loan assets are assessed and, if the relevant criteria are satisfied, included in the ordinary coverage for mortgage bonds by the Issuer's coverage supervisor, KPMG Hungária Kft. (the **Coverage Supervisor**) (For more information on the coverage system of mortgage bonds see "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*" below.)

During the term of the loans, OTP Bank, as agent, is responsible for dealing with the relevant customers, managing their loan accounts, and providing information on such customers. In consideration for the services used, the Issuer pays regular fees and commissions to OTP Bank.

Mortgage loans granted by the Issuer are funded mainly through the regular issuance of mortgage bonds. To avoid liquidity problems, OTP Bank provides alternative funding facilities to the Issuer, on a continuous basis. These alternative funding facilities are:

- (a) a mortgage bond purchase facility up to a maximum amount of HUF 1,100 billion in respect of a mortgage bond issued by the Issuer;
- (b) a HUF 200 billion interbank credit facility to ensure compliance by the Issuer with the obligations arising under the outstanding mortgage bond portfolio or continuously ensuring sufficient supplementary coverage.

As the parent of the Issuer, OTP Bank is solely liable for ensuring that the Issuer meets its minimum capital adequacy requirements.

The Mortgage Syndication Agreement and OTP Bank's undertaking to provide the necessary capital to the Issuer have been duly filed with the HFSA.

Irrevocable Payment Undertaking

Until April 2010, OTP Bank was obliged to repurchase non-performing loans at full loan value (i.e. principal plus interest and charges) under the terms of the Mortgage Syndication Agreement.

This asset-side guarantee by OTP Bank as the parent bank of the Issuer has been replaced by a liability-side guarantee through the issuance of the Irrevocable Payment Undertaking (as defined above) in respect of all outstanding and future Unsubordinated Debt Instruments (as defined therein) issued by the Issuer, including the Mortgage Securities issued under the Programme. Pursuant to the Irrevocable Payment Undertaking, OTP Bank has unconditionally and irrevocably undertaken to pay on demand any amounts due to, *inter alios*, holders of Mortgage Securities issued by the Issuer under the Programme. (The full English text of the Irrevocable Payment Undertaking is included in "*Form of Irrevocable Payment Undertaking*" below.) Obligations under the Irrevocable Payment Undertaking shall constitute a senior and unconditional payment obligation of OTP Bank in its capacity as guarantor. (See also "*Description of the OTP Group and the Issuer's position within the OTP Group - Issuance of an irrevocable payment undertaking by OTP Bank in favour of the Issuer*" above.) The new model of parental support by OTP Bank was structured and adopted with the consent of the HFSA and took into consideration Moody's brochure on "Moody's Approach to Rating Financial Entities Specialised in Issuing Covered Bonds". In consideration for the issuance and maintenance of the Irrevocable Payment Undertaking, the Issuer pays a "payment undertaking" fee to OTP Bank.

Under the modified cooperation structure, non-performing loans are written off and sold by the Issuer directly to OTP Faktoring Ltd, as a subsidiary of OTP Bank. Provisions for non-performing loans are set aside by the Issuer and losses incurred are booked and reported in the Issuer's accounts in accordance with its internal accounting procedures.

Outsourcing arrangements

In order to reduce duplications in respect of the Group's administrative operations, accounting, controlling, IT and other administrative operations are outsourced to OTP Bank. Such outsourcing arrangements do not extend to functions that are closely related to the Issuer's core business activities.

Support for lending value assessments

The Issuer constantly monitors and appraises the value of the mortgaged real estate properties securing the mortgage loans provided by the Issuer. For such purposes, the Issuer has developed a real estate evaluation system in line with order No 25/1997 (VIII.1.) of the Minister of Finance, called the Real Estate Map. Data used in the system is subject to regular quarterly updates from the database of the Hungarian Duties Office (which contains a variety of information relating to property values in Hungary). The Real Estate Map also relies on the Group's own database. This system, by using multiple sources, enables the Issuer to carry out reliable assessments of the lending value of mortgaged real estate properties, which is one of the most significant activities in the Issuer's lending and monitoring process.

Mortgage products and services

The loan products offered by the Issuer can be split into three distinct groups:

- (a) HUF-denominated loans with state subsidy;

- (b) HUF-denominated loans without state subsidy; and
- (c) foreign currency-denominated loans without state subsidy.

For information on the Hungarian state-subsidised housing loan scheme, see "*Government subsidised loan scheme*" below. For the main features of the Issuer's loan portfolio, refer to "*The Issuer's loan portfolio*" below.

The Issuer's loan portfolio

Overall change in the Issuer's business

The following table shows the change in the number of mortgage loans granted by the Issuer between 31 December 2009 and 31 December 2011.

(Note: figures in the tables below are rounded up by using conventional rounding methods, therefore the sum of the figures indicated in each row may not be equal to the respective total sum. Data included in the tables below exclude loans with negative value.)

Outstanding number of loans granted by the Issuer (HUF million)

	31 December 2009	31 December 2010	31 December 2011
Number of contracts	308,463	310,514	294,517
Total outstanding amount	1,423,959	1,561,544	1,533,442

The decline in the Issuer's loan portfolio at the end of 2011 (as shown by the Issuer's database) was primarily due to the combined effects of decreasing demand for housing loans, resulting from the poorer performance of the Hungarian economy, and an early repayment scheme introduced by the Hungarian government in 2011 in respect of certain retail mortgage loans (irrespective of their purpose) and certain retail residential loans secured by a specific state guarantee, which are denominated in, or linked to, CHF, EUR or JPY (the **FX Early Repayment Scheme**). (For more details on the FX Early Repayment Scheme, see the subsection headed "*The Hungarian Banking System – Legislative measures and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits – Early repayment scheme*" below). This decline, as expressed in HUF (which is the functional currency of the Issuer for financial reporting purposes), was moderate partly because of the counter effects of the recent depreciation of the HUF against those currencies in which the foreign currency-denominated mortgage loans included in the Issuer's loan portfolio are denominated.

State-subsidised mortgage loans still constitute an important element of the Issuer's loan portfolio despite the significant curtailment of the state housing subsidy scheme in the second half of 2009. Furthermore, the Hungarian government has recently announced a new subsidised housing loan scheme. (For more information on changes to the Hungarian state housing subsidy scheme, see "*Government subsidised loan scheme*" below.)

Loans within the Issuer's loan portfolio are denominated in HUF, EUR, CHF and JPY. Between 1 July 2009 and 31 December 2011, the Issuer offered its mortgage products solely in EUR or HUF denominations. Owing to the discontinuation of its CHF and JPY-denominated lending (see "*History and general introduction*" above) and the statutory restrictions in respect of foreign currency-denominated retail mortgage lending (see "*The Hungarian Banking System – Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis – Legislative measures – Limitations in respect of foreign currency credits*" below), the ratio of foreign currency-denominated loans within the Issuer's loan portfolio had decreased moderately at the end of 2011.

Breakdown of the loan portfolio by currency as at 31 December 2011 (HUF million)

	Outstanding amount	%
HUF	696,770	45.44
EUR	37,435	2.44
CHF	630,510	41.12
JPY	168,728	11.00
Total	1,533,442	100.00

Size of the loan portfolio

The Issuer's loan portfolio is well diversified primarily as a result of the cooperation between the Issuer and OTP Bank in mortgage loan origination (see "*Cooperation between the Issuer and OTP Bank in mortgage loan origination*" above),

which, *inter alia*, draws on OTP Bank's traditional retail banking operations. The average size of loans is HUF 5.2 million. The following table shows the breakdown of outstanding loans by size as at 31 December 2011:

Breakdown of the loan portfolio by loan size as at 31 December 2011 (HUF million)

Size (HUF)	No. of loans	Outstanding amount	%
up to 5 million	183,918	457,241	29.82
5-10 million	75,710	538,524	35.12
10-15 million	24,075	289,179	18.86
15-20 million	5,595	95,616	6.24
over 20 million	5,219	152,882	9.97
Total	294,517	1,533,442	100.00

Maturity structure of the loan portfolio

The maximum maturity of HUF-denominated loans is set at 35 years, and at 25 years for foreign currency-denominated loans. The average remaining contractual maturity of the loan portfolio is 15 years (weighted average). As at 31 December 2011, 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 31 December 2011 (HUF million)

Maturity	Outstanding amount	%
less than 1 year	1,806	0.12
1 – 5 years	48,790	3.18
5 – 10 years	207,585	13.54
10 – 15 years	469,347	30.61
15 – 20 years	477,273	31.12
20 – 25 years	299,600	19.54
Over 25 years	29,040	1.89
Total	1,533,442	100.00

Purpose of the loans

The Issuer's loan portfolio mainly consists of loans granted to finance the purchase of existing (resale) residential property. The ratio of home equity loans has been increasing continuously.

Breakdown of the mortgage loan portfolio by purpose as at 31 December 2011 (HUF million)

	Outstanding amount	%
Purchase of new residential property	128,320	8.37
Purchase of existing (resale) residential property	641,912	41.86
Construction	191,621	12.50
Renovation, improvement	130,687	8.52
Home equity loans*	429,197	27.99
Other	11,705	0.76
Total	1,533,442	100.00

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

The following table shows the breakdown of the Issuer's mortgage loan portfolio by LTV ratios as at 31 December 2011:

LTV ratio breakdown as at 31 December 2011 (HUF million)

LTV ratio	Total	%
Under 30%	157,990	10.30
30-40%	141,569	9.23
40-50%	192,141	12.53
50-60%	164,930	10.76
60-70%	139,754	9.11
Over 70%	737,058	48.07
Total	1,533,442	100.00

The Issuer continuously monitors and appraises the value of the coverage pool and the mortgaged real estate portfolio. This is performed jointly with, and under the supervision of, the Coverage Supervisor.

The following table shows the asset classification of the mortgage loans granted by the Issuer as at 31 December 2010 and 31 December 2011:

Asset Classification (HUF million)

Classification	31 December 2010		31 December 2011	
	Outstanding amount	%	Outstanding amount	%
0 days' delay in payment	1,276,826	81.77	1,199,866	78.25
Between 1-30 days' delay in payment	173,695	11.12	204,512	13.34
Standard	1,450,521	92.89	1,404,377	91.58
Watch	111,023	7.11	129,065	8.42
<i>within Watch: doubtful</i>	42,896	2.75	72,102	4.70
Total	1,561,544	100.00	1,533,442	100.00

(Note: figures included in the above portfolio analysis are calculated on the basis of the principal amount of the loans only, while accrued interest and charges are excluded.)

Client Protection Programme

The Issuer and OTP Bank have set up a comprehensive and integrated programme under the name of the 'Client Protection Programme' (the CPP) with a view to assisting borrower clients who encounter difficulties in making repayments on their loans and thereby improving the quality of the Issuer's loan portfolio. Benefits under the CPP are available only in circumstances where there is a reasonable possibility of financial recovery on the part of the relevant borrower clients. The number of active loan agreements under the CPP was 3,166 with a total outstanding amount of HUF 36.4 billion as at 31 December 2011, accounting for 2.37 per cent. of the total loan portfolio of the Issuer.

Mortgage bond portfolio

The Issuer organises auctions, arranges for private placements and has also developed mortgage bonds which target retail investors under its domestic issuance programmes. The Issuer has also been continuously active in the international capital markets through issuances of Mortgage Securities under the Programme. The mortgage bonds issued under the Issuer's domestic programmes are listed on the Budapest Stock Exchange, whilst the Mortgage Securities issued under the Programme are primarily admitted to the Official List of the Luxembourg Stock Exchange. Most EUR-denominated Mortgage Securities issued under the Programme after 2007 are included in the list of eligible assets of the European Central Bank for the purposes of Eurosystem transactions.

Traditionally, the largest proportion of the mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer is purchased by OTP Bank, followed by institutional investors and, to a less significant extent, retail investors.

The following table shows the outstanding mortgage bond series issued by the Issuer as at 31 December 2011:

Series	Currency	Principal	Date of first settlement	Maturity date	Coupon (%)
OJB2012/I	HUF	13,870,000,000	17.03.2004	21.03.2012	9.83
OJB2012/II	HUF	36,283,000,000	14.04.2004	16.05.2012	10.00
OJB2012/III	HUF	14,353,410,000	19.11. 2004	15.08.2012	10.50
OJB2012/VI	HUF	58,780,000,000	31.05.2011	16.05.2012	10.43
OJB2012/VII	HUF	5,646,590,000	31.05.2011	15.08.2012	10.50
OJB2012/VIII	HUF	5,507,930,000	31.05.2011	31.01.2012	13.41
OJB2013/B	HUF	8,515,870,000	31.05.2011	30.10.2013	Floating
OJB2013/II	HUF	13,433,000,000	20.12.2002	31.08.2013	8.25
OJB2013/III	HUF	80,000,000,000	29.05.2009	29.05.2013	12.00
OJB2013/IV	HUF	3,567,000,000	31.05.2011	31.08.2013	8.25
OJB2014/I	HUF	13,500,000,000	14.11.2003	12.02.2014	8.00
OJB2014/J	HUF	440,197,024	17.09.2004	17.09.2014	8.69
OJB2015/I	HUF	3,242,900,000	10.06.2005	10.06.2015	7.70
OJB2015/J	HUF	290,523,654	28.01.2005	28.01.2015	8.69
OJB2016/I	HUF	1,268,530,000	03.02.2006	03.02.2016	7.50
OJB2016/II	HUF	4,692,000,000	31.08.2006	31.08.2016	10.00
OJB2016/III	HUF	150,000,000,000	17.02.2009	17.02.2016	10.75
OJB2016/J	HUF	277,675,122	18.04.2006	28.09.2016	7.59
OJB2019/I	HUF	31,516,810,000	17.03.2004	18.03.2019	9.48
OJB2019/II	HUF	7,733,190,000	31.05.2011	18.03.2019	9.48
OJB2020/I	HUF	5,503,070,000	19.11.2004	12.11.2020	9.00
OJB2020/II	HUF	4,496,930,000	31.05.2011	12.11.2020	9.00
OJB2025/I	HUF	150,000,000,000	31.07.2009	31.07.2025	11.00
OMB2013/I	EUR	750,000,000	17.11.2011	18.11.2013	Floating
OMB2014/I	EUR	200,000,000	15.12.2004	15.12.2014	4.00
OMB2014/II	EUR	750,000,000	10.08.2011	10.08.2014	Floating

Coverage of mortgage bonds

The coverage for the Issuer's obligations arising under the outstanding mortgage bond portfolio consists of two parts: (a) ordinary coverage, which primarily comprises the underlying loan portfolio; and (b) supplementary coverage. Supplementary coverage is composed primarily of cash and the obligations of the State of Hungary, National Bank of Hungary, member states of the EEA or the Organisation for Economic Co-operation and Development, the European Investment Bank, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, or other assets convertible to such obligations (for details, see "*Overview of Hungarian Mortgage Bond Regulation*").

The coverage for outstanding mortgage bonds as at 31 December 2011 with a total face value of HUF 1,141.8 billion consisted of (i) mortgage loans outstanding as at that time with an aggregate amount totalling HUF 1,195.1 billion and real estate coverage valued at HUF 2,985.2 billion, and (ii) government bonds with a HUF 1.77 billion total face value.

The following table shows the degree of collateralisation as at 31 December 2011:

Mortgage bonds and coverage (HUF billion)

	31 December 2009	31 December 2010	31 December 2011
Face value of mortgage bonds	1,512	1,293	1,142
Total principal of coverage	1,539	1,337	1,195
Coverage ratio	101.81%	103.39%	104.670%

Coverage ratios have developed as follows:

Security coverage of loans (HUF billion)

	31 December 2009	31 December 2010	31 December 2011
Loan principal outstanding	1,424.0	1,561.5	1,533.4
Real estate coverage	3,020.0	3,036.8	2,985.2
Total principal of coverage:	1,539.0	1,337.2	1,195.1
(a) Ordinary coverage	1,322.2	1,335.4	1,193.4
(b) Supplementary coverage	216.8	1.8	1.8

Changes in relation to the FX Early Repayment Scheme

The data included in "The Issuer's loan portfolio" and "Mortgage bond portfolio" above shows figures in respect of the Issuer's loan portfolio and mortgage bond portfolio as at 31 December 2011, which may be significantly affected in 2012 as a result of the FX Early Repayment Scheme through a decrease in volume and a change in composition. The data included in "The Issuer's loan portfolio" and "Mortgage bond portfolio" already reflect the effects of early repayments effected under the FX Early Repayment Scheme until 31 December 2011. However, as the final date for the settlement of all early repayments effected under the FX Early Repayment Scheme on mortgage loans included in the Issuer's loan portfolio was 28 February 2012, changes in the Issuer's loan portfolio and changes in the coverage for mortgage bonds issued by the Issuer as a result of such early repayments realised in 2012 can be reliably measured only upon the next financial statements of the Issuer and the Guarantor (as the parent bank of the OTP Group) becoming available and, therefore, the effects of such early repayments will be recognised therein. The Issuer's management believes that all the necessary arrangements have been made to ensure that such changes do not have a significant effect on the coverage for mortgage bonds issued by the Issuer.

Solvency

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

Risk management

As a result of the statutory restrictions on activities that may be pursued by mortgage credit institutions (see "Business overview of the Issuer – Spheres of activity" above) the Issuer's asset-liability structure is distinct from that which generally characterises the Hungarian banking system. The Issuer's asset side consists predominantly of mortgage loans. The Issuer's loan portfolio can be described as a diversified portfolio of low risk profile, containing mostly annuity type mortgage loans with long maturities. The Issuer's liabilities consist primarily of the mortgage bonds issued by the Issuer. The Issuer's mortgage bond portfolio mainly contains a series of bullet redemption securities with a relatively larger volume and shorter maturities as compared with the mortgage loans on the asset side. Mismatches between the Issuer's assets and liabilities expose the Issuer to, *inter alia*, liquidity, interest rate and foreign exchange rate risks, refinancing risks, prepayment risk and market risks. (For a more detailed discussion of the risks faced by the Issuer, see "Risk Factors" above.)

As with all other important fields of the Issuer's operations, risk management is determined at the Group level under the Mortgage Syndication Agreement. The Issuer works closely with OTP Bank's risk management department on a daily basis through online connections.

Guidelines and methodologies for risk measurement as well as assumptions for scenario analyses have been approved by the Board of Directors and are subject to regular review, taking into account the economic and financial environment, interest rate outlook, and the overall level of market risks affecting the Issuer's on- and off- balance sheet transactions. Overall consistency of the Issuer's asset and liability management (ALM) is monitored by the management committee ("*Vezetői Értekezlet*"), which holds its meetings on a weekly basis. ALM activities are performed mainly by the Issuer's treasury department.

The Issuer has adopted a strictly conservative treasury policy. The primary objective of such treasury policy is to find the best funding for its lending activities both in the short- and long-term and, simultaneously, to minimise market risks, in order to keep the Issuer's exposure limited from an ALM perspective.

Between issuances of mortgage bonds, liquidity, interest rate and foreign exchange risks are managed primarily through money market transactions. In the long-term, the basic ALM tools are the appropriate structuring of mortgage bond issuances and long-term derivative transactions.

Derivative transactions conducted by the Issuer are based on ISDA Master Agreement and Credit Support Annex documentation. The Issuer constantly monitors its positions by calculating net present value and value-at-risk figures and

through conducting stress tests in accordance with the applicable regulations (the results of such calculations and tests are examined by the Coverage Supervisor when establishing the appropriateness of the coverage for outstanding mortgage bonds issued by the Issuer).

The conservative approach is also reflected in the Issuer's investment policy in order to ensure liquidity. The Issuer's investment portfolio consists predominantly of government bonds and government treasury bills, which may, subject to certain conditions and limitations, also be included in the supplementary coverage for mortgage bonds issued by the Issuer (see "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*" below).

The Issuer's liquidity management is supported by the short-term liquidity facilities provided by OTP Bank. (For more details, see "*Cooperation between the Issuer and OTP Bank in mortgage loan origination*" above.)

A prudent approach also characterises the Issuer's course of dealing with financial institution counterparties, with its business connections being confined to relationships with a limited number of international banks.

The main credit risk control procedures are split between OTP Bank and the Issuer under the Mortgage Syndication Agreement, with the credit ratings of borrowers being performed by OTP Bank's designated branches and the evaluation of respective real estate properties offered as security for mortgage loans being conducted by the Issuer. (For more details, see "*Cooperation between the Issuer and OTP Bank in mortgage loan origination*" above.)

Lending value assessments in respect of the real estate properties securing the mortgage loans provided by the Issuer draws primarily on the Issuer's real estate evaluation system, the Real Estate Map (see "*Support for lending value assessments*" above). LTV ratios in respect of mortgaged properties are constantly monitored by the Issuer and supervised by the Coverage Supervisor.

Following an increase in the previous year, prepayment volumes in respect of the Issuer's loan portfolio returned to pre-crisis levels by 2009. The end of 2011 saw a one-off increase in prepayments on certain foreign currency-denominated mortgage loans included in the Issuer's loan portfolio as a result of the introduction of the FX Early Repayment Scheme. Prepayment risk is managed by the Issuer primarily through the application of prepayment fees as set out in the relevant mortgage loan agreements, subject to statutory limitations in respect of mortgage loans granted to consumers. (For more information, see "*The Hungarian Banking System – Consumer protection legislation in the financial sector*" below.)

Government subsidised loan scheme

The 2001 Scheme

The main method for stimulating home ownership under the 2001 Scheme was the interest subsidy received by mortgage banks on mortgage bonds that were used for the financing of residential mortgage loans meeting the criteria set out in order No. 12/2001 (I.31.) of the government on the state subsidy regime for housing purposes, as amended from time to time (the **Order**). The aim of the interest subsidy regime was to encourage mortgage banks to grant mortgage loans with a rate of interest not exceeding a certain cap as set out in the Order.

The interest subsidies under this scheme may not be granted in respect of applications for housing state support submitted on, or following, 1 July 2009. Nevertheless, it is important to emphasise that the termination of the regime set out in the Order does not affect the right of mortgage banks to receive continued interest subsidies on mortgage bonds that relate to loans for which application was made prior to 1 July 2009. Interest subsidy payments on such loan agreements are made according to an agreement between a mortgage bank and the minister responsible for housing policy and monies are transferred from the Hungarian State Treasury (*Magyar Államkincstár*).

Within this regime, such subsidies could take two forms. Liability-side subsidies were those provided to mortgage banks on eligible mortgage bonds relating to residential mortgage loans which meet the criteria set out in the Order. In the case of asset-side subsidies, on the other hand, financing subsidised loans through mortgage bonds is not a criterion for the subsidy.

The 2009 Scheme

The 2009 Scheme provides government housing support on a significantly narrower basis in terms of eligibility, forms of subsidisation and levels of subsidies. The provisions on the 2009 Scheme are set out in order No 134/2009 (VI. 23.) of the government on state subsidies in respect of loans provided to young persons and families with more than one child for the purpose of financing residential property (the **2009 Subsidy Order**).

As opposed to the 2001 Scheme (still applicable with regard to loans, the application for which was submitted before 1 July 2009), the 2009 Scheme provides for only one type of state support in the form of interest rate subsidies in respect of loans granted to eligible persons (as defined in the 2009 Subsidy Order) (the **Eligible Persons**) for the (i) purchase or construction of a new property (within the meaning as stipulated in the same) or (ii) the modernisation of an existing property, already

owned by the borrower (together, the **Eligible Loans**), provided in both cases that the real estate concerned is situated within the territory of Hungary.

To be eligible for a state subsidy under the 2009 Scheme, borrowers and, as the case may be, the members of their households (as defined in the 2009 Subsidy Order) must meet several requirements common to all types of Eligible Loans and those specific criteria set out with respect to each class of such loans. Those requirements include, without limitation: (i) qualifications as to status, such as citizenship, right of free movement and residence, status of immigrants or permanent residence etc.; (ii) criteria in relation to age, number of children in the borrower's household; (iii) thresholds with respect to the proportion of the ownership interest, the acquisition of which is intended to be financed by the Eligible Loan; and (iv) limitations on ownership interests in properties other than those in connection with which the Eligible Loan has been applied for. Thresholds also apply in respect of the value of a property intended to be acquired and to the amount of the Eligible Loan.

Eligible Loans may only be denominated in HUF. Where Eligible Loans are financed by a mortgage credit institution through the issuance of mortgage bonds, and the relevant mortgage bonds are denominated in a foreign currency, the interest subsidy is conditional on the mortgage credit institution entering into such a foreign exchange transaction that ensures that neither the government nor the borrower is exposed to foreign exchange risk.

In the event that the total amount of the provision for interest subsidy under the 2009 Scheme in respect of a given year is expected to exceed a HUF 3 billion threshold, the minister responsible for housing policy is obliged to initiate the suspension of any further applications submitted in that year for Eligible Loans.

Another element of the 2009 Scheme is the stand-by guarantee provided by the state in relation to certain loans granted to young persons for the purposes of financing residential property in accordance with, and on the conditions set out in, order No 4/2005 (I. 12.) of the government.

The 2012 Scheme

The Hungarian government recently introduced a new subsidised housing loan scheme to promote homeownership, which also consists of specific arrangements envisaged under a comprehensive mortgage relief programme announced by the Hungarian government in mid-2011 with a view to alleviating increased borrower default on certain residential mortgage loans. (For more information on this mortgage relief programme, see "*The Hungarian Banking System - Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis - Legislative measures - Mortgage relief programme*" below.) The provisions on the 2012 Scheme are set out in order No 341/2011 (XII. 29.) of the government on housing interest subsidies (the **2012 Subsidy Order**). The 2012 Scheme came into force in respect of Ordinary Home Loans (as defined below) with effect from 6 March 2012 and with effect from 14 April 2012 as to the remaining elements of the 2012 Scheme. Measures under the 2012 Scheme (other than interest subsidies on Ordinary Home Loans) have been put to the European Commission under EU state aid rules. The European Commission has not yet stated whether or not it will raise objections to such measures.

In order for a credit institution (as defined in the 2012 Subsidy Order to also include mortgage credit institutions, certain qualifying financial institutions and insurance companies that are allowed to engage in mortgage lending) to be eligible for the settlement of subsidies provided under the 2012 Scheme, it must conclude an agreement with the minister responsible for housing policy and the Hungarian State Treasury (the **Subsidy Settlement Arrangement**) within 90 days after the 2012 Subsidy Order coming into force. Monies will be transferred by the Hungarian State Treasury on the basis of subsequent monthly settlement.

The 2012 Scheme envisages interest rate subsidies on covered housing loans, or, as the case may be, the subsidised portion thereof, that are denominated, and to be serviced, in HUF and provided to finance the:

- purchase of a new residential property (as defined in the 2012 Subsidy Order) (whose purchase price (including VAT, but excluding the price for the land) does not exceed HUF 30 million and which is covered by a certificate of occupancy issued after 1 January 2010) (the **New Home Purchase Loan**) up to HUF 10 million;
- construction of a new residential property (whose total eligible construction cost (including VAT) does not exceed HUF 30 million and for which the building permit has been issued after 1 January 2010 and which is not yet covered by a certificate of occupancy) (the **Home Construction Loan**) up to HUF 10 million;
- purchase of an existing (resale) residential property (whose purchase price does not exceed HUF 15 million and provided that (i) the sale and purchase agreement is concluded after the 2012 Subsidy Order coming into force, and (ii) it is evidenced that the seller will purchase another residential property in substitution of the property sold by it within one year) (the **Resale Home Purchase Loan**) up to HUF 6 million;

- improvement to an existing residential property, already owned by the borrower (where the total eligible costs of improvement do not exceed HUF 15 million and which have not commenced yet prior to the application for interest subsidy) (the **Home Improvement Loan**) up to HUF 6 million (the New Home Purchase Loan, Home Construction Loan, Resale Home Purchase Loan and the Home Improvement Loan together, the **Ordinary Home Loans**);
- purchase of an existing mortgaged residential property where the underlying mortgage loan is in arrear for over 180 days and in excess of the mandatory monthly minimum net wage in effect or has been terminated by the relevant creditor for this reason, provided in each case that the (i) market value of that mortgaged residential property did not exceed HUF 15 million, if situated in the capital and towns with county status ("*megyei jogú város*") or HUF 10 million, if located elsewhere, at the time of the origination of the original underlying mortgage loan, (ii) purchaser applicants, their spouse or registered partner, their children and their relatives who are moving together with the applicants into the purchased property do not have an ownership interest in rem, right to use or specified leasehold interest (including an interest under a financial lease) in another residential property with certain limited exceptions (iii) original creditor credit institution under the original underlying mortgage loan has consented to the sale and purchase transaction, (iv) total purchase price is applied towards the repayment of the original underlying mortgage loan, and (v) creditor credit institution under the original underlying mortgage loan has waived all of its claims against the borrower under the original underlying mortgage loan which exceed the proceedings that it receives from the sale and purchase transaction on condition that the requirement in (iv) above is met) (the **Mortgaged Property Purchase Loan**) up to HUF 10 million if that mortgaged residential property is situated in the capital and towns with county status and HUF 7 million, if located elsewhere;
- downsizing purchase of a residential property by borrowers who are in default for more than 90 days with respect to repayments on their existing mortgage loan and sell their existing mortgaged residential property with a view to moving into a smaller property (provided that (i) both the useful floor area and market value of the property contemplated to be acquired through such downsizing purchase are smaller than the residential property which secures their mortgage loans in arrear, (ii) the creditor credit institution under the original underlying mortgage loan has consented to these sale and purchase transactions, (iii) the total purchase price from the sale of the existing mortgaged residential property is applied towards the repayment of the original underlying mortgage loan, (iv) the creditor credit institution under the original underlying mortgage loan has waived all of its claims under the original underlying mortgage loan which exceed the proceedings that it receives from the sale of the existing mortgaged residential property on condition that the requirement in (iii) above is met, and (v) if the underlying borrower has (A) at least 50 per cent. ownership interest in the existing mortgaged residential property, (B) had his registered place of residence therein for at least six months, and (C) no ownership interest that is free from *in rem* rights of use (i.e. usufruct) in another residential property and this also holds for his spouse or partner) (the **Home Downsizing Loan**); or
- remortgaging of an existing mortgage loan that is denominated in, or linked to, a foreign currency and is in arrear over 90 days in excess of the mandatory monthly minimum net wage as of 30 September 2011 (provided that the (i) creditor credit institution under the underlying foreign currency mortgage loan has waived 25 per cent. of its claims under that foreign currency mortgage loan after its redenomination into HUF, (ii) market value of the mortgaged property securing the original foreign currency mortgage loan did not exceed HUF 20 million, if situated in the capital, or HUF 15 million, if located elsewhere at the time of the origination of the original foreign currency mortgage loan, and (iii) underlying borrower has (A) his registered place of residence in the underlying mortgaged property, (B) been living in that property in common household together with at least one dependant child (including adopted children and those under guardianship) for at least one year, and (C) not fallen behind on his payment obligations over 90 days in excess of the mandatory monthly minimum net wage in effect under any restructuring programme granted by the creditor credit institution under the underlying foreign currency mortgage loan) (the **Remortgaging Loan**);

(together, the **Subsidised Loans**).

Interest rates for Subsidised Loans must be set in such a way that they are fixed over at least one-year interest periods and do not exceed the reference yields on treasury bills or, as applicable, government bonds specified in the 2012 Subsidy Order increased by a maximum of three-percentage-point margin.

Interest subsidies will be available for only the first five years of the term of Subsidised Loans and will range from 30 per cent. to 70 per cent. of the reference yield applicable to the relevant Subsidised Loan (depending on its type and, in the case of New Home Purchase Loans, the number of children in the relevant borrower's household), with the actual size falling

gradually to between 30 per cent. and 50 per cent. in the fifth year. In the event that the rate for the interest payable on a Subsidised Loan falls below 6 per cent. in a given period, the relevant borrower must pay the full interest in that period. The interest subsidy on Mortgaged Property Purchase Loans will be capped at 3.5 per cent. of the outstanding principal amount on such loans.

Applications for interest subsidies under the 2012 Scheme will close on 31 December 2014 in the case of Ordinary Subsidised Loans and 31 December 2012 in respect of Mortgaged Property Purchase Loans, Home Downsizing Loans and Remortgaging Loans. Borrowers that are eligible for interest subsidies under the 2012 Scheme will be able to apply for a Subsidised Loan only at those credit institutions which have an effective Subsidy Settlement Arrangement and, in the case of Mortgaged Property Purchase Loans, Home Downsizing Loans and Remortgaging Loans, only at that credit institution which is the creditor under the original underlying mortgage loan (with limited exceptions in respect of Mortgaged Property Purchase Loans). For the purposes of Mortgaged Property Purchase Loans, Home Downsizing Loans and Remortgaging Loans, members of the same banking group will be deemed to form one single creditor. Each borrower, who is eligible for interest subsidies under the 2012 Scheme, will be able to apply for such subsidies only on one Subsidised Loan. Interest subsidies will not be available in certain specific cases (such as, *inter alia*, on loans (other than Remortgaging Loans) provided to refinance existing debts).

To be eligible for an interest subsidy under the 2012 Scheme, borrowers and, in certain cases, the members of their household must meet several requirements common to all types of Subsidised Loans and those specific criteria set out with respect to each class of such loans. Those requirements include, *inter alia*, certain status requirements (such as Hungarian citizenship or registered Hungarian place of residence in the case of EU citizens with the right to free movement and residence, etc.), thresholds with respect to the proportion of the ownership interest, the acquisition of which is intended to be financed by the relevant Subsidised Loan, the requirement to establish residence in that property within a specified period, and the requirement, in the case of Ordinary Subsidised Loans, that at least the borrower or its spouse or partner is continuously insured under the national social security, etc. In addition, specific defaults by borrowers under a Subsidised Loan will, in certain circumstances, lead to them losing their entitlement under the 2012 Scheme.

The Hungarian government's interest subsidy regime represents a decreasingly important source of income for the Issuer.

Principal Market of the Issuer

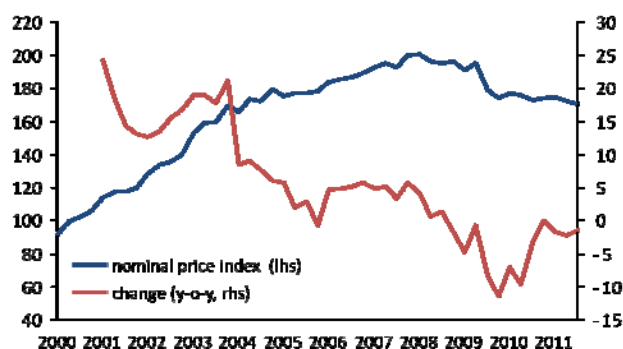
The Hungarian housing and mortgage loan market

Data included in this section has been extracted from publications of the National Bank of Hungary and the Hungarian Central Statistical Office and financial reports of OTP Bank published in the course of 2011.

The shift to a market-based economy in the early-1990s saw significant housing privatisation, pushing owner-occupancy rates to over 90 per cent., one of the highest home ownership rates in the EU.

According to recent statistics, the number of residential properties (flats and houses) in Hungary is approximately 4.3 million with a ratio of 430 flats per 1,000 residents, which is close to the European average. As a result of the financial crisis, the number of residential building permissions issued fell below 20,000 in 2010, representing a 40 per cent. decrease within a one-year period. Almost 21,000 new homes were constructed in 2010, approximately 35 per cent. less than a year before. Inflation-adjusted real values of housing prices doubled between 2000 and 2008 in Hungary, increasing by an annual average of approximately 9 per cent. As a result of the financial crisis, this trend of increase changed at the end of 2008 and real estate prices began to decrease, resulting in a 6.3 per cent. fall on average in 2009 and 5 per cent. in 2010. In 2011, the prices of newly constructed residential properties fell by 0.8 per cent. on average, whilst resale residential property prices decreased by 0.6 per cent. on average (in both cases adjusted for portfolio-composition effects)*.

Price index for Hungarian real estate properties (2000 = 100 per cent.)**



The total amount of outstanding mortgage loans provided by the Hungarian banking sector was HUF 6,892 billion as at the end of 2011, of which housing loans accounted for HUF 4,243 billion.

Competition

Currently, there are three mortgage credit institutions active in the Hungarian market: the Issuer, FHB Mortgage Bank Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (**FHB**) and Unicredit Mortgage Bank Ltd. (*Unicredit Jelzálogbank Zártkörűen Működő Részvénytársaság*) (**Unicredit JB**). All three mortgage banks are involved in disbursing mortgage loans to private individuals and in making purchases from commercial banks.

Hungarian mortgage credit institutions engage in mortgage lending either independently or in cooperation with commercial banks. (For information on the OTP Group, see "*Business overview of the Issuer – Cooperation between the Issuer and OTP Bank in mortgage loan origination*" above.) They purchase independent liens on properties pledged to secure home loans from commercial banks. Although FHB and Unicredit JB also engage primarily in retail residential lending, their portfolios also include mortgage loans granted for the purposes of commercial real estate development.

The Issuer enjoys a market-leading position among Hungarian mortgage credit institutions, having the largest mortgage loan and mortgage bond portfolios in terms of total value.† Mortgage bonds issued by the Issuer accounted for 70.9 per cent. of the aggregate amount of mortgage bonds in circulation in the Hungarian market as at the end of 2011.

The Issuer is not aware of any current plans by potential competitors to establish new mortgage credit institutions that would compete in the Hungarian market with the three existing mortgage credit institutions.

For information on the OTP Group's competitive position in the Central and Eastern European (CEE) markets, see the section on pages 85 to 118 entitled "*Description of the Issuer*" of the GEMTN Base Prospectus, incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above.

Selected macroeconomic indicators for the Hungarian economy

Data included in this section, "*Macroeconomic overview*", in relation to the economic performance of Hungary has been extracted from publications of the National Bank of Hungary and the Hungarian Central Statistical Office and financial reports of OTP Bank published in the course of 2011.

Investors must be particularly aware of risks deriving from the changes in the economic cycle which have an impact not only on the real estate market, real estate construction and purchase transactions, 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. (For a more detailed discussion, see "*Risk Factors – B. Factors that may affect the Issuer's or the Guarantor's ability to fulfil its respective obligations under Mortgage Securities issued under the Programme or under the Irrevocable Payment Undertaking*" above.)

Key economic indicators	2007	2008	2009	2010	2011
Nominal GDP (at current prices, bn HUF)	24 992	26 546	25 623	26 748	28 154
Real GDP change	0.1%	0.9%	-6.8%	1.3%	1.7%
Household final consumption	-1.0%	-0.2%	-5.7%	-2.7%	0.1%
Household consumption expenditure	1.0%	-0.6%	-6.4%	-2.1%	0.0%
Collective consumption	-4.2%	-0.2%	2.6%	1.1%	-1.3%
Gross fixed capital formation	3.8%	2.9%	-11.0%	-9.7%	-5.4%
Exports	15.0%	5.7%	-10.2%	14.3%	8.4%

† Based on the statistics entitled 'Summary of Mortgage Bonds Issue in Hungary' on Q4 2011 published by the Association of Hungarian Mortgage Banks.

*Source: Home Price Index (may 2012) published by the Hungarian Central Statistics Office

**Source: The Financial Stability Report of the National Bank of Hungary, November 2011 available at www.mnb.hu

Key economic indicators	2007	2008	2009	2010	2011
Imports	12.8%	5.5%	-14.8%	12.8%	6.3%
General government balance (ESA'95 based, HUF bn)	-1 269	-976	-1 150	-1 147	1 180
in percent of GDP	-5.1%	-3.7%	-4.5%	-4.3%	4.2%
General government debt (in percent of GDP)	67.1%	72.9%	79.8%	81.4%	80.6%
Current account (EUR bn)*	-7.2	-7.8	-0.2	1.1	1.4
in percent of GDP	-7.3%	-7.3%	-0.2%	1.1%	1.4%
Gross nominal wages**	7.3%	6.9%	0.5%	1.4%	3.3%
Gross real wages	-0.7%	0.8%	-3.6%	-3.3%	-0.6%
Gross disposable income***	5.1%	5.0%	0.7%	3.2%	6.4%
Gross real disposable income	-2.6%	-1.0%	-3.4%	-1.6%	2.4%
Employment (annual change)	-0.1%	-1.2%	-2.5%	0.0%	0.8%
Unemployment rate (annual average)	7.4%	7.8%	10.0%	11.2%	10.7%
Inflation (annual average)	8.0%	6.1%	4.2%	4.9%	3.9%
Inflation (Dec/Dec)	7.4%	3.5%	5.6%	4.7%	4.1%
Base rate (end of year)	7.50%	10.00%	6.25%	5.75%	7.0%
1Y Treasury Bill (average)	7.4%	9.0%	8.6%	5.6%	6.16%
Real interest rate (average, ex post)	-0.5%	2.8%	4.2%	0.7%	2.2%
EUR/HUF exchange rate (average)	251.3	251.5	280.6	275.3	279.3
EUR/HUF exchange rate (end of year)	253.4	264.8	270.8	278.8	311.1

Sources: Hungarian Central Statistics Office, National Bank of Hungary, OTP Bank

* Official data of balance of payments (excluding net errors and omissions)

** Total wages including accrual based salaries in governmental sector. In the case of private sector wages we calculated with whitening effect filtered wages and we take account of the changeable seasonality of the bonus payments

*** Calculation based on financial accounts data

The annual real GDP growth of Hungary in 2011 was 1.7 per cent. The main drivers of this growth were strong export performance and a good harvest in the agricultural sector. Domestic demand did not, however, rebound as households' behaviour remained precautionary despite decreasing tax burdens on households. This resulted in a significant increase in households' financial assets (such as savings). In 2012, net export is expected to remain the main driver of the Hungarian economy, in spite of a deteriorating external market environment.

The Hungarian government is expected to introduce a number of measures with a view to keeping the government deficit below 3 per cent. of the Hungarian GDP, which is the annual government deficit ceiling set under the 'Maastricht criteria' for EU member states (including Hungary). Against this background, the Hungarian government announced a comprehensive structural reform programme consisting of both expenditure-reducing and revenue-raising measures, which are also reflected in Hungary's 2012 Budget.

However, some of these measures, particularly increases in excise duties and the standard rate for value added tax with a direct effect on the Consumer Price Index (CPI), are expected to increase inflation from 3.9 per cent. in 2011 to approximately 5.6^{††} per cent. in 2012.

In order to address, *inter alia*, difficulties that arise from the maturity structure of the Hungarian national public debt, Hungary's extensive reliance on external investors and volatility in the global financial markets in recent periods, the Hungarian government has initiated negotiations with the EU and the IMF on a precautionary stand-by arrangement. Nevertheless, the official negotiations with the EU and the IMF have not commenced yet as of the date of this Base Prospectus.

^{††} Source: Quarterly Inflation Report (March 2012) issued by the National Bank of Hungary

MATERIAL CONTRACTS

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

FORM OF IRREVOCABLE PAYMENT UNDERTAKING

IRREVOCABLE PAYMENT UNDERTAKING

dated 7 July, 2010

WHEREAS

- (A) OTP JELZÁLOGBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG (Short name in English: OTP Mortgage Bank Ltd.), a legal entity existing under the laws of Hungary, registered with the Court of Registry, under registration number 01-10-044659, having its seat at Hungary, H-1051 Budapest, Nádor utca 21., (hereinafter **OTP Mortgage Bank**) has issued and will issue various domestic and international mortgage bonds (defined as "jelzáloglevél" in Hungarian in Part III. of the Act no. XXX. of 1997 on Mortgage Banks and Mortgage Bonds). OTP Mortgage Bank is also entitled to use unsubordinated debt instruments to finance its lending activity (unsubordinated debt instruments, including domestic and international mortgage bonds, senior unsecured notes of OTP Mortgage Bank, as well as interbank deposits will be referred jointly hereinafter **Unsubordinated Debt Instruments**).
- (B) In order to warrant the full and timely payment of all payment obligations – whether in respect of principal or interest - deriving from the Unsubordinated Debt Instruments, OTP Mortgage Bank has agreed with **OTP Bank Plc.**, a legal entity existing under the laws of the Republic of Hungary, registered with the Court of Registry, under registration number 01-10-041585, having its seat at Hungary, H-1051 Budapest, Nádor utca 16., (hereinafter **OTP Bank Plc.**), that OTP Bank Plc. issues a Payment Undertaking (hereinafter referred to as the "Payment Undertaking") in relation to the Unsubordinated Debt Instruments.

NOW THEREFORE

1. We, OTP Bank Plc. hereby unconditionally and irrevocably undertakes the obligation to pay on the written demand of any holder of any of the Unsubordinated Debt Instrument (**Holder**) any amount (whether principal, interest, or any other amounts payable pursuant to the documentation of the Unsubordinated Debt Instrument) which is due but remains unpaid by OTP Mortgage Bank on the due date as set out in the respective terms and conditions of the relevant Unsubordinated Debt Instrument. OTP Bank Plc.'s obligations under this Payment Undertaking shall continue to be effective or will be re-instated, as the case may be, if, at any time, any payment amount, or any part thereof, of any of the Unsubordinated Debt Instruments is rescinded or must otherwise be returned by the Holder as a result of OTP Mortgage Bank's bankruptcy, insolvency, dissolution or reorganization. OTP Bank Plc. hereby waives any and all defences based upon this Payment Undertaking.
2. A demand under this Payment Undertaking may be made by submitting a duly signed notice, together with all documents duly evidencing ownership of the relevant Unsubordinated Debt Instrument pursuant to its respective documentation in English, in the form as set out in Annex I hereto, to the Loan Execution and Special Transactions Department of OTP Bank Plc. following the expiry of the relevant due date under the Unsubordinated Debt Instrument (**Payment Notice**).
3. The payment by OTP Bank Plc. shall be effected within 2 (two) business days from the receipt of the Payment Notice. Holders of the Unsubordinated Debt Instruments shall not be required to exhaust any right or remedy or take any action against OTP Mortgage Bank prior to submitting the Payment Notice.
4. OTP Bank Plc. may withdraw its obligation under this Payment Undertaking by publishing an adequate notification in accordance with the relevant provisions of the documentations of the different Unsubordinated Debt Instruments. OTP Bank Plc. will not have any obligation under this Payment Undertaking in respect of the Unsubordinated Debt Instruments issued two (2) weeks after the publication of this withdrawal notice. However, notwithstanding the expiry of the Payment Undertaking pursuant to this Paragraph 4, this Payment Undertaking shall be in full force and effect with respect to all Unsubordinated Debt Instruments outstanding at the time of such expiry, and may not be terminated until all amounts which may be or become payable by OTP Bank Plc. under or in connection with such Unsubordinated Debt Instruments have been irrevocably paid in full.

5. The present Payment Undertaking and any non-contractual obligations arising out of or in connection with the present Payment Undertaking shall be governed by the prevailing and effective laws of the Republic of Hungary.
6. This Payment Undertaking shall be construed as a "**Joint and Several Guarantee**" ("*készfizető kezesség*" in Hungarian) and shall not be construed as a "**Bank Guarantee**" ("*bankgarancia*" in Hungarian), as OTP Bank Plc. will be entitled to prove whether the claim is due and valid in any case.
7. This Payment Undertaking has been issued in English and in Hungarian languages. In case of contradiction between the English and the Hungarian version, the English version shall prevail.

Annex 1 Payment Notice

OTP Bank Plc.

Name:

Name:

Title:

Title:

PAYMENT NOTICE

To: OTP Bank Plc.
Loan Execution and Special Transactions Department
Dóra Sziládi-Losteiner Director
7 Babér street H-1131 Budapest, Hungary
Tel: +36 (1) 298 43 51; Fax: +36 (1) 298 41 79

From: </>

Date: _____

Pursuant to the Payment Undertaking issued by OTP Bank Plc. ("**OTP Bank Plc.**") on 7 July, 2010 (the "**Payment Undertaking**"), </> (<please insert data regarding address/seat; registry number if applicable; representatives if applicable; ID number, if applicable > hereby requests OTP Bank Plc. to pay the amount of <insert amount and currency> pursuant to the terms of the above mentioned Payment Undertaking.

It is hereby stated and confirmed that OTP Mortgage Bank has failed to fulfil the following payment obligation following the due date:

1. <please specify the relevant Unsubordinated Debt Instrument >
2. <please specify the due amount with number and type (whether principal, interest, or any other amounts) >
3. <please specify the due date >

I hereby attach the original certificate of ownership issued for the name of mine in respect of the above Unsubordinated Debt Instrument from the relevant custody service provider.

Terms used or defined in the Payment Undertaking shall have the same meaning when used in this Payment Notice.

< Signature/For >

< Name>: < Name>:

< Title >: < Title >:

<In witness whereof>:

< Name>: < Name>:

< Address >: < Address >:

< ID number>: < ID number

OVERVIEW OF THE HUNGARIAN MORTGAGE BOND REGULATION

The coverage system for mortgage bonds

Coverage requirement

The coverage requirements applicable to mortgage bonds are set out in Sections 14 to 14/A of Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről*) (as amended, the **Mortgage Credit Institutions Act**). Mortgage credit institutions must, at all times, have 'coverage' (*fedezet*) available at a value which is higher than the equivalent of the outstanding principal and interest in respect of all outstanding mortgage bonds. In order to achieve this, mortgage credit institutions must ensure that the: (a) total amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the aggregate amount of outstanding principal on all outstanding mortgage bonds; and (b) the total amount of interest payable on the amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the interest payable on the aggregate amount of outstanding principal on all outstanding mortgage bonds. Mortgage credit institutions must ensure that the above coverage requirements are also met on a present value basis. (For a more detailed discussion see "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*" below.)

The role of the Coverage Supervisor

Monitoring the availability of coverage assets

Sections 16 and 17 of the Mortgage Credit Institutions Act contain the provisions on the appointment and responsibilities of the Coverage Supervisor (*'vagyonellenőr'*).

The Coverage Supervisor:

- (a) monitors and certifies the continuous availability of sufficient coverage for mortgage bonds as required by the Mortgage Credit Institutions Act; and
- (b) is responsible for the due registration of the (1) properties subject to the mortgages and other liens included in the ordinary coverage for mortgage bonds together with their land register details and mortgage lending values; and (2) ordinary and supplementary coverage in the coverage register.

The appointment of the Coverage Supervisor is valid only with the approval of the HFSA. The appointed Coverage Supervisor of the Issuer is KPMG Hungária Kft. (99 Váci Road, Budapest, H-1139, Hungary).

A security has to meet certain formal requirements to qualify as a mortgage bond. One of these requirements is the certification by the Coverage Supervisor on the mortgage bonds of the existence of the prescribed coverage and the registration thereof in the coverage register.

Registration of coverage assets

Pursuant to applicable legal requirements, the Issuer maintains a coverage register for the registration of the (i) mortgaged properties securing the mortgage assets included in the ordinary coverage for mortgage bonds; and (ii) the value of the ordinary and supplementary coverage. The coverage registration rules of the Issuer were approved by the Board of Directors (Resolution No 11/2007), and by the HFSA (Resolution No E-I-886/2007) with effect from 17 September 2007 and have been reviewed by the Coverage Supervisor. Statements of the Issuer's coverage register record, both at the portfolio level and on an individual basis, the updated data of assets included in the coverage for all outstanding mortgage bonds issued by the Issuer. The aim of the portfolio level statements is to monitor compliance with the (i) requirement of proportionality set out in the Mortgage Credit Institutions Act and (ii) the requirement to match the maturities of mortgage bonds and mortgage loans to comply with the credit institution's obligation to match the maturities of its assets and liabilities.

Valuation of coverage assets

The Mortgage Credit Institutions Act and the Credit Institutions Act impose stringent requirements on the valuation of coverage assets, elaborated *in extenso* in No 25/1997. (VIII.1.) order of the Minister of Finance on the principles of the methodology applicable to the establishment of the mortgage lending value of real estate not qualifying as agricultural land and No 54/1997. (VIII.1.) order of the Minister of Agriculture on the principles of the methodology applicable to the establishment of the mortgage lending value of agricultural land. Accordingly, the key elements of the valuation of coverage assets are as follows:

- preliminary assessment of the acceptability and effectiveness of coverage assets under the relevant legal requirements (as a general rule, the Issuer accepts only unencumbered real estate);

- assessment of the long-term permanent nature of the value of the real estate serving as collateral for mortgage loans;
- estimation of the time required for the sale of such real estate; and
- the establishment of the mortgage lending value of such real estate.

Special status of the mortgage bonds

As a summary of the provisions laid out in this section, the following is a list of the six basic pillars on which the security of mortgage bonds rely:

1.1 Coverage system

The ordinary coverage for mortgage bonds is provided for by mortgage loans adjusted according to mortgage lending values of their respective collateral, established on the basis of detailed and strict statutory regulations. Each mortgage loan may only be taken into account as coverage to the extent permitted by the Mortgage Credit Institutions Act. Where there is no sufficient ordinary coverage, supplementary coverage must be added on a mandatory basis.

For further information, see the section entitled "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*" below.

1.2 Strictly defined coverage proportions

Of the coverage assets, supplementary coverage may only account for a maximum of 20 per cent. from the third year of operation of the respective mortgage credit institution. Further, strict limitations apply to the recognition of mortgage loan assets as ordinary coverage (see "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*" below).

1.3 Independent Coverage Supervisor

The registration of the current mortgage loan portfolio and the mortgaged real estate underlying the mortgage loan assets constituting the coverage for mortgage bond issues is supervised and controlled by an independent Coverage Supervisor appointed in order to safeguard the interests of investors.

1.4 Special status of the holders of mortgage bonds in a liquidation proceeding against a mortgage credit institution

The Mortgage Credit Institutions Act grants a privileged position in the liquidation of a mortgage credit institution, as compared with other creditors, to the holders of mortgage bonds and counterparties to derivative transactions included in the coverage in respect of the coverage and certain other liquid assets.

For a more detailed discussion see "*Detailed Rules of the Coverage System Relating to Mortgage Bonds*" below.

1.5 Special supervision by the HFSA

Pursuant to the Mortgage Credit Institutions Act, the HFSA is obliged to carry out comprehensive on-site audits at mortgage credit institutions on an annual basis.

1.6 Increased publicity

A mortgage credit institution is obliged to disclose quarterly information to the HFSA and to the public periodically, on the aggregate nominal amount of, and interest on, all outstanding mortgage bonds issued by it as well as on the value of the available coverage assets, as certified by the Coverage Supervisor.

1.7 Specialised credit institution

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

Mortgage Securities created in an OECD member state other than Hungary

Pursuant to the Mortgage Credit Institutions Act, certain provisions of Hungarian law are not applicable to the formal requirements for a security to qualify as a mortgage bond in respect of mortgage bonds created in an OECD member state other than Hungary and to the issuance thereof. Such mortgage bonds will still qualify as mortgage bonds even if the global note representing the relevant mortgage bonds, which is deposited with a common safekeeper or common depository, is exchanged for definitive securities in accordance with the specified denomination of the mortgage bonds. The form of such securities is governed by the law of the jurisdiction where they have been created.

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

- (a) section 6(3) of Act CXX of 2001 on capital markets (the **Capital Markets Act**), providing that publicly issued securities must be in a dematerialised and registered form, will not be applicable;
- (b) such mortgage bonds do not need to specify the name of the owner thereof. In such a case, a mortgage bond qualifies as a registered security provided that the name of the owner of the account in which it is registered can be clearly identified; and
- (c) section 12(2) of the Mortgage Credit Institutions Act, which states that coupons shall be issued in respect of interest and principal instalment payments to be made on mortgage bonds created in a physical form, will not apply.

DETAILED RULES OF THE COVERAGE SYSTEM RELATING TO THE MORTGAGE BONDS

Mortgage bonds (*'jelzáloglevél'*) are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (*1997. évi XXX. törvény a jelzáloghitelintézetéről és a jelzáloglevélről*) (as amended, the **Mortgage Credit Institutions Act**).

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

Mortgage credit institutions must at all times have 'coverage' (*'fedezet'*) available at a value which is higher than the equivalent of the outstanding principal and interest in respect of all outstanding mortgage bonds. In order to achieve this, mortgage credit institutions must ensure that the: (a) total amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the aggregate amount of outstanding principal on all outstanding mortgage bonds; and (b) the total amount of interest payable on the amortised value of those principal claims which are taken into consideration as coverage exceeds 100 per cent. of the interest payable on the aggregate amount of outstanding principal on all outstanding mortgage bonds. Mortgage credit institutions must ensure that the above coverage requirements are also met on a present value basis. Such coverage may consist of ordinary coverage and supplementary coverage.

The ordinary coverage for mortgage bonds consists primarily of mortgage loans adjusted for the lending value of the respective mortgaged properties, established on the basis of detailed and strict statutory regulations. Each mortgage loan (or the repurchase price of each independent lien, as applicable) may only be taken into account as coverage up to 60 per cent. of the established mortgage lending value of the relevant mortgaged property, except in respect of residential real estate, where the relevant mortgage loan (repurchase price) may only be taken into account as ordinary coverage for up to 70 per cent. of the mortgage lending value of such residential mortgaged property. Principal and interest claims arising from mortgage loans and management fees received regularly by a mortgage credit institution may serve as ordinary coverage, if the mortgage securing the respective loan is registered on the land register. In the case of mortgage loans secured by mortgages on real estate situated in another member state of the EEA, further prudential requirements need to be met in order for such loans to be included in the ordinary coverage.

The repurchase price of so-called independent liens (as defined in Act IV of 1959 on the Civil Code of Hungary within a meaning comparable to that of a non-recourse mortgage) may also serve as ordinary coverage. In addition, the adjusted value of certain derivative transactions concluded in relation to mortgage bonds issued by the respective mortgage credit institution and/or the coverage thereof may be included as ordinary coverage, provided that the relevant counterparty consents to the inclusion of the respective derivative transaction into the ordinary coverage and certain other conditions are met, and the balance of the receivables and liabilities arising from such derivative transactions on a present value basis does not exceed 12 per cent. of the present value of the liabilities arising under the outstanding mortgage bonds issued by the relevant mortgage credit institution. Furthermore, claims for principal and interest as well as management fees arising from the so-called "connected loan" (that part of the credit facility which is secured by state guarantee and not covered by the mortgage) may also constitute ordinary coverage.

The supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) cash held in a separate blocked account with the National Bank of Hungary; (b) securities issued by the central banks of the member states of the EU, the EEA, the Organisation for Economic Co-operation and Development (the **OECD**) or the European Central Bank (the **ECB**); (c) securities issued by member states or full members of the EU, the EEA or the OECD; (d) securities issued by the European Investment Bank, the International Bank for Reconstruction and Development, the Council of Europe Development Bank or the European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship (*'állami készfizető kezességvállalás'*) provided by the Hungarian State; (f) securities the principal and interest payment on which are guaranteed by any of the issuers listed in (c) and (d) above; (g) certain loans granted with first demand suretyship provided by the Hungarian State; and (h) covered bonds (as defined in No 196/2007. (VII.30.) order of the government) which are recognised as eligible collateral by the central bank of a member state or the ECB, except for mortgage bonds issued by the relevant mortgage credit institution and covered bonds issued by a credit institution or investment firm closely linked to that mortgage credit institution. The total amount of claims towards any of the obligors listed in (c), (d), (f) and (h) above may not at any time exceed 2 per cent. of the aggregate nominal amount of all outstanding mortgage bonds issued by the relevant mortgage credit institution.

The inclusion of covered bonds referred to in (h) above in the supplementary coverage is subject to further strict statutory thresholds as follows: (i) the total amount of such covered bonds is capped at 25 per cent. of the aggregate amount of the supplementary coverage; and (ii) the total amount of such covered bonds may not exceed 5 per cent. of the aggregate nominal value of the mortgage bonds outstanding.

If the mortgage bonds and their respective coverage are denominated in different currencies, mortgage credit institutions are required to hedge their foreign exchange risk by derivative transactions. These derivative transactions may, subject to further rules as referred to above, also be included in the ordinary coverage.

In the event of the transformation or liquidation of a mortgage credit institution, the respective mortgage credit institution may transfer wholly or partially its obligations arising under mortgage bonds and those derivative transactions which have been included in the ordinary coverage to another mortgage credit institution. This transfer is subject to the permission of the HFSA, but does not require the prior consent of the holders of the mortgage bonds or the counterparties to the relevant derivative transactions. The obligations arising from mortgage bonds may only be transferred together with the related ordinary and supplementary coverage. The mortgage credit institution, taking over the portfolio concerned, must issue new mortgage bonds on the original terms and conditions.

Liquidation proceedings against mortgage credit institutions are governed by the rules applicable to the liquidation of credit institutions, subject to the following specific provisions.

Upon ordering the liquidation, the competent court also appoints a coverage administrator (the **Coverage Administrator**, *'fedezeti gondnok'*), whose main responsibility is to ensure the satisfaction of all claims of the holders of mortgage bonds in due course. From its appointment, only the Coverage Administrator is entitled to dispose of those assets of the relevant mortgage credit institution which constitute the coverage for mortgage bonds.

In the event of the liquidation of a mortgage credit institution, claims arising under mortgage bonds and derivative transactions included in the coverage will not become due and payable at the time of the commencement of the liquidation. The Coverage Administrator acts outside the ordinary liquidation proceedings. The Coverage Administrator will satisfy the claims of the holders of mortgage bonds and the counterparties to those derivative transactions which have been registered in the coverage register as part of the ordinary coverage. The claims of these counterparties will rank *pari passu* with those of the holders of mortgage bonds in right of satisfaction. The rules on satisfying claims arising under mortgage bonds must be applied appropriately to the satisfaction of claims arising from such derivative transactions.

Following the settlement of the Coverage Administrator's fees, the fees relating to the administration and enforcement of certain claims in relation to the liquidation, and the costs associated with the activities of the Coverage Supervisor, the following assets (the **Restricted Assets**) may be used exclusively for the satisfaction of obligations owed to holders of mortgage bonds and counterparties to derivative transactions included in the coverage: (a) the ordinary and supplementary coverage registered in the coverage register at the time of the commencement of the liquidation; (b) (i) that proportion of the ordinary coverage which could not be taken into account as ordinary coverage for the reason that it exceeds the 60 per cent. or 70 per cent. of the mortgage lending value statutory limits to which extent a receivable may account for ordinary coverage; and (ii) those liquid assets of the mortgage credit institution which (A) exist at the time of the commencement of the liquidation, (B) are not included in the coverage but (C) satisfy the criteria set out in the Mortgage Credit Institutions Act for supplementary coverage.

The Restricted Assets defined in (a) and (b) above do not constitute part of the liquidation assets. The Coverage Administrator will satisfy the claims arising from mortgage bonds on the dates for interest payment and redemption indicated on the mortgage bond.

Restricted Assets only become part of the liquidation assets of the mortgage credit institution if all the claims of the holders of mortgage bonds and counterparties to derivative transactions included in the coverage are satisfied or transferred to another mortgage credit institution.

When claims arising under mortgage bonds and derivative transactions included in the coverage become due and the Restricted Assets are not sufficient to cover these claims, the holders of mortgage bonds and the relevant counterparties to the derivative transactions included in the coverage will be satisfied *pro rata* to their claims. In this case, proceeds generated by Restricted Assets at a later stage must be paid to settle such unsatisfied claims as they fall due and *pro rata* in respect of claims falling due at the same time. In the case of late payment of principal or interest, the holders of mortgage bonds may claim the default interest specified in the terms and conditions of the mortgage bonds (the default interest accrued from the original maturity is payable after the satisfaction of claims for principal and interest claims arising under the mortgage bonds).

From the commencement of the liquidation, only the Coverage Administrator may act with respect to the Restricted Assets on behalf of the mortgage credit institution. The Coverage Administrator may initiate the transfer of obligations arising under mortgage bonds and the repurchase of outstanding mortgage bonds. The Coverage Administrator may also conclude derivative transactions for hedging purposes and it must enforce claims serving as coverage on behalf of the mortgage credit institution. From the commencement of the liquidation, the proportion of the ordinary coverage of the total coverage may fall below 80 per cent. The purchase price from the sale of Restricted Assets may be used solely for satisfying obligations owed to the holders of mortgage bonds and the counterparties to the derivative transactions included in the ordinary coverage. The Coverage Administrator must take all actions necessary to maintain the continuous solvency of the mortgage credit institution (i.e. that all claims are fully satisfied from the Restricted Assets at the time when they fall due). If continuous solvency is not fully achievable, then the Coverage Administrator must satisfy the relevant claims, irrespective of their maturity, *pro rata* to their principal amounts.

Within the 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 holders of the mortgage bonds. After two years this right elapses. The court may only resolve on the conclusion of the liquidation proceedings and the dissolution of the relevant mortgage credit institution, if (i) all the claims arising under the mortgage bonds and the derivative transactions included in the coverage have been satisfied or transferred to another mortgage credit institution, or (ii) all the assets serving as coverage for such claims have been exhausted.

Pursuant to Section 21 of the Mortgage Credit Institutions Act, only the holders of mortgage bonds and the counterparties to the derivative transactions included in the coverage (to the extent of their claims arising under the mortgage bonds and such derivative transactions) may commence enforcement proceedings with respect to Restricted Assets. Payment to such persons in the enforcement proceedings falls after the payment of statutory enforcement costs.

THE HUNGARIAN BANKING SYSTEM

Overview

Hungary joined the EU on 1 May 2004. As a member state of the EU, Hungary has implemented the relevant EU legislation laying down the foundations for the legal framework for the financial services industry, including the main EU sectoral Directives together with their various implementing EU legislative measures and other EU legislative acts with a financial subject matter.

The Hungarian banking system comprises a vast array of financial service providers, including banks, specialised credit institutions, savings and credit co-operative credit institutions and financial enterprises. The past few years have seen further diversification on the supply side, in particular in the payments segment, through the emergence of payment institutions ('*pénzforgalmi intézmény*') and electronic money institutions ('*elektronikuspénz-kibocsátó intézmény*') as new types of service providers introduced by recent EU legislation.

Financial supervision

The European System of Financial Supervisors

In the light of the financial crisis, having exposed important failures in financial supervision, a package of EU legislative acts on financial supervision has been recently adopted with a view to creating a new European financial supervisory architecture (the **European System of Financial Supervisors**), including three new European Supervisory Authorities (the **ESAs**) for the financial services sector: a European Banking Authority (the **EBA**), a European Insurance and Occupational Pensions Authority (the **EIOPA**) and a European Securities and Markets Authority (**ESMA**). The European System of Financial Supervisors consists of the European Systemic Risk Board (the **ESRB**), the ESAs, the national supervisory authorities (**NSAs**) and the Joint Committee of the ESAs.

The new comprehensive European supervisory framework is set out in Regulation (EU) No 1092/2010 on macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and the Omnibus I Directive (Directive 2010/78/EU of 24 November 2010) (together, the **Financial Supervision Package**).

The Financial Supervision Package confers important powers on the ESAs, including, *inter alia*, to:

- draw up specific rules for NSAs and financial institutions;
- develop technical standards, guidelines and recommendations;
- monitor how rules are being enforced by NSAs;
- take action in emergencies, including the banning of certain products;
- mediate and settle disputes between NSAs;
- ensure the consistent application of EU law; and
- mediate in certain situations and settle disagreements between NSAs, in particular in areas that require cooperation, coordination or joint decision-making by supervisory authorities from more than one member state of the EU.

The ESAs are also entitled to address individual decisions directly to the relevant NSAs: (i) in the course of the settlement of a disagreement between the relevant NSAs which has arisen in relation to cross-border situations, where those NSAs have failed to reach an agreement within the time limit set by the respective ESA for conciliation; and (ii) in emergency situations declared by the European Council. In addition, in circumstances where an NSA fails to apply the relevant directly applicable provisions of EU law or has applied such provisions in a way that appears to amount to a breach thereof, the ESAs are empowered to issue a recommendation directly to the NSA concerned as to the actions necessary for compliance. In exceptional circumstances and subject to further conditions, where the relevant NSA fails to take the actions required by the respective ESA, the ESA concerned may adopt decisions directly addressed to individual financial institutions as a last resort to ensure compliance with the requirements of the relevant EU legislation.

Furthermore, the Financial Supervision Package confers direct supervisory powers on ESMA over credit rating agencies established and registered in the EU, including powers to request information, launch investigations, and perform on-site inspections.

The ESRB is responsible for monitoring and assessing potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole. To this end, the ESRB provides an early warning of system-wide risks that may be building up and, where necessary, issues recommendations for action to deal with these risks.

The Joint Committee of the ESAs serves as a forum in which the ESAs cooperate regularly and closely to ensure cross-sectoral consistency, in particular with respect to: financial conglomerates, accounting and auditing issues, micro-prudential analyses of cross-sectoral developments, risks to, and vulnerabilities of, financial stability, and retail investment products.

Supervision and regulation of the banking system at the national level

Oversight of the Hungarian banking system is exercised by both the National Bank of Hungary (the **NBH**) and the Hungarian Financial Supervisory Authority (the **HFSA**).

National Bank of Hungary

Act CCVIII of 2011 on the National Bank of Hungary regulates the NBH and its current status in the system of European Central Banks. The NBH, in its capacity as the central bank, determines and implements Hungarian monetary policy and controls the volume of money in circulation through the traditional monetary policy instruments, including open market transactions, measures influencing interest rates and foreign exchange rates and the imposition of reserve requirements on financial institutions to hold a specified portion of their adjusted liabilities, certain assets and off-balance sheet items as reserve funds with the NBH. The NBH is also responsible for the management of the national foreign currency reserves.

In order to enhance the secure operation of the financial system, the NBH, in cooperation with the relevant authorities, supports the adoption and maintenance of an efficient policy on financial stability and the prudential supervision of credit institutions, in particular, by identifying those economic risks which endanger the stability of the financial system as a whole. The NBH also monitors the operation and liquidity position of systematically important financial institutions. To the extent that these are not set out in acts of Parliament or orders of the government, the NBH may determine measures to prevent or mitigate systemic risks, including, *inter alia*, measures to limit excessive credit growth, liquidity requirements aimed at preventing systemic risks from building up, detailed rules on countercyclical capital buffers and additional requirements with a view to reducing the probability of default by systematically important financial institutions.

The NBH may, at its discretion, act as a lender of last resort to assist credit institutions or the National Deposit Insurance Fund if they face transitional liquidity problems, where such difficulties endanger the stability and smooth operation of the financial system, particularly in respect of payment functions. Any loan, granted by the NBH to a commercial bank in its 'lender of last resort' capacity, constitutes an unguaranteed obligation on the part of that bank. Furthermore, the NBH may also provide liquidity to credit institutions in accordance with its monetary policy in effect from time to time, primarily through repo transactions.

The NBH designates the payment and securities settlement systems for the purposes of Directive 98/26/EC on settlement finality in payment and securities settlement systems and supervises their operation. In addition, the NBH has ongoing consultations with banks, and holds on-site audits in its supervisory capacity.

Further, the NBH has been designated as an 'agency' for the purposes of the functions set out in Section 1 of Article V of the Agreement of the International Monetary Fund.

The NBH reviews reports filed by banks and maintains a publicly available database on the Hungarian banking system. Furthermore, it continuously evaluates the status of, and publishes comprehensive information in relation to, the financial position and condition of Hungarian credit institutions as well as the Hungarian economy. The NBH also monitors compliance by credit institutions with the provisions of Act CXII of 1996 on credit institutions and financial enterprises (the **Credit Institutions Act**) and the orders issued by the Governor of the NBH (the **NBH Orders**).

The European Central Bank and the National Bank of Hungary

There is no official date indicated by the Hungarian government for Hungary to become a member of the Economic and Monetary Union (**EMU**). Prior to joining the EMU, Hungary needs to accede to the ERM-II system.

Hungary is presently at the second stage of the monetary integration, therefore it still retains the discretion to set its own monetary policy. Nevertheless, pursuant to the Treaty of Maastricht, it is bound to follow a strategy of convergence. The Governor of the NBH is a member of the Governing Council of the European Central Bank (the **ECB**).

Hungarian Financial Supervisory Authority

The supervision of the financial sector is carried out by the HFSA. The current regulation of the status, powers and organisation of the HFSA is set out in Act CLVIII of 2010 on the Hungarian Financial Supervisory Authority (the **HFSA Act**).

The HFSA is an independent regulatory body, accountable to Parliament, with national jurisdiction and exercises the statutory powers conferred on it by the HFSA Act and other acts regulating the different sectors of the Hungarian financial industry. The HFSA is a member of the European System of Financial Supervisors.

The HFSA has been designated a 'competent authority' for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies laying down conditions for issuing credit ratings and rules on the organisation and conduct of credit rating agencies to promote their independence and the avoidance of conflicts of interest.

The HFSA is headed by a president with the assistance of two vice-presidents. The efficient operation of the HFSA is supported by the Financial Stability Council (**FSC**). The FSC consists of the president of the NBH, the president of the HFSA and the minister responsible for the regulation of the financial markets. The presidency of the FSC is held by its members on the basis of annual rotation.

The HFSA holds wide-ranging powers under the Credit Institutions Act, Act CXXXVIII of 2007 on investment firms and commodity service providers and on the rules of their activities (the **Investment Firms Act**), the HFSA Act and Act CXX of 2001 on capital markets (the **Capital Markets Act**) to license and supervise the operation of credit institutions. The responsibility for supervising banks and other credit institutions has largely been transferred to the HFSA, with the NBH retaining a more limited supervisory role (mainly related to the circulation of the national currency and the operation of the payment system).

The HFSA is entitled to carry out site audits, to take action in the interest of ensuring compliance with the Credit Institutions Act and to initiate proceedings where non-compliance or, in the case of minimum liquidity requirements and the requirement to match asset and liability maturities, the danger of non-compliance has been detected. The HFSA is obliged to conduct comprehensive inspections, including on-site audits every three years, at banks, specialised credit institutions, insurance companies and reinsurers. The HFSA and the NBH co-operate in performing financial supervision. Accordingly, licensing by the HFSA of certain financial services requires a preliminary opinion from, or approval by, the NBH.

The HFSA can implement a variety of measures to eliminate deficiencies and irregularities detected at financial institutions engaged in lending: from notification and enforcement of mandatory decisions, restrictions or bans on certain functions of the non-compliant institution and appointment of a supervisory officer (as described below), to the ultimate measure of withdrawing the financial institution's operating licence. Apart from the above administrative powers, the HFSA may also, as an exceptional measure, impose a fine for any of the following: infringement of legal regulations or NBH Orders pertaining to financial services and supplementary financial services; failure to comply with the Credit Institutions Act, HFSA decisions, internal rules and regulations of the supervised institutions; or for the late or insufficient compliance with the above. The maximum limit for such fines is the higher of either HUF 2 billion, or 200 per cent. of the annual supervision fee determined for the institution concerned.

The HFSA is obliged to appoint a supervisory officer upon the occurrence of any of the following events:

- 1) the solvency capital of the credit institution does not reach the mandatory level prescribed by law and
 - 1.1 the board of directors does not convene a shareholders' meeting when requested by the HFSA; or
 - 1.2 the owner or the third country credit institution is unable, or unwilling, to restore the solvency capital or the own equity of the credit institution to the mandatory level prescribed by law or to the level imposed by the HFSA; or
 - 1.3 the credit institution fails to execute the restoration plan approved by the HFSA, or does so with significant delay or deviation; or
- 2) the solvency capital of the credit institution falls below 50 per cent. of the mandatory capital level, regardless of whether or not the above conditions are met; or
- 3) the competent authority, supervising the parent company of the credit institution, notifies the HFSA of the occurrence of a crisis situation which jeopardises or endangers the financial stability of the parent company.

In addition, there are further cases where the HFSA may exercise discretion as to the appointment of a supervisory officer. Such cases are, in particular, where the (i) credit institution is in a situation where there is a chance that it may be unable to comply with its obligations, (ii) board of directors at the credit institution cannot perform its duties and this endangers the

interests of the depositors, and (iii) deficiencies revealed in the accounting and internal audit systems of the credit institution are so extensive that assessment of the real financial position of the credit institution has become impossible.

Upon the appointment of a supervisory officer becoming effective, the exercise of the rights and powers of the management of the relevant credit institution is delegated by virtue of law to that supervisory officer.

Furthermore, the HFSA is empowered to impose a ban or restriction on, or conditions for, the provision of financial services or the conclusion of such transactions by the credit institution involved for a maximum 90-day period, where significant risks arise that the continued performance of the activities concerned would endanger the stability of the financial system, and where such concerns may not be eliminated through other measures. This power is exercisable by legislative order issued by the president of the HFSA.

The HFSA Act confers a power on the president of the HFSA to make delegated legislation exercisable by order. Such power, however, is strictly limited to the subject matters set out in the HFSA Act and in the sectoral acts, such as detailed rules on the disclosure and reporting obligations of regulated entities, internal controlling procedures etc. Further, orders foreseen to be issued by the president of the HFSA may not be in contradiction to, and may not derogate from, acts of Parliament, orders of the government or NBH Orders.

The HFSA Act has also implemented, with effect from 1 January 2011, the provisions of CRD2 (as defined below) on colleges of supervisors, which sets out the cooperation of the supervisory authorities of the relevant EU member states in relation to the supervision of cross-border banking groups on a consolidated basis, and regulates the functions to be performed by the HFSA in its capacity as consolidating supervisor.

Main elements of the Hungarian banking regulations

The current regulatory framework for the Hungarian banking system is primarily set out in the Credit Institutions Act, the Capital Markets Act and the Investment Firms Act, which transposed the relevant EU legislation into Hungarian law, including, *inter alia*, the CRD (as defined below), Directive 2004/39/EC on markets in financial instruments (the **MiFID**), the provisions of Directive 2007/64/EC of 13 November 2007 on payment services in the internal market (the **PSD**) and Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions (the **Electronic Money Institutions Directive**). Particular provisions applicable to specialised credit institutions, such as mortgage credit institutions, are set out in specific acts, including Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (the **Mortgage Credit Institutions Act**). In addition, specific rules not regulated in detail under these acts are elaborated in government orders, orders of the governor of the NBH, orders issued by the minister responsible for the regulation of the financial markets, or orders of the president of the HFSA.

Capital Adequacy

Basel III

On 16 December 2010, the Basel Committee on Banking Supervision (the **BCBS**) published the full text of its reform package (commonly referred to as **Basel III**), which presents the details of global regulatory standards on bank capital adequacy and liquidity as agreed by the Governors and Heads of Supervision, and endorsed by the G20 Leaders at their Seoul summit held in November 2010. Basel III consists of a global capital framework (Basel III: A global regulatory framework for more resilient banks and banking systems) (the **Capital Framework**) and a global liquidity framework (Basel III: International framework for liquidity risk measurement, standards and monitoring) (the **Liquidity Framework**) aimed at, *inter alia*, strengthening global capital and liquidity requirements, improving the banking sector's ability to absorb shocks arising from financial and economic stress with a view to promoting a more resilient banking sector.

The Capital Framework sets out new standards on minimum Tier 1 capital, the composition of the capital base, rules on counterparty credit risk and concepts for countercyclical capital buffers and introduces a leverage ratio with a view to constraining excessive leverage in the banking sector and providing additional safeguards against model risk and measurement error.

Under the Capital Framework, the predominant form of Tier 1 capital ('Common Equity Tier 1' capital) must consist of common shares and retained earnings. The remainder of the Tier 1 capital base ('Additional Tier 1' capital) must be comprised of instruments that are subordinated, have fully discretionary, non-cumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. Innovative hybrid capital instruments with an incentive to redeem through features such as step-up clauses, currently limited to 15 per cent. of the Tier 1 capital base, will be phased out. The Capital Framework increases the minimum Common Equity Tier 1 ratio and the overall minimum Tier 1 capital ratio (in each case as measured against risk-weighted assets) from 2 per cent. to 4.5 per cent. and from 4 per cent. to 6 per cent., respectively. The minimum Common Equity Tier 1 ratio and the overall minimum Tier 1 capital ratio will be phased in

from 1 January 2013 and increased gradually during a transitional period of two years. Tier 3 capital instruments, which are only available to cover market risks, will be eliminated. In addition to the minimum regulatory requirement, banks will be required to hold a capital conservation buffer of 2.5 per cent. (as measured against risk weighted assets), which must consist of Common Equity Tier 1 and may be drawn down in periods of stress. The capital conservation buffer will be phased in between 1 January 2016 and 1 January 2019 and be increased gradually from 0.625 per cent. to 2.5 per cent. Furthermore, banks will be subject to a countercyclical buffer regime, which will allow national regulators to require banks to increase the size of the capital conservation buffer by up to another 2.5 per cent. in periods of excessive credit growth. The countercyclical buffer regime will be introduced in parallel with the capital conservation buffer between 1 January 2016 and 1 January 2019 with its threshold beginning at 0.625 per cent. and being gradually increased to 2.5 per cent.

The Capital Framework also envisages strengthened requirements as to the capital treatment of counterparty credit exposures arising from banks' derivatives, repo and securities financing activities. In addition to the capital charges for counterparty default risk, banks will be subject to capital charges for credit valuation adjustment (**CVA**) risk (that is the risk of potential mark-to-market losses), associated with a deterioration in the creditworthiness of a counterparty.

The Liquidity Framework introduces two minimum standards for funding liquidity. The 'Liquidity Coverage Ratio' (**LCR**) has been developed to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets to survive an acute stress scenario lasting for one month. The standard requires that the value of the ratio be no lower than 100 per cent. (i.e. that the stock of high-quality liquid assets should at least equal to the total net cash outflows over the 30 day period). Banks will be expected to meet this requirement continuously and hold a stock of unencumbered, high-quality liquid assets as a defence against the potential onset of severe liquidity stress. The 'Net Stable Funding Ratio' (**NSFR**) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities, thereby promoting resilience over the longer-term. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences. After an observation period beginning in 2011, the LCR, including any revisions, will be introduced on 1 January 2015. The NSFR, including any revisions, will move to a minimum standard by 1 January 2018.

EU legislation

As regards the EU, the current EU framework for regulatory capital is primarily set out in the Capital Requirement Directive (the **CRD**), comprising two (amended) Directives, the recast 2006/49/EC Directive on the capital adequacy of investment firms and credit institutions, and the recast 2006/48/EC Directive on the taking up and pursuit of the business of credit institutions. The CRD aims to ensure the soundness and stability of credit institutions and certain investment firms, on the basis of the three-pillar structure of the Basel II (Revised) Capital Framework.

Since its coming into force, various packages of amendments have been adopted to the CRD and further changes are being proposed to the EU framework for regulatory capital by the European Commission.

As part of the ongoing process of revision that was already underway, and also as a response to the credit crisis, Directive 2009/111/EC and Commission Directive 2009/83/EC were adopted in 2009, known as the 'CRD2' package (the **CRD2**).

Amongst other things, CRD2 introduced more stringent requirements to improve the:

- (i) quality of banks' capital by establishing EU-wide criteria for assessing the eligibility of 'hybrid' capital to be counted as part of a bank's overall capital;
- (ii) management of large exposures by restricting a bank's lending beyond a certain limit to any one party;
- (iii) risk management of securitisation, including a requirement to ensure that a bank does not invest in a securitisation unless the originator retains an economic interest;
- (iv) liquidity risk management; and
- (v) supervision of cross-border banking groups.

The deadline for establishing the necessary national laws, regulations and administrative provisions required for compliance with CRD2 was 31 October 2010, to be applied from 31 December 2010.

2010 saw further amendments to the CRD through the adoption of Directive 2010/76/EU amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for resecuritisations and the supervisory review of remuneration policies, known as the CRD3 package (the **CRD3**), to be transposed into national laws by 1 January 2011.

The modifications set out in CRD3, reflecting international developments and building on the agreements reached by the BCBS, include: (i) higher capital requirements for re securitisations to ensure that banks take proper account of the risks of

investing in such complex financial products; (ii) upgrading disclosure standards for securitisation exposures; (iii) strengthening capital requirements for the trading book; and (iv) imposing a tightened regime on the remuneration policies of credit institutions.

On 20 July 2011, the European Commission published a new legislative proposal package on the reform of the EU framework for capital adequacy requirements (the **CRD4**), which envisages the replacement of the CRD with a Regulation on the prudential requirements for credit institutions and investment firms and a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, rather than further amendments thereto. It is proposed that the new Regulation, commonly referred to as the 'Capital Requirements Regulation' (the **CRR**), should provide a single rule book, directly applicable in all EU member states, and set out a single set of prudential requirements for credit institutions and investment firms with uniform application throughout the EU. CRD4 foresees the new Directive establishing the new EU framework for (i) taking up and pursuing the business of credit institutions and investment firms, (ii) the EU passporting regime, (iii) capital buffers, (iv) corporate governance, and (v) the financial supervision of credit institutions and investment firms and supervisory sanctions.

CRD4, whilst also taking into account European banking specificities, strives to closely align with, and to build on, Basel III. The possible changes foreseen by CRD4 aims at, *inter alia*:

- (i) increasing capital requirements in general and strengthening the quality of regulatory capital;
- (ii) increasing the minimum level of own funds and, in addition to the minimum capital requirements, introducing a (A) conservation capital buffer for absorbing losses in stressed periods and (B) countercyclical capital buffer that addresses the cyclicity of lending and the level of which will be set by national authorities in the light of changes in the business cycle;
- (iii) strengthening the capital requirements for counterparty credit risk from derivative transactions;
- (iv) introducing new liquidity requirements and, to improve short-term resilience of the liquidity risk profile of financial institutions, a 'Liquidity Coverage Ratio' (**LCR**), the exact composition and calibration of which will be determined after an observation and review period in 2015;
- (v) reducing the leverage of financial institutions and introducing a leverage ratio (defined as Tier 1 capital divided by a measure of non-risk-weighted assets) as a supervisory tool in the phase in stage and, subject to an observation period and final decision by the European Commission, as a binding requirement as from 2018;
- (vi) reinforcing the financial supervisory regime and introducing new provisions on sanctions for non-compliance;
- (vii) strengthening the requirements with respect to corporate governance arrangements and processes and introducing new rules with a view to increasing the effectiveness of risk oversight by management bodies, improving the status of the risk management function and ensuring effective monitoring by supervisors of risk governance; and
- (viii) reducing, to the extent possible, reliance by credit institutions on external credit ratings by requiring that (a) investment decisions are based not only on such ratings but also on own internal credit assessments, and (b) banks with a material number of exposures in a given portfolio develop internal ratings for that portfolio instead of relying on external ratings for the calculation of the respective capital charges.

CRD4 foresees phasing in the new capital adequacy regime from 1 January 2013 with full implementation by 1 January 2019.

Should CRD4 lead to the adoption of the respective EU legislation, further tightening can be expected with regard to the EU capital adequacy regime.

Implementation of the relevant EU legislation by Hungary

The capital adequacy requirements set out in the CRD, as amended by CRD2 and CRD3, have been transposed into Hungarian law through various amendments to the Credit Institutions Act and orders issued by the government and the minister responsible for the regulation of the financial markets.

Pursuant to the amended Credit Institutions Act, banks must maintain a registered capital of at least HUF 2 billion (approximately EUR 6,761,097). The minimum registered capital requirement amounts to at least HUF 3 billion (approximately EUR 10,141,645) for mortgage credit institutions as a type of specialist credit institution. The amount of a credit institution's equity may not be less than the statutory minimum amount of its registered capital. In the event of the amount of a credit institution's equity falling below the registered capital, the HFSA may afford the credit institution a maximum 18-month deadline to bring its equity to the required level.

In order to maintain its solvency and ability to satisfy its liabilities, a credit institution must at all times maintain solvency capital adequate to cover the risk of the financial and investment activities in which it engages.

The solvency capital must be at all times equal to, or above, the sum of:

- (i) 8 per cent. of its total risk-weighted exposure, calculated in accordance with the relevant provisions of the Credit Institutions Act, for its credit risk;
- (ii) the capital requirement for its dilution risk;
- (iii) the capital requirement for counterparty credit risk in relation to items booked in, and out of, its trading book;
- (iv) the capital charge for position risk and large exposures in its trading book;
- (v) the capital charge for foreign exchange and commodities risk throughout all of its business activities; and
- (vi) the capital requirement for operational risk inherent in all of its business lines,

which may not in any event be less than the minimum amount of its registered capital.

The amended Credit Institutions Act provides for two broad methodologies to quantify a bank's risk-weighted exposure: the Standardised Method and the Internal Ratings Based Approach (the **IRB Approach**). The Standardised Method enables the credit institution to measure its risks in a standardised manner on the basis of the principles laid down in the Credit Institutions Act. Pursuant to this method, each exposure must be categorised into an exposure class, linked to the respective risk category. Alternatively, the IRB Approach, subject to the explicit approval of HFSA, allows banks to use their internal rating systems. In relation to the IRB Approach, the HFSA has already issued its own validation hand-book (*'PSZÁF Validációs Kézikönyv'*).

Trading Book

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, including proprietary positions, positions arising from client servicing and market making. To be eligible for trading book capital treatment, financial instruments must be either free of any restrictive covenants on their tradability or capable of being hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

In order to ascertain a credit institution's capital requirements in respect of positions booked in the trading book, there must be clearly defined policies and procedures in place in order to determine which exposures to include in, and to exclude from, the trading book. Systems and control mechanisms must be sufficient to provide prudent and reliable valuation estimates.

The regulation of credit institutions' trading activities and the trading book are set out in the Investment Firms Act and the related government orders (implementing MiFID and the relevant provisions of CRD).

General Reserves

A credit institution must create general reserves against the possibility of losses not yet identified by setting aside 10 per cent. of its profit after tax prior to paying dividends or shares. The funds so set aside may be used only to offset the losses incurred by the credit institution from its business activities. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves provided that the amount of the credit institution's solvency capital is at least equal to 150 per cent. of the minimal amount of solvency capital as set out in paragraphs (1)-(2) of Section 76 of the Credit Institutions Act and if it has no negative profit reserves.)

Minimum liquidity requirements and requirement to match foreign currency denominated asset and liability maturities

With effect from 16 January 2012, two new liquidity monitoring tools were introduced for credit institutions. Credit institutions must, at all times, maintain a minimum level of either an effective liquid assets to total deposits (excluding deposits by financial enterprises) ratio (known as 'deposit coverage ratio') or an effective liquid assets to balance sheet total ratio (known as 'balance sheet coverage ratio'), in each case as measured over a period of thirty days. Mortgage credit institutions, which do not take deposits, must comply with the minimum effective liquid assets to balance sheet total ratio.

With effect from 1 July 2012, credit institutions will be required to maintain a minimum foreign currency funding adequacy ratio in order to capture the amount of structural mismatches in their foreign currency denominated assets and liabilities. This metric will be calculated as a ratio between the sum of certain weighted stable foreign currency denominated liabilities and weighted foreign currency swap positions against the HUF with a remaining maturity of over one year (numerator) and

the sum of certain weighted foreign currency denominated assets and off-balance-sheet items that are funded by stable funding (divider).

Regulation on transactions

In addition to the provisions on capital adequacy, the Credit Institutions Act imposes other requirements and restrictions on credit institutions, including reporting obligations and liquidity requirements, and contains limitations on large exposures and exposures related to the acquisition of ownership in companies and real estate, as well as other forms of investment restrictions. For example, the aggregate amount of the exposure of a credit institution from claims secured by real estate may not exceed 70 per cent. of the total market value of the real estate properties serving as collateral for such claims. The Credit Institutions Act also sets out requirements as to the fitness, probity and competence of the credit institutions' personnel.

Consumer protection legislation in the financial sector

Recent Hungarian legislation, aimed at enhancing the protection of consumers in financial markets, relates partly to the implementation of Directive 2008/48/EC (the **Consumer Credit Directive**), partly to further narrowing the scope for unilateral amendments by credit institutions in respect of consumer credit agreements, and partly to other restrictions with a view to protecting the weaker party.

The Consumer Credit Directive has been implemented into Hungarian law by Act CLXII of 2009 on consumer credit (as amended, the **Consumer Credit Act**) and order No 361/2009 (XII. 30.) of the government on the requirements of prudent residential lending and on the assessment of creditworthiness (the **Consumer Credit Order**). The Consumer Credit Act, *inter alia*, confers two essential rights on consumers as foreseen by the Consumer Credit Directive: (i) they are allowed to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract; and (ii) they are entitled to prepayments or early repayment at any time, with limitations on creditors' rights to compensation for the losses incurred because of the prepayment by the consumer.

It is necessary to highlight, however, that the Consumer Credit Act goes beyond the EU requirements, as a number of its strict provisions also apply to mortgage-backed loans and financial lease agreements, which are excluded from the scope of the Consumer Credit Directive.

The most important implications for mortgage-backed loans arise in respect of prepayments and the assessment of creditworthiness.

As regards prepayments, the Consumer Credit Act imposes significant limitations on, and conditions for, a credit institution recovering its losses, stemming from the consumer borrower repaying the loan, in whole or in part, earlier than its scheduled maturity.

In the event of a prepayment made by a relevant borrower in respect of a consumer mortgage-backed loan, the credit institution is entitled to compensation for the costs deriving from the borrower's prepayment. Such compensation however is capped at (i) 2 per cent. of the prepaid amount; or (ii) 2.5 per cent. of the same in the case of consumer loans funded by mortgage bonds, including loans refinanced by mortgage credit institutions, where the prepayment falls within a period for which the interest rate is fixed, or within the interest rate bracket in respect of loans with a floating rate. The types of creditor compensation in (i) and (ii) above may not be claimed in respect of any consumer mortgage loan agreements: (a) in the event that the prepayment has been made under an insurance contract intended to provide a guarantee for the repayment obligations under the respective credit agreement; or (b) where the consumer borrower has fully discharged his/her obligations under his/her mortgage loan agreement by the prepayment, if the outstanding amount so repaid did not exceed HUF 1 million and no prepayment was made within the preceding 12 months.

The compensation in (i) and (ii) above is capped at 1 per cent. and 1.5 per cent., respectively, in the case of housing mortgage loans (as defined in the Consumer Credit Act) granted to consumers, except where prepayments are made through a refinancing loan provided by a credit institution other than that having made the original loan. The set of circumstances, in which compensation for costs arising from prepayments may not be claimed, is also broader in the case of such housing mortgage loans.

In addition, the Consumer Credit Act provides consumer borrowers that are over 90 days late on payments under their housing mortgage loans with the possibility of applying for the extension of the relevant housing mortgage loan by a maximum period of five years. Such applications may be made once only during the term of the relevant housing mortgage loan and may not be refused by the respective creditors without good cause.

Requirements on credit ratings in respect of residential loans

The provisions set out in the Consumer Credit Order apply to credits (as defined in the Credit Institutions Act) and financial lease agreements granted to, and/or entered into with, natural persons in the territory of Hungary by financial, or payment institutions (as also defined in the Credit Institutions Act respectively) in the course of their lending activity.

Certain types of credit agreements are excluded from the scope of the Consumer Credit Order.

Further, the provisions of the Consumer Credit Order do not apply to those credits provided to refinance a natural-person borrower's debts, existing at the time of the Consumer Credit Order coming into force, by a creditor other than that having made the original loan being refinanced, insofar as such a transaction does not lead to an increase in the total amount of the borrower's indebtedness, existing at the time of the refinancing credit under the original loans, and the new credit is (i) denominated in HUF or EUR, or made as a EUR-based loan, where the credit was originally disbursed as a EUR-denominated or EUR-based loan, or a loan denominated in a currency other than HUF or EUR; (ii) denominated in HUF if the credit was initially denominated in HUF; or (iii) denominated in CHF, or made as a CHF-based loan, if the original credit was denominated in CHF or made as a CHF-based loan. Limitations set out in the Consumer Credit Order on the amount of repayment instalments under foreign currency denominated loans and the requirements on the internal credit rating policies of creditors, however, will be applicable also to such transactions.

The regime set out in the Consumer Credit Order imposes caps on the extent of exposure which can be assumed by creditors (as measured at the time of the approval of the application for the respective credit) in respect of loans secured by a mortgage on real estate or financial lease agreements, with the maximum amount depending on the currency in which the loan and/or the financial lease is denominated. In the case of loans backed by a mortgage on real estate, the following limits apply, calculated on the basis of the market value of the property subject to that mortgage at the time of the approval of the application for the respective loan agreement or on completion of the construction in respect of properties under development: (i) 80 per cent. with regard to HUF-denominated loans, (ii) 60 per cent. in respect of EUR-denominated or EUR-based loans, and (iii) 45 per cent. as to loans denominated in currencies other than EUR (including CHF credits). The maximum amounts in respect of financial lease agreements are 65 per cent. in the case of financing denominated in, or linked to, EUR and 50 per cent. for financing denominated in, or linked to, other foreign currencies.

The requirements described above are not applicable to loans granted to finance residential property which are guaranteed by the State.

Provisions on internal credit rating procedures

The Consumer Credit Order sets out tightened requirements on the internal credit rating procedures of creditors. The new provisions, *inter alia*, prevent creditors from providing any credit to natural persons solely on the basis of the collateral, offered as security for the loan, and impose an obligation on them to assess the creditworthiness of borrowers who are natural persons in each and every case.

Creditors falling under the scope of the Consumer Credit Order are obliged to adopt internal rules and regulations on credit rating, especially in relation to determining procedures and methods for the establishment of credit limits for borrowers who are natural persons, representing the maximum amount (calculated in HUF) of the repayment obligations that they are expected to be able to fulfil on a monthly basis in the light of their credit rating.

The calculation of such limits has to be based on the income of borrowers who are natural persons and their households, and must also take into account all known debts of such borrowers, including those existing against the creditor concerned and those owed to other financial or payment institutions. The instalments to be paid monthly may not exceed a certain proportion of the established credit limits (as at the time of the approval of the application for the respective credit), which is (i) 100 per cent. in the case of HUF-denominated, (ii) 80 per cent. with regard to EUR-denominated or EUR-based credits, and (iii) 60 per cent. in respect of loans denominated in currencies other than EUR. It is worth noting that the aforementioned ratios in respect of loans with foreign-currency denomination (see (ii) and (iii) above) will not apply where a borrower who is a natural person has a regular income in the same currency as that of the loan for which they have applied, insofar as such income reaches the total amount of all of such borrower's monthly repayment obligations denominated in any currency.

Furthermore, creditors must provide borrowers who are natural persons, before the assessment of their creditworthiness, with the guidance published on the websites of the NBH and HFSA on the risks associated with excessive indebtedness.

Tightened regime for the calculation and disclosure of the APR

As regards the calculation and disclosure of the annual percentage rate of charge (the **APR**), No 83/2010 (III. 25.) order of the government on the determination, calculation and disclosure of the annual percentage rate of charge (the **APR Order**), implementing the relevant provisions of the Credit Consumer Directive also takes Hungary beyond the content of EU

standards. As opposed to the Consumer Credit Directive, the scope of the more stringent APR regime also covers loans secured by a mortgage on property which are to be granted to consumer borrowers (as defined in the Consumer Credit Act) within the territory of Hungary. The APR Order, *inter alia*, significantly broadens the scope of those expenses which must be included in the total cost of credit also in respect of such loans.

Proposal for an EU Directive on retail residential lending

On 31 March 2011, the European Commission published a legislative proposal for a Directive of the European Parliament and of the Council on retail credit agreements relating to residential property (the **Residential Lending Directive Proposal**), which covers credit agreements secured by a mortgage or another security interest, loans to purchase a property and certain credits for financing the renovation of a property.

The Residential Lending Directive Proposal envisages, *inter alia*, stringent pre-contractual information requirements, in particular with respect to foreign currency credits, and an obligation on the part of creditors to appropriately assess the retail borrowers' ability to repay the relevant credit, taking into account their personal circumstances, on the basis of sufficient information. It also foresees a duty for creditors to refuse to grant credit where the results of creditworthiness assessments are negative.

Should the Residential Lending Directive Proposal lead to the adoption of the respective Directive, its transposition into Hungarian law may result in further tightening in respect of retail residential lending.

Restrictions on unilateral amendments effected by credit institutions

The past few years have seen various restrictions being introduced on the rights of financial institutions to effect unilateral amendments to existing loan agreements and financial lease agreements entered into between credit institutions and retail customers. The right of credit institutions to unilaterally amend the terms and conditions of existing customer agreements to the detriment of clients is limited to interest rates, costs or fees and is also subject to further conditions on the part of the relevant credit institution. Where the relevant borrower is not regarded as a retail customer, unilateral amendments to the detriment of the client by credit institutions can be made only if the respective agreement provides for such a possibility.

Further limitations are imposed on the scope for financial institutions (including credit institutions) to unilaterally modify interest rates in respect of housing loans granted to, and housing financial lease agreements concluded with, consumers (together, the **Housing Financing Agreements**). Unilateral interest rate modifications to the detriment of consumers under Housing Financing Agreements are permitted on the conditions set out in an order of the government, where such modifications are required by, for example, certain changes in the base interest rates, refinancing interest rates, interest payable on term-deposits taken by the relevant credit institution, credit exposure or the regulatory environment. In addition, in circumstances where such changes allow for a reduction of the interest payable under the relevant Housing Financing Agreements, financial institutions are obliged to pass the benefits therefrom on to the respective borrowers through reducing the interest payable by them accordingly.

APR cap on retail credits and pricing restrictions in respect of retail mortgage loans

Parliament has recently adopted Act CXLVIII of 2011 on the amendment of certain acts with financial subject matter with a view to limiting interests on loans and APRs and ensuring transparent pricing (the **APR Cap Act**).

The APR Cap Act envisages, *inter alia*:

- (i) prohibiting financial institutions (including credit institutions) from granting any loan (except for Household Credits (as defined below)) to consumers the APR of which exceeds a maximum threshold corresponding to the base rate (published by the NBH and prevailing on the day immediately preceding the relevant half calendar year) plus 24 percentage points;
- (ii) the imposition of a cap corresponding to the base rate (published by the NBH and prevailing on the day immediately preceding the relevant half calendar year) plus 39 percentage points on APRs that may be applied by financial institutions in respect of current account overdrafts, credit lines attached to credit cards or loans provided to finance the purchase of common household equipment items and, except for cars, durable consumer goods or everyday household services and loans secured by a pledge on assets, which are in each case granted to consumers (the **Household Credits**).

In addition, the APR Cap Act foresees further restrictions on the ability of financial institutions to set their prices and recoup their costs in respect of mortgage loans granted to consumers by, *inter alia*, limiting the:

- (i) manner in which financial institutions may set and modify interest rates applied to such mortgage loans to, unless otherwise provided by legislative instruments, (A) linking such interest rates to publicly available reference rates or

reference yields specified in the APR Cap Act, or (B) fixing such interest rates for statutorily determined interest periods;

- (ii) grounds on which financial institutions may modify margins applied over statutory reference rates to the detriment of borrowers under such mortgage loans to the grounds set out in the APR Cap Act; and
- (iii) possibility of financial institutions charging regular costs, fees and other interest-like charges to borrowers under such mortgage loans and the extent to which irregular charges or costs on such mortgage loans may be increased.

Moreover, where interest rates on such mortgage loans are set by fixing such interest rates for predetermined interest periods, the APR Cap Act envisages conferring on consumer borrowers under such mortgage loans (except for mortgage loans financed by the issuance of mortgage bonds) the right of termination (exercisable within 90 days prior to the commencement of the next interest period) free of charge.

The APR Cap Act came into force on 1 April 2012 and its provisions apply to loans falling under the scope of that Act and which have been granted after the APR Cap Act has come into force. Nevertheless, the APR Cap Act confers a right on borrowers (exercisable by 31 August 2012) under mortgage loans covered by the APR Cap Act, which have been provided before 1 April 2012 and whose remaining term exceeds one year, to request the amendment and/or remortgaging of such loans with a view to ensuring compliance with that Act, subject to certain conditions. Upon due request by such eligible borrowers, the relevant financial institution will be obliged to effect such amendment or remortgaging and be prohibited from charging any fee, commission or cost to the relevant borrower in relation thereto. The denomination of new loans granted in accordance with the foregoing will be subject to further restrictions.

Other restrictions

The Credit Institutions Act imposes certain restrictions on taking security interests in relation to credit agreements concluded with consumers. Credit agreements concluded with consumers, which provide the financial institution with a right of option to purchase for security purposes in respect of residential property are rendered null and void in so far as the consumer obligor habitually lives in the so-pledged property.

Legislative and financial measures intended to stabilise the markets as a response to the global financial crisis

Financial measures

New monetary policy instruments

In response to the global financial crisis, the NBH introduced several monetary policy instruments, such as swap and credit facility tenders, with a view to enhancing EUR and HUF liquidity in the Hungarian banking sector. In line with the ECB's regulations on Eurosystem monetary policy instruments, the NBH also accepts as collateral mortgage bonds issued by any entity having a close link to the respective counterparty to the relevant transaction with the NBH.^{**}

Enhanced deposit insurance

In response to the financial crisis, the guarantee provided by the National Deposit Insurance Fund (*'Országos Betétbiztosítási Alap'*) (the **Fund**) on so-called 'registered' (*'névre szóló'*) bank account deposits (as defined in the Credit Institutions Act) placed with the domestic credit institutions (being members of the Fund) was extended to an aggregate amount of EUR 50,000 per depositor from 30 June 2009.

With effect from 1 January 2011, such aggregate coverage was further extended to EUR 100,000 per depositor.

On 12 July 2011, the European Commission published a legislative proposal on possible amendments to the existing EU legislation on mandatory deposit guarantee and investor compensation schemes, which envisages, *inter alia*, faster payouts and additional ex-post contributions by credit institutions under mandatory deposit guarantee schemes.

Legislative measures

Financial Stabilisation Act

The main legislative step in respect of financial stabilisation was the enactment of Act CIV of 2008 on enhancing the stability of the financial system (the **Financial Stabilisation Act**).

The Financial Stabilisation Act introduced certain stabilisation measures which may be applied to credit institutions having their registered seat in Hungary.

^{**} Information on the current tenders of the NHB is available on its official website at <http://www.mnb.hu>

Recapitalisation

The main measure under the Financial Stabilisation Act is recapitalisation, which may be employed on the joint recommendation of the president of the HFSA and the governor of the NBH to inject new capital into the credit institution (i) upon the request or with the approval of the credit institution or (ii) *ex officio*, without the approval of the credit institution. If the recapitalisation is carried out at the request or with the approval of the credit institution, then the credit institution concerned is to (i) issue non-voting "dividend preference share(s)" and "voting preference share(s) with special veto right" to the Hungarian State and (ii) conclude an agreement with the Hungarian State providing for, amongst other things, the nominal value and the issue value of these two classes of preferential shares, the right of the Hungarian State to delegate board members, limitations on the remuneration of the senior officers of the credit institution until the ownership of the Hungarian State ceases and the detailed rules on exercising the put option and the call option by the respective parties (as indicated below). Upon issuance and for a period of five years from the date thereof, a call option exercisable by the relevant credit institution and a put option exercisable by the Hungarian State are attached by statute to the dividend preference share(s). The Hungarian State cannot otherwise sell these shares. The voting preference share with special veto right may only be issued to the Hungarian State. It does not entitle the holder to dividends, but it provides for a veto right at the shareholders' meeting with respect to resolutions: (i) on the payment of dividends, (ii) which are subject to the approval of the majority of holders of the voting preference share class(es) and (iii) which may only be passed with a 75 per cent. majority vote. Veto rights may not be exercised against certain types of resolutions detailed in the Financial Stabilisation Act.

Right of ownership control

The Financial Stabilisation Act also provides for another measure which may be used by the Hungarian State in the event that a credit institution fails to meet certain financial requirements specified by the Financial Stabilisation Act. In such case the government may declare by legislative order that the relevant credit institution met one or more of the criteria for the application of this special measure (if the criteria are no longer met, then the government must repeal such order). The credit institution concerned has the right to challenge such order, if issued, before the Metropolitan High Court). During the effective period of such government order, the Hungarian State is solely entitled to pass resolutions regarding matters normally falling into the competence of the shareholders' meeting of the relevant credit institution. For a period of 120 days from the effective date of the relevant government order, the shareholders of the relevant credit institution have a put option against the Hungarian State on their shares in that credit institution.

The Hungarian State is empowered to adopt any of the measures under the Financial Stabilisation Act until 30 June 2012, except for any decisions of the minister responsible for public finances on the exercise of the statutory put option with respect to the dividend preference shares referred to above.

Special "bank tax"

Recent legislative measures, aimed at enhancing financial stability, impose a special extra tax levied on certain financial institutions, including credit institutions, in 2010, 2011 and 2012 (the **Extra Tax**). In the case of credit institutions, the tax basis is the adjusted balance sheet total, as at 31 December 2009 (the **Tax Basis**). The Extra Tax is levied at 0.15 per cent. of the Tax Basis up to HUF 50 billion, whilst a 0.5 per cent. tax rate applies to that part of the Tax Basis which exceeds HUF 50 billion. The tax rate applicable to that part of the Tax Basis in excess of HUF 50 billion is set at 0.53 per cent. for the 2011 tax year.

In addition, a special bank tax is also imposed on credit institutions in 2011 and 2012 (the **Bank Tax**). The tax basis is the before tax income generated in the relevant tax year including the amount of the Extra Tax paid or payable by the respective credit institution in that year. The Bank Tax is levied at 30 per cent. subject to a maximum amount equal to the amount of Extra Tax payable by the respective credit institution in the relevant tax year.

The amount of the Bank Tax payable in the relevant tax year is deductible from, and up to the amount of, the amount of the Extra Tax payable in that tax year, therefore the imposition of the Bank Tax does not in effect increase the ultimate tax liability of credit institutions in respect of special taxes imposed with a view to enhancing financial stability.

On the basis of an accord reached by the Hungarian government and the Hungarian Banking Association on 15 December 2011, financial institutions (including credit institutions) will, subject to certain conditions, be entitled to claim a tax refund in the 2012 tax year on the Extra Tax payable in the 2011 tax year on account of losses incurred by them from early repayments under the FX Early Repayment Scheme (as described in "*Early repayment scheme*" below) up to 30 per cent. of such losses and subject to an ultimate threshold equal to the amount of Extra Tax payable by them in the 2011 tax year.

A relief from the Extra Tax will, subject to certain conditions, be available to financial institutions (including credit institutions) in the 2012 tax year, which allows them to deduct from the Extra Tax payable in that tax year losses from the redenomination of certain foreign currency denominated mortgage loans into HUF on the basis of an agreement with consumer borrowers who had been over 90 days late on repayments on such mortgage loans in excess of HUF 78,000 (as of 30 September 2011), provided that financial institutions waive at least 25 per cent. of their claims under such mortgage loans after redenomination. Losses are deductible if such redenomination and waiver are effected by no later than 15 May 2012 and only in respect of mortgage loans where the total market value of the underlying mortgaged property(ies) did not exceed HUF 20 million at the time when the original mortgage loan agreement was concluded. Further, a redenomination that becomes effective after 14 March 2012 must be made at an exchange rate specified by statute. This tax relief will be available up to 30 per cent. of such losses and up to an ultimate threshold equal to the amount of Extra Tax payable by the relevant financial institution in the 2012 tax year.

To the extent that the tax refund or, as the case may be, tax relief entitlement of a financial institution exceeds the amount of Extra Tax payable by it in the relevant tax year, those of its affiliates which are also liable to the Extra Tax may claim such excess entitlement if certain conditions are met. However, the total amount of tax refund or, as the case may be, tax relief that an eligible affiliate may claim for itself and on account of the excess entitlement of the relevant affiliated financial institution may not exceed the Extra Tax payable by that eligible affiliate in the relevant tax year.

Limitations in respect of foreign currency credits

The extensive foreign currency mortgage lending, which was prevalent in the years preceding the global financial crisis, has led to large stocks of foreign currency denominated loans to borrowers without matching foreign currency income. As a result, a substantial portion of Hungarian credit institutions' loan books consists of mortgage loans denominated in CHF and, to a less significant extent, in EUR and JPY, which were disbursed to residential borrowers whose income is denominated in HUF.

At the same time, the global financial crisis and the consequent significant depreciation of HUF against foreign currencies (especially in respect of CHF) in recent periods have led to materially heavier and excessive debt-servicing burdens on the part of households on foreign currency denominated residential mortgage loans, which, in turn, has resulted in increased delinquency rates on such loans, particularly in respect of those denominated in CHF.

The initial response to such adverse developments was the imposition of a blanket statutory ban on foreign currency residential mortgage lending, which prohibited creditors (including credit institutions and financial enterprises) from taking security interests in the form of a mortgage over real estate owned by natural persons with respect to loans denominated in, or based on, a currency other than HUF, in so far as the respective borrower was a retail customer (excluding individual entrepreneurs).

Further, restrictions have also been introduced with retroactive effect on the conversion rates that may be applied by financial institutions in relation to payments of principal and interest as well as any charge, fee, commission and cost under housing loans granted to, and housing financial lease agreements concluded with, consumers, where such loans or the financing provided under such financial lease agreements are accounted, or have been disbursed, in a foreign currency with repayments denominated, and to be fulfilled, in HUF. In addition, Act CXXI of 2011 on the amendments of certain acts in relation to home protection (the **2011 FX Loan Restrictions Act**) imposes further limitations on the manner in which costs of credit may be charged to borrowers in relation to foreign currency denominated loans granted to consumers and to be serviced in HUF. The 2011 FX Loan Restrictions Act permits only those costs (including interest-like costs) to be charged in the relevant foreign currency to consumer borrowers which directly arise in relation to the cost of foreign currency funding necessary to finance the relevant foreign currency denominated loan with the explicit exclusion of certain cost elements.

The transitional statutory ban on foreign currency denominated retail mortgage lending was lifted with effect from 1 July 2011; nevertheless, foreign currency denominated mortgage lending remains subject to strict conditions and is limited to lending to those borrowers who receive income denominated in the currency of the respective loan, which exceeds at least 15 times the mandatory minimum monthly wage.

Early repayment scheme

In addition, the 2011 FX Loan Restrictions Act introduced, *inter alia*, an early repayment scheme (the **FX Early Repayment Scheme**) in respect of mortgage loans (irrespective of their purpose) that are secured by real estate located in Hungary and certain residential loans secured by a state guarantee in the form of first-demand suretyship ('*készfizető kezesség*') (which is similar to a guarantee of payment) provided pursuant to Act CXXXV of 2004, which are in each case granted to consumers and denominated in, or linked to, CHF, EUR or JPY irrespective of whether the relevant loan is to be

serviced in HUF or in the currency in which it is denominated (the **Affected FX Loans**). A subsequent amendment extended the FX Early Repayment Scheme to include housing financial lease agreements concluded with consumers, which are denominated in, or linked to, CHF, EUR or JPY.

Under the FX Early Repayment Scheme, borrowers under Affected FX Loans were granted the option (which was exercisable until 30 December 2011) to effect early repayments on their respective Affected FX Loans in HUF with conversion at the relevant Fixed Rate (as defined below) provided that: (i) the exchange rate applied for the conversion of the relevant currency into HUF at the time of the disbursement of the relevant Affected FX Loan does not exceed the respective Fixed Rate; (ii) the relevant Affected FX Loan was not terminated by the relevant financial institution creditor before 12 August 2011; (iii) the relevant borrower undertook to repay early the full balance outstanding on the respective Affected FX Loan together with the full amount of any bridging loan or Accumulated Loan (as defined below) directly attaching to that Affected FX Loan; (iv) early repayment is effected within sixty days from the exercise by the relevant borrower of the option granted under the FX Early Repayment Scheme; and (v) the relevant borrower, by no later than 30 January 2012, either deposited the full amount referred to in (iii) above with the relevant financial institution creditor or presented a binding, irrevocable and unconditional letter of commitment by another financial institution that has committed to lending that amount within the period set out in (iv) above. The application of the FX Early Repayment Scheme is mandatory for financial institutions (including credit institutions) that are deemed to be the creditor under Affected FX Loans if the relevant borrower so elects and the conditions for exercising the option granted under the FX Early Repayment Scheme are met. The relevant financial institution creditor is not entitled to compensation (as set out in the Consumer Credit Act) from the relevant borrower for its losses incurred from such early repayment and is prohibited from charging any fee or commission to the relevant borrower in relation thereto. However, a limited proportion of such losses are recoverable from the Hungarian State through a tax refund on the Extra Tax payable by the relevant financial institution creditors in the 2011 tax year (as discussed in "*Special "bank tax"*" above).

Mortgage relief programme

The blanket ban on foreign currency mortgage lending and the statutory moratorium on evictions and enforcement sales outside court enforcement have been replaced by a comprehensive package of measures, recently announced by the Hungarian government, which aims to alleviate increased borrower default on foreign currency denominated residential mortgage loans in a more sustainable manner and to mitigate significant potential distortions in the real estate market, which could have resulted from a large number of simultaneous enforcement actions following the expiry of the statutory moratorium on evictions and enforcement sales outside court enforcement.

As part of the package (the **Mortgage Relief Programme**), Parliament has adopted Act LXXV of 2011 on the fixing of exchange rates for repayments on foreign currency denominated loans and on the regime applicable to enforcement sales of residential properties as amended, the **Mortgage Relief Act**). Qualifying borrowers with covered mortgage loans were entitled to opt into the fixed exchange rate scheme, as set out originally in the Mortgage Relief Act (the **Original Scheme**), between 1 August and 31 December 2011. On the basis of an accord reached by the Hungarian government and the Hungarian Banking Association on 15 December 2011, the Original Scheme has been substantially modified and re-opened to qualifying borrowers.

Fixed exchange rates for regular repayments on covered foreign currency mortgage loans

Under the modified scheme (the **Scheme**), regular repayments on retail mortgage loans (i) that are (a) denominated in EUR, CHF or JPY, (b) to be repaid in HUF, and (c) covered by a mortgage interest in residential real estate situated in the territory of Hungary, and (ii) whose principal amount does not exceed HUF 20 million as calculated at the exchange rate applied for the relevant currency at the time of disbursement (the **Covered Mortgage Loans**) will, at the option of the relevant borrowers, be calculated at fixed exchange rates set by statute, provided that the relevant borrowers (the **Eligible Borrowers**) satisfy the eligibility criteria for participating in the Scheme. The Scheme is available to Eligible Borrowers for a period of 60 months, subject to an ultimate deadline expiring on 30 June 2017 (the **Fixed Rate Period**). Eligible Borrowers are entitled to opt for the application of the Scheme between 1 April and 31 December 2012 under each of their Covered Mortgage Loans, in respect of which the eligibility criteria for participation are met. The application of the Scheme is mandatory for the creditor financial institution that is deemed to be the creditor under the relevant Covered Mortgage Loan (the **Relevant Creditor**) if an Eligible Borrower so elects. Such mandatory application is, nevertheless, being phased in three rounds, where the first round opened to certain government and public sector employees (the **Public Employees**) on 1 April 2012, the second round for Eligible Borrowers with residential Covered Mortgage Loans will commence on 1 June 2012 with the third round opening to Eligible Borrowers with general-purpose Covered Mortgage Loans on 1 September 2012. Following the expiry of the Scheme, the exchange rates, at which repayments on Covered Mortgage Loans are calculated, will switch back to market rates. Eligible Borrowers will be entitled to opt out of the Scheme after three years.

The statutory fixed exchange rate (the **Fixed Rate**) is set at (i) HUF 180 to the CHF in the case of CHF-denominated Covered Mortgage Loans, (ii) HUF 250 to the EUR in respect of EUR-denominated Covered Mortgage Loans, and (iii) HUF 250 per JPY 100 for Covered Mortgage Loans denominated in JPY.

In order to qualify as an Eligible Borrower, (i) the relevant borrower (A) must be a natural person (i.e. retail borrower), (B) must meet certain status requirements (such as Hungarian citizenship or a registered Hungarian place of residence in the case of EU citizens with the right to free movement and residence, etc.), (C) may not be more than 90 days late on repayments on the relevant Covered Mortgage Loan and, if a mortgage interest is taken by more than one financial institution in the mortgaged residential property underlying the relevant Covered Mortgage Loan, in respect of all obligations secured by that mortgaged residential property, (D) may not be covered by a restructuring programme other than the Scheme, which is granted by the Relevant Creditor and eases repayments; and (ii) the mortgaged residential property underlying the relevant Covered Mortgage Loan may not be subject to any ongoing enforcement proceeding.

During the Fixed Rate Period, the shortfall resulting from the difference between the Fixed Rate and the exchange rate that the Relevant Creditor would otherwise apply to the currency concerned at the time when the relevant repayment instalment is calculated (the **Actual Rate**) will accumulate in a separate accumulation account (the **Accumulation Account**). Should the Actual Rate fall below the respective Fixed Rate, repayments on Covered Mortgage Loans will still be calculated on the basis of that Fixed Rate; nevertheless, the resulting difference is to be deducted from the balance outstanding in the relevant Eligible Borrower's Accumulation Account. If there is no balance outstanding in the relevant Eligible Borrower's Accumulation Account at the time of calculation, repayments will be calculated on the basis of the Fixed Rate or the Actual Rate, whichever is lower. Prepayments will, in each case, be converted at the relevant Actual Rate.

Eligible Borrowers will, under a statutory waiver, be discharged from the obligation to repay those amounts accumulated in the Accumulated Accounts which have resulted from the (i) difference between the Fixed Rate and the Actual Rate for the relevant currency in respect of monthly payments of interest (including interest like charges and costs with the exception of late payment interest) (the **Waived Interest Shortfall**); and (ii) difference between the Fixed Rate and the Actual Rate in respect of monthly repayments of principal on Covered Mortgage Loans to the extent that the Actual Rate exceeds the statutory cap rates (the **Cap Rates**) set above the Fixed Rates for the relevant currency (the **Waived Principal Shortfall**). The Cap Rates are set at HUF 270 to the Swiss Franc, HUF 340 to the EUR and HUF 330 per JPY 100. Relevant Creditors will be entitled to claim reimbursement from the Hungarian State for (i) 50 per cent. of the Waived Interest Shortfall in respect of that part which results from the difference between the Fixed Rate and, up to the Cap Rate, the Actual Rate for the relevant currency, and (ii) 100 per cent. of the (A) Waived Interest Shortfall in respect of that part which results from the Actual Rate exceeding the Cap Rate for the relevant currency, and (B) Waived Principal Shortfall. Such reimbursements will be paid to the Relevant Creditor on the basis of subsequent quarterly settlement. Relevant Creditors will not be entitled to any interest on such reimbursements.

The shortfall on monthly repayments of principal which is not Waived Principal Shortfall will be paid by way of borrowings denominated in HUF against a special 'overflow' credit line ("*gyűjtőszámlahitel*") (the **Accumulation Credit Line**) to be provided by the Relevant Creditor. The HUF equivalent of arrears outstanding on the relevant Covered Mortgage Loan at the commencement of the Fixed Rate Period will also be debited in the Accumulation Account and financed under the Accumulation Credit Line. Loans made under the Accumulation Credit Line attached to Covered Mortgage Loans (the **Accumulated Loans**) will bear interest at a rate to be set for a three-month interest period. Such interest rate may not exceed (i) during the Fixed Rate Period, the three-month BUBOR prevailing on the first day of the month in which the interest commencement date falls, and (ii) following the termination of the Fixed Rate Period, the interest rate applied by the Relevant Creditor to HUF-denominated loans made for the same purpose as that of the underlying Covered Mortgage Loan. Interest accrued on Accumulated Loans may be capitalised every three months. The maturity of Accumulated Loans may not be shorter than that of the Covered Mortgage Loans to which they are attached. Eligible Borrowers must commence repaying Accumulated Loans after the expiry of the Fixed Rate Period in accordance with a loan amortisation schedule to be set by the Relevant Creditor on the basis of annuity. Relevant Creditors must set such loan amortisation schedules in a manner which ensures that the aggregate amount of the instalments payable on Accumulated Loans and regular repayments on the underlying Covered Mortgage Loan does not result in a disproportionately excessive monthly debt servicing obligation (monthly repayments on Accumulated Loans may not exceed 15 per cent. of the total amount of the last monthly repayment effected during the Fixed Rate Period) on the part of the relevant borrower. Public Employees will benefit from a one-off subsidy towards a prepayment on their Covered Mortgage Loans and interest subsidies on their Accumulated Loans (each subject to certain conditions as set out in an order of the government).

Upon request by the Relevant Creditor, Accumulated Loans will be covered by a state guarantee in the form of (i) first-demand suretyship ("*készfizető kezeség*") (within a meaning comparable to that of a guarantee of payment) up to 100 per cent. if the relevant Covered Mortgage Loan and the Accumulation Credit Line attached to that loan is terminated by the

Relevant Creditor during the Fixed Rate Period on account of the relevant Eligible Borrower being late over 90 days on regular repayments or the commencement of an enforcement proceeding against the relevant mortgaged property, and (ii) suretyship with the benefit of excursion ('*sortartó kezesség*') (within a meaning comparable to that of a guarantee of collection) up to 25 per cent. following the expiry of the Fixed Rate Period in respect of the balance outstanding in the Accumulation Account at the time of the expiry of the Fixed Rate Period, in each case in consideration for a guarantee fee at a rate to be determined by an order of the government. Such guarantee fee may not in any manner be passed on to the relevant borrowers.

The mortgage interest taken by the Relevant Creditor in the residential mortgaged property underlying the relevant Covered Mortgage Loan will, by operation of law, also cover Accumulated Loans, subject to consent by the mortgagor, if different from the relevant Eligible Borrower.

The provisions of the Scheme apply *mutatis mutandis* also to (i) retail residential loans, which are denominated in CHF, EUR or JPY and to be serviced in HUF and secured by a state guarantee provided pursuant to Act CXXXV of 2004; and (ii) housing financial leases that are concluded with consumers before 15 December 2011 and where (a) the financing provided under such financial leases is denominated in EUR, Swiss Francs or Japanese Yen, (b) regular lease payments are to be made in HUF, (c) the residential real estate, the acquisition of which is financed under such financial leases, is situated in the territory of Hungary, and (d) the financing provided under such financial leases did not exceed HUF 20 million at the time when the relevant financial lease agreement was concluded.

The terms of existing Accumulation Credit Lines provided under the Original Scheme will, by operation of law, be amended in accordance with the modified Scheme with effect from 1 June 2012, except where the relevant Eligible Borrower objects to such amendment before 15 May 2012.

Accumulated Loans and the underlying relevant Covered Mortgage Loan are treated as a restructured exposure for the purposes of loan loss provisioning and may be classified as non-problematic or as loans with no impairment charge if the relevant Eligible Borrower does not fall behind on monthly repayments on such loans over 30 days in a 90-day period. During the Fixed Rate Period, Accumulated Loans are to be treated in the same way as the underlying Covered Mortgage Loan, except that Accumulated Loans that are covered by a first-demand suretyship provided by the Hungarian State under the Scheme can be classified as non-problematic even if the underlying Covered Mortgage Loan is problematic. Following the expiry of the Fixed Rate Period, no impairment charge applies to that part of Accumulated Loans that is covered by a suretyship with the benefit of excursion provided by the Hungarian State under the Scheme.

Transitional quota regime for foreclosure proceedings

The initial measures aimed at assisting masses of distressed borrowers and mitigating the material adverse effects, resulting primarily from the significant volatility of the HUF, on the residential mortgage market also included a statutory blanket moratorium on evictions and forced sales outside court enforcement in respect of properties where the relevant obligor had his habitual residence. Following an extension, such blanket moratorium expired on 1 July 2011.

The Mortgage Relief Act introduced a transitional quarterly quota regime (the **Quota Regime**), which commenced on 1 October 2011 and will expire on 31 December 2014, for court enforcement and non-judicial forced sales (together, the **Foreclosure Proceedings**) against residential properties, mortgaged to secure housing mortgage loans granted to consumers (the **Covered Properties**). Under the Quota Regime, Foreclosure Proceedings may be initiated against Covered Properties that have been previously designated by the relevant mortgagee creditor under such loans (including any person or entity that is deemed to be a creditor under housing mortgage loans granted to consumers) (the **Relevant Mortgagee Creditors**) and only if the underlying housing mortgage loan is in arrear for over 90 days. Each Relevant Mortgagee Creditor may designate Covered Properties for the purposes of Foreclosure Proceedings subject to quarterly quotas in respect of each county and the capital. Quotas for the fourth quarter of 2011 were set at 2 per cent. of the total number of residential properties situated in the relevant county or, as the case may be, in the capital, in which a mortgage interest has been taken by the Relevant Mortgagee Creditor. Quarterly quotas have been increased to 3 per cent. in 2012, and will be increased to 4 per cent. in 2013 and 5 per cent. in 2014. For the purposes of the Quota Regime, all Relevant Mortgagee Creditor members of the same banking group are deemed to form one single Relevant Mortgagee Creditor.

The Quota Regime does not apply to court enforcement proceedings initiated against Covered Properties prior to the Mortgage Relief Act coming into force. Where the housing mortgage loan underlying a designated Covered Property is repaid before an enforcement sale is effected or a Foreclosure Proceeding is initiated in respect of that Covered Property during the relevant quarter, the Relevant Mortgagee Creditor may designate another Covered Property in substitution thereof above the quota for that quarter. Covered Properties already designated in the preceding quarter will be disregarded when establishing the quota for the current quarter. If a Relevant Mortgagee Creditor assigns the housing mortgage loan

underlying its mortgage interest in a designated Covered Property to a creditor not supervised by the HFSA, each such Covered Property must be deducted from the quota for each subsequent quarter in respect of the relevant county or, as the case may be, the capital throughout the term of the Quota Regime.

Relevant Mortgagee Creditors must designate the Covered Properties against which Foreclosure Proceedings are intended to be initiated on the first day of the relevant quarter, which has to be reported to the HFSA (or, if the Relevant Mortgagee Creditor is not supervised by the HFSA, to the Hungarian Consumer Protection Authority) by no later than the 15th day of the same quarter. Foreclosure Proceedings against the so-designated Covered Properties must be initiated until the end of the relevant quarter at the latest.

Covered Properties that will be purchased under the mortgage buy-out programme operated by the National Asset Manager (as defined below) do not account towards quarterly quotas.

National Asset Manager

As another element of the Mortgage Relief Programme, Parliament has recently approved Act CLXX of 2011 on ensuring housing for those unable to fulfil their obligations under credit agreements (the **Act of Parliament**). The Act of Parliament has established a national asset management body (the **National Asset Manager**), which will operate a mortgage buy-out programme and social housing scheme (the **Buy-out Programme**) to support distressed borrowers (who are more than 180 days late on their repayments on their mortgage loans in an amount that exceeds twice the mandatory minimum monthly wage as of 1 January 2012) or mortgagors (if different) with a multi-child family with non-performing housing mortgages who face eviction.

Subject to certain conditions, the National Asset Manager will purchase mortgaged residential properties that have been designated for a Foreclosure Proceeding under the Quota Regime provided that the underlying borrower or, as the case may be, mortgagor is eligible for the benefits available under the Buy-out Programme and each Relevant Mortgagee Creditor, which is a financial institution and has a mortgage interest in the relevant mortgaged property, has (i) consented to the relevant transaction, and (ii) waived all of its claims under the underlying mortgage loan which exceed the proceeds that it receives under the Buy-out Programme from the relevant transaction. The National Asset Manager will purchase only those mortgaged residential properties (i) in which a Relevant Mortgagee Creditor, which is a financial institution, acquired a mortgage interest before 30 December 2009, (ii) whose market value did not exceed at the time of the origination of the underlying mortgage loan (with the highest ranking mortgage interest, if there is more than one underlying mortgage loan) HUF 15 million, if situated in the capital and towns with county status (*'megyei jogú város'*) and HUF 10 million, if located elsewhere in Hungary, (iii) where the loan-to-value ratio reached at least 25 per cent., but did not exceed 80 per cent. (or 100 per cent. if the underlying borrower's own funds came from government support) at the time of origination, (iv) in which the underlying borrower or, as the case may be, mortgagor has continuously had his habitual residence since 28 September 2011, and (v) which constitute the sole coverage for the underlying mortgage loan(s).

Upon request by the underlying borrower (jointly with the mortgagor, if different) and if the conditions therefor are met, the National Asset Manager will purchase the relevant mortgaged residential property for a price set at 55 per cent. of the market value of the relevant mortgaged property established at the time of the origination of the underlying mortgage loan (with the highest ranking mortgage interest, if there is more than one underlying mortgage loan) in the case of mortgaged residential properties situated in the capital and urban counties, at 50 per cent. in respect of mortgaged residential properties located in other towns and at 35 per cent., if situated elsewhere.

If more than one Relevant Mortgagee Creditor has a mortgage interest in the relevant mortgaged residential property, the purchase price paid by the National Asset Manager will be appropriated according to the ranking of such mortgages and up to a percentage of their claims as notified to the National Asset Manager or, otherwise, as registered on the land register. These percentages are (i) 80 per cent. in the case of first-ranking, (ii) 50 per cent. in respect of second-ranking, (iii) 25 per cent. for third-ranking, and (iv) 10 per cent. with regard to mortgage interests with more inferior rankings (with proportionate satisfaction between the Relevant Mortgagee Creditors with such mortgage interests).

In order for the underlying borrowers or, as the case may be, mortgagors to be eligible for participation in the Buy-out Programme, they must (i) be natural persons (i.e. retail borrowers), (ii) meet certain status requirements (such as Hungarian citizenship or registered Hungarian place of residence in the case of EU citizens with the right to free movement and residence, etc.), (iii) be covered by certain social benefits, and (iv) not have an interest (e.g. ownership, leasehold, etc.) in another property that would provide adequate accommodation to them and their household.

The properties so purchased by the National Asset Manager will be leased back to the underlying borrowers who will have a right of option to repurchase such properties.

Redenomination of certain overdue foreign currency mortgage loans

On the basis of the accord of 15 December 2011 between the government and the Hungarian Banking Association, Parliament has also approved a redenomination scheme in respect of retail mortgage loans (i) which (a) are denominated in EUR, Swiss Francs or Japanese Yen and to be serviced in HUF, and (b) has been in arrear for over 90 days since 30 September 2011 in excess of the mandatory monthly minimum net wage as of 30 September 2011, and (ii) where the total market value of the underlying mortgaged property did not exceed HUF 20 million (approximately EUR 67,610) at the time when the mortgage loan agreement was concluded (the **Overdue FX Mortgage Loans**).

Financial institutions, which are deemed to be the creditor under Overdue FX Mortgage Loans, are required to redenominate Overdue FX Mortgage Loans into HUF by 31 August 2012 at an exchange rate specified by statute and to waive 25 per cent. of their claims from those Overdue FX Mortgage Loans after such redenomination provided that there is no absolute right to foreclose registered in the land register in respect of any mortgaged property securing the relevant Overdue FX Mortgage Loan and the relevant borrowers deliver a written statement by 15 May 2012 that they are in default as a result of a significant and provable deterioration in their ability to meet their debt obligations. Financial institutions may not charge any fee or cost to borrowers with Overdue FX Mortgage Loans in relation to such redenomination and waiver.

The provisions on this redenomination scheme apply *mutandis mutandis* also to retail residential loans, which are denominated in Swiss Francs, EUR or Japanese Yen and to be serviced in HUF and secured by a state guarantee provided pursuant to Act CXXXV of 2004.

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 16%. 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 as part of the individual's aggregated income (the highest tax payable is 20.32%). 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 16%.

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.

A foreign resident individual Holder who does not have a permanent establishment in Hungary is not subject to tax in Hungary if he realises Capital Gains Income from Hungary since such income is not considered as Hungarian source income.

Please note that the provisions of the applicable double tax convention, if any, should be considered when assessing the Hungarian tax liabilities of a foreign resident individual Holder.

Withholding tax (foreign resident corporate Holders)

Interest on 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. The tax liability of a foreign resident corporate Holder, which has a permanent establishment in Hungary is limited, in general, to the income from business activities realised through its Hungarian permanent establishment.

Taxation of Hungarian resident individual Holders

Act CXVII of 1995 on Personal Income Tax (the **Personal Income Tax Act**) applies to the tax liability of Hungarian and foreign private individuals. The tax liability of Hungarian resident private individuals covers the worldwide income of such persons.

According to the provisions of the Personal Income Tax Act, in the case of individual Holders, Interest Income is the income paid as interest and the capital gains realised upon the redemption or the sale of publicly offered and publicly traded debt securities.

The withholding tax on Interest Income is 16%. 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 as part of the individual's aggregated income (the highest tax payable is 20.32%). 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 16%. 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% 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 corporation tax rate in Hungary is 10% up to the first HUF 500 million of the taxpayer's annual before tax income and 19% for the part exceeding the HUF 500 million threshold.

Luxembourg Taxation

The following summary is of a general nature and is included herein. 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 Securities 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 Securities, nor on accrued but unpaid interest in respect of the Mortgage Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Mortgage Securities held by non-resident holders of Mortgage Securities.

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% and will be levied at a rate of 35% 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%.

(ii) *Resident holders of Mortgage Securities*

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

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%. 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 Securities coming within the scope of the Law would be subject to withholding tax of 10%.

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, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement (the **Programme Agreement**) dated 18 May 2012, 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 each of the Issuer and the Guarantor has agreed as to itself 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and US Treasury regulations promulgated 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 (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any 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 Act (Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Mortgage Securities which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Mortgage Securities to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Mortgage Securities referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of 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, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

Selling Restrictions addressing additional United Kingdom Securities Laws

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 which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any 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 or the Guarantor; 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, the Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor 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 was authorised by resolution No 4/2012 of the Board of Directors of the Issuer dated 14 February 2012. The issuance of the Irrevocable Payment Undertaking by the Guarantor has been duly authorised by resolution no. 2010/20/2 of the Asset-Liability Committee of the Guarantor dated 15 February 2010.

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 or the Guarantor (as applicable) 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 and the Guarantor;
- (b) the annual audited financial statements of the Issuer in respect of the financial years ended 31 December 2010 and 31 December 2011 (with English translations thereof), together with the audit reports prepared in connection therewith;
- (c) the Programme Agreement, the Agency Agreement, the KELER Agreement (as defined in the Agency Agreement) and the Irrevocable Payment Undertaking;
- (d) a copy of this Base Prospectus;
- (e) any future base prospectuses, offering circulars, prospectuses, information memoranda, supplements and 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;
- (f) 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);
- (g) the consolidated and unconsolidated audited financial statements of the Guarantor in respect of the financial years ended 31 December 2010 and 31 December 2011 (with an English translation thereof), together with the independent auditors' report prepared in connection therewith;
- (h) the unaudited interim management report – first three months 2012 results of the Guarantor dated 15 May 2012;
- (i) the unaudited unconsolidated condensed financial statements of the Guarantor for the three-month period ended 31 March 2012;
- (j) a copy of the GEMTN Base Prospectus; and
- (k) any future base prospectuses, offering circulars, prospectuses, information memoranda and supplements to the GEMTN Base Prospectus and any other documents incorporated herein or therein by reference.

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 Official List of the Luxembourg Stock Exchange, certification as to, *inter alia*, the existence of a bridge with Clearstream, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The 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 each 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 31 December 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2011.

There has been no significant change in the financial or trading position of the Guarantor or the Guarantor together with its subsidiaries taken as a whole (the **OTP Group**) since 31 March 2012 and there has been no material adverse change in the financial position or prospects of the Guarantor since 31 December 2011.

Litigation

Except for the proceeding listed on page 98 of the GEMTN Base Prospectus referred to in the "Documents incorporated by reference" section above under the heading "(2) Litigation initiated by the Holocaust Victims of Bank Theft in 2010", neither the Issuer nor the Guarantor or any other member of the Group is or has 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 or the Guarantor 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, the Guarantor or the Group.

Auditors

The auditors of the Issuer are Deloitte Auditing and Consulting Ltd. of Dózsa György út 84/c, 1068 Budapest, Hungary, who have audited, in accordance with International Standards on Auditing, the Issuer's accounts, prepared in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2010 and 31 December 2011. For both years, the auditors have issued opinions without qualification on the aforementioned financial statements. The auditors of the Issuer have no material interest in the Issuer. Deloitte Auditing and Consulting Ltd. are members of the Chamber of Hungarian Auditors.

The auditors of the Guarantor are Deloitte Auditing and Consulting Ltd. of Dózsa György u. 84/c., 1068, Budapest, Hungary, who have audited, in accordance with International Standards on Auditing, the Guarantor's consolidated accounts, which have been prepared in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2010 and 31 December 2011, respectively. For both years, the auditors have issued opinions without qualification on the aforementioned financial statements. The auditors of the Guarantor have no material interest in the Guarantor. Deloitte Auditing and Consulting Ltd. are members of the Chamber of Hungarian Auditors.

Deloitte Auditing and Consulting Ltd. have also audited the Guarantor's unconsolidated accounts in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2010 and 31 December 2011, respectively. The opinion covering the audit of those accounts is modified because, and only because, those accounts have been issued separately from the consolidated accounts in accordance with International Financial Reporting Standards for the corresponding periods and as a result did not include consolidated financial information.

The reports of the auditors of the Issuer and the Guarantor 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 and the Guarantor 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 and the Guarantor

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, the Guarantor and their affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER

OTP Mortgage Bank Ltd.
(OTP Jelzálogbank Zártkörűen Működő Részvénytársaság)

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REGISTERED OFFICE OF THE GUARANTOR

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