# 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 6 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*) (the **Prospectus Act 2005**) 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.

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 Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Mortgage Securities, interest (if any) payable in respect of Mortgage Securities, the issue price of Mortgage Securities and certain other information which is 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. Copies of Final Terms in relation to Mortgage Securities to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

The Issuer's long term foreign-currency and local-currency debt and short term foreign-currency and local-currency debt have been rated Ba2/Ba1 and NP, respectively, by Moody's Italia S.r.l. (**Moody's Italia**) and BB and B, respectively, by Standard & Poor's Credit Market Services Europe Limited (**S&P Europe**). The Programme is not rated, but the Mortgage Bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer have been rated Baa3 by Moody's Deutschland GmbH (**Moody's Deutschland**). The Issuer's Bank Financial Strength Rating assigned by Moody's Italia is D. Each of Moody's Italia, Moody's Deutschland and S&P Europe is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Moody's Italia, Moody's Deutschland and S&P Europe is included in the list of credit rating agencies published by the European Securities and Markets Authority's (ESMA) on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. Mortgage Securities issued under the Programme may be rated or unrated by Moody's or any other rating agency which may be appointed from time to time by the Issuer in relation to any issuance of Mortgage Securities for the remaining duration of the Programme. The rating of certain Series of Mortgage Securities to be issued under the Programme may be specified in the applicable Final Terms. Where a Series of Mortgage Securities is rated, such rating will not necessarily be the same as the rating assigned generally to the Mortgage Securities issued under the Programme by Moody's Deutschland. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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.

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***Arranger***

**DEUTSCHE BANK**

***Dealers***

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|---|---|
| **BNP PARIBAS** | **CITIGROUP** |
| **CRÉDIT AGRICOLE CIB** | **DEUTSCHE BANK** |
| **DZ BANK AG** | **HSBC** |
| **THE ROYAL BANK OF SCOTLAND** | **UBS INVESTMENT BANK** |

The date of this Base Prospectus is 4 June 2013.

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

**The Issuer and the Guarantor (the Responsible Persons) accept responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Mortgage Securities issued under the Programme. 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.**

**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.**

**Deutsche Bank Aktiengesellschaft, in its capacity as Arranger, 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.**

**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 may wish to consider, either on its own or with help of its financial and other professional advisers, whether it:**

**(i) has 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) has 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) has 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) understands thoroughly the terms of the Mortgage Securities and be familiar with the behaviour of any relevant indices and financial markets; and**

**(v) is 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.**

**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 advisors or the appropriate regulators to determine the appropriate treatment of Mortgage Securities under any applicable risk-based capital or similar rules.**

**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, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").**

**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 31 May 2013, the euro/HUF spot exchange rate published by the National Bank of Hungary was euro 1.00 = HUF 296.63.**

**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.**

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## RISK FACTORS

*In purchasing Mortgage Securities, investors assume the risk that the Issuer or the Guarantor may become insolvent or otherwise be unable to make all payments due in respect of the Mortgage Securities and investors may lose the value of their entire investment or part of it. There is a wide range of factors which individually or together could result in the Issuer or, as the case may be, the Guarantor becoming unable to make all payments due in respect of the Mortgage Securities. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and the Guarantor may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's and the Guarantor's control. The Issuer and the Guarantor have identified in this Base Prospectus a number of factors which could materially adversely affect their business and ability to make payments due under the Mortgage Securities or, as the case may be, under the Irrevocable Payment Undertaking.*

*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, 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 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 Guarantor 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.

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 the markets where the Issuer, the Guarantor and the OTP Group operate 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 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, Italy, and, more recently, Cyprus, which 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 (the **EFSF**) and the European Financial Stability Mechanism in 2010 (which will be replaced by the permanent European Stability Mechanism (the **ESM**) from mid-2013), 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, Spain and Cyprus, have widened progressively. The sovereign debt ratings of several European countries (including Portugal, Ireland, Spain, Greece, Italy, Slovenia and, more recently, Austria, Belgium, France and Cyprus) 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. In addition, certain European countries which need financial assistance under the EFSF/ESM or other European or international schemes might be required, as a condition for such assistance, to introduce exceptional measures that may have a, potentially, material adverse effect on the financial industry in such countries, such as one-off levies on, or conversion into equity of, deposits in excess of a certain level or restrictions on withdrawal of deposits or outward money and capital flows. Such measures might also give rise to concerns that other European countries with financial difficulties might follow suit. 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. The risk of default on the sovereign debt of certain Eurozone countries, the recent repricing of such sovereign risk and the restructuring of Greek debt have further contributed to volatility and uncertainties. To address these concerns, the European Central Bank (the **ECB**) has unveiled a bond-buying programme with a view to reducing yields on government bonds of debt-burdened Eurozone members which are receiving assistance under the EFSF/ESM and thereby lowering their borrowing costs by buying their bonds through outright monetary transactions, subject to strict conditions. The implementation of such bond-buying programme and its effects remain, however, surrounded by uncertainties. 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 existing support measures will be maintained or 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, France and Cyprus 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 "*Risk Factors – 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.

***Redenomination risk***

The potential that some of the Eurozone countries (albeit those with a relatively small GDP) could leave the Eurozone (either voluntarily or involuntarily) has also raised concerns about the ongoing viability of the euro as the single currency of the Eurozone and the European Monetary Union (the **EMU**). The dissolution of the EMU or the exit of one or more EU member states from the EMU would likely result in significant market dislocation and heightened counterparty risk. The effects of the potential abandonment of the euro as a currency and the consequential redenomination of the relevant payment obligations and financial instruments from euro into another currency or the impacts of the withdrawal of one or more countries from the Eurozone are impossible to predict and protect against fully, and are mostly outside the OTP Group's control. If any such events were to occur, it is likely that they would also adversely affect: (i) the existing contractual relationships and the fulfilment of obligations by the OTP Group or its customers and counterparties; and (ii) risk management and asset liability management at the OTP Group. This is due, in part, to redenomination of the relevant financial assets and liabilities. Any of the foregoing might have an adverse effect on the OTP Group's businesses, their financial condition and their 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, the Eurozone 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, the Eurozone 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 EU 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 measures adopted in response to the recent global and European financial crises –Financial Stabilisation Act*" 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 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 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' or might give rise to concerns as to the safety of trading positions held with banks and drive corporate clients to seek novations.

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, foreclosure 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 or the European markets would potentially result in a higher proportion of non-performing loans. As a result of the global financial crisis and the ongoing Eurozone crisis, the rate of non-performing loans in the markets where the OTP Group operates has increased significantly in recent periods and moderate increases may still be expected.

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 to a certain extent by, *inter alia*, 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. In addition, some of the OTP Group’s positions are taken in currencies other than HUF (which is the functional currency of the Guarantor, as the parent bank of the OTP Group, for financial reporting purposes), and so changes in the exchange rates of the relevant foreign currencies against the HUF might have an adverse effect on the Guarantor’s consolidated accounts (as measured in HUF) even if profits are realised on such positions (as measured in the relevant foreign currency).

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 OTP Group usually have maturities beyond the maturity of the corresponding funding, which results in the OTP Group's dependence on its ability to continuously refinance its maturing debts with new funding. The OTP Group'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 OTP Group'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 and the Eurozone 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 OTP Group 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 – Selected 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. Changes in interest rates may also 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 measures adopted in response to the recent global and European financial crises – Limitations in respect of foreign currency credits*" below), may have a further negative impact on the OTP Group'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. Furthermore, the Issuer or the Guarantor might also be subject to representative actions brought by prosecuting attorneys, empowered bodies or certain civil society organisations in relation to consumer (retail) agreements which are entered into by using the Issuer’s or the Guarantor’s standard forms of contract, where a court might, in certain circumstances, declare its judgment binding with respect to all agreements entered into on the relevant standard terms of the Issuer or the Guarantor if one or more of them are found unfair. In addition, the OTP Group may settle litigation prior to final judgement or determination of liability with a view to avoiding the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the OTP Group believes that it has no liability. This might be also the case where the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the OTP Group may, for similar reasons, reimburse counterparties for losses even when the OTP Group does not believe that it is legally compelled to do so.

Any litigation is subject to many uncertainties, and the outcome is not predictable. Failure to manage these risks could adversely affect the OTP Group’s operations and/or reputation.

***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 OTP Group increasingly faces legal and regulatory risks from the effects of changes in the laws, regulations, policies, voluntary codes of practices and interpretations to which it is subject. This is particularly the case in the current market environment, which is witnessing unprecedented levels of government intervention and changes to the regulatory framework for the banking sector. This is coupled with a number of proposed substantial changes to the current regulatory framework at global and EU levels, including, in particular, capital adequacy, liquidity requirements, financial supervision and bank resolution (as discussed in more detail below). All these have, in turn, significantly reduced legal certainty in the financial markets where the OTP Group operates. Due to the current volatile market environment, future changes to the regulatory framework of the banking sector are difficult to predict, and these changes might have an adverse effect on the OTP Group's business and/or increase its compliance costs.

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 (**BASEL III**) (see "*The Hungarian Banking System – Main elements of the Hungarian banking regulations – Capital Adequacy – Basel III*" below). Although the final elements of BASEL III were released on 13 January 2011, the BCBS may from time to time revise such standards and changes may be made to them as a result. For example, on 6 January 2013, the BCBS issued a revised text of the 'Liquidity Cover Ratio' (**LCR**) envisaged by the BASEL III liquidity framework and agreed changes to the phase-in arrangements of the LCR so that they are aligned with those of the BASEL III capital framework.

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 (**CRD IV**) (see "*The Hungarian Banking System – Proposed changes to the capital adequacy framework at the global and EU levels – CRD IV*" below). It is currently proposed that CRD IV, which implements BASEL III into the EU capital adequacy regime, be phased in during the course of 2014, with full implementation by 1 January 2019.

***Recent initiatives by the BCBS***

In addition, the BCBS issued on 11 October 2012 a framework (the **D-SIB Framework**) for dealing with domestic systematically important banks (the **D-SIBs**).

The D-SIB Framework consists of a set of principles on the assessment methodology and the higher loss absorbency requirement for D-SIBs with a view to addressing the adverse side effects of the distress or failure of banks that are not significant from an international perspective, but nevertheless could have an important impact on their domestic financial system and economy. It envisages that, *inter alia*, a higher loss absorbency (**HLA**) requirement will apply to banks (at a consolidated group level) or, as the case may be, their subsidiaries (on a consolidated basis to include any downstream subsidiaries in the relevant jurisdiction) that have been identified as D-SIBs by their home country regulator or, in the case of subsidiaries, by the host country regulator. D-SIBs should be assessed for their degree of systemic importance by reference to the domestic economy having regard to bank specific factors (including, *inter alia*: (a) size; (b) interconnectedness; (c) substitutability and/or financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and (d) complexity (including additional complexities from cross-border activity)). The HLA requirements will need to be met fully by Common Equity Tier 1 capital. The D-SIB Framework will require banks identified as D-SIBs by their national authorities to comply with its principles from January 2016.

There is no certainty as to the implementation, or the timing, of the HLA requirements that will be ultimately developed and implemented. Should the D-SIB Framework be implemented in the markets where the OTP Group operates and should the Guarantor (on a consolidated basis as the parent bank of the OTP Group) be identified as a D-SIB by its home country regulator, this could lead to a further tightening of the capital adequacy requirements imposed on the OTP Group. Further, if any member of the OTP Group (as a subsidiary of the Guarantor) that operates in a CEE country (including Russia and Ukraine) other than Hungary is identified as a D-SIB by the host country regulator, the Guarantor might need to provide additional capital resources to that member of the OTP Group, which, in turn, could result in a shift in capital and, therefore, additional measures by the Guarantor's home country regulator through, for example, the imposition of a solo capital requirement on the Guarantor. Any of the foregoing could constrain the OTP Group's financial condition and results of operations.

***Proposed EU-wide framework for bank resolution***

*The European Commission has published proposals for a crisis management directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Issuer and the Guarantor is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Mortgage Securities*.

In June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Crisis Management Directive** or **CMD**). The stated aim of the draft CMD is to provide authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers provided to authorities in the draft CMD are divided into three categories: (i) preparatory steps and plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a firm's deteriorating situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of a firm presents a concern as regards the general public interest, a clear means to reorganise or wind down the firm in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses.

The draft CMD currently contains four resolution tools and powers: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge bank" (a public controlled entity); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time; and (iv) bail-in - which gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

The draft CMD currently contemplates that it will be applied by Member States from 1 January 2015, except for the bail-in tool (in relation to instruments other than Additional Tier 1 and Tier 2 instruments), which is to be applied from 1 January 2018.

The powers currently set out in the draft CMD would impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. However, the proposed directive is not in final form and changes may be made to it in the course of the legislative process. Accordingly, it is not yet possible to assess the full impact of the draft CMD on the Issuer and the Guarantor and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of Holders, the price or value of their investment in the Mortgage Securities and/or the ability of the Issuer or the Guarantor to satisfy its obligations under the Mortgage Securities or, as the case may be, the Irrevocable Payment Undertaking.

For a more detailed discussion, refer to "*The Hungarian Banking System – Proposed EU-wide framework for bank resolution*" below.

The draft CMD also envisages mandatory financing arrangements for resolution at the national and the EU level and regular and extraordinary contributions by covered institutions under those financing arrangements.

The draft CMD, if agreed upon and fully implemented, might also affect the demand for debt instruments issued by the OTP Group and the ratings assigned to such instruments. It could also result in an increase in the returns required by investors on such instruments. In addition, the draft CMD, if fully implemented, might discourage the placement with the OTP Group of large, primarily, corporate deposits in excess of the coverage available under the deposit guarantee scheme in which the commercial bank members of the OTP Group participate. Further, if the draft CMD, as currently proposed, is fully implemented, the OTP Group will be required to maintain sufficient bail-inable liabilities in addition to own funds, which might, in turn, constrain its business and/or require more stringent asset-liability management. Any of the foregoing might, in turn, adversely affect the OTP Group's ability to raise funding and/or increase its cost of funding. There can be no assurance that, if the draft CMD is agreed upon and fully implemented, its application will not have an impact on the OTP Group's results of operations, business, assets, cash flows and financial condition and the products and services offered by the OTP Group.

There is significant uncertainty as to the final form of the proposed CMD and the way in which it will be applied if implemented in the markets where the OTP Group operates. As the draft CMD remains subject to changes in the course of the EU legislation process, its full impact cannot be anticipated or assessed yet.

***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 (such as the proposed new IFRS 9 which includes revised directions on classification and measurement of financial assets, impairment of financial assets and hedge accounting). 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.

***Tightened regime for trading in financial instruments and engaging in investment services***

On 20 October 2011, the European Commission published a proposal for the revision of the Markets in Financial Instruments Directive (**MiFID**) which envisages, inter alia, the regulation of certain over-the-counter (**OTC**) trading platforms (known as 'Organised Trading Facilities'), increased transparency requirements, reinforced supervisory powers and stronger investor protection provisions. Further, the EU has recently adopted several restrictions on securities trading and, in particular, short selling (including a ban on naked sovereign credit default swaps and naked short sales of shares and sovereign debt) and a Regulation (commonly referred to as 'EMIR') that introduced a more stringent framework for OTC derivatives, central counterparties and trade repositories and imposes registration obligations and operational and disclosure requirements in relation to derivative transactions, including central clearing. Any of the foregoing might restrict the OTP Group's trading operations (whether for its own account or for the account of its customers) or adversely affect its revenues from investment services.

Significant uncertainty remains as to the implementation of some of these initiatives. To the extent that these measures are implemented as currently proposed or announced, in particular, the changes proposed or announced by the Basel

Committee, it would be expected that they would 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: (i) prevent the OTP Group from continuing current lines of operations; (ii) restrict the types or volume of transactions the OTP Group may execute; (iii) limit the payment of dividends by the members of the OTP Group to the Guarantor, as the parent bank in respect of OTP Group members; or (iv) 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 which affect 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.

***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. Furthermore, fiscal imbalances, high levels of government debt, difficulties that arise from the maturity structure of the Hungarian government debt, Hungary's extensive reliance on external investors and volatility in the global financial markets in recent periods may from time to time necessitate the Hungarian government initiating negotiations with the EU and the IMF on a precautionary stand-by arrangement (as happened in the past). As a condition for such stand-by arrangement, the Hungarian government might need to adopt further restrictive or balancing measures, which might result in an increase in tax levies or a reduction of households' disposable income through, for example, a reduction of state pensions and public employee salaries. Any of these may, in turn, decrease consumption levels and/or hold back economic growth.

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 disbursable 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. In addition, Hungary has not become a member of the EMU yet and, as such, has not introduced the euro. Nevertheless, Hungary is required under the EU Treaty of Accession to do so in the future. Should the euro be introduced in Hungary, this would result in the redenomination of all HUF-denominated payment obligations and financial instruments, including all HUF-denominated payment obligations, receivables, financial instruments and loan assets of the OTP Group from HUF to EUR at a conversion rate to be fixed at a future date. If the HUF significantly depreciates against the EUR at the time when that HUF-to-EUR conversion rate is fixed, such redenomination might adversely affect the fulfilment of payment obligations by the OTP Group or its customers and other counterparties, the OTP Group's assets and income or its asset-liability management.

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 conversed 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 – Specific levies on the financial sector – Special "bank tax"*" below). Albeit intended to be transitional, there is no guarantee that the special crisis tax levied on the financial sector will be phased out in the near future.

Furthermore, a transaction duty is imposed from 1 January 2013 on the payment services sector (see "*The Hungarian Banking System – Specific levies on the financial sector – Special "bank tax" – Transaction duty on the payment services sector*" below) in Hungary. Further, such transaction duty will be levied following the adoption of an EU Council Directive on a common system of financial transaction tax (as currently proposed by the European Commission) also on transfers between securities accounts and cash accounts in relation to securities trades (including derivative transactions in respect of securities). It will be payable by the relevant service provider. To the extent that the Guarantor (as a payment service provider or investment service provider) or other payment service provider or investment service provider members of the OTP Group in Hungary will not be able to pass such duty on to their customers due to any restrictive measures (whether by legislation or in the form of guidance), or for competition constraints, this might have an adverse effect on the income the OTP Group receives from payment and investment services and, thereby, on its financial condition and results of operation.

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 also imposes 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.

The OTP Group is also exposed to the risks associated with changes in taxation rates and laws or the misinterpretation of taxation laws and regulations. This could result in increased charges, financial loss, including penalties and reputational damage. Failure to manage these risks adequately could adversely affect the OTP Group’s performance or reputation.

***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 adopted in response to the recent global and European financial crises – 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 period of 60 months or, if shorter, for the remaining term of the relevant Covered Mortgage Loan (as defined below) for qualifying borrowers who opt into the Fixed Rate Scheme during the term of their Covered Mortgage Loans. 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.

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**).

The relevant creditor's losses from the Waived Shortfall will be reimbursed by the Hungarian State. However, the relevant creditor financial institutions will, in effect, bear 50 per cent. of their losses in the 2012 and 2013 tax years from 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, due to a special contribution obligation recently approved by Parliament for those tax years (see "*The Hungarian Banking System – Specific levies on the financial sector – Contribution on certain reimbursements in relation to the Fixed Rate Scheme*" below), which is also payable on a quarterly basis.

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 manner in which the legislation underlying the Mortgage Relief Programme is to be applied to the relevant operations of financial institutions is 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 was to be serviced in HUF or in the currency in which it is denominated) with conversion at the respective statutory fixed exchange rates set under the Fixed Rate Scheme, subject to certain conditions. Furthermore, the FX Early Repayment Scheme prohibited 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 adopted in response to the recent global and European financial crises – Limitations in respect of foreign currency credits – Early repayment scheme*" below.

***Redenomination scheme for certain overdue foreign currency denominated loans***

The Hungarian government also introduced a redenomination scheme (the **Redenomination Scheme**) for certain retail housing mortgage loans which are denominated in, or linked to, foreign currencies and in arrears for over 90 days and where the total market value of the underlying mortgaged property did not exceed HUF 20 million (approximately EUR 67,424) at the time when the mortgage loan agreement was concluded (the **Overdue FX Mortgage Loans**).

Under the Redenomination Scheme, financial institution creditors with Overdue FX Mortgage Loans (such as the Issuer and the Guarantor) were required to redenominate Overdue FX Mortgage Loans into HUF at the option of qualifying borrowers with such loans 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 were met. For more information, see the subsection headed "*The Hungarian Banking System – Legislative measures adopted in response to the recent global and European financial crises – Redenomination of certain overdue foreign currency mortgage loans*" 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 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 (see also the subsection headed "*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.

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.

***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. A potential source of increased systemic risk is presented by the market’s perception of Eurozone sovereign and bank borrowers in Italy, Ireland, Greece, Portugal, Spain and Cyprus as reflected in the quoted prices of bonds and credit default swaps for these borrowers.

***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 pursued by the OTP Group, prudent risk management and focus on value creation. A weaker credit rating would increase the Issuer's and the Guarantor's cost of funding; 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. In addition, participating banks were 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.

Furthermore, recently proposed changes to capital adequacy requirements (see "*Tightened capital adequacy requirements*" above) and the proposed EU bank resolution regime (see "*Proposed EU-wide framework for bank resolution*" above) envisage significantly more stringent requirements as to the terms and conditions of bank's capital instruments.

For example, Basel III and CRD IV foresee a requirement for capital instruments to be capable of write-down or conversion into equity in the event of a bank being deemed to be non-viable and, in the case of additional tier 1 instruments, if the issuing bank is in breach of a prescribed common equity tier 1 capital ratio. In addition, it is also proposed that competent authorities have the power under the envisaged EU bank resolution regime to write down or convert into equity capital instruments. The possibility of debt or hybrid capital instruments being (in part or in whole) written down or converted into equity and a potentially significant increase in the risks associated with these instruments might result in a decrease in demand for banks' hybrid or subordinated debt instruments or prevent certain regulated investors (such as certain pension funds), which may not invest in convertible debt, from acquiring those instruments. Such possibility might also lead to an increase in the yields required by investors on such instruments, which, in turn, might increase banks' cost of funding.

The implementation of these changes and the manner in which the relevant implementing laws and regulations will be applied to the operations of financial institutions are still surrounded by substantial uncertainties, in particular, in the case of the new EU bank resolution regime and its effect on hybrid or subordinated debt capital instruments of banks. Should these changes be implemented in the markets where the OTP Group operates, this might adversely affect the OTP Group's ability to raise capital through the issuance of subordinated debt or increase the cost of such capital raising and thereby the OTP Group's cost of funding.

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 "*OTP Fund Management*" at page 105 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.

***Concentration risk***

The OTP Group is also subject to concentration risk where its business activities focus particularly on a similar type of customer, product, industrial sector or geographic location. Concentration risk also arises from the compounded effects and interaction of the different types of exposures assumed against a group of counterparties with similar characteristics (for example, counterparties in the same economic sector, geographic region or from the same activity), but under different types of transactions and the interaction of different types of credit risk mitigation techniques.

**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 description of the material market risks, including liquidity risk, exchange rate risk, interest rate risk and counterparty credit risk.

***An active secondary market in respect of the Mortgage Securities may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Mortgage Securities (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.

***If an investor holds Mortgage Securities which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Mortgage Securities could result in an investor not receiving payments on those Mortgage Securities.***

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 or the ability of the Issuer or, as the case may be, the Guarantor to make payments in respect of the Mortgage Securities. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of Fixed Rate Mortgage Securities may be adversely affected by movements in market interest rates (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 if market interest rates subsequently increase above the rate paid on the Fixed Rate Mortgage Securities, this will adversely affect the value of the Fixed Rate Mortgage Securities.

***Investors will not be able to calculate in advance their rate of return on Floating 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 Hungarian sovereign rating, 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 assigned to the Issuer or the Guarantor or any Mortgage Securities may not reflect all the risks associated with an investment in those Mortgage Securities***

One or more independent credit rating agencies may assign credit ratings to the Issuer, the Guarantor or 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, suspended 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 (as amended, 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.

***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.

**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 description of certain material risks relating to the Mortgage Securities generally:

The conditions of the Mortgage Securities contain provisions which may permit their modification without the consent of all investors 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.

***The Mortgage Securities may be subject to withholding taxes in circumstances where neither the Issuer nor the Guarantor is obliged to make gross up payments and this would result in Holders receiving less interest than expected and could significantly adversely affect their return on the Mortgage Securities***

*Withholding under the 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 (as defined under "*Terms and Conditions of the Mortgage Bonds*" and "*Terms and Conditions of the Mortgage Notes*" 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.

*Foreign Account Tax Compliance Act (FATCA) withholding may affect payments on the Mortgage Securities*

Whilst the Mortgage Securities are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems (see Taxation –Foreign Account Tax Compliance Act). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Mortgage Securities are discharged once it has paid the common depositary or common safekeeper for the clearing systems (as bearer or registered holder of the Mortgage Securities) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries.*Change of law*

The value of the Mortgage Securities could be adversely affected by a change in the relevant law or administrative practice 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 and any such change could materially adversely impact the value of any Mortgage Securities affected by it.

***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.

***Investors who purchase Mortgage Securities in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Mortgage Securities are subsequently required to be issued.***

In relation to any issue of Mortgage Securities which have a minimum Specified Denomination and are tradeable in the clearing systems in amounts above such minimum Specified Denomination which are not integral multiples of such minimum Specified Denomination, should definitive Mortgage Securities be required to be issued, a holder who does not have an integral multiple of the minimum Specified 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 Specified Denomination.

If Definitive Mortgage Securities are issued, Holders should be aware that Definitive Mortgage Securities which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***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 depositary, 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.

***European implementation of the Basel III Framework and impact on Mortgage Securities***

The changes approved by the Basel Committee under Basel III and the proposed EU resolution framework for credit institutions (see also "*Tightened capital adequacy requirements*" and "*Proposed EU-wide framework for bank resolution*" above) may have an impact on the capital requirements in respect of the Mortgage Securities and/or on incentives to hold the Mortgage Securities for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Mortgage Securities.

In general, such investors should consult their own advisers as to the regulatory capital requirements in respect of the Mortgage Securities and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

***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:

***If the Issuer has the right to redeem any Mortgage Securities at its option, this may limit the market value of the Mortgage Securities concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similarly effective return.***

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.

*If the Issuer has the right to convert the interest rate on any* Mortgage Securities ***from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Mortgage Securities concerned.***

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 market rates.

***Mortgage Securities issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.***

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

## 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.

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| **Issuer:** | OTP Mortgage Bank Ltd.<br>(*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.<br><br>OTP Bank and its subsidiaries provide universal banking services to approximately 12 million customers through 1,401 branches, agent networks and electronic channels. |
| **Description:** | Euro Mortgage Securities Programme for the issuance of Mortgage Bonds and Mortgage Notes. |
| **Arranger:** | Deutsche Bank Aktiengesellschaft |
| **Dealers:** | BNP Paribas<br>Citigroup Global Markets Limited<br>Crédit Agricole Corporate and Investment Bank<br>Deutsche Bank Aktiengesellschaft<br>DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main<br>HSBC Bank plc<br>The Royal Bank of Scotland plc<br>UBS Limited<br><br>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. |

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| **Certain Restrictions:** | Each issue of Mortgage Securities in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus. |
| | **Mortgage Securities having a maturity of less than one year** |
| | Mortgage Securities having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (**FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*". |
| **Principal Paying Agent:** | Deutsche Bank AG, London Branch |
| **Programme Size:** | EUR 5,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| **Distribution:** | Mortgage Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. |
| | Any issue of Mortgage Securities under this Programme is purported to be made to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Mortgage Securities either at issue or subsequently on any regulated or other secondary market or through an over-the-counter transaction. |
| **Currencies:** | Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer. |
| **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 only on a fully-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount. |
| **Type of Mortgage Securities:** | For a description of certain aspects relevant to the Mortgage Securities, see "*Overview of the Hungarian Mortgage Bonds Regulation*". |
| **Form of Mortgage Bonds:** | The Mortgage Bonds will be issued in dematerialised registered form as described in "*Form of the Mortgage Bonds*". |
| | The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of the Tradeable Amount in excess thereof. If Mortgage Bonds are cleared through KELER, they will be tradeable only in principal amounts which are multiples of the Specified Denomination. |
| **Form of Mortgage Notes:** | The Mortgage Notes will be issued in bearer form as described in "*Form of the Mortgage Notes*". |
| | The Mortgage Notes will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of the Tradeable Amount in excess thereof. |

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| **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:<br>(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<br>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or<br>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.<br>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.<br>Floating Rate Mortgage Securities may also have a maximum interest rate, a minimum interest rate or both.<br>Interest on Floating Rate 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. |
| **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. |
| **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.<br>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 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 6 of the Terms and Conditions of the Mortgage Bonds and Condition 6 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 6 of the Terms and Conditions of the |

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| | Mortgage Bonds and Condition 6 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-hitelintézetről és a jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*). |
| **Subordination:** | Mortgage Securities may not be issued on a subordinated basis. |
| **Rating:** | Mortgage Securities issued under the Programme have been rated Baa3 by Moody's Deutschland. Series of Mortgage Securities issued under the Programme may be rated or unrated. Where a Series of Mortgage Securities is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned generally to the Mortgage Securities issued under the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. |
| **Listing and admission to trading:** | Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Mortgage Securities issued under the Programme 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.<br><br>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 |

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| | (see "*Subscription and Sale*"). |
| **United States Selling Restrictions:** | Mortgage Bonds – Regulation S, Category 1.<br>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; and

(b) 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.

## DOCUMENTS INCORPORATED BY REFERENCE

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

(i) the audited annual financial statements of the Issuer for each of the financial years ended 31 December 2011 and 31 December 2012 and the audit reports thereon;

(ii) the audited consolidated annual financial statements of the Guarantor for each of the financial years ended 31 December 2011 and 31 December 2012 and the audit reports thereon;

(iii) the audited separate financial statements of the Guarantor for each of the financial years ended 31 December 2011 and 31 December 2012 and the audit reports thereon;

(iv) the unaudited interim management report – first three months 2013 results of the Guarantor dated 14 May 2013;

(v) the unaudited separate condensed financial statements of the Guarantor for the three-month period ended 31 March 2013;

(vi) the Deed of Foundation of each of the Issuer and the Guarantor translated as the Articles of Association in the English translation thereof; and

(vii) the following sections of the base prospectus dated 13 November 2012 issued by the Guarantor in relation to the EUR 5,000,000,000 Euro Medium Term Note Programme (the **GEMTN Base Prospectus**):

- the section titled "Description of the Issuer" at pages 84 to 111;
- the section titled "Financial Performance of the OTP Group" at pages 112 to 115;
- the section titled "Financial Risk Management" at page 116;
- the section titled "Asset Liability Management" at page 117; and
- the section titled "Trend Information" at page 119;

(viii) subsection II of the section titled "Additions and Amendments to the Base Prospectus" in the supplement dated 11 December to the 2012 GEMTN Base Prospectus (the **First GEMTN Supplement**) at pages 9 to 11;

(ix) the section "Terms and Conditions of the Mortgage Bonds" from each of the Previous Base Prospectuses relating to the Programme as follows: (a) Base Prospectus dated 23 January 2008 (pages 35-54 thereof); (b) Base Prospectus dated 29 October 2009 (pages 39-58 thereof); (c) Base Prospectus dated 7 February 2011 (pages 55-74 thereof) and (d) Base Prospectus dated 18 May 2012 (pages 65-83 thereof); and

(x) the section "Terms and Conditions of the Mortgage Notes" from each of the Previous Base Prospectuses relating to the Programme as follows: (a) Base Prospectus dated 23 January 2008 (pages 55-74 thereof); (b) Base Prospectus dated 29 October 2009 (pages 59-78 thereof); (c) Base Prospectus dated 7 February 2011 (pages 75-95 thereof) and (d) Base Prospectus dated 18 May 2012 (pages 84-103 thereof).

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

Copies of this Base Prospectus and documents incorporated by reference in this Base Prospectus can be obtained from the website of the Luxembourg Stock Exchange, www.bourse.lu. In addition, such documents will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. at 2 boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg for Mortgage Securities listed on the 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 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 |
| Audited annual financial statements of the Issuer for the financial year ended 31 December 2012 | Pages 2 to 60 |
| – 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 | Page 5 |
| – – Statement of Changes in Shareholders' Equity | Page 6 |
| – Notes to the Financial Statements | Pages 7 to 60 |

The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Prospectus Regulation. 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 2011 | Pages 2 to 100 |
| – Independent Auditors' Report | Page 1/2 to 2/2 |
| – Financial Statements: | |
| – – Consolidated Statement of Financial Position | Page 2 |
| – – Consolidated Statement of Recognised Income | Page 3 |
| – – Consolidated Statement of Comprehensive Income | Page 4 |
| – – Consolidated Statement of Cash Flows | Pages 5 to 6 |
| – – Consolidated 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 2011 | Pages 8 to 100 |
| Audited consolidated financial statements of the Guarantor for the financial year ended 31 | Pages 2 to 104 |

| Document | Section incorporated |
|---|---|
| December 2012 | |
| – Independent Auditors' Report | Pages 1/2 to 2/2 |
| – Financial Statements: | |
| – Consolidated Statement of Financial Position | Page 2 |
| – Consolidated Statement of Recognised Income | Page 3 |
| – Consolidated Statement of Comprehensive Income | Page 4 |
| – Consolidated Statement of Cash Flows | Page 5-6 |
| – Consolidated 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 2012 | Pages 8 to 104 |
| Audited separatefinancial 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: | |
| – Separate Statement of Financial Position | Page 2 |
| – Separate Statement of Recognised Income | Page 3 |
| – Separate Statement of Comprehensive Income | Page 4 |
| – Separate Statement of Cash Flows | Pages 5 to 6 |
| – Separate 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 |
| Audited separate financial statements of the Guarantor for the financial year ended 31 December 2012 | Pages 2 to 93 |
| – Independent Auditors' Report | Pages 1/2 to 2/2 |
| – Financial Statements: | |
| – Separate Statement of Financial Position | Page 2 |
| – Separate Statement of Recognised Income | Page 3 |
| – Separate Statement of Comprehensive Income | Page 4 |
| – Separate Statement of Cash Flows | Page 5 to 6 |
| – Separate 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 2012 | Pages 8 to 93 |
| Unaudited interim management report – first three months 2013 results of the Guarantor dated 14 May 2013 | Pages 2 to 49 |
| – Financial Statements: | |
| – Separate and Consolidated IFRS Statement of Financial Position (unaudited) | Page 35 |
| – Separate and Consolidated IFRS Statement of Recognised Income (unaudited) | Page 36 |
| – Separate and Consolidated IFRS Statement of Cash Flows (unaudited) | Page 37 |
| – Statement of Changes in Consolidated Shareholders' Equity (unaudited) | Page 38 |

| | |
|---|---|
| – Ownership Structure of the Guarantor | Page 39 |
| – Shareholders with over/around 5% stake | Page 39 |
| Unaudited separate condensed financial statements of the Guarantor for the three-month period ended 31 March 2013 | Pages 2 to 13 |
| – Financial Statements: | |
| – – Separate Statement of Financial Position (unaudited) | Page 2 |
| – – Separate Condensed Statement of Recognised Income and Statement of Comprehensive Income (unaudited) | Page 3 |
| – – Separate Condensed Statement of Cash Flows (unaudited) | Page 4 |
| – – Separate Statement of Changes in Shareholders' Equity (unaudited) | Page 5 |
| – Selected Explanatory Notes. | Pages 6 to 13 |

The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Prospectus Regulation.

***Cross-reference list in respect of the sections incorporated by reference from the GEMTN Base Prospectus (as set out in paragraph (vii) above) and the First GEMTN Supplement (as set aout in paragraph (viii) above).***

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.** | History and development of the Guarantor: | |
| A11.4.1.1. | the legal and commercial name of the guarantor; | 84 |
| A11.4.1.2. | the place of registration of the guarantor and its registration number; | 84 |
| A11.4.1.3. | the date of incorporation and the length of life of the guarantor, except where indefinite; | 84 |
| 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); | 84 |
| A11.4.1.5 | Any recent events particular to the guarantor which are to a material extent relevant to the evaluation of the guarantor's solvency | 95-101<br>9-11 in the First GEMTN Supplement |
| **A11.5** | **BUSINESS OVERVIEW** | |
| **A11.5.1.** | **Principal activities:** | |
| A11.5.1.1. | A brief description of the guarantor's principal activities stating the main categories of products sold and/or services performed; | 84- 85, 103-111 |
| A11.5.1.3. | Principal markets | |
| | A brief description of the principal markets in which the guarantor competes; | 103-111 |
| A11.5.1.4 | The basis for any statements in the registration document made by the Guarantor regarding its competitive position. | 94, 106-110 |
| **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. | 84-85, 91-95 |
| **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: | 86-91 |
| | (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. | |
| A11.9.2. | Administrative, Management, and Supervisory bodies conflicts of interests<br>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. | 91 |
| **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. | 93-94 |
| A11.11.6. | Legal and arbitration proceedings<br><br>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. | 97-98<br><br>9-11 in the First GEMTN Supplement |

Any other information not listed above but contained in the sections incorporated by reference from the GEMTN Base Prospectus and the First GEMTN Supplement 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 or are otherwise covered elsewhere in this Base Prospectus.

## 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 jelzáloghitelintézetről 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 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*".

## SETTLEMENT PROCEDURES FOR THE MORTGAGE BONDS

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

**Issue of HUF denominated Mortgage Bonds**

*Version I (Euroclear Free of Payment)*

Upon the issue of a Tranche of Mortgage Bonds, KELER, as the Hungarian national central securities depositary, will first credit the nominal amount of such Tranche to the Issuer's securities (creation) 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 depositary, 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 depositary KELER for the nominal amount of the relevant Tranche, indicating the securities (settlement) sub-account of the Issuer as "seller's account". In turn, Clearstream, Luxembourg will give the above "OTC buy" instruction to KELER. The settlement currency is HUF.

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

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

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

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

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

**Issue of non-HUF denominated Mortgage Bonds**

*Version I (Euroclear Free of Payment)*

Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depositary will first credit the nominal amount of such Tranche to the Issuer's securities (creation) 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 depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg.

Where the Global Mortgage Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether such Global Mortgage Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Mortgage Notes are to be so held does not necessarily mean that the Mortgage Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

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, 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, 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 8) 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 12 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 Permanent Global Mortgage Notes and definitive Mortgage Notes which have an original maturity of more than one year and on all 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 or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Mortgage Notes 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 at a point after the Issue Date of the further Tranche, 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 such time as the Tranches are consolidated and form a single Series, which shall not be prior to 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 4 June 2013 and executed by the Issuer.

The Issuer and the Guarantor may agree with any Dealer that Mortgage Notes may be issued in a form not contemplated by the Terms and Conditions of the Mortgage Notes, in which event, a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Mortgage Notes.

## 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 4 June 2013 [and the supplement[s] to it dated [●] [and [●]]], which [together] constitute[s] 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) (the **Base Prospectus**). 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 has been published, and the applicable Final Terms will be published, on the Luxembourg Stock Exchange website (www.bourse.lu) and 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/Mortgage Notes which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Mortgage [Bonds/Notes] (the **Conditions**) set forth in the Base Prospectus dated [*original date*]. This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented by a relevant Member State of the European Economic Area) and must be read in conjunction with the Base Prospectus dated 4 June 2013 [and the supplement[s] to it dated [●] [and [●]] which together constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**)[, including the Conditions incorporated by reference in 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 [dated 4 June 2013 and [*original date*]. The Base Prospectus has been published, and the applicable Final Terms will be published, on the Luxembourg Stock Exchange website (www.bourse.lu) and 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.*]

[*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) | Series Number: | [ ] |

* *Certificate of the Hungarian Asset Controller (vagyonellenőr) will be circulated with the Final Terms for each Series of Mortgage [Bonds]/[Notes] pursuant to section 11(3)(n) of Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről).*

| | | | |
|---|---|---|---|
| | (b) | Tranche Number: | [ ] |
| Date on which the Mortgage [Bonds/Notes] will be consolidated and form a single Series: | | | The Mortgage [Notes/Bonds] will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note which is expected to occur on or about [*date*]][Not Applicable] |
| 2. | Specified Currency: | | [ ] |
| 3. | Aggregate Nominal Amount: | | |
| | (a) | Series: | [ ] |
| | (b) | Tranche: | [ ] |
| 4. | [(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:<br>(*Required only for listed issues*) | [ ]] |
| 5. | (a) | Specified Denominations: | [ ]<br>*(N.B. Mortgage* [*Notes/Bonds*] *must have a minimum denomination of EUR 100,000 (or equivalent)*<br>*(Note – where multiple denominations above* [*€100,000*] *or equivalent are being used the following sample wording should be followed:*<br>*"*[*€100,000*] *and integral multiples of* [*€1,000*] *in excess thereof up to and including* [*€199,000*]*. No Mortgage* [*Note/Bonds*]*s in definitive form will be issued with a denomination above* [*€199,000*]*."))*<br>[*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 9 below) in excess thereof – REFER TO PART B, ITEM 9 OF THE FINAL TERMS. N.B. If the Mortgage Bonds are to be traded in KELER, they will be tradeable only in principal amounts of at least the Specified Denomination.*] |
| | (b) | Calculation Amount: | [ ]<br>*(If only one Specified Denomination, insert the Specified Denomination.*<br>*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).* |
| 6. | (a) | Issue Date (value date): | [ ] |
| | (b) | Interest Commencement Date: | [*specify/*Issue Date/Not Applicable]<br>(*N.B. An Interest Commencement Date will not be relevant for certain Mortgage Bonds/Mortgage Notes, for example Zero Coupon Mortgage Bonds/Mortgage Notes.*) |

| | | |
|---|---|---|
| 7. | Maturity Date: | [*Fixed rate – specify date*/*Floating rate* – Interest Payment Date falling in or nearest to [*specify month and year*]] |
| 8. | Interest Basis: | [ ] per cent. Fixed Rate]<br>[[[●] month [BUBOR/LIBOR/EURIBOR]] +/- [ ] per cent.<br>Floating Rate]<br>[Zero Coupon]<br><br>(see paragraph [13]/[14]/[15] below) |
| 9. | Redemption/Payment Basis: | [Redemption at the Specified Denomination]<br>Subject to any purchase and cancellation or early redemption, the Mortgage [Notes/Bonds] will be redeemed on the Maturity Date at [100] per cent. of their nominal amount |
| 10. | Change of Interest Basis | [*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 13 and 14 below and identify there*][*Not Applicable*]] |
| 11. | Put/Call Options: | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 12. | [Date [Board] approval for issuance of Mortgage [Bonds/Notes] obtained: | [ ] [and [ ], respectively]]<br><br>(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Bonds/Mortgage Notes*) |

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

| | | | |
|---|---|---|---|
| 13. | **Fixed Rate Mortgage [Bond/Note] Provisions** | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Rate(s) of Interest: | [ ] per cent. per annum in arrear on each Interest Payment Date |
| | (b) | Interest Payment Date(s): | [[ ] in each year up to and including the Maturity Date]<br><br>(*Amend appropriately in the case of irregular 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] [ ]] [Not Applicable] |
| | (e) | Day Count Fraction: | [30/360] [Actual/Actual (ICMA)] |
| | (f) | Determination Date(s): | [[ ] in each year] [Not Applicable]<br>[*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon*. |
| | (g) | Party responsible for calculating amounts payable: | [Agent[*/if not the Agent, insert details of Calculation Agent*]] |
| 14. | **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] |
| | (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: | Reference Rate: [ ] month[[BUBOR/]LIBOR/EURIBOR].<br>Relevant Financial Centre: [[Budapest/]London/Brussels] |
| | | – Interest Determination Date(s): | [ ]<br>(*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: | [ ]<br>(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate*) |
| | (g) | ISDA Determination: | |
| | | – Floating Rate Option: | [ ] |
| | | – Designated Maturity: | [ ] |
| | | – Reset Date: | [ ]<br>*(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)* |
| | (h) | Margin(s): | [+/-][ ] per cent. per annum |
| | (i) | Minimum Rate of Interest: | [ ] per cent. per annum |
| | (j) | Maximum Rate of Interest: | [ ] per cent. per annum |
| | (k) | Day Count Fraction: | [Actual/Actual (ISDA)][Actual/Actual]<br>Actual/365 (Fixed)<br>[Actual/365 (A´ KK)]<br>Actual/365 (Sterling)<br>Actual/360<br>[30/360][360/360][Bond Basis]<br>[30E/360][Eurobond Basis]<br>[30E/360 (ISDA)]<br>(*See Condition 3 for alternatives*) |
| 15. | **Zero Coupon Mortgage [Bond/Note] Provisions** | | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of* |

| | | | |
|---|---|---|---|
| | | | *this paragraph*) |
| | (a) | Accrual Yield: | [ ] per cent. per annum |
| | (b) | Reference Price: | [ ] |
| | (c) | Day Count Fraction in relation to Early Redemption Amounts: | [30/360] [Actual/360] [Actual/365] |

**PROVISIONS RELATING TO REDEMPTION**

| | | | |
|---|---|---|---|
| 16. | Notice periods for Condition 5(b) [Redemption and Purchase – Redemption for taxation reasons]: | | Minimum period: [ ] days<br>Maximum period: [ ] days |
| 17. | Issuer Call: | | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Optional Redemption Date(s): | [ ] |
| | (b) | Optional Redemption Amount of each Mortgage [Bond/Note]: | [[ ] per Calculation Amount] |
| | (c) | If redeemable in part: | |
| | | (i) Minimum Redemption Amount: | [ ] |
| | | (ii) Maximum Redemption Amount: | [ ] |
| | | (iii) Method of selection: | [ ] |
| | (d) | Notice periods: | Minimum period: [ ] days<br>Maximum period: [ ] days<br>(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*) |
| 18. | Investor Put: | | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Optional Redemption Date(s): | [ ] |
| | (b) | Optional Redemption Amount: | [ ] per Calculation Amount |
| | (c) | Notice periods: | Minimum period: [ ] days<br>Maximum period: [ ] days[ ]<br>(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*) |
| 19. | Final Redemption Amount of each Mortgage [Bond/Note]: | | [ ] per Calculation Amount<br>(*N.B. In relation to any issue of Mortgage* [*Bonds/ Notes* |

| | | |
|---|---|---|
| | | *which are expressed at item 5 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 5 above, such holding will be redeemed at its nominal amount."*) |
| 20. | Early Redemption Amount of each Mortgage [Bond/Note] payable [on redemption for taxation reasons or] on event of default | [ ] per Calculation Amount |

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

| | | |
|---|---|---|
| 21. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/*give details*]<br><br>(*Note that this item relates to the place of payment and not Interest Period end dates, to which item 14(c) relates*) |

**[MISCELLANEOUS**

| | | |
|---|---|---|
| 22. | Form of Mortgage Notes[/Bonds]: | |
| | (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]<br>[Temporary Global Mortgage Note exchangeable for Definitive Mortgage Notes on and after the Exchange Date]<br>[Permanent Global Mortgage Note exchangeable for Definitive Mortgage Notes [only upon an Exchange Event/at any time at the request of the Issuer]]<br>[Dematerialised]<br>*(Ensure that this is consistent with the wording in the "Form of the Mortgage* [*Notes/Bonds*]*" section in the Base Prospectus and the Mortgage* [*Notes/Bonds*] *themselves.* (*N.B. If the Specified Denominations of the Mortgage Notes in item 5 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] |
| 23. | Talons for future Coupons to be attached to Definitive Mortgage Notes (and dates on which such Talons mature): | [Yes, as the Mortgage Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No] |

**RESPONSIBILITY**

[[ ] 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:............................................................................<br>*Duly authorised* | By: ............................................................................<br>*Duly authorised* |

**OTP JELZÁLOGBANK ZÁRTKÖRÜEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG**

## PART B – OTHER INFORMATION

**1. LISTING AND ADMISSION TO TRADING**

| | | |
|---|---|---|
| (i) | Listing and admission to trading: | [Application has been made by the Issuer (or on its behalf) for the Mortgage [Bonds/Notes] to be admitted to trading on [specify relevant regulated market *(for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [ ].]<br><br>[Application is expected to be made by the Issuer (or on its behalf) for the Mortgage [Bonds/Notes] to be admitted to trading on [specify relevant regulated market *(for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange)* and, if relevant, listing on an official list *(for example, the Official List of the UK Listing Authority)*] with effect from [ ].] [Not Applicable.] |
| (ii) | 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]/[The following rating[s] reflect[s] rating[s] assigned to the Mortgagege [Bonds/Notes] of this type issued under the Programme generally]: [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].<br><br>(*The above disclosure should reflect the rating allocated to Mortgage Bonds/Mortgage Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) |

**3. 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.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and the Guarantor and their affiliates in the ordinary course of business [*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.*)]

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

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

**5.** **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. |

**6.** **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)*]<br>(*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): | [ ]/ [Not Applicable] |
| (vii) | Deemed delivery of clearing system notices for the purposes of Condition [Notices]: | Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg. |
| (viii) | List of such documents available for inspection or collection (free of charge): | [*Insert list and place where such documents are so available*] |
| (ix) | Place of issue: | [Hungary/Outside Hungary] |
| (x) | Place of creation of Mortgage [Bonds/Notes]: | [Hungary/Outside Hungary] |
| (xi) | Number of Mortgage Bonds: | |
| | (a) Series: | [ ] |
| | (b) Tranche: | [ ] |
| (xii) | Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes. 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 the ECB being satisfied that Eurosystem eligibility criteria have been met.]/<br>[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Mortgage Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Mortgage Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that |

| | | | |
|---|---|---|---|
| | | | Eurosystem eligibility criteria have been met.] |
| | (xiii) | Serial number of the Mortgage Notes: | [ ]][†] |
| **7.** | **DISTRIBUTION** | | |
| | (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| | (ii) | If syndicated, names of Managers: | [Not Applicable/give names] |
| | (iii) | Date of [Subscription] Agreement: | [ ] |
| | (iv) | Stabilising Manager(s) (if any): | [Not Applicable/give name] |
| | (v) | If non-syndicated, name of relevant Dealer: | [Not Applicable/give name] |
| | (vi) | U.S. Selling Restrictions: | [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]] |

[†] 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 (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 4 June 2013 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) will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and 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.

In the Conditions, euro means 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.

### 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-hitelintézetről 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 11 or a part of this

Series of Mortgage Bonds are cancelled in accordance with Condition 5(g), 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**). 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, or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Final Terms.

(d) *Title*

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

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

(e) *Closure of KELER*

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

(A) to issue a new Series of Mortgage Bonds (the **Replacement Mortgage Bonds**) in replacement of the Series of Mortgage Bonds which were, in accordance with the records of KELER at the time of the occurrence of the Exchange Event, credited to securities accounts of each Securities Account Manager (as defined below) with KELER (the **Cancelled Mortgage Bonds**); and

(B) to procure that appropriate agency arrangements in line with the then prevailing market standards for the servicing of bearer debt securities are established in connection with the Replacement Mortgage Bonds.

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

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

(A) constitute a new Series of Mortgage Bonds with terms (save for their respective issue dates and save as provided in (vi) below) identical to the Cancelled Mortgage Bonds which they are replacing;

(B) be delivered to the securities account managers who have Cancelled Mortgage Bonds credited to their securities account with KELER (the **Securities Account Managers**) in accordance with the last available records of KELER (as determined in accordance with Condition 1(f)); and

(C) be represented by printed certificates.

(iii) The Issuer will promptly (and in any event within five days of its occurrence) give notice to any stock exchange (in accordance with the then applicable rules and regulations of that stock exchange) on which the Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 10 upon the occurrence of an Exchange Event and the issuance of Replacement Mortgage Bonds. The Issuer will procure that the replacement of the Cancelled Mortgage Bonds with Replacement Mortgage Bonds shall occur no later than 45 days after the date of the giving of the notice referred to in the immediately preceding sentence. Subject to Condition 1(e)(ii), the Issuer will procure that Replacement Mortgage Bonds are made available at the specified office of the Paying Agent for the time being in Luxembourg.

(iv) The aggregate nominal amount of Replacement Mortgage Bonds issued following the occurrence of an Exchange Event shall be equal to the aggregate nominal amount of Mortgage Bonds which, according to the records of KELER, were credited to the securities accounts of Securities Account Managers at the time of the occurrence of the Exchange Event.

(v) Upon the receipt of Replacement Mortgage Bonds by a Securities Account Manager, such Securities Account Manager and the Holder whose securities account is managed by such Securities Account Manager agree that the Mortgage Bonds which were credited to the securities account of such Securities Account Manager with KELER at the time of the occurrence of the Exchange Event shall be cancelled and shall cease to be of any further effect. Upon the receipt of the Replacement Mortgage Bonds, the Securities Account Manager agrees to hold them for the benefit and on behalf of Holders for whom the Securities Account Manager manages a securities account and in accordance with the balance of such securities account of such Holder. For the avoidance of doubt, to the extent that payments have been made in respect of Mortgage Bonds on or prior to the time that those Mortgage Bonds become Cancelled Mortgage Bonds, this shall relieve the Issuer of being required to make those payments in respect of the Replacement Mortgage Bonds. If any payment in respect of Mortgage Bonds falls due on or after the occurrence of an Exchange Event but prior to the date of delivery of Replacement Mortgage Bonds, then that payment shall only be required to be made by, or on behalf of, the Issuer at the time of presentation (and surrender, as the case may be) of the Replacement Mortgage Bond to the Agent or a Paying Agent by the holder of the Replacement Mortgage Bond. For the purposes of the immediately preceding sentence, interest shall continue to accrue on the Mortgage Bonds at the Rate of Interest (as defined below) in respect of the period from and including the due date for payment to but excluding the actual date of payment.

(vi) If Replacement Mortgage Bonds are issued pursuant to this Condition 1(e) then:

(A) The word "Type", in the heading of Condition 1 shall be deleted, Condition 1(a) shall be deleted, Condition 1(c) shall become Condition 1(b) and Conditions 1(b) and 1(d) will be replaced with the following, respectively:

"(a) *Form and Denomination*

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

"(c) *Title*

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

Holder or Holders shall, unless the context otherwise requires, be deemed to include a reference to Couponholders";

(B) The definition of Business Day contained in Condition 3(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".";

(C) Condition 4(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 6) 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 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 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.";

(D) The definition of Payment Day contained in Condition 4(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 4(b)(i) after the words " currency deposits)" the words " in the relevant place of presentation and in";

(E) Condition 5(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 10 not less than 15 days prior to the date fixed for redemption.";

(F) Condition 5(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 (F) and instead to declare such Mortgage Bond forthwith due and payable pursuant to Condition 8.";

(G) Condition 5(f) shall be amended by inserting after the words "Mortgage Bonds" in the first sentence:

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

(H) Condition 10 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

(I) 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-hitelintézetről és a jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds ("*jelzáloglevelek*").

(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. INTEREST

(a) *Interest on Fixed Rate Mortgage Bonds*

Each Fixed Rate Mortgage Bond bears interest on its outstanding nominal amount 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 3(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*

(i) *Interest Payment Dates*

Each Floating Rate Mortgage Bond bears interest on its outstanding nominal amount 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. In the Terms and Conditions of the Mortgage Bonds, **Interest period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If 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 3(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 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 the day 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 (being either LIBOR, EURIBOR or BUBOR, as specified in the applicable Final Terms) 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.

(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, 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.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate 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 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 3(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:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

The Agent, or (if applicable) the Calculation Agent, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, KELER, the relevant regulatory authority and any stock exchange on which the relevant Floating Rate Mortgage Bonds are for the time being listed and notice thereof to be published in accordance with Condition 10 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 are for the time being listed and to the Holders in accordance with Condition 10.

(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 3(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) *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 10.

## 4. 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 6;

(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 6.

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

$$\mathrm{RP}\ \mathrm{x}\left(1+\mathrm{AY}\right)^{\mathrm{y}}$$

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,

(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.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

## 5. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

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

(b) *Redemption for tax reasons*

Subject to Condition 5(e), 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 not a Floating Rate Mortgage Bond) or on any Interest Payment Date (if this Mortgage Bond is a Floating Rate Mortgage Bond), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Agent and, in accordance with Condition 10, 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 6 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 6) 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 to make available at its specified office to the Holders (i) 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, (ii) 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 5(b) will be redeemed at their Early Redemption Amount referred to in Condition 5(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 as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Holders in accordance with Condition 10 (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 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 as being applicable in the applicable Final Terms, upon the Holder of any Mortgage Bond giving to the Issuer in accordance with Condition 10 not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem 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 8.

(e) *Early Redemption Amounts*

For the purpose of Condition 5(b) and Condition 8, 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) 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, 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 4(c).

(f) *Purchases*

The Issuer or the Guarantor may at any time purchase Mortgage Bonds at any price in the open market or otherwise.

(g) *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.

(h) *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 8 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 4(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 10,

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

## 6. 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 4(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 10.

## 7. 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.

## 8. 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 5(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 8, 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.

## 9. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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 4(d). Notice of any variation, termination, appointment or change in the Paying Agents will be given to the Holders promptly by the Issuer in accordance with Condition 10.

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.

## 10. 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.

## 11. 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.

## 12. 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.

## 13. 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 10 as soon as practicable thereafter.

## 14. 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 (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 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 4 June 2013 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).

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**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Mortgage Note.

Interest bearing definitive Mortgage Notes have interest coupons (**Coupons**) and, in the case of Mortgage Notes which, when issued in definitive form, have more than 27 interest payments remaining, 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. Global Notes do not have Coupons or Talons attached on issue.

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 **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 and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 4 June 2013 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. If the Mortgage Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Mortgage Noteholders 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.

In the Conditions, euro means 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.

## 1. FORM, DENOMINATION AND TITLE

The Mortgage Notes are in bearer form and are serially numbered, in the currency (the **Specified Currency**) and in the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. 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 or a combination of any of the foregoing, depending upon the Interest Basis shown 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 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 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 Part B of 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 Coupons are direct, unconditional, unsubordinated obligations of the Issuer and rank *pari passu* among themselves. The Mortgage Notes are covered in accordance with Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetről és a* *jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds ("*jelzáloglevelek*").

(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. 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

(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 3(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*

(i) Interest Payment Dates

Each Floating Rate 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. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If 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 3(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 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 the day 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 (being either LIBOR, EURIBOR or BUBOR, as specified in the applicable Final Terms) 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.

(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 3(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 3(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, 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.

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

(1) in the case of Floating Rate Mortgage Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Note; or

(2) in the case of Floating 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 Floating Rate 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 3(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) (C) if "Actual/365 (A´ KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;

(D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Mortgage Notes 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 12 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 promptly be notified to each stock exchange on which the relevant Floating Rate Mortgage Notes are for the time being listed and to the Mortgage Noteholders in accordance with Condition 12. 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 3(b)(vi) by the Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the other Paying Agents and all Mortgage Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Guarantor, the Mortgage Noteholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *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 12.

## 4. 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

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

Payments of principal in respect of definitive Mortgage Notes will (subject as provided below) be made in the manner provided in Condition 4(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)).

Fixed Rate Mortgage Notes in definitive form (other than 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 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) 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 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.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

(e) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Note 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 7) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(A) in the case of Mortgage Notes in definitive form only, the relevant place of presentation;

(B) 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 6;

(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 Zero Coupon Mortgage Notes, the Amortised Face Amount (as defined in Condition 5(e)(iii)); 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 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 6.

## 5. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Mortgage Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) *Redemption for tax reasons*

Subject to Condition 5(e), 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 not a Floating Rate Mortgage Note) or on any Interest Payment Date (if this Mortgage Note is a Floating Rate Mortgage Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Agent and, in accordance with Condition 12, 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 6 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 6) 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 to make available at its specified office to the Noteholders (i) 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 (ii) 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 5(b) will be redeemed at their Early Redemption Amount referred to in Condition 5(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 as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Mortgage Noteholders in accordance with Condition 12 (which notice 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 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 12 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 5(c) and notice to that effect shall be given by the Issuer to the Mortgage Noteholders in accordance with Condition 12 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 as being applicable in the applicable Final Terms, upon the holder of any Mortgage Note giving to the Issuer in accordance with Condition 12 not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Mortgage Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Mortgage Note the holder of this Mortgage Note must, if this Mortgage Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Mortgage Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Mortgage Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Mortgage Note the holder of this Mortgage Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Mortgage Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Mortgage Note pursuant to this Condition 5(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 5(d) and instead to declare such Mortgage Note forthwith due and payable pursuant to Condition 8.

(e) *Early Redemption Amounts*

For the purpose of Condition 5(b) above and Condition 8, 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) 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, the applicable Final Terms or, if no such amount 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:

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

where:

**RP** means the Reference Price;

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

**y** is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be 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 will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days 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 will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days 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 will be 365).

(f) *Purchases*

The Issuer or the Guarantor may at any time purchase Mortgage Notes (provided that, in the case of definitive Mortgage Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

(g) *Cancellation*

All Mortgage Notes which are redeemed or purchased by the Issuer will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Mortgage Notes so cancelled (together with all unmatured Coupons and Talons cancelled therewith) cannot be reissued or resold.

(h) 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 5(a), 5(b), 5(c) or 5(d) above or upon its becoming due and repayable as provided in Condition 8 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 5(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 12,

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

## 6. TAXATION

All payments of principal and interest in respect of the Mortgage Notes 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 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 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 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 or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Note 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 4(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 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 12.

## 7. 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.

## 8. 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 5(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 8, 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.

## 9. REPLACEMENT OF MORTGAGE NOTES, COUPONS AND TALONS

Should any Mortgage Note, 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, Coupons or Talons must be surrendered before replacements will be issued.

## 10. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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 4(d). Notice of any variation, termination, appointment or change in the Paying Agents will be given to the Mortgage Noteholders promptly by the Issuer in accordance with Condition 12.

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 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.

## 11. 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 7.

## 12. 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 such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Mortgage Noteholder shall be in writing and given by lodging the same, together (in the case of any Mortgage Note in definitive form) with the relative Mortgage Note or Mortgage Notes, with the Agent. Whilst any of the Mortgage Notes are represented by a Global Note, such notice may be given by any holder of a Mortgage Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 13. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Mortgage Noteholders 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.

## 14. 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.

## 15. 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 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 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 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 Couponholders.

The Agent, the Issuer and the Guarantor may agree, without the consent of the Mortgage Noteholders or Couponholders, to:

(a) any modification (except as mentioned above) of the Mortgage Notes, 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 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 and the Couponholders and any such modification shall be notified to the Mortgage Noteholders in accordance with Condition 12 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 2012, 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 May 2013 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, 2011 and 2012 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 15 February 2013:

| *Date of rating* | *Rating* |
|---|---|
| 2 March 2007 | Aa1 |
| 8 April 2009 | Aa2 |
| 20 May 2009 | A2 |
| 10 December 2010 | Baa1 |
| 29 November 2011 | Baa3 |
| 15 February 2013 | Baa3 |

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

On 14 December 2012, Moody's Deutschland GmbH (**Moody's GmbH**) placed the rating assigned to mortgage bonds issued by the Issuer (including the Mortgage Securities issued under the Programme) on review for downgrade. Pursuant to Moody's GmbH's press release, the review of the mortgage bonds was prompted by the review of the Guarantor's (as the parent bank of the Issuer) senior unsecured debt rating of Ba1 as "issuer rating" for its covered bond analysis with respect to the Issuer given that the Issuer's obligations under, *inter alia*, the mortgage bonds issued by it (including the Mortgage Securities issued under the Programme) are fully guaranteed by the Guarantor (as the parent bank of the Issuer) pursuant to the Irrevocable Payment Undertaking (see "*Issuance of an irrevocable payment undertaking by OTP Bank in favour of the Issuer*" below).

In conclusion of this review, Moody's GmbH confirmed on 15 February 2013 the Baa3 ratings assigned by it to mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer. Pursuant to Moody's GmbH's press release, this rating action followed the confirmation by Moody's Italia S.r.l of the (P)Ba1 long-term senior unsecured rating of OTP Bank on 14 February 2013, which is used by Moody's GmbH as the "issuer rating" for its covered bond analysis on the Issuer's mortgage bonds given the guarantee provided by OTP Bank under the Irrevocable Payment Undertaking. The rating confirmed by Moody's GmbH on 15 February 2013 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 (available at ***http://www.esma.europa.eu/page/List-registered-and-certified-CRAs***).

For further information on the ratings and rating history of the Issuer, the Guarantor and the OTP Group, refer to: (i) the subsection entitled "Rating Developments" on pages 98 to 101 of the section entitled "Description of the Issuer" in OTP Bank's base prospectus dated 13 November 2012 with respect to its EUR 5,000,000,000 Euro Medium Term Note Programme (the **GEMTN Base Prospectus**); and (ii) the subsection headed "Amendments to the section headed "Description of the Issuer" of the Base Prospectus at pages 84 to 117" in the supplement to the GEMTN Base Prospectus dated 11 December 2012 (the **First GEMTN Supplement**) at pages 9 to 11, each incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above. Refer also to the subsection headed "*Recent developments at the OTP Group – Recent rating developments*" below.

***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 84 to 111 entitled "*Description of the Issuer*" of the GEMTN Base Prospectus and the subsection headed "*Amendments to the section headed "Description of the Issuer" of the Base Prospectus at pages 84 to 117*" in the First GEMTN Supplement at pages 9 to 11 (each incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above) and subsection headed "Recent developments at the OTP Group" below.

*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.)

***Developments at the OTP Group in 2011 and 2012***

*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.

*EU capital exercise*

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).

*Corporate project financing credit facility programme*

In July 2012, the Guarantor announced a HUF 100 billion credit facility programme, the ‘OTP Europe Corporate Project Credit Programme’. Under this programme, the Guarantor offers project financing credit facilities (including financing for EU subsidised projects) to corporations (including small and medium-sized enterprises) with total facility amounts ranging from HUF 50 million to HUF 4 billion.

***Recent developments at the OTP Group***

*Recent rating developments*

On 15 February 2013, Moody's Investors Service Limited (**Moody's Ltd**) confirmed the long-term local and foreign currency deposit ratings of OTP Bank Russia (**OTP Russia**) at Ba2 with a negative outlook (which were previously placed on review for down grade on13 December 2012). OTP Russia’s short-term local and foreign currency deposit ratings of Not-prime and Bank Financial Strength Rating (**BFSR**) of D- (corresponding to a standalone credit assessment of ba3) with a stable outlook remained unchanged.

On 15 February 2013, Moody's Investors Service Cyprus Ltd (**Moody’s Cyprus**) downgraded the long-term and short-term local and foreign currency deposit ratings of the Guarantor’s Bulgarian subsidiary, DSK Bank PLC (**DSK**) to Ba1/NP from Baa3/Prime-3 with a negative outlook. DSK’s BFSR of D (corresponding to a standalone credit assessment of ba2) remained unchanged with a negative outlook.

On 14 February 2013, Moody's Italia S.r.l (**Moody's Italia**) confirmed the Guarantor’s (i) local-currency long-term deposit rating of Ba1, (ii) foreign-currency long-term deposit rating of Ba2, (iii) foreign-currency long-term senior unsecured debt rating of (P)Ba1 and downgraded the Guarantor’s (i) BFSR to D/ba2 from D+/ba1, (ii) foreign-currency long-term subordinated debt rating (Lower Tier 2) to Ba3 from Ba2 and (iii) foreign-currency long-term junior subordinated debt rating (Upper Tier 2) to B1 (hyb) from Ba3 (hyb). Moody’s Italia also confirmed the Issuer’s (i) local-currency long-term deposit rating of Ba1, (ii) foreign-currency long-term deposit rating of Ba2 and downgraded the Issuer’s BFSR to D/ba2 from D+/ba1. The outlook on all of these ratings is negative.

On 22 March 2013, Standard & Poor’s Credit Market Services Europe Limited (**S&P Europe**) affirmed the Guarantor’s and the Issuer’s long-term and short-term foreign-currency and local-currency counterparty credit ratings at 'BB/B', but changed the outlook on these ratings to negative from stable as a result of the change of the outlook on the long-term Hungarian sovereign rating on 21 March 2013.

The table below shows the most recent rating developments in respect of the Issuer, the Guarantor and certain other members of the OTP Group since the publication of the First GEMTN Supplement (incorporated by reference into this Base Prospectus in the manner set out in "*Documents incorporated by reference*" above).

| **OTP Bank** | **Rating** | | **Date** | **Movement** | **Outlook** |
|---|---|---|---|---|---|
| **Moody's** | Bank Financial Strength Rating | D | 14/02/2013 | Downgrade | Negative |
| | Long Term Foreign Currency Deposit | Ba2 | 14/02/2013 | Confirmed | Negative |
| | Long Term Local Currency Deposit | Ba1 | 14/02/2013 | Confirmed | Negative |
| | Senior Unsecured Foreign Currency Debt | Ba1 | 14/02/2013 | Confirmed | Negative |
| | Subordinated Foreign Currency Debt (LT2) | Ba3 | 14/02/2013 | Downgrade | Negative |
| | Subordinated Foreign Currency Debt (UT2) | B1(hyb) | 14/02/2013 | Downgrade | Negative |
| **Standard & Poor's** | Long Term Foreign Currency Counterparty Credit Rating (LT) | BB | 22/03/2013 | Affirmed | Negative |
| | Long Term Local Currency Counterparty Credit Rating | BB | 22/03/2013 | Affirmed | Negative |
| | Short Term Foreign Currency Counterparty Credit Rating (ST) | B | 22/03/2013 | Affirmed | Negative |
| | Short Term Local Currency Counterparty Credit Rating | B | 22/03/2013 | Affirmed | Negative |

| **Subsidiary** | **Moody's Rating** | | **Date** | **Movement** | **Outlook** |
|---|---|---|---|---|---|
| OTP Mortgage Bank | Bank Financial Strength Rating | D | 14/02/2013 | Downgrade | Negative |
| | Long Term Foreign Currency Deposit | Ba2 | 14/02/2013 | Confirmed | Negative |
| | Long Term HUF Deposit | Ba1 | 14/02/2013 | Confirmed | Negative |
| DSK Bank | Long Term Foreign Currency Deposit | Ba1 | 15/02/2013 | Downgrade | Negative |
| | Long Term Local Currency Deposit | Ba1 | 15/02/2013 | Downgrade | Negative |
| | Short Term Foreign Currency Deposit | NP | 15/02/2013 | Downgrade | Negative |
| | Short Term Local Currency Deposit | NP | 15/02/2013 | Downgrade | Negative |
| OJSC OTP Bank (Russia) | Long Term Foreign Currency Deposit | Ba2 | 15/02/2013 | Confirmed | Negative |
| | Long Term Local Currency Deposit | Ba2 | 15/02/2013 | Confirmed | Negative |
| | **Standard & Poor's Rating** | | **Date** | **Movement** | **Outlook** |
| OTP Mortgage Bank | Long Term Counterparty Credit Rating | BB | 22/03/2013 | Confirmed | Negative |
| | Short Term Counterparty Credit Rating | B | 22/03/2013 | Confirmed | Negative |

Each of S&P Europe, Moody's Ltd, Moody's Cyprus 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 Europe, Moody's Ltd, Moody's Cyprus 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.

*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 21 January 2013 in the amount of RSD 4,525,974,400 with an increase in its direct and indirect ownership interest from 94.8 per cent. to 96.79 per cent.

*Recent change in the Guarantor's management*

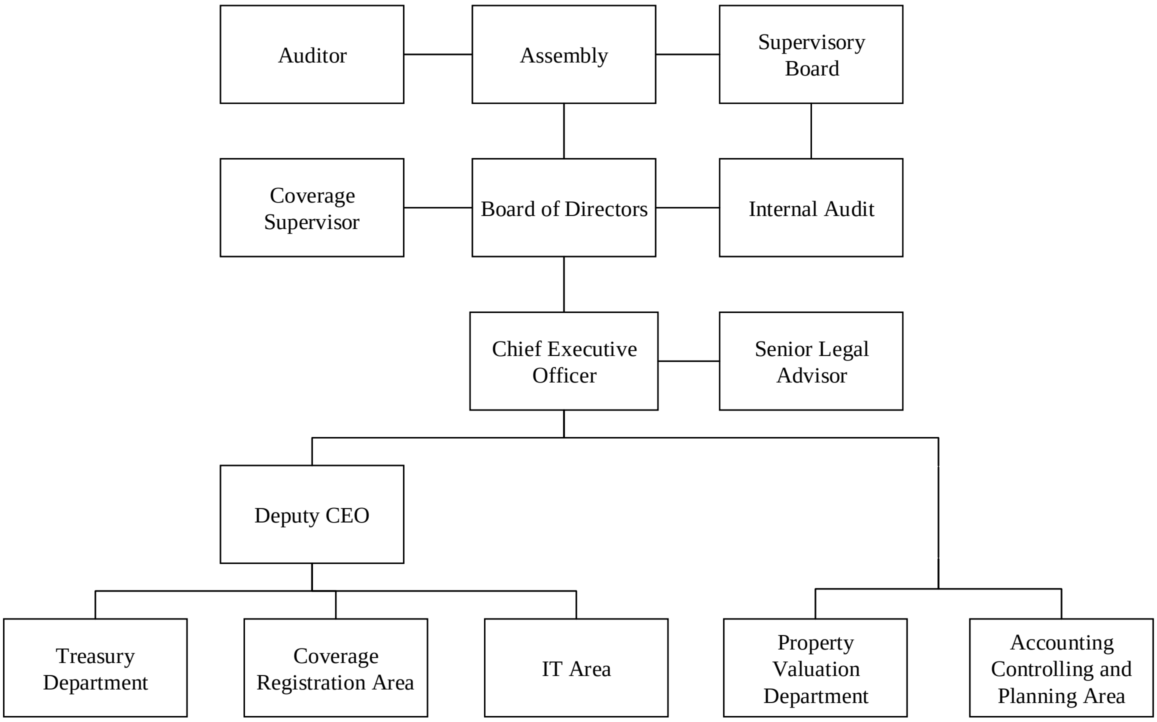
The 2013 Annual General Meeting of the Guarantor, held on 26 April 2013, appointed Dominique Uzelas new member to the Guarantor's Supervisory Board.

The business address of the new member of the Guarantor's Supervisory Board is OTP Bank Plc., Nádor utca 16., Budapest, H-1051, Hungary. There are no actual or potential conflicts of interest between the private interests or duties of the new member of the Guarantor's Supervisory Board of the Issuer and his duties to the Guarantor.

Refer also to the subsection entitled "*The OTP Group*" on pages 94 to 104 of the section entitled "*Description of the Issuer*" in the GEMTN Base Prospectus and the subsection headed "*Amendments to the section headed "Description of the Issuer" of the Base Prospectus at pages 84 to 117*" in the First GEMTN Supplement at pages 9 to 11, each incorporated by reference into this Base Prospectus in the manner as set out in "*Documents Incorporated by Reference*" above.

*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** (53), 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** (59), Member of the Board of Directors, appointed in 2002. He is also Deputy CEO and Head of the Retail Division at OTP Bank.

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

**Attila Kovács** (35), Member of the Board of Directors, appointed in 2013. He is also Head of the ALM Department at OTP Bank.

Address: 1051 Budapest, Nádor utca 21., Hungary, Tel.: +36 1 374 7227, Fax: +374 7220

**György Máriás** (49), 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

**Zoltán Roskó** (42) Member of the Board of Directors, appointed in 2012. He is also a Director of the Hungarian Football Association.

Address: 1112 Budapest, Kánai út 2/d., Hungary, Tel.: +36 1 577-9500, Fax: +36 1 577-9503

*Members of the Supervisory Board*

**Frigyes László Garai** (61), Member of the Supervisory Board, appointed in 2013. He is also Senior Manager of the Management and Information Department at OTP Bank.

Address: 1051 Budapest, Nádor utca 16., Hungary, Tel.: +36 1 473 5869, Fax: +36 1 473 5996

**Ibolya Dr. Rajmonné Veres** (39) 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 Selymesi** (63), Member of the Supervisory Board, appointed in 2001. She is also a Department Manager at the Retail Directorate at OTP Bank.

Address: 1131 Budapest, Babér u. 9, Hungary, Tel.: +36 1 298 3152, Fax:+36 1 298 3613

**Cecília Nádasné Gajzágó** (40), Member of the Supervisory Board, appointed in 2007. She is the Manager of the Product Development Department at OTP Bank.

Address: 1052 Budapest, Deák Ferenc utca 7-9., Hungary, Tel.: +36 1 486 6719, Fax: + 36 1 266 8356

***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 2010 and 31 December 2012.

(*Note: figures in the tables below have been subject to rounding adjustments. Data included in the tables below exclude loans with negative value*.)

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

| | **31 December 2010** | **31 December 2011** | **31 December 2012** |
|---|---|---|---|
| Number of contracts | 310,514 | 294,517 | 290,334 |
| Total outstanding amount | 1,561,544 | 1,533,442 | 1,301,055 |

The decline in the Issuer's loan portfolio by the end of 2012 (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 adopted in response to the recent global and European financial crises – 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 announced in late 2011 a new subsidised housing loan scheme (see "*Government subsidised loan scheme*" below). The OTP Group started offering its loan products under this scheme in August 2012.

Loans within the Issuer's loan portfolio are denominated in HUF, EUR, CHF and JPY. Between 1 July 2009 and 31 December 2012, 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 measures adopted in response to the recent global and European financial crises – Limitations in respect of foreign currency credits*" below), the ratio of foreign currency-denominated loans within the Issuer's loan portfolio decreased to approximately 46.5 by the end of 2012.

**Breakdown of the loan portfolio by currency as at 31 December 2012** *(HUF million)*

| | Outstanding amount | % |
|---|---|---|
| HUF | 696,403 | 53.52 |
| EUR | 31,700 | 2.44 |
| CHF | 463,654 | 35.64 |
| JPY | 109,298 | 8.40 |
| **Total** | **1,301,055** | **100.00** |

*Size of loans included in the Issuer's 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 4.5 million. The following table shows the breakdown of outstanding loans by size as at 31 December 2012:

**Breakdown of the loan portfolio by loan size as at 31 December 2012** *(HUF million)*

| **Size *(HUF)*** | **No. of loans** | **Outstanding amount** | **%** |
|---|---|---|---|
| up to 5 million | 197,361 | 453,743 | 34.87 |
| 5-10 million | 68,297 | 481,339 | 37.00 |
| 10-15 million | 17,660 | 211,527 | 16.26 |
| 15-20 million | 3,922 | 67,010 | 5.15 |
| over 20 million | 3,094 | 87,436 | 6.72 |
| **Total** | **290,334** | **1,301,055** | **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 14.25 years (weighted average). As at 31 December 2012, 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 2012** *(HUF million)*

| **Maturity** | **Outstanding amount** | **%** |
|---|---|---|
| less than 1 year | 3,677 | 0.28 |
| 1 – 5 years | 54,336 | 4.18 |
| 5 – 10 years | 212,219 | 16.31 |
| 10 – 15 years | 444,856 | 34.19 |
| 15 – 20 years | 378,761 | 29.11 |
| 20 – 25 years | 183,703 | 14.12 |
| Over 25 years | 23,503 | 1.81 |
| **Total** | **1,301,055** | **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 2012** *(HUF million)*

| | Outstanding amount | % |
|---|---|---|
| Purchase of new residential property | 110,774 | 8.51 |
| Purchase of existing (resale) residential property | 545,272 | 41.91 |
| Construction | 168,940 | 12.98 |
| Renovation, improvement | 100,930 | 7.76 |
| Home equity loans* | 364,653 | 28.03 |
| Other | 10,486 | 0.81 |
| **Total** | **1,301,055** | **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 2012:

**LTV ratio breakdown as at 31 December 2012** *(HUF million)*

| **LTV ratio** | **Total** | **%** |
|---|---|---|
| Under 30% | 165,880 | 12.75 |
| 30-40% | 143,910 | 11.06 |
| 40-50% | 173,791 | 13.36 |
| 50-60% | 148,574 | 11.42 |
| 60-70% | 130,690 | 10.04 |
| Over 70% | 538,210 | 41.37 |
| **Total** | **1,301,055** | **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 2011 and 31 December 2012:

**Asset Classification** (*HUF million*)

| | **31 December 2011** | | **31 December 2012** | |
|---|---|---|---|---|
| **Classification** | **Outstanding amount** | **%** | **Outstanding amount** | **%** |
| 0 days' delay in payment | 1,199,866 | 78.25 | 1,021,634 | 78.52 |
| Between 1-30 days' delay in payment | 204,511 | 13.33 | 137,816 | 10.59 |
| Standard | 1,404,377 | 91.58 | 1,159,450 | 89.12 |
| Watch | 129,065 | 8.42 | 141,605 | 10.88 |
| *within Watch: doubtful* | 72,102 | 4.70 | 89,442 | 6.87 |
| **Total** | **1,533,442** | **100.00** | **1,301,055** | **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 and 2,446 with a total outstanding amount of HUF 21,582 billion as at 31 December 2012, accounting for 2.37 per cent. and 1.52 per cent., respectively, 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 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 2012:

| **Series** | **Currency** | **Principal** | **Date of first settlement** | **Maturity date** | **Coupon (%)** |
|---|---|---|---|---|---|
| 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 | 292,100,104 | 17.09.2004 | 17.09.2014 | 8.69 |
| OJB2015/I | HUF | 3,242,900,000 | 10.06.2005 | 10.06.2015 | 7.70 |
| OJB2015/II | HUF | 110,000,000,000 | 17.05.2012 | 17.05.2015 | 9.00 |
| OJB2015/J | HUF | 204,754,112 | 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 | 227,271,546 | 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 | 250,000,000 | 10.08.2011 | 10.08.2014 | Floating |
| OMB2015/I | EUR | 510,000,000 | 06.09.2012 | 06.03.2015 | 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 may be 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 2012 with a total face value of HUF 1,086.3 billion consisted of (i) mortgage loans outstanding as at that time with an aggregate amount totalling HUF 1,109 billion and real estate coverage valued at HUF 2,873.1 billion, and (ii) government bonds with a HUF 41.8 billion total face value.

The following table shows the degree of collateralisation as at 31 December 2012:

**Mortgage bonds and coverage** *(HUF billion)*

| | 31 December 2010 | 31 December 2011 | 31 December 2012 |
|---|---|---|---|
| Face value of mortgage bonds | 1,293 | 1,142 | 1,086 |
| Total principal of coverage | 1,337 | 1,195 | 1,109 |
| Coverage ratio | 103.39% | 104.67% | 102.09 |

Coverage ratios have developed as follows:

**Security coverage of loans** *(HUF billion)*

| | 31 December 2010 | 31 December 2011 | 31 December 2012 |
|---|---|---|---|
| Loan principal outstanding | 1,561.5 | 1,533.4 | 1,301.3 |
| Real estate coverage | 3,036.8 | 2,985.2 | 2,873.1 |
| Total principal of coverage: | 1,337.2 | 1,195.1 | 1,109.1 |
| (a) Ordinary coverage | 1,335.4 | 1,193.4 | 1,067.2 |
| (b) Supplementary coverage | 1.8 | 1.8 | 41.77 |

*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 2012, which was significantly affected in late 2011 and early 2012 as a result of the FX Early Repayment Scheme through a decrease in volume and a change in composition. 22.7% of the eligible borrowers with qualifying mortgage loans included in the Issuer’s loan portfolio made early repayment of their mortgage loans under the FX Early Repayment Scheme, in an aggregate amount totalling HUF 209.2 billion. Such early repayments were effected primarily with respect to mortgage loans denominated in CHF, and, to a lesser extent, those denominated in EUR and JPY. As a result of early repayments under the FX Early Repayment Scheme, the ratio of foreign-currency denominated mortgage loans in the Issuer’s total loan portfolio decreased to approximately 46.5 per cent. as at 31 December 2012, from approximately 54.5 per cent. as at 31 December 2011, with an increase in the ratio of HUF-denominated loans in the total loan portfolio to almost 53.5 per cent. as at 31 December 2012, from approximately 45.4 per cent. as at 31 December 2011.

*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 and the beginning of 2012 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 early repayments under the FX Early Repayment Scheme whose settlement closed on 28 February 2012. 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 current main government subsidised loan scheme (the **Scheme**) is set out in order No 341/2011 (XII. 29.) of the government on housing interest subsidies (the **Subsidy Order**), which also consists of specific arrangements envisaged under a comprehensive mortgage relief programme announced by the Hungarian government in mid-2011 (see "*The Hungarian Banking System and Capital Market - Legislative measures adopted in response to the recent global and European crises - Mortgage relief programme*" below). The 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 Scheme.

In order for a credit institution (as defined in the 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 Scheme, it must conclude an agreement with the minister responsible for housing policy and the Hungarian State Treasury (the **Subsidy Settlement Arrangement**). Monies will be transferred by the Hungarian State Treasury on the basis of subsequent monthly settlement.

The 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 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 15 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 15 million;
- purchase of an existing (resale) residential property (whose purchase price does not exceed HUF 20 million and provided that the sale and purchase agreement is concluded after the 2012 Subsidy Order coming into force) (the **Resale Home Purchase Loan**) up to HUF 10 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 10 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 arrears 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: (i) the 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) the 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) the original creditor credit institution under the original underlying mortgage loan has consented to the sale and purchase transaction; (iv) the total purchase price is applied towards the repayment of the original underlying mortgage loan; and (v) the 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, subject to the sale of 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 arrears; (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 6 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**);
- 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: (i) the 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) the 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) the 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**); or

- repurchase of residential properties which have been previously purchased by a national asset management body (the **National Asset Manager**) under a mortgage buy-out programme operated with a view to supporting eligible distressed borrowers (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 – National Asset Manager*" below) up to HUF 6 million,

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

Interest rates for Subsidised Loans must be set in such a way that they are fixed over at least 1-year interest periods and do not exceed the reference yields on treasury bills or, as applicable, government bonds specified in the Subsidy Order increased by a maximum of 3-percentage-point margin.

Interest subsidies will be available for the first five years of the term of the Subsidised Loans and will range from 50 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). 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 Scheme will close on 31 December 2014 in the case of Ordinary Subsidised Loans and 31 December 2013 in respect of Mortgaged Property Purchase Loans, Home Downsizing Loans and Remortgaging Loans. Borrowers that are eligible for interest subsidies under the 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 the 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 Scheme, will be able to apply for such subsidies on one Subsidised Loan only. 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 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, 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 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 2012. The Issuer confirms that such data has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the National Bank of Hungary, the Hungarian Central Statistical Office and OTP Bank, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

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 slightly over 4.3 million with a ratio of 228 residents per 100 flats, which is close to the European average. As a result of the financial crisis, the number of residential building permits issued fell close to 6,000 in 2012, which is less than one third of the pre-crisis level. 10,560 new homes were constructed in 2012, which is the lowest number in the past decade. However, the slowdown was significantly slower in 2012 than in the previous years. 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.

The following tables show selected statistical information published by the Hungarian Central Statistics Office with respect to sales transactions and average prices in the Hungarian residential real estate market in 2011 and 2012.

| **Number of home sales** | | |
|---|---|---|
| | **2011** | **2012** |
| **Resale homes** | 83,900 | 71,200 |
| **New homes** | 3,900 | 2,200 |
| **Total** | 87,800 | 73,400 |

| **Annual change in housing prices in percentage (2010 = 100%)** | | |
|---|---|---|
| | **2011** | **2012** |
| **Resale homes** | 95.2 | 90.5 |
| **New homes** | 96.4 | 95.5 |

The total amount of outstanding mortgage loans provided by the Hungarian banking sector was HUF 5,580 billion as at the end of 2012, of which housing loans accounted for HUF 3,410 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 75.07 per cent. of the aggregate amount of mortgage bonds in circulation in the Hungarian market as at the end of 2012. [*]

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 84 to 111 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***

The data included in this section, "*Macroeconomic overview*", in relation to the economic performance of Hungary has been extracted from the publications of the National Bank of Hungary (the **NBH**), the Hungarian Central Statistical Office, and financial reports of OTP Bank published in the course of 2012. The Issuer confirms that such data has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the National Bank of Hungary, the Hungarian Central Statistical Office and OTP Bank, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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. Under certain economic circumstances, the volume and the profitability of mortgage lending may decrease and the default ratio of 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.)

| **Main macroeconomic indicators** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|
| Gross domestic product | 0.1% | 0.9% | -6.8% | 1.3% | 1.6% | -1.7% |
| Household consumption | -1.0% | -0.2% | -5.6% | -3.3% | 0.4% | -2.0% |
| Household consumption expenditure | 1.0% | -0.6% | -6.8% | -3.0% | 0.5% | -1.4% |
| Government consumption | -4.2% | -0.2% | 2.6% | 3.8% | -0.3% | 0.5% |
| Gross fixed capital formation | 3.8% | 2.9% | -11.1% | -9.5% | -3.6% | -3.8% |
| Export | 15.0% | 5.7% | -10.2% | 14.2% | 6.3% | 2.0% |
| Import | 12.8% | 5.5% | -14.8% | 12.7% | 5.0% | 0.1% |
| | | | | | | |
| Budget balance (GDP%, ESA 95) | -5.1% | -3.7% | -4.5% | -4.5% | 4.3% | -2.1% |
| Public debt (GDP %) | 67.0% | 73.0% | 79.8% | 81.8% | 81.4% | 79.2% |
| | | | | | | |
| CA balance (EUR bn)* | -7.1 | -7.7 | -0.2 | 1.1 | 0.8 | 1.6 |
| in % of GDP | -7.2% | -7.3% | -0.2% | 1.1% | 0.8% | 1.6% |
| | | | | | | |
| Gross nominal wages** | 7.2% | 6.9% | 0.5% | 1.3% | 3.0% | 5.5% |
| Real gross wages | -0.7% | 0.8% | -3.5% | -3.4% | -0.9% | -0.1% |
| Disposable income*** | 5.1% | 4.9% | 0.7% | 1.6% | 7.0% | 1.8% |
| Real disposable income | -2.7% | -1.1% | -3.3% | -3.1% | 3.0% | -3.7% |
| | | | | | | |
| Employment (y-o-y, %) | -0.1% | -1.2% | -2.5% | 0.0% | 0.8% | 1.7% |
| Unemployment rate (yearly avr) | 7.4% | 7.8% | 10.0% | 11.2% | 10.9% | 10.9% |
| | | | | | | |
| Inflation (yearly avr) | 8.0% | 6.1% | 4.2% | 4.9% | 4.0% | 5.7% |
| | | | | | | |
| Base rate (eop) | 7.50% | 10.00% | 6.25% | 5.75% | 7.00% | 5.75% |
| 12M T-Bill (avr) | 7.4% | 9.0% | 8.6% | 5.6% | 6.16% | 7.03% |
| Real interest rate (avr, ex post) | -0.5% | 2.8% | 4.2% | 0.7% | 2.1% | 1.3% |
| EUR/HUF (avg) | 251.3 | 251.5 | 280.6 | 275.3 | 279.3 | 290.9 |
| EUR/HUF (eop) | 253.4 | 264.8 | 270.8 | 278.8 | 311.1 | 291.3 |

Source: CSO, NBH, OTP Research

* Official deficit of current account balances for year 2010 (excluding errors and omissions)

** The following data was used in wage calculations, payroll adjusted for the 'whitening' of economy for the changed seasonality of bonuses (in the private sector) and accrual-based wage data (in the public sector)

*** Disposable income derived from Financial Accounts

In 2012, the Hungarian GDPdecreased by approximately 1.7 per cent. Under the expenditure approach, the total volume of net exports was the only item which counterbalanced the downturn to a certain extent. Domestic demand did not rebound as the income position of households deteriorated. Although the number of employed people grew by 1.3% in comparison with 2011, unemployment rate also rose by 0.5 per cent. to 11.2 per cent. (due to an increase in the overall number of the economically active population). The nominal disposable income of households increased by 1.8 per cent., however, as the rate of inflation was 5.7 per cent.(which, adjusted for inflation, translates into a 3.7 per cent. decrease in real terms). In 2013, net exports are expected to remain the main driver of the Hungarian economy.

Following a budgetary loosening in early 2011, which was supported by the takeover of private pension fund assets, the government announced numerous budgetary adjustments between spring 2011 and the end of 2012 (including, for example, a comprehensive structural reform programme, known as the 'Széll Kálmán Plan', tax increases in autumn 2011, convergence programmes for 2011 and 2012 under the EU Stability and Growth Pack), which together amounted to over 6 per cent. of GDP. The government deficit was 2.1 per cent. of GDP in 2012, which was below the government's target of 2.7 per cent. The absence of an upturn in general growth levels led to further adjustments in autumn 2012 with a view to keeping government deficit in 2013 below 3 per cent. of GDP, which is the annual government deficit ceiling set under the 'Maastricht criteria' for EU member states (including Hungary). However, there remain significant uncertainties whether this target will be achieved even if these adjustments are fully implemented.

Despite persistently weak domestic demand, the rate of inflation was 5.7 per cent in 2012, which remained above the NBH's stated target of 3 per cent.

The NBH commenced a rate cut cycle in August 2012 and has gradually decreased the base rate from 7.00 per cent. to 5.00 per cent. (up to the date of this Base Prospectus).

# 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-hitelintézetről 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: (i) the 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 (i) the 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. The requirements are 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 the 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 securities 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 section 6(3) of Act CXX of 2001 on capital markets *(*the **Capital Markets Act**), which provides that publicly issued securities must be in a dematerialised and registered form, will not be applicable. Further, such mortgage bonds do not need to specify the name of the owner thereof, and will qualify as a registered security provided that the name of the owner of the account in which it is registered can be clearly identified. Finally, 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 jelzálog-hitelintézetről 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 which have the principal and interest payment 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.

Hungary is not currently a member of the Economic and Monetary Union (**EMU**) and the official date for Hungary's joining the EMU has yet to be indicated by the Hungarian government. 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 discretion to set its own monetary policy. Nevertheless, pursuant to the Treaty of Maastricht, it is bound to follow a strategy of convergence.

### Financial supervision

The banking industry in the EU is subject to supervision at both EU level and at a national level.

#### *The European System of Financial Supervisors*

The European financial supervisory architecture (the **European System of Financial Supervisors**) consists of the European Banking Authority (the **EBA**), the European Insurance and Occupational Pensions Authority (the **EIOPA**), the European Securities and Markets Authority (**ESMA**) (together, the **ESAs**), the European Systemic Risk Board (the **ESRB**), the national supervisory authorities of EU member states (**NSAs**) and the Joint Committee of the ESAs.

#### *Proposed changes to the EU financial supervisory landscape*

On 12 September 2012, the European Commission published a legislative proposal package for a single supervisory mechanism (the **SSM**) for credit institutions based in full member states of the EMU that form the Eurozone. Non-Eurozone EU member states may opt into the SSM on a voluntary basis. The European Council approved an amended version of this proposal on 16 April 2013.

Under the proposed SSM, ultimate responsibility for specific supervisory tasks relating to the financial stability of all credit institutions in the Eurozone will lie with the European Central Bank (the **ECB**).

The European Commission has also proposed that the EBA develop a 'Single Supervisory Handbook' for banking supervision in all EU member states (including non-Eurozone countries). Responsibilities that will be conferred on the ECB include, *inter alia*:

- authorisation of credit institutions and withdrawal of their authorisation with the participation of NSAs in assessing compliance with conditions set out in national laws;
- assessment of acquisition and disposal of holdings in credit institutions;
- ensuring compliance with prudential requirements laid down in EU banking laws;
- supervision on a consolidated basis with the participation of NSAs in stress testing and assessing the stability of individual group members;
- supplementary supervision over credit institutions in a financial conglomerate;
- imposition of requirements for credit institutions to have in place robust governance arrangements, processes and mechanisms and effective internal capital adequacy assessment processes; and
- supervisory tasks, in coordination with the relevant resolution authorities, in relation to early intervention when risks to the viability of a credit institution exist.

It is proposed that the NSAs of participating member states will assist the ECB and continue to carry out ongoing day-to-day supervision, day-to-day verifications and play a role in preparing and implementing ECB decisions. All supervisory powers and tasks that will not be conferred on the ECB under the SSM will also remain the competence of NSAs, including, for example, powers to supervise credit institutions from third countries establishing a branch or providing cross-border services in the EU or to supervise payments services. Sanctioning powers will be shared between the ECB and the NSAs.

NSAs of non-participating EU member states will retain all their existing powers and competences.

It is envisaged that the SSM be phased in from 1 July 2013 with full implementation to be completed by 1 January 2014 when the SSM covers all credit institutions in participating EU member states.

***Supervision and regulation of the banking system at the national level***

Oversight of the Hungarian banking system is exercised by both the Hungarian Financial Supervisory Authority (the **HFSA**) and, primarily in relation to systemic risk and systematically important financial institutions, countercyclical capital buffers, certain payment services and payment systems, the National Bank of Hungary (the **NBH**).

***National Bank of Hungary***

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. 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.

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**).

***Hungarian Financial Supervisory Authority***

The current regulation of the status, powers and organisation of the HFSA is set out in Act CLVIII of 2010 on the Hungarian Financial Supervisory Authority.

The HFSA 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 HFSA is entitled to carry out on-site audits, to take action with a view to 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, authorisation by the HFSA of certain financial services requires a preliminary opinion from, or approval by, the NBH.

The HFSA can impose a variety of measures to eliminate deficiencies and irregularities detected at financial institutions (including credit institutions) and/or on account of a contravention to applicable laws and regulations, HFSA decisions or internal rules and regulations. These include, *inter alia*, disciplinary measures, the imposition of restrictions or bans on certain functions, financial penalties and fines (subject to a maximum limit which is the higher of either HUF 2 billion, or 200 per cent. of the annual supervision fee payable by the relevant financial institution), early intervention and exceptional powers (including the appointment of a supervisory officer (as described below)) and, as an ultimate measure, withdrawal of authorisation for operation.

In addition, the HFSA is empowered to impose by legislative order a ban or restriction on, or conditions for, the provision of financial services or the execution of such transactions by credit institutions for a maximum 90-day period, where significant risks arise that the continued performance of the foregoing would endanger the stability of the financial system, and where such concerns may not be eliminated through other measures.

*Early intervention and exceptional powers*

The Credit Institutions Act confers several early intervention and exceptional powers on the HFSA.

These powers are triggered, *inter alia*, if:

- the solvency capital (own funds) (*szavatolótőke*) of a credit institution falls below 60 per cent. of the statutory minimum requirements or, as the case may be, a higher level imposed by the HFSA;
- a credit institution pays, or attempts to pay, dividends to its shareholders in circumstances where its solvency capital falls below 50 per cent. of the statutory minimum requirements or, as the case may be, the higher level imposed by the HFSA;
- a credit institution is in breach of provisioning requirements and impairment standards which results in its capital adequacy ratio falling below 4 per cent.;
- a credit institution is in breach of short-term liquidity requirements and/or maturity matching requirements for assets and liabilities, which materially endangers its liquidity; or
- a credit institution is in repeated and/or material breach of exposure limits and restrictions, which endangers materially its liquidity, solvency or profitability.

The HFSA's early intervention and exceptional powers include, *inter alia*:

- requiring the sale of assets other than those which serve banking operations;
- requiring the relevant credit institution to restructure the composition of its capital in the manner and within the deadline set by the HFSA;
- obliging credit institutions to hold solvency capital in excess of the minimum requirements;
- imposing a restriction on repayment of deposits or other repayable funds for a maximum of 90 days, on exposure taking or on certain transactions;
- requiring the board of directors of the relevant credit institution to convene shareholders' meetings and determining the agenda for those meetings; and
- appointing a supervisory officer (*felügyeleti biztos*) to the relevant credit institution who takes over the powers and responsibilities of the board of directors at the relevant credit institution for a certain period.

*Supervisory officer*

The HFSA must appoint a supervisory officer if:

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) it receives notification from the supervisor of the parent company of the relevant credit institution 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: (i) the relevant credit institution is in a situation where there is a danger that it may be unable to satisfy its obligations; (ii) the board of directors at the relevant credit institution is unable to perform its duties and this endangers the interests of depositors; and (iii) the defficiencies revealed in the accounting and internal audit systems of the relevant credit institution are so extensive that assessment of its real financial position has become impossible.

### *Liquidation*

Creditors' right to petition for the liquidation (*felszámolás*) of a credit institution is debarred by statute. It is only the HFSA that can initiate the liquidation of a credit institution upon the withdrawal of its authorisation for operation on account of the relevant credit institution failing to satisfy its undisputed or due and payable debts and if its assets does not cover known creditor claims.

Liquidation proceedings are, unless the Credit Institutions Act otherwise provides, governed by Act XLIX of 1991 on bankruptcy and liquidation proceedings. Depositor claims are preferred in priority in comparison with general unsecured claims. Client moneys and client assets held in custody are not available for creditors in the liquidation of a credit institution.

### Proposed EU-wide framework for bank resolution

On 6 June 2012, the European Commission published a legislative proposal for a directive (commonly referred to as the 'Crisis Management Directive', the **CMD**) providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **CMD Framework**). It is proposed that certain provisions of the CMD Framework will also apply to certain financial institutions and their holding companies and EEA branches of non-EEA banks. On 14 February 2013, the European Council approved an amended version of the European Commission's proposal.

Under the proposed CMD Framework, NSAs and resolution authorities in the EU will have powers to deal with and stabilise credit institutions and investment firms (each, an **Institution**) that are failing, or likely to fail. The CMD Framework is divided into four elements: (i) preparatory and preventive measures (including, *inter alia*, the drawing up of recovery plans by Institutions and resolution plans by authorities, a power to remove barriers to resolution (e.g. requiring an Institution to change its legal or operational structures to ensure that it can be resolved with the available tools) or to enter into intra-group financial support arrangements in the case of banking groups); (ii) early intervention powers, which are triggered when an Institution does not meet, or is likely to be in breach of, regulatory capital or liquidity requirements enabling authorities to impose certain requirements (such as drawing up a debt restructuring plan) or to take certain actions (such as appointing a special manager who either takes over the management of the Institution or works with the management of that Institution with powers as specified by the relevant NSA) for a limited period; (iii) write down of capital instruments (including Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments) at the point of non-viability; and (iv) resolution tools, which may come into operation if the early intervention measures fail to prevent the situation from deteriorating such a the point where the relevant Institution is failing or likely to fail. Resolution is triggered if the relevant authority determines that: (i) an Institution is failing or likely to fail; (ii) no alternative action would help prevent the failure of that Institution; and (iii) public interests (e.g. access to critical banking functions, financial stability, integrity of public finances, etc.) are at stake.

Under the proposed CMD Framework, an Institution is deemed to be failing or likely to fail if: (i) it is in breach, or there are objective elements to support a determination that it will be in breach in the near future, of the requirements for continuing authorisation for operation in a way that would justify the withdrawal of its authorisation for operation by the relevant NSA because it has incurred or is likely to incur losses that will deplete all or substantially all of its own funds; (ii) its assets are, or there are objective elements to support a determination that its assets will be, in the near future, less than its liabilities; (iii) it is, or there are objective elements to support a determination that it will be, in the near future, unable to pay its obligations as they fall due; or (iv) extraordinary public financial support is required, except for certain state guarantees provided with a view to facilitating access to liquidity facilities provided by central banks (including emergency liquidity facilities) or in relation to certain debt instruments, subject to further conditions. These conditions include, *inter alia*, clearance under EU state aid control rules and the requirement that the relevant Institution be solvent at the time of provision.

Each EU member state will be required to designate at least one resolution authority, which may, at their option, be a separate authority or supervisory authority or central bank, subject to ring-fencing resolution functions from the supervisory and/or central bank functions of the designated authority.

It is envisaged that EU member states need to implement the CMD Framework by 31 December 2014, except that the bail-in tool is to be transposed into national laws by 1 January 2018.

### *Resolution tools*

The proposed resolution tools include: (i) a sale of business tool (sale of the institution under resolution or its business (in whole or in part) under substantially commercial terms); (ii) a bridge institution tool (transfer of all or part of the business of an institution to a 'bridge bank' which is a publicly controlled entity); (iii) an asset separation tool (transfer of bad assets to a publicly-controlled asset management vehicle for eventual sale or orderly wind-down, which may be applied only in conjunction with another tool); and (iv) a bail-in tool (write-down, or conversion into Common Equity Tier 1 instruments, of eligible unsecured debt of the institution under resolution in order for it to regain viability).

***Bail-in tool***

It is envisaged that the bail-in tool, which comprises a more general power for resolution authorities to write down the claims of unsecured creditors of a failing Institution and to convert unsecured debt claims into equity, would provide authorities with broad powers. These powers also include the power to cancel an Institution's existing shares or severely dilute existing shareholdings through setting such rate for the conversion of unsecured debt into equity that ensures such result. The power in relation to shareholders also covers any shares issued or conferred upon conversion of capital instruments into Common Equity Tier 1 instruments through the exercise of the power to write down capital instruments or their conversion into common equity pursuant to their terms and conditions which satisfy the requirements applicable under the CMD Framework to contractual conversion.

It is proposed that the bail-in tool should, subject to certain criteria, could potentially cover any liabilities of an Institution (commonly referred to as 'bail-inable liabilities') that have a remaining maturity of at least one year and are not (i) secured claims (backed by asset or collateral including, at the option of EU member states, claims under covered bonds and hedging transactions included in the cover pool of those covered bonds); (ii) covered by a deposit guarantee scheme; (iii) client assets; and (iv) certain other exempted liabilities (such as salaries, taxes, commercial and trade creditor claims from supplies). It is proposed that liabilities from derivatives be also excluded. Deposits and secured claims will be exempted only up to the coverage available under the deposit guarantee scheme, or, as the case may be, up to the value of collateral and/or the underlying asset.

If the bail-in tool is applied, bail-inable liabilities would be written down, or, as the case may be, converted into equity in a pre-defined order in terms of seniority of claims and, substantially, following the ordinary allocation of losses and ranking in insolvency. It is proposed that equity should absorb losses in full before any debt claim is subject to write-down through the write-down of Common Equity Tier 1 instruments in proportion to losses and up to their loss absorbing capacity together, where applicable, with the cancellation of the relevant shares. If such write-down of Common Equity Tier 1 instruments is not sufficient, the principal amount of Additional Tier 1 instruments that are liabilities and Tier 2 instruments will be reduced or converted into Common Equity Tier 1 instruments in accordance with the ordinary ranking and hierarchy of creditors to the extent required. If the foregoing is still not sufficient to restore the viability of the Institution under resolution, the principal amount of the Institution's bail-inable subordinated debt (other than Additional Tier 1 or Tier 2 instruments) will be written-down evenly (equally between liabilities of the same rank *pro rata* to their value), or converted into Common Equity Tier 1 instruments to the extent required. If and to the extent that the aggregate amount of the write down of capital instruments and subordinated debt falls below the necessary amount of bail-in as determined by the relevant resolution authority, the Institution's bail-inable senior debt will be written down or converted into equity evenly to the extent required and in accordance with the hierarchy of claims in normal insolvency proceedings. If the Institution under resolution has issued subordinated debt instruments other than Additional Tier 1 or Tier 2 instruments (whose terms and conditions provide for the write-down of their principal amount or their conversion into shares upon any event that relates to the issuer's financial situation, solvency, or levels of its own funds), such write-down or conversion will, to the extent effected, count towards the aggregate amount of bail-in for the purposes of assessing whether to bail-in the bail-inable senior debt of the Institution under resolution.

***Minimum level of bail-inable liabilities***

It is proposed that Institutions will be required to maintain a sufficient level of bail-inable liabilities (as measured against their total risk weighted assets) in addition to its own funds (subject to on-going verification by supervisors), depending on a number of factors, such as, *inter alia*, their risk profile, complexity, size, and the extent to which the failure of the relevant Institution would have an adverse effect on financial stability (including interconnectedness), etc.

**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 and Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions. 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 and liquidity requirements***

*EU legislation*

The current EU framework for regulatory capital is primarily set out in the Capital Requirement Directive (the **CRD**), comprising of 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.

Legislative packages that amended substantially the CRD include Directive 2009/111/EC and Commission Directive 2009/83/EC were adopted in 2009, known as the 'CRD II' package (the **CRD II**) and Directive 2010/76/EU known as the 'CRD III' package (the **CRD III**).

Amongst other things, CRD II introduced more stringent requirements to improve:

(i) the 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) the 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) the supervision of cross-border banking groups.

The modifications set out in CRD III, 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.

*Implementation of the relevant EU legislation by Hungary*

The capital adequacy requirements set out in the CRD, as amended by CRD II and CRD III, 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 6.74 million). The minimum registered capital requirement amounts to at least HUF 3 billion (approximately EUR 10.11 million) for mortgage credit institutions as a type of specialist credit institutions. The amount of a credit institution's equity may not be less than the statutory minimum amount of its registered capital. In the event of the amount of a credit institution's equity falling below the registered capital, the HFSA may afford the credit institution a maximum 18-month deadline to bring its equity back to the required level.

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

The solvency capital must consist of Tier 1 capital (*alapvető tőke)* (which may comprise Core Tier 1 capital and, up to a maximum of 50 per cent. of the Tier 1 capital, Tier 1 subordinated debt and hybrid instruments) and Tier 2 Supplementary Capital (*járulékos tőke*) up to 100 per cent. of the Tier 1 capital and it may, for trading book exposures and foreign exchange and commodity risk, include Tier 3 capital (*kiegészítő tőke*).

A credit institution's solvency capital must be at all times at least 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.

Banks' risk-weighted exposure is calculated under the Standardised Approach or, subject to approval by the HFSA, the Internal Ratings Based Approach (the **IRB Approach**) that allows banks to use their internal rating systems.

*Trading Book*

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

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

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

*General Reserves*

A credit institution must create general reserves against the possibility of losses not yet identified by setting aside 10 per cent. of its profit after tax prior to paying dividends or shares. The funds so set aside may be used by credit institutions only to offset the losses incurred from their business activities (upon request, a credit institution may be exempted by the HFSA from the obligation to create general reserves provided that the amount of the relevant 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*

Credit institutions are required to match the maturity structure of their assets and liabilities with a view to continuously maintaining their short-term liquidity. They 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.

Further, credit institutions are 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 is 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).

*Other requirements*

Credit institutions are also subject to various other requirements, including reporting obligations, liquidity requirements, limitations on large exposures and exposures related to the acquisition of ownership interest in companies and real estate and other forms of investment restrictions, as well as requirements as to the fitness, probity and competence of their personnel. 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.

**Proposed changes to the capital adequacy framework at the global and EU levels**

***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**) on the new global regulatory standards on bank capital adequacy and liquidity. 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 BCBS published a revised version of Basel III in June 2011.

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.

On 13 January 2011, the BCBS issued further capital eligibility requirements in its press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" which are set out in the Annex thereto entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" (the **Basel III Non-Viability Requirements**). These envisage that the terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event (as defined in the Basel III Non-Viability Requirements) unless, *inter alia*, the jurisdiction of the relevant bank has in place laws that: (i) require such Tier 1 and Tier 2 instruments to be written off upon such event; or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss. The trigger event foreseen by the Basel III Non-Viability Requirements is the earlier of: (i) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would have become non-viable, in each case as determined by the relevant authority.

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 with a minimum requirement set at 60 per cent., which will be gradually increased to reach 100 per cent. on 1 January 2019. The NSFR, including any revisions, will move to a minimum standard by 1 January 2018.

***CRD IV***

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 **CRD IV**), 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 (including Hungary), and set out a single set of prudential requirements for credit institutions and investment firms with uniform application throughout the EU. CRD IV 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.

CRD IV, whilst also taking into account European banking specificities, strives to closely align with, and to build on, Basel III. The possible changes foreseen by CRD IV aim 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 cyclicality 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.

The CRR envisages banks' regulatory capital (own funds) consisting of Tier 1 and Tier 2 capital with the phasing out of Tier 3 capital. The Tier 1 capital will need to comprise of Common Equity Tier 1 (primarily common shares, retained earnings and reserves, subject to adjustments and deductions (such as certain deferred tax assets)) and Additional Tier 1 Capital (substantially, deeply subordinated perpetual debt and hybrid instruments with fully discretionary, non-cumulative dividends or coupons, which have no incentive to redeem and meet various requirements).

The ratios for minimum own funds requirements are the:

- Common Equity Tier 1 capital ratio of 4.5 %;
- Tier 1 capital ratio of 6 %; and
- total capital ratio of 8 %,

(each as measured against the amount of credit institutions' total risk exposure amount).

The European Council has recently adopted compromise proposals on CRD IV and the Committee on Economic and Monetary Affairs of the European Parliament has also proposed a number of amendments to the European Commission's proposal. The envisaged changes include, *inter alia*:

- an option for EU member states to introduce systemic risk buffers for the banking sector or any subsets of that sector that would enable NSAs to require credit institutions to maintain, in addition to minimum own funds, a systemic risk buffer of Common Equity Tier 1 capital of up to 3 per cent. for all exposures and up to 5 per cent. for domestic and third country exposures or, subject to authorisation by the European Commission, at higher levels;
- specific liquidity requirements that may be imposed by NSAs on particular credit institutions in the light of their business model, internal arrangements and processes; and
- a power for NSAs to impose stricter prudential requirements at the national level where macro-prudential risks are identified as posing a threat to financial stability at national level.

It is expected that the new capital adequacy regime will be phased in during the course of 2014, with full implementation by 1 January 2019.

**Selected consumer protection legislation in the financial sector**

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**), which transposed Directive 2008/48/EC (the **Consumer Credit Directive**) into Hungarian law, confer several rights on consumer (retail) borrowers and imposes restrictions on credit institutions in relation to retail loans and credit agreements.

Consumer borrowers are, *inter alia*, allowed to withdraw from their credit agreements without reason within a period of 14 days after the conclusion of the relevant agreement. Additionally, consumer borrowers are entitled to prepayments or early repayment at any time, with limitations on creditors' rights to compensation for the losses incurred because of such prepayments. These limitations also cover mortgage loans that are granted to consumers.

In the event of prepayments on consumer mortgage loans, credit institutions may claim compensation for the costs deriving from prepayments. 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 mortgage loans financed 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. Such compensation may not be claimed: (a) in the event that the prepayment has been made under an insurance policy or life assurance policy taken out to secure repayments on the relevant mortgage loan; or (b) where the consumer borrower repays early in full his/her mortgage loan, if the outstanding amount so repaid does not exceed HUF 1 million and no prepayment was made within the preceding 12 months.

In the case of housing mortgage loans (as defined in the Consumer Credit Act), which are granted to consumers, the compensation in (i) and (ii) above is capped at 1 per cent. and 1.5 per cent., respectively, 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.

These requirements impose caps on the exposure which can be assumed by creditors (as measured at the time when they approve the application for the relevant credit) in respect of mortgage loans or financial lease agreements, with the maximum amount depending on the currency in which the loan and/or the financial lease is denominated. These caps are calculated on the basis of the market value of the property subject to the mortgage interest that is taken by creditors or, as the case may be, the acquisition of which is financed under financial leases (as established at the time of the approval of the loan application or, as the case may be, application for financing under a financial lease or on completion in respect of properties under construction) and range between 80 per cent. and 45 per cent. depending on the currency in which the relevant loan or, as the case may be, financing is denominated.

The Consumer Credit Order sets out tightened requirements on the internal credit rating procedures of creditors. Its provisions, *inter alia*, prevent creditors from providing any credit to private individual borrowers solely on the basis of the collateral, offered as security for the loan, without the assessment of such borrowers' creditworthiness.Creditors are also required under the Consumer Credit Order to have in place internal policies on credit ratings, in particular in relation to determining procedures and methods for the establishment of credit limits for private individual borrowers, representing the maximum amount (calculated in HUF) of the repayment obligations that they are expected to be able to fulfil on a monthly basis in the light of their credit rating. Monthly repayments must be scheduled in such a manner that they do not exceed a certain proportion of the established credit limit (which varies by the currency in which the relevant credit and the relevant borrower's regular income are denominated).

***Restrictions on amendments to existing retail loans by credit institutions without the consent of borrowers***

The scope for financial institutions (including credit institutions) to modify the terms (including standard terms) of existing retail loan agreements and retail financial lease agreements entered into between credit institutions and retail (consumer) customers without the consent of borrowers to their detriment is subject to various restrictions. It is limited to interest rates, costs or fees and is also subject to further conditions on the part of the relevant credit institution.

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.

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

Retail credits and mortgage loans are subject to caps as to the annual percentage rates of charge (the **APR**) on such credits and loans.

Financial institutions (including credit institutions) are prohibited 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.

A cap, which corresponds to the base rate (published by the NBH and prevailing on the day immediately preceding the relevant half calendar year) plus 39 percentage points, is also imposed 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, further restrictions are imposed 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, consumer (retail) borrowers with such mortgage loans (except for mortgage loans financed by the issuance of mortgage bonds) have the right of termination and early repayment (exercisable within 90 days prior to the commencement of the next interest period) free of charge.

***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.

**Mandatory deposit guarantee scheme**

Hungarian credit institutions must join the National Deposit Insurance Fund of Hungary (*Országos Betétbiztosítási Alap*) (the **Fund**). Hungarian branches of credit institutions incorporated in another member state of the EU are required to join the Fund only if they are not covered by a deposit guarantee scheme that satisfies the requirements set out in Directive 94/19/EC. Members of the Fund are required to pay a one-off joining fee and annual membership fees.

The aggregate amount of the coverage available under the guarantee provided by the Fund is 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.

**Specific levies on the financial sector**

*Special "bank tax"*

Recent legislative measures, aimed at enhancing financial stability, impose a special transitional extra tax levied on certain financial institutions, including credit institutions(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 0.53 per cent. tax rate applies to that part of the Tax Basis which exceeds HUF 50 billion.

In addition, a special bank tax is also imposed on credit institutions (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 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.

These transitional taxes were first introduced for the 2010 tax year and have been extended with certain amendments to also cover the 2011, 2012 and 2013 tax years.

Certain tax reliefs were available to financial institutions with respect to the Extra Tax payable by them in the 2011 and 2012 tax years on account of losses incurred by them from early repayments under the FX Early Repayment Scheme (as described in "*Early repayment scheme*" below) and losses from the redenomination of certain foreign currency denominated mortgage loans into HUF under a redenomination scheme (as described in "*Redenomination of certain overdue foreign currency mortgage loans*" below), and in each case subject to certain conditions.

Further tax reliefs are granted to credit institutions from the Extra Tax payable by them in the 2012 tax year with a view to encouraging certain types of lending by them in 2012. Credit institutions are allowed to, subject to certain conditions, deduct from the Tax Base the increase in their certain loan portfolios to the extent that provides a tax relief from, and up to 30 per cent. of, the Extra Tax payable by them in the 2012 tax year. Such deductibles include the increase in the total book value (converted into HUF in the case of foreign currency denominated lending at the exchange rate prevailing on 31 December 2011 for the relevant currency) of the increase in their portfolios of: (i) loans to SMEs as at 30 September 2012 (increased by credit impairments, if any, and as measured against the 95 per cent. of the aggregate value of such portfolios as at 30 September 2011); (ii) loans which finance own-funds or, as the case may be, pre-finance EU grants under EU subsidised projects as at 31 December 2012 (increased by credit impairments, if any, and as measured against the aggregate value of such portfolios as at 31 December 2011); (iii) mortgage loans which are granted to consumers and secured by residential real estate located in Hungary as at 28 February 2013 (as measured against the aggregate value of such portfolios as at 28 February 2012); and (iv) housing financial leases concluded with consumers which finance the acquisition of residential real estate located in Hungary as at 28 February 2013 (as measured against the aggregate value of such portfolios as at 28 February 2012). Such tax reliefs are available from 1 March 2013 to credit institutions in the form of a tax refund on the Extra Tax payable by them in the 2012 tax year. The Redenomination Relief may be claimed by the relevant financial institutions on the amount of Extra Tax payable by them in 2012 that remains after the deduction of these reliefs.

*Contribution on certain reimbursements in relation to the Fixed Rate Scheme*

In the 2012 and 2013 tax years, a special contribution obligation (the **Fixed Rate Scheme Contribution**) is also imposed on financial institutions (including credit institutions), which is payable (on a quarterly basis) on a certain part of the reimbursement the relevant financial institutions receive from the Hungarian State in that tax year on account of losses incurred by them in relation to a fixed exchange rate scheme for regular repayments on covered foreign currency mortgage loans (as described in "*Fixed exchange rates for regular repayments on covered foreign currency mortgage loans*" below). The Fixed Rate Scheme Contribution will be levied at 50 per cent. of the reimbursement paid by the Hungarian State for the losses the relevant financial institution incurs from that part of the Waived Interest Shortfall which results from the difference between the Fixed Rate and, up to the Cap Rate, the Actual Rate for the relevant currency (each as defined in "*Fixed exchange rates for regular repayments on covered foreign currency mortgage loans*" below).

*Transaction duty on the payment and investment services sector*

Parliament has recently approved a transaction duty (the **Payment Transaction Duty**), which is imposed from 1 January 2013 on most payment transactions (e.g. transfers, direct debits, most card payments, money remittances, cash withdrawals from payment account, letters of credit, cheque remittances, etc.) with certain exceptions, such as transfers between the payment accounts of an account holder managed by the same payment service provider (including credit institutions), interbank payments (payments through a payment service provider from a payment account held by another payment service provider, financial institution, investment firm, investment fund or investment fund manager), etc.

The Payment Transaction Duty will, in most cases, be payable by the payor’s relevant payment service provider. In the case of letters of credit, the Payment Transaction Duty is imposed on the issuing bank, in the case of money remittances, it is payable by the payment service provider used and, in the case of cheque remittances, by the issuer’s relevant payment service provider.

In addition, the Payment Transaction Duty will be levied from the calendar year following the adoption of an EU Council Directive on a common system of financial transaction tax (as currently proposed by the European Commission) also on transfers between the securities accounts of the parties to a securities trade (including derivative transactions in respect of securities) and transfers between cash accounts in relation to such trades. The Payment Transaction Duty will be payable in relation to such trades by the relevant securities account provider and, as the case may be, the relevant cash account provider.

**Legislative measures adopted in response to the recent global and European financial crises**

***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**), which introduced certain stabilisation measures which could be applied to credit institutions that have their registered seat in Hungary.

The main measures under the Financial Stabilisation Act (as amended) are a recapitalisation scheme and transitional public control over a credit institution which is subject to stabilisation.

The Hungarian State was empowered to adopt any of the measures under the Financial Stabilisation Act until 31 December 2012. These measures have been elongated several times since the adoption of the Financial Stabilisation Act. A further prolongation is subject to approval by Parliament and clearance by the European Commission under EU state aid control rules. On 1 March 2013, the European Commission approved the prolongation of the schemes set out in the Financial Stabilisation Act until 30 June 2013 under EU state aid rules. Nevertheless, such prolongation has yet to be approved also by Parliament.

*Recapitalisation scheme*

Measures under the recapitalisation scheme could be employed on the joint recommendation of the president of the HFSA and the governor of the NBH to inject new capital into a credit institution: (i) upon the request or with the consent of that credit institution; or (ii) *ex officio*, without the consent of that credit institution. If the recapitalisation is carried out at the request or with the consent of the relevant 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 members to the board of the issuing credit institution, limitations on the remuneration of senior officers until the ownership interest of the Hungarian State ceased and detailed rules on exercising put and call options attached to the dividend preference share(s) (as indicated below). Upon issuance and for a period of five years from the issue date, 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 shareholders' meetings with respect to resolutions: (i) on the payment of dividends; (ii) which are subject to approval by the majority of the 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.

*Transitional public control*

In the event that a credit institution failed to meet certain financial requirements specified by the Financial Stabilisation Act, it could be placed under public control for a transitional period. In such case the government could declare by legislative order that the relevant credit institution met one or more of the criteria for the application of this special measure with an obligation on the part of the government to repeal such order in the event that the triggering circumstances no longer subsist. The credit institution concerned had the right to challenge such order, if issued, before the Metropolitan High Court) (*Fővárosi Ítélőtábla*). Such a government order, whilst in effect, would have given the Hungarian State the exclusive power to pass resolutions on matters normally falling into the competence of shareholders. The issue of such government order would have triggered a statutory put option against the Hungarian State, exercisable by the shareholders of the relevant credit institution with respect to their shares for a period of 120 days from the effective date of that government order.

***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, further limitations are imposed 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. Costs (including interest-like costs) that may be charged in the relevant foreign currency to consumer borrowers are limited to those 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, Parliament approved in late 2011, *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.

***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 HUF-20-million threshold is lifted in the case of Eligible Borrowers with at least at a three-child household. The Scheme is available to Eligible Borrowers for a period of 60 months, subject to an ultimate deadline expiring on the maturity date of the relevant Covered Mortgage Loan (the **Fixed Rate Period**). Eligible Borrowers are entitled to opt for the application of the Scheme under each of their Covered Mortgage Loans, in respect of which the eligibility criteria for participation are met, at any time during the remaing term of the relevant Covered Mortgage Loan. The application of the Scheme is mandatory for the financial institution creditor 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 commenced on 1 June 2012 with the third round having opened 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 are 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 are, under a statutory waiver, discharged from the obligation to repay those amounts accumulated in the Accumulated Accounts which have resulted from: (i) the 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) the 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 are entitled to claim reimbursement from the Hungarian State for the Waived Interest Shortfall and the Waived Principal

Shortfall (see also "*Specific levies on the financial sector – Contribution on certain reimbursements in relation to the Fixed Rate Scheme*" above). Such reimbursement will be paid to the Relevant Creditor on the basis of subsequent quarterly settlement. Relevant Creditors are not 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 kezesség*) (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, 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 were increased to 3 per cent. in 2012 and 4 per cent. in 2013 and will be increased to 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 also 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 operates 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 non-performing housing mortgages who face eviction and have at least one child in their household.

Subject to certain conditions, the National Asset Manager will purchase mortgaged residential properties 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 real estate coverage for the underlying mortgage loan(s). Purchases by the National Asset Manager are subject to monthly and annual caps and allocation rules specified in a legislative order of the government and may be made only if there is a cooperation agreement in effect between the National Asset Manager and the financial institution Relevant Mortgagee Creditor in relation to such purchases.

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 (as 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) or, if not established at origination, as provided in the relevant deed of mortgage) 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 apportioned according to the ranking of such mortgages and up to a percentage of their claims as notified to the National Asset Manager. 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.

Parliament has recently approved a number of modifications to the Buy-out Programme with effect from 17 May 2013.

Such modifications include, *inter alia*, the:

- extension of the Buy-out Programme to also cover eligible 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 2013; and
- increase of the value thresholds with respect to the mortgaged properties underlying qualifying mortgage loans to HUF 20 million in the case of mortgaged properties situated in the capital and towns with county status and HUF 15 million in the case of mortgaged properties located elsewhere in Hungary.

*Redenomination of certain overdue foreign currency mortgage loans*

On the basis of an accord of 15 December 2011 between the government and the Hungarian Banking Association, Parliament 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) were in arrears for over 90 days in the covered period 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 67,424) 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, were 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 delivered 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 were prohibited from charging any fee or cost to borrowers with Overdue FX Mortgage Loans in relation to such redenomination and waiver.

The provisions on this redenomination scheme applied *mutatis mutandis* 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 per cent. Mortgage Securities listed on a regulated market of an EEA member state are considered publicly offered and traded Mortgage Securities.

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EEA member state is considered as other income (**Other Income**) which is taxable as part of the individual's aggregated income (the tax payable is 16%). 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 per cent.

Foreign resident individual Holders are subject to tax in Hungary if they realise Interest Income from Hungarian sources or income that is otherwise taxable in Hungary if the international treaty or reciprocity so requires. Interest Income should be treated as having a Hungarian source where:

(a) the Issuer is resident in Hungary for tax purposes;

(b) the Issuer has a permanent establishment in Hungary and Interest Income realised on the basis of the Mortgage Securities is paid by the Hungarian permanent establishment of the Issuer;

(c) the foreign resident individual Holder has a permanent establishment in Hungary to which the Interest Income is attributable.

The tax on payments of the Interest Income is to be withheld by the "Payor" (*kifizető*) (as defined below).

Pursuant to Act XCII of 2003 on the Rules of Taxation (**ART**) a "Payor" means a Hungarian resident legal person, organization, or private entrepreneur who provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, "Payor" shall mean the borrower of a loan or, the issuer of a note, including, the investment service provider or credit institution providing the interest instead of it. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, "Payor" shall mean such stockbroker. The Hungarian permanent establishment of a foreign resident entity is also considered as a "Payor".

Interest, as defined by Schedule 7 of the ART (which implements the provisions of the Savings Directive), realised on the Mortgage Securities by citizens of any other Member State of the European Union is not subject to Hungarian tax where a paying agent based in Hungary is obliged to provide data to the Hungarian state tax authority on the basis of Schedule 7 of the ART.

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

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EEA member state is considered as Other Income which is taxable as part of the individual's aggregated income (the tax payable is 16 per cent.). 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 per cent. Pursuant to Act LXVI of 1998 on Healthcare Contributions (the **Healthcare Contributions Act**), Capital Gains Income realised by Hungarian resident individuals – subject to further conditions – is generally subject to 14 per cent. healthcare contributions.

The rules of the Personal Income Tax Act may in certain circumstances impose a requirement upon the "Payor" (*kifizető*) (as defined below) to withhold tax on the interest payments to individual Holders.

Pursuant to the ART the definition of a "Payor" covers a Hungarian resident legal person, other organisation, or private entrepreneur that (who) provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, Payor shall mean the borrower of a loan or the issuer of a note including, the investment service provider or credit institution providing the interest instead of it. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, Payor shall mean such stockbroker. In respect of income that is earned in a foreign country and taxable in Hungary, Payor shall mean the "paying agent" (*megbízott*) (legal person, organisation, or private entrepreneur) having tax residency in Hungary, except in cases where the role of a financial institution is limited to performing the bank transfer or payment.

**Taxation of Hungarian resident corporate Holders**

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the **Corporation Tax Act**), Hungarian resident taxpayers have a full, all-inclusive tax liability. In general, resident entities are those established under the laws of Hungary (i.e. having a Hungarian registered seat). Foreign persons having their place of management in Hungary are also considered as Hungarian resident taxpayers.

In general, interest and capital gains realised by Hungarian resident corporate Holders on the Mortgage Securities will be taxable in the same way as the regular income of the Holders. The corporation tax rate in Hungary is 10% up to the first HUF 500 million of the taxpayer's annual before tax income and 19 per cent. for the part exceeding the HUF 500 million threshold.

***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. 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 35 per cent.

*(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 per cent.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, 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.

**The proposed financial transactions tax**

In September 2011, the EU Commission attempted to introduce an EU-wide financial transactions tax. However not all the Member States were in favour of such a tax and so the tax could not be implemented in all Member States. Subsequently, 11 Member States of the EU requested that the Commission develop a proposal for the introduction of a common financial transactions tax (**FTT**) for each of those Member States. The Commission developed such a proposal under the EU's enhanced cooperation procedure which allows 9 or more Member States to implement common legislation. In January 2013, the EU Council of Ministers authorised the Commission to proceed with enhanced cooperation for a common FTT and the Commission has now published a draft Directive containing proposals for the FTT. This FTT is intended to be introduced only in the 11 participating Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia).

The proposed FTT imposes a charge on financial transactions including purchases and sales of financial instruments; this charge will be levied at not less than 0.1% of the sale price.

A charge to FTT will arise if at least one party to a financial transaction is established in a participating Member State and a financial institution established in (or is treated as established in) a participating Member State is a party to the transaction, for its own account, for the account of another person, or if the financial institution is acting in the name of a party to the transaction.

It is important to be aware that a financial institution will be treated as established in a participating Member State if its seat is there, it is authorised there (as regards authorised transactions) or it is acting via a branch in that Member State (as regards branch transactions), or for a particular transaction, merely because it is entering into the financial transaction with another person who is established in that Member State.

Furthermore, a financial institution will be treated as established in a participating Member State in respect of a financial transaction if it is a party (for its own account or for the account of another person) or is acting in the name of a party, to a financial transaction in respect of a financial instrument issued within that Member State. The other party to such a transaction will also be treated as established in that Member State.

There are limited exemptions to the proposed FTT; one important exemption is the "primary market transactions" exemption which should cover the issuing, allotting, underwriting or subscribing for shares, bonds and securitised debt, but not derivative contracts (on which this charge will be levied at not less than 0.01% of the nominal amount of the derivative contract).

Even though the FTT is to be introduced only in the participating Member States, it can be seen from what is said above that it could impact financial institutions operating inside and outside the 11 participating Member States, and the FTT could be payable in relation to the Mortgage Securities issued under this Base Prospectus if the FTT is introduced and the conditions for a charge to arise are satisfied.

The proposed FTT is still under review and it may therefore change before it is implemented. In particular, in April 2013, the UK Government announced that it is to challenge the legality of the way in which the proposed FTT will apply to financial institutions located in non-participating Member States. This challenge may lead to changes in the scope of the FTT.

It is currently proposed that the FTT should be introduced in the participating Member States on 1 January 2014. Prospective holders of the Mortgage Securities are strongly advised to seek their own professional advice in relation to the FTT.

**Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution**",** or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer (a "**Recalcitrant Holder**"). The Issuer will be classified as an FFI.

The new withholding regime will be phased in beginning 1 January 2014 for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Mortgage Securities characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "**grandfathering date**", which is the later of (a) 1 January 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Mortgage Securities characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Mortgage Securities are issued before the grandfathering date, and additional Mortgage Securities of the same series are issued on or after that date, the additional Mortgage Securities may not be treated as grandfathered, which may have negative consequences for the existing Mortgage Securities, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Mortgage Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Mortgage Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Mortgage Securities, neither the Issuer 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. As a result, investors may receive less interest or principal than expected.

Whilst the Mortgage Securities are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Mortgage Securities by the Issuer, any paying agent and the common depositary or common safekeeper, as the case may be, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Mortgage Securities. The documentation expressly contemplates the possibility that the Mortgage Securities may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Mortgage Securities will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Mortgage Securities.**

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreemet (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 4 June 2013, 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 applicable Final Terms will identify whether Regulation S Compliance Category 1, 2 or 3 is applicable.

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 U.S. Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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.

***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.

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 16/2013 of the Board of Directors of the Issuer dated 27 March 2013. 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 2011 and 31 December 2012 (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 2011 and 31 December 2012 (with an English translation thereof), together with the independent auditors' report prepared in connection therewith;

(h) the unaudited interim management report – first three months 2013 results of the Guarantor dated 14 May 2013;

(i) the unaudited unconsolidated condensed financial statements of the Guarantor for the three-month period ended 31 March 2013;

(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.

### 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 2012 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2012.

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 2013 and there has been no material adverse change in the financial position or prospects of the Guarantor since 31 December 2012.

**Litigation**

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 2011 and 31 December 2012. 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 2011 and 31 December 2012, 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 2011 and 31 December 2012, 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 Müködö Részvénytársaság*)**
Nádor u. 21.
1051 Budapest
Hungary

**REGISTERED OFFICE OF THE GUARANTOR**

**OTP Bank Plc.**
Nádor u. 16.
H-1051 Budapest
Hungary

**LEGAL ADVISERS**

To the Issuer as to Hungarian law
**Martonyi Law firm in association with Bolton May Ltd.**
Október 6.u. 4. 1/1
1051 Budapest
Hungary

*To the Dealers as to English law*

**Allen & Overy LLP**
One Bishops Square
London E1 6AD
United Kingdom

*To the Dealers as to Hungarian law*

**Morley Allen & Overy Iroda**
Madách Trade Center
Madách Imre utca 13-14.
1075 Budapest
Hungary

**AUDITORS**

**Deloitte Auditing and Consulting Ltd.**
Dózsa György út 84/c
1068 Budapest
Hungary

## DEALERS

**BNP PARIBAS**
10 Harewood Avenue
London NW1 6AA
United Kingdom

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

**Crédit Agricole Corporate and Investment Bank**
9, Quai du Président Paul Doumer
92920 Paris La Défense Cedex
France

**Deutsche Bank Aktiengesellschaft**
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany

**DZ BANK AG**
**Deutsche Zentral-Genossenschaftsbank**
**Frankfurt am Main**
Platz der Republik
60265 Frankfurt am Main
Germany

**HSBC Bank plc**
8 Canada Square
London E14 5HQ
United Kingdom

**The Royal Bank of Scotland plc**
135 Bishopsgate
London EC2M 3UR
United Kingdom

**UBS Limited**
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

## PRINCIPAL PAYING AGENT

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

## OTHER PAYING AGENT

**Deutsche Bank Luxembourg S.A.**
2 boulevard Konrad Adenauer
1115 Luxembourg
Luxembourg

## LISTING AGENT

**Deutsche Bank Luxembourg S.A.**
2 boulevard Konrad Adenauer
1115 Luxembourg
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