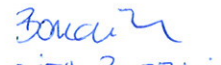

GYULA KÖBLI
CEO


RITA BOZZAI
DIRECTOR

BASE PROSPECTUS



FHB MORTGAGE BANK CO. PLC.
(FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG)
(incorporated with limited liability in Hungary)

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

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

The maximum aggregate nominal amount of all Instruments from time to time outstanding under the Programme will not exceed EUR 3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein. An investment in Instruments involves certain risks. For discussion of these risks, see "*Risk Factors*" beginning on page 8 of this Base Prospectus.

The Instruments may be issued on a continuing basis to one or more of the Dealers specified under "*General Description*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Instruments being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Instruments. Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) (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 Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. References in this Base Prospectus to Instruments being **listed** (and all related references) shall mean that such Instruments have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to 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).

The requirement to publish a prospectus under the Prospectus Directive only applies to Instruments which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Base Prospectus to **Exempt Instruments** are to Instruments for which no prospectus is required to be published under the Prospectus Directive. The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Instruments.

Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Mortgage Bonds*" and "*Terms and Conditions of the Notes*") of Instruments will (other than in the case of Exempt Instruments, as defined above) be set out in a final terms document (the "*Final Terms*") which will be filed with the CSSF. Copies of Final Terms in relation to Instruments to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>). In the case of Exempt Instruments, notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**).

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

The Issuer's long term debt and short term debt have been rated B2 and NP, respectively, by Moody's Italia S.r.l (**Moody's Italia**). The Issuer's Bank Financial Strength Rating assigned by Moody's Italia is E+. The Programme is not rated, but Mortgage bonds (including the Mortgage Securities issued under the Programme) issued by the Issuer have been rated generally Ba3 by Moody's Deutschland GmbH (**Moody's Deutschland**). Each of Moody's Italia and Moody's Deutschland is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's Deutschland is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Instruments issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Instruments is rated, such rating will be disclosed in the Final Terms (or Pricing Supplement, in the case of Exempt Instruments) and will not necessarily be the same as the rating assigned generally to the Mortgage Securities issued under the Programme by the relevant rating agency. 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.

ARRANGER

CITIGROUP

DEALERS

BNP PARIBAS

CITIGROUP

CRÉDIT AGRICOLE CIB

CREDIT SUISSE

DEUTSCHE BANK

DZ BANK AG

**RAIFFEISEN BANK
INTERNATIONAL AG**

The date of this Base Prospectus is 15 May 2013.

This Base Prospectus comprises a base prospectus in respect of all Instruments other than Exempt Instruments issued under the Programme 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 Member State of the European Economic Area) (the *Prospectus Directive*).

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Instruments issued under the Programme. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Instruments and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

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

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

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

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms or, in the case of Exempt Instruments, the applicable Pricing Supplement may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Instruments is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Instruments and 60 days after the date of the allotment of the relevant Tranche of Mortgage Bonds. Any stabilisation action or overallotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

This Base Prospectus has been prepared on a basis that would permit an offer of Instruments with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer of Instruments in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a base prospectus for such offer.

The Instruments may not be a suitable investment for all investors. Each potential investor in the Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including Instruments with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Instruments and is familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate 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) Instruments are legal investments for it, (2) Instruments can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

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

PRESENTATION OF INFORMATION

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

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

As at 13 May 2013, the euro/HUF fixing rate published by the European Central Bank was euro 1.00 = HUF 293.33.

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.

TABLE OF CONTENTS

	Page
Risk Factors.....	8
General Description.....	44
Documents Incorporated by Reference.....	52
Form of the Mortgage Bonds.....	54
Settlement Procedures for the Mortgage Bonds.....	56
Form of the Mortgage Notes.....	59
Form of the Notes.....	62
Applicable Final Terms of the Mortgage Bonds/Mortgage Notes.....	65
Applicable Pricing Supplement.....	77
Terms and Conditions of the Mortgage Bonds.....	88
Terms and Conditions of the Mortgage Notes.....	114
Applicable Final Terms of the Notes.....	139
Applicable Pricing Supplement.....	149
Terms and Conditions of the Notes.....	159
Use of Proceeds.....	185
Description of the Issuer.....	186
Financial Information.....	197
Business Overview.....	204
Certain Information relating to the Mortgage Securities.....	217
Hungarian Housing and Mortgage Market.....	223
The Hungarian Banking System and Capital Market.....	228
Taxation.....	252
Subscription and Sale.....	256
General Information.....	260

RISK FACTORS

In purchasing Instruments, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Instruments. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Instruments. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer 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 control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Instruments.

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

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

General

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

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

Risks relating to the global financial crisis

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 international wholesale markets to which the Issuer and the FHB 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 and the FHB Group operate. Demand for housing loans and for residential and commercial real estate properties has also fallen considerably.

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

The Issuer's and the FHB Group's 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 and 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 the Chinese economic growth in mid-2011. High public budget deficits and vulnerable economies necessitated rescue packages for Greece, Ireland, Portugal and Cyprus. Despite such assistance packages and the creation of a 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 led to a number of EU countries adopting measures to reduce public debt and fiscal deficits to more sustainable levels, which might, in turn, lead to a further slowdown of, or negative, economic growth. Austerity measures in certain Eurozone countries (such as Greece) have also caused increased political instability and social unrest. If the Eurozone sovereign crisis persists or worsens, it could impede the effective implementation of stability measures and may give rise to concerns that sovereigns might become unable to obtain refinancing or new funding and may default on their existing debt. 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 the foregoing 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 Croatia), 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 FHB Group operates and, eventually, the ratings of the Issuer as the parent bank of the FHB Group (see also "*Rating risk*" below). If the sovereign debt rating of the countries where the FHB 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 and the FHB 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 and the other bank member of the FHB 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 Croatia) where the FHB 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 FHB Group's ability to access funding and liquidity on commercially acceptable financial terms or at all.

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 FHB Group's control. If any such events were to occur, they would likely also adversely affect existing contractual relationships and the fulfilment of obligations by the FHB Group or its customers and counterparties and risk management and asset liability management at the FHB Group due, in part, to redenomination of the relevant financial assets and liabilities. Any of the foregoing might have an adverse effect on the FHB Group's businesses, financial condition and results of operations.

The precise nature of all the risks and uncertainties the Issuer and the FHB Group face as a result of the above events cannot be predicted and are outside the Issuer's and the FHB 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 Instruments. 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, 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 and Capital Market – 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 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. 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.

In addition, any financial assistance provided by EU member states (including Hungary) to financial institutions with a view to promoting the stability of the financial system is also subject to investigation under EU state aid rules and, if found incompatible, an order by the European Commission for the recovery of such assistance by the relevant EU member state from the financial institution to which it has been granted. This, in turn, exposes any financial institution, to which such assistance has been granted by EU governments, also to EU state aid control measures or to an obligation to subsequently pay additional consideration for such assistance to comply with EU state aid rules.

No assurance can be given that the Hungarian government will not, again, 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 Issuer as the parent bank of the FHB Group (as happened in the past) or, if it does so, it will not interfere with the business and operations of the FHB Group. There is no guarantee either that, to the extent the Issuer receives future financial assistance from the Hungarian government, the Issuer will not become subject of measures under EU state aid rules.

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

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

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

The Issuer is the parent bank of the FHB Group

Although the Issuer is a mortgage credit institution and, as such, subject to statutory restrictions on the business activities it may engage in (see "*Description of the Issuer – The Issuer's business*" below), the Issuer is also the parent bank of the FHB Banking Group (as described in "*Description of the Issuer –*

The FHB Group" below, the **FHB Group**) which undertakes increasingly significant commercial banking (such as deposit taking) and investment banking activities. As the Issuer is required to report the income and losses of the FHB Group, and the FHB Group is subject to financial supervision, on a consolidated basis, the Issuer is, indirectly, also subject to all risks to which the FHB Group (as a whole) is exposed, the materialisation of which might, therefore, adversely affect the Issuer's ability to service payment obligations under the Instruments issued under the Programme.

The banking industry, the markets for financial services and, therefore, the earnings and businesses of the FHB 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 FHB Group's own risk management procedures and exposures are constantly measured and supervised.

General economic and business conditions

The profitability of the FHB Group'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 FHB Group.

As such, the prospects of the FHB Group 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 FHB Group's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the FHB Group'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 FHB Group 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, machinery). Furthermore, lower demand for, and origination of, new loans, as a result of such more stringent lending requirements may expose the FHB 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 FHB 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 or the FHB Group and demand for the loan products of the FHB 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 FHB Group's assets. The deteriorating credit quality of the FHB Group'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 and the FHB Group, declining mortgage asset values and flat or decreasing loan portfolio levels, which could adversely affect the Issuer's ability to service its payment obligations under the Instruments.

In addition, steep or protracted declines in the capital markets may have an adverse effect on the FHB Group's ability to raise the funds it needs or the investment banking, securities trading, brokerage activities and private banking operations of the FHB 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 FHB Group's activities, include the following:

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

Structural and funding risks

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

Structural and funding liquidity risk

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

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

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

The FHB Group is also exposed to significant funding liquidity risk as a substantial part of the liquidity and funding requirements of the FHB Group is met through reliance on ongoing access to wholesale lending markets and, increasingly, 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 FHB 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 its control. The volume of these funding sources, in particular long-term funding, may be constrained during periods of liquidity stress. Turbulence in the global or European financial markets and economy may adversely affect the willingness of certain counterparties to do business with the FHB Group.

As the funding strategy of the FHB Group increasingly relies on deposits, there is also the risk that term deposits placed with the commercial bank member of the FHB Group, FHB Commercial Bank Ltd (**FHB Bank**) may be withdrawn prematurely or that lending or other contingent commitments undertaken by the FHB 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 FHB Group.

Difficulties in refinancing may also cause the FHB 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 FHB Group's interest income and could adversely affect its businesses, financial position and results of operations.

Structural liquidity risks with respect to 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 structural liquidity risks (besides structural interest rate risks). Furthermore, as the activities of a mortgage credit institution, such as the Issuer, are strictly limited by statute, the Issuer itself may not take deposits and, therefore, its refinancing possibilities heavily depend on its ability to issue bonds and mortgage bonds and access wholesale lending markets on adequate economic terms.

In an effort to *inter alia* reduce the impacts that may arise from structural liquidity risk on its ability to service its payment obligations under the Mortgage Bonds issued under the Programme, the Issuer has undertaken pursuant to a Notice to holders of the Mortgage Bonds, amongst other things, to ensure that sufficient liquid assets are continuously available to cover liquidity liabilities that may arise in relation to the Mortgage Bonds over any twelve-month term following each calculation day. (For more information, see "*Description of the Issuer – Rating Developments – Over-collateralisation commitment of the Issuer*" below.)

Structural interest rate risk

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

As with all other banks, the Issuer and FHB Bank earn interest from loans and other assets, and pay interest to their creditors. Interest rates are highly sensitive to many factors beyond the FHB Group's 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 and FHB Bank 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 FHB Group's net interest income.

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 FHB Group.

Interest rate risk attached to the Issuer's asset-liability structure

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

The Issuer faces significant structural interest rate risk, as mortgage loans provided to borrowers typically have a six-month, one-year or five-year interest bracket with a price adjustment clause, whilst funds financing them are largely fixed rate interest bearing liabilities raised in the capital markets.

Structural foreign exchange rate risk

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

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

Refinancing risk

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

As a result of the global financial crisis, the FHB Group may encounter difficulties in obtaining refinancing or may only be able to obtain refinancing at elevated costs. The inability of the FHB 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 Instruments 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 FHB Group's profitability and access to refinancing.

Prepayment risk

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

The FHB Group faces increased prepayment risk in relation to retail mortgage loans that are granted to consumers (which form one of the FHB Group's main loan products) and are subject to several restrictions and limitations under consumer protection legislation (see "*The Hungarian Banking System and Capital Market – Selected consumer protection legislation in the financial sector*" below). Such provisions entitle consumer borrowers to discharge at any time, in whole or in part, their obligations under their credit agreements, including mortgage loans. Furthermore, limitations are also imposed on the right of credit institutions to recover their losses and costs incurred as a consequence of a prepayment by consumer (retail) borrowers. This in turn requires more stringent asset-liability management, further increasing the cost of funding for the FHB Group.

Any legislative measure that may facilitate prepayments and/or early repayments by borrowers or impose further restrictions on the Issuer's and the FHB 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 stemming from the Hungarian market and regulatory environment – Early repayment scheme for certain foreign currency denominated loans*" below), may have an adverse effect on the financial condition and results of operations of the FHB Group.

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

Credit risk

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

The FHB Group is exposed to a variety of counterparty and credit risks. Third parties that owe the FHB 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 FHB Group operates.

Specific credit risks from the Issuer's mortgage lending business

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

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

The Issuer's and the FHB Group's current credit approval and monitoring procedures (see "*Risk Management – Management of credit risk*" 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 FHB 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 FHB Group for credit assessment purposes being inadequate and might have a negative impact on the FHB 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 FHB 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 Hungary (which is the FHB Group's principal market) has increased significantly in recent periods and moderate increases may still be expected in the retail segments.

No assurance can be given that the provisions made by the FHB 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 the FHB Group

A substantial proportion of the loans originated by the FHB Group is 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 FHB 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 FHB Group operates, an economic downturn in any industries in which borrowers of the FHB Group operate, or in markets where the real estate collateral is located, or a deterioration of the financial standing of the FHB 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 FHB Group or the inability of the FHB Group to obtain additional collateral may require the FHB Group (both at the level of the FHB 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 FHB 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 FHB 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 FHB 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 stemming from the Hungarian market and regulatory environment – 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 the Hungarian government will not introduce further restrictions in relation to foreclosure proceedings against mortgaged properties or adopt other measures adversely affecting the ability of the FHB Group to enforce any security interest it has taken over real estate property.

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

Risks from the FHB Group's foreign currency denominated lending and mortgage loans originated in non-HUF currencies

The share of mortgage loans originated by the FHB Group in non-HUF currencies (primarily in CHF and, to a lesser extent, EUR) represents a significant proportion of the FHB Group's mortgage loan portfolio. Borrowers (whether individuals or corporations) under such loans at the same time typically receive their main income in HUF, which leaves them exposed to foreign exchange rate risk as there is no obligation on the part of borrowers to hedge against fluctuations in exchange rates. Movements in foreign exchange rates and a significant devaluation of HUF as against the currencies in which such loans are denominated may result in 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 FHB Group is, 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 FHB Group. The credit risk associated with the FHB Group's foreign currency-based loans is also increased by the fact that the typical currency of income from customers may be different from the currency of proceeds from collateral sales. Moreover, recent restrictions introduced in Hungary on the conversion rates that may be applied by financial institutions in relation to foreign-currency-denominated housing loans granted to consumers, with repayments denominated, and to be fulfilled, in HUF (see "*The Hungarian Banking System and Capital Market – 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 FHB Group's ability to recoup its cost of funding such loans. In addition, foreign-currency denominated mortgage loans included in the FHB Group's loan book are also subject to various restrictive measures adopted in Hungary in response to the global financial crisis in recent periods (see "*Risk factors stemming from the Hungarian market and regulatory environment – Mortgage Relief Programme*" below).

Market risks

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 and liquidity risks (e.g. the possibility of obtaining needed funding or selling assets) may affect the market value and liquidity of the FHB Group's assets. Changes in interest rate levels, foreign exchange rates, yield curves and spreads may affect the FHB Group's net interest margin. Changes in currency exchange rates affect the value of assets and liabilities denominated in foreign currencies and the value of the FHB Group's assets in foreign currencies.

Furthermore, the value of the real estate investments of the FHB 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 FHB 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 FHB Group executes for its customers and, therefore, a decrease in the revenues from commissions and spreads earned from such trades.

In addition, the fair value of financial instruments held by the FHB Group are also subject to the volatility of, and correlations between, market prices and trading parameters. The financial results of the FHB 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 FHB Group's portfolios of financial instruments, as well as other classes, could fall more than estimated, and therefore cause the FHB Group to record write-downs. Future valuations of the assets for which the FHB 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, judgments and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Any of these factors could require the FHB Group to recognise further write-downs or realise impairment charges, which may have a material adverse effect on the FHB Group's businesses, financial condition and results of operations. In addition, as a part of the FHB Group's positions are taken in currencies other than HUF (which is the functional currency of the FHB Group for financial reporting purposes), changes in the exchange rates of the relevant foreign currencies against the HUF might have an adverse effect on the FHB Group's accounts (as measured in HUF) even if profits are realised on such positions (as measured in the relevant foreign currency).

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

Counterparty credit risk

The FHB Group routinely executes transactions (including, without limitation, securities, futures, currency trades, securities lending, repos, swaps, derivative contracts) with counterparties in the financial services industry, including commercial banks, investment banks, funds, 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 – The Issuer's business*" 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 FHB Group to the risk of the relevant counterparty defaulting on its obligations prior to maturity when the FHB Group has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the FHB

Group cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. 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 counterparties may impair the efficacy of the FHB Group's hedging and other risk management strategies.

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

Settlement risk

Settlement risk means the possibility that the FHB Group has 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.

Systemic risk

The FHB 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 and Spain as reflected in the quoted prices of bonds and credit default swaps for these borrowers.

Capital risk

The FHB Group bears capital risks when it has 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 authorisation for operation of the Issuer and FHB Bank is dependent upon, *inter alia*, the maintenance of adequate capital resources;
- (ii) improve the Issuer's credit rating. In addition to capital resources, the Issuer's rating is supported by a diverse portfolio of activities pursued by the FHB Group, prudent risk management and focus on value creation. A weaker credit rating would increase the Issuer's and the FHB Group's cost of funding; or
- (iii) support its 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 FHB 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 – 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. 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. Although the Issuer (as the parent bank of the FHB Group) was not included by the EBA in this capital exercise, there is no assurance that the EBA will not carry out similar stress tests in the future with the inclusion of the Issuer (as happened in the past). Any similar measure, to which the Issuer becomes subject, may result in additional or more stringent capital requirements or, as the case may be, the need for additional capital injections into the Issuer or other members of the FHB Group that could constrain the FHB 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 FHB Group's risk-weighted assets, which may, in turn, potentially reduce the FHB Group's capital adequacy ratios. If the FHB 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*" below) and the proposed EU bank resolution regime (see "*Proposed EU-wide framework for bank resolution*" below) envisage significantly more stringent requirements as to the terms and conditions of bank's capital instruments.

For example, Basel III and CRD IV (each as defined below) 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 FHB Group operates, this might adversely affect the FHB Group's ability to raise capital through the issuance of subordinated debt or increase the cost of such capital raising and thereby the FHB Group's cost of funding.

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

Operational risk

The business operations of the FHB Group are dependent on its ability to process a large number of complex transactions in different 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 competition regulations, conduct of business rules, equipment failures, failure to protect the assets of the FHB 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 FHB 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 FHB Group and cannot be eliminated. In particular, as with all other credit institutions, the Issuer's, FHB Bank's and the FHB 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. The FHB Group cannot provide assurances that such failures or interruptions will not occur or, if they do occur, they will be adequately addressed. The occurrence of any failures or interruptions could result in a loss of customer data and an inability to service the FHB Group's customers, which could have a material adverse effect on the FHB Group's reputation, financial condition and results of operations.

In addition, the FHB Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although the FHB Group takes protective measures and endeavours to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorised access and other events that could have a security impact. Given the high volume of transactions of the FHB 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 FHB Group's, its clients', counterparties' or third parties' confidential and other information processed and stored in, and transmitted through, the FHB Group's computer systems and networks, or otherwise cause interruptions or malfunctions in the FHB Group's, its clients', counterparties' or third parties' operations, which could result in significant losses or reputational damage.

Legal risks relate to, *inter alia*, the validity and effectiveness of transactions entered into by the FHB Group and the collateral created in respect of them.

The FHB Group is also exposed to personnel risks, in particular qualification, fluctuation, availability and motivation risks. The FHB Group's current senior management team includes a number of executives who the FHB Group believes contribute significant experience and expertise to its management in the banking sectors in which the FHB Group operates. The continued success of the FHB Group's businesses and the FHB Group's ability to execute its business strategy will depend, in large part, on the efforts of its 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 and FHB Bank) 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 FHB Group to restrict or modify its compensation policies, which may have an adverse affect on the FHB Group's ability to hire, retain and motivate key employees. If a substantial portion of the FHB Group's senior management leaves the FHB Group, its businesses may be materially adversely affected.

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

Furthermore, the methods and models applied by the FHB 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 FHB 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 FHB 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 FHB 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 ability to fulfil its obligations under Instruments issued under the Programme.

Litigation Risk

The Issuer and the FHB 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 FHB Group's best commercial interests, may have an adverse impact on the operations of the FHB Group. In addition, the FHB 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 FHB 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. Further, the FHB Group may, for similar reasons, reimburse counterparties for losses even where the FHB 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 FHB Group's operations and/or reputation.

Effect of government policy and regulation

The FHB 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 FHB Group operates.

Areas where changes could have an impact include:

- (a) the monetary, interest rate and other policies of central banks and regulatory authorities in markets where the FHB Group operates;
- (b) general changes in government or regulatory policy that may significantly influence investor decisions, in particular markets in which the FHB Group operates;
- (c) general changes in the regulatory requirements, for example prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
- (d) the costs, effects and outcomes of other regulatory reviews, actions or litigation, including any additional compliance requirements;
- (e) changes in the bankruptcy legislation in the principal markets in which the FHB Group operates and the consequences thereof;
- (f) 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;
- (g) changes in rules on competition and the pricing environment;
- (h) further developments in the financial reporting environment;
- (i) the expropriation, nationalisation or confiscation of assets and changes in the legislation relating to foreign ownership;
- (j) any change in a relevant jurisdiction's legislation, including, but not limited to, taxation, banking regulations, foreign exchange control and customer protection rules, 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 pre-determined maximum spreads);
- (k) 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);
- (l) 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;
- (m) 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

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

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

Risks relating to the legal and regulatory environment in which the FHB Group operates

The Issuer and certain members of the FHB 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 or certain members of the FHB 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 FHB Group's financial condition and results of operations.

The FHB 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 coupled with a number of proposed substantial changes to the current regulatory framework at the global and EU levels, including, in particular, capital adequacy, liquidity requirements, financial supervision and bank resolution (as discussed in more details below). All these have, in turn, significantly reduced legal certainty in the financial markets where the FHB Group operates. Future changes are difficult to predict, in particular, in the current volatile market environment, and might have an adverse effect on the FHB Group's business and/or increase its compliance costs.

Significant uncertainty remains as to the implementation of some of these initiatives and the ongoing negotiations between the European Council and the European Parliament on the final form of the EU proposals. To the extent that certain of these measures are implemented as currently proposed or announced, in particular the changes proposed or announced by the Basel Committee, they would be expected to have a significant impact on the capital and asset-liability management of the FHB Group.

Such changes in the regulatory framework and in the way such regulations are applied may have a material effect on the FHB Group's business and operations. The implementation of these changes might also prevent the FHB Group from continuing current lines of operations, restrict the types or volume of transactions the FHB Group may execute, limit the payment of dividends by the members of the FHB Group to the Issuer, as the parent bank of the FHB Group, or set limits on, or require the modification of, rates or fees that the FHB Group charges on loans or other financial products. As the new framework for the financial and banking laws and regulations affecting the FHB 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 businesses, financial condition, cash flows and results of operations of the FHB Group. The FHB Group may also face a substantial increase in compliance costs and potential material limitations on its ability to pursue business activities.

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**) whose final elements were released on 13 January 2011 (see "*The Hungarian Banking System and Capital Market – Proposed changes to the capital adequacy framework at the global and EU levels – Basel III*" below).

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

Furthermore, on 20 July 2011, the European Commission published a legislative proposal (**CRD IV**) for a Regulation and a Directive, which, if adopted, will replace the current EU capital requirements directives (see "*The Hungarian Banking System and Capital Market – Proposed changes to the capital adequacy framework at the global and EU levels – CRD IV*" below).

Changes in accounting standards

The FHB Group's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Issuer's and the FHB 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 and FHB 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 FHB Bank, as a member of the FHB Group, may increase in the future or FHB Bank may, potentially, become exposed to unexpected expenses in connection with such schemes that it participates in. It is currently unclear what effects such amendments, if implemented, would have on deposit guarantee and investor compensation schemes in which FHB Bank participates. Such changes could increase the FHB Group's membership costs or, if they are perceived as adverse by the FHB Group's customers, could adversely affect the FHB 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 FHB Group's trading operations (whether for its own account or for the account of its customers) or adversely affect its revenues from investment services.

Effects of competition

Banking groups such as the FHB Group 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 market for retail home lending, which is one of the main businesses of the FHB Group, 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 Hungarian banking market, thus increasing the pressure on the FHB 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.

As the FHB Group's own distribution network has been considerably broadened recently, the Issuer relies less heavily on its network of agents, as well as on other partner credit institutions (see "*Business Overview – The Group's network*" below) for the provision of its products and/or services. At the same time, the FHB Group's competitive position is still affected by the performance of such agents and partner credit institutions.

There can be no assurance that the FHB Group can maintain its competitive position. If the FHB 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 FHB Group's businesses, 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 is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Instruments.

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 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 Instruments and/or the ability of the Issuer to satisfy its obligations under the Instruments.

For a more detailed discussion, refer to "*The Hungarian Banking System and Capital Market 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 FHB Group, the ratings assigned to such instruments and/or 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 FHB Bank of large, primarily, corporate deposits in excess of the coverage available under the deposit guarantee scheme in which FHB Bank participates. Further, if the draft CMD, as currently proposed, is fully implemented, the FHB 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 FHB 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 Group's results of operations, business, assets, cash flows and financial condition and the products and services offered by the FHB 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 FHB 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.

Risk factors stemming from the Hungarian market and regulatory environment

Due to its size and openness, the Hungarian economy is affected by international and, 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 FHB Group's profitability. For example, Hungary has been significantly affected by the ongoing concerns over the Eurozone countries (see also "*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. Further, 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 have necessitated the Hungarian government initiating negotiations with the EU and the IMF on a precautionary stand-by arrangement. 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. As the principal geographic market of the FHB Group is Hungary, its business and the profitability of its operations are strongly affected by the Hungarian macroeconomic environment and the domestic and international perception of the Hungarian economy. A negative trend in the Hungarian real estate market may also result in the need for increased coverage for the mortgage bonds issued by the Issuer. Any downturn in the Hungarian economy or a deterioration in Hungarian market conditions may in turn have a negative impact on the FHB Group's profitability.

Further, 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 FHB 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 FHB Group or its customers and other counterparties, the FHB 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 in international capital markets, may have an effect on the volume and profitability of mortgage lending and may increase the ratio of defaulting loans.

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

Changes in the Hungarian housing policy

The FHB 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 "*Hungarian Housing and Mortgage Market – Government subsidised loan scheme*" below). The FHB Group 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 Instruments.

Changes in the Hungarian taxation environment

The FHB 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 and Capital Market – 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.

In addition, no assurance can be given that governments or legislative bodies in other countries where the FHB Group operates will not impose similar or other special taxes on the financial sector, which may adversely affect the profitability of the FHB Group's operations in such countries.

Further, a transaction duty is imposed from 1 January 2013 on the payment services sector (see "*The Hungarian Banking System and Capital Market – Specific levies on the financial sector – Transaction duty on the payment services sector*" below) in Hungary. In addition, 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) and be payable by the relevant service provider. To the extent that FHB Bank (as a payment service provider or investment service provider) or other payment service provider or investment service provider members of the FHB 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 FHB Group receives from payment and investment services and, thereby, on its financial condition and results of operation.

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

The FHB 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 FHB Group's performance or reputation.

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 a more detailed discussion, see "*The Hungarian Banking System and Capital Market – 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 transitional period ending on 30 June 2017 for qualifying borrowers who opt into the Fixed Rate Scheme between 1 April 2012 and 31 May 2013. Under the Fixed Rate Scheme, regular repayments on certain housing mortgage loans denominated in Swiss Francs, EUR or Japanese Yen 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 and Capital Market – 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 FHB 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 Swiss Francs or the EUR (as the currencies in which the foreign-currency denominated Covered Mortgage Loans included in the FHB Group's loan book are denominated) may lead to direct or accounting losses to the FHB Group.

A depreciation of the HUF against Swiss Francs or the EUR or Japanese Yen may also increase the Shortfall and, consequently, the amount of loans to be provided by the FHB 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 FHB 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 Swiss Francs or the EUR. This might require more stringent asset-liability management, which in turn may increase the funding and operational costs of the FHB Group.

In addition, the Fixed Rate Scheme, if elected by the relevant borrowers under the Covered Mortgage Loans included in the FHB Group's mortgage loan portfolio, will impose an obligation on the FHB 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 FHB 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 Swiss Francs or the EUR) 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 FHB Group's mortgage loan portfolio 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 FHB 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 FHB Group's loan book, 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 FHB 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 expose the FHB Group to a number of other risks. However, as the legislation underlying the Mortgage Relief Programme and the manner in which they are applied to the relevant operations of financial institutions are still evolving, the precise nature of all risks that may arise in relation to the Mortgage Relief Programme and its potential effects on the FHB 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 FHB 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 FHB Group's profitability and may result in additional capital or reserve requirements that could constrain its 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, Swiss Francs, EUR or Japanese Yen (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 Hungarian Banking System and Capital Market – 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 arrear for over 90 days and where the total market value of the underlying mortgaged property did not exceed HUF 20 million (approximately EUR 68,183) at the time when the mortgage loan agreement was concluded (the **Overdue FX Mortgage Loans**).

Under the Redenomination Scheme, financial institution creditors under Overdue FX Mortgage Loans (such as the Issuer) 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 a more detailed discussion, see "*The Hungarian Banking System and Capital Market – 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. Any of the foregoing may adversely affect the FHB Group's profitability and may result in additional capital or reserve requirements that could constrain its businesses and operations.

Other risks associated with the Issuer and the FHB Group

Implementation of the FHB Group's strategic goals and integration of recent acquisitions

The FHB Group devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, which is supported by substantial expenditure to generate growth in its customer base.

On 2 July 2010, the FHB Group executed a long-term, exclusive strategic cooperation arrangement with Allianz Group Hungary (**Allianz Hungary**) which includes, *inter alia*, cooperation in the sales of the FHB Group's products through Allianz Hungary's distribution network and brand licensing

arrangements with a view to increasing the FHB Group's customer base and market penetration (see "*Description of the Issuer – The FHB Group – Business strategy of the Group*" below). As part of that arrangement, the FHB Group also acquired Allianz Bank from Allianz Hungary, which was merged into FHB Bank in 2011. These arrangements were driven, in part, by the expectation that they will provide cost synergy potential and contribute to the implementation of the FHB Group's strategic goals. Although the acquisition of Allianz Bank by the FHB Group received clearance by the Hungarian Competition Authority under merger control rules, there is no assurance that the cooperation arrangements between the FHB Group and Allianz Hungary will not come under antitrust scrutiny by the competent authorities in the future.

The FHB Group may also face unknown, actual or potential liabilities arising from any future acquisitions, which, in turn, may result in unexpected losses in relation to the acquired businesses. Unexpected losses, unexpectedly high integration expenses or risks or a failure to establish clear governance rules within the FHB Group and to align the strategies of the members of the FHB Group with the overall strategy of the FHB Group as a whole, as well as a failure to integrate the businesses of the FHB Group, could result in an inability to implement some or all of the FHB Group's strategic goals or to fully realise expected synergies. Failure to fully implement the FHB Group's strategic goals may have a material adverse effect on the FHB Group's businesses, financial condition and results of operations.

Risk of impairment of goodwill

The FHB Group regularly performs 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 FHB 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 FHB Group, which may have a material adverse effect on the FHB Group's financial position and results of operations.

Concentration risk

The FHB 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, including Hungary. 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.

Rating risk

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

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. In addition, downgrades of the issuer ratings of the Issuer or the ratings assigned to the securities issued by it may have a negative effect on its ability to access the liquidity facilities or refinancing lines of the ECB, the NBH and/or other central banks in the countries where the FHB 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 FHB Group's businesses, financial condition and results of operations.

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

Risks related to the market generally

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

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

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

Counterparty credit risk

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

If an investor holds Instruments 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 Instruments could result in an investor not receiving payments on those Instruments.

The Issuer will pay principal and interest on the Instruments in the Specified Currency. This presents

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

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

The value of Fixed Rate Instruments may be adversely affected by movements in market interest rates (Market price risk).

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

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

Investment in Fixed Rate Instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Instruments, this will adversely affect the value of the Fixed Rate Instruments.

Investors will not be able to calculate in advance their rate of return on Floating Rate Instruments

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

Credit spread risk

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

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

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, the Hungarian sovereign rating, the probability of default, the recovery rate, the remaining

term to maturity of the Instruments and obligations under any collateralisation or guarantee, and declarations as to any preferred payment or subordination. The liquidity situation, the general level of interest rates, overall economic developments, and the currency in which the relevant obligation is denominated may also have a positive or negative effect.

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

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

Inflation risk

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

Credit ratings assigned to the Issuer or any Instruments may not reflect all the risks associated with an investment in those Instruments.

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

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

Form of the New Global Note

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

such recognition will depend upon the satisfaction of Eurosystem's eligibility criteria, as applied from time to time by the Eurosystem.

Risks related to Instruments generally

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

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

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

The Instruments may be subject to withholding taxes in circumstances where the Issuer is not 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 Instruments.

Withholding under the EU Savings Directive

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

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

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined under "*Terms and Conditions of the Mortgage Bonds*", "*Terms and Conditions of the Mortgage Notes*" and "*Terms and Conditions of the Notes*") nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding

The Issuer and other non-U.S. financial institutions through which payments on the Instruments are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Instruments treated as debt for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified from that date and (ii) any Instruments treated as equity for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) or similar law implementing an intergovernmental approach to FATCA. This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (**FFI**) (as defined in FATCA) that enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Issuer a **Participating FFI**), (ii) the Issuer has a positive "passthru payment

percentage" (as determined under FATCA), and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of such Participating FFI, or (b) any FFI that is an investor, or through which payment on such Instruments is made, is not a Participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Instruments is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Instruments, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of Instruments should consult their own tax advisers on how these rules may apply to payments they receive under the Instruments.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. The application of FATCA to Instruments issued after 31 December 2012 (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a Supplement to the Base Prospectus, as applicable.

The value of the Instruments 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.

The terms and conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes 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 Instruments in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Instruments are subsequently required to be issued.

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

Instruments such that their holding then becomes an integral multiple of a Specified Denomination.

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

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

Other risks

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

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

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

Risks related to the structure of a particular issue of Instruments

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Instruments and those which might occur in relation to certain types of Exempt Instruments:

Risks applicable to all Instruments

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

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

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

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

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

Instruments which are 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 Instruments) 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.

Risks applicable to certain types of Exempt Instruments

There are particular risks associated with an investment in certain types of Exempt Instruments, such as Index Linked Instruments and Dual Currency Instruments. In particular, an investor might receive less interest than expected or no interest in respect of such Instruments and may lose some or all of the principal amount invested by it.

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

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

Where Instruments are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.

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

Instruments which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

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

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

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

GENERAL DESCRIPTION

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Instruments, the applicable Final Terms (or, in the case of Exempt Instruments, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Instruments shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Instruments other than Exempt Instruments and, if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

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

Issuer:	FHB Mortgage Bank Co. Plc. (<i>FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság</i>)
Description:	Euro Mortgage Securities and Euro Medium Term Note Programme for the issuance of Mortgage Bonds, Mortgage Notes and Notes.
Arranger:	Citigroup Global Markets Limited
Dealers:	BNP Paribas Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank Aktiengesellschaft DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Raiffeisen Bank International AG and any other Dealers appointed in accordance with the Programme Agreement.
Principal Paying Agent:	Deutsche Bank AG, London Branch
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme. These are set out under " <i>Risk Factors</i> ". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Instruments and certain market risks.
Certain Restrictions:	Each issue of Instruments denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in

circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus.

Instruments having a maturity of less than one year

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

Programme Size:	Up to EUR 3,000,000,000 (or its equivalent in other currencies calculated as described under " <i>General Description of the Programme</i> ") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Instruments may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Instruments may be issued on a fully-paid or, in the case of Exempt Instruments, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Type of Mortgage Securities:	For a description of certain aspects relevant to the Mortgage Securities, see " <i>Certain Information relating to the Mortgage Securities</i> ".
Form of Mortgage Bonds:	<p>The Mortgage Bonds will be issued in dematerialised registered form as described in "<i>Form of the Mortgage Bonds</i>".</p> <p>The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms) integral multiples of EUR 1,000 (or its foreign currency equivalent) in excess thereof. If Mortgage Bonds are cleared through KELER, they will be tradeable only in principal amounts which are multiples of the Specified Denomination.</p>

Form of Mortgage Notes:

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

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

Form of Notes:

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

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

Fixed Rate Instruments:

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

Floating Rate Instruments:

Floating Rate Instruments will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Instruments of the relevant Series); or
- (ii) on the basis of the reference rate set out in the applicable Final Terms (or, in the case of Exempt Instruments, Pricing Supplement).

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

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

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

Zero Coupon Instruments:

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

Exempt Instruments

The Issuer may issue Exempt Instruments which are Index Linked Instruments, Dual Currency Instruments, Partly Paid Instruments or Instruments redeemable in one or more instalments.

Index Linked Instruments: Payments of principal in respect of Index Linked Redemption Instruments or of interest in respect of Index Linked Interest Instruments will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

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

Partly Paid Instruments: The Issuer may issue Instruments in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. The issue of Partly Paid Mortgage Bonds is subject to the receipt of the prior written consent of KELEER.

Instruments redeemable in instalments: The Issuer may issue Instruments which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

The Issuer may agree with any Dealer that Exempt Instruments may be issued in a form not contemplated by the Terms and Conditions of the Instruments, in which event the relevant provisions will be included in the applicable Pricing Supplement.

Redemption:

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

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

Denomination of Instruments:	Instruments will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Instrument will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions</i> " above, and save that the minimum denomination of each Instrument (other than an Exempt Instrument) will be EUR 100,000 (or, if the Instruments are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	<p>All payments in respect of the Instruments will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 6 of the Terms and Conditions of the Mortgage Bonds, in Condition 6 of the Terms and Conditions of the Mortgage Notes and Condition 7 of the Terms and Conditions of the Notes, respectively. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6 of the Terms and Conditions of the Mortgage Bonds and Condition 7 of the Terms and Conditions of the Notes, respectively, be required to pay additional amounts to cover the amounts so deducted.</p> <p>The terms of the Instruments contain a provision, pursuant to which the Agent must, at all times, be tax resident in Germany or the United Kingdom.</p>
Negative Pledge:	<p>The terms of the Mortgage Securities will not contain a negative pledge provision.</p> <p>The terms of the Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.</p>
Cross Default:	The terms of the Mortgage Securities will contain a cross default provision as further described in Condition 8 of the Terms and Conditions of the Mortgage Bonds and in Condition 8 of the Mortgage Notes.
Cross Acceleration:	The terms of the Notes will contain a cross acceleration provision as further described in Condition 9 of the Terms and Conditions of the Notes.
Status of the Mortgage Securities:	The Mortgage Securities will constitute unsubordinated obligations of the Issuer ranking <i>pari passu</i> 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-hitelintézettről és a jelzáloglevélről) and rank <i>pari passu</i> with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (<i>jelzáloglevelek</i>).

Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Subordination:	Instruments may not be issued on a subordinated basis.
Rating:	Mortgage Securities issued under the Programme are rated Ba3 by Moody's Deutschland GmbH. Series of Instruments issued under the Programme may be rated or unrated. Where a Series of Instruments is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Instruments) 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.
Approval, Listing and Admission to Trading:	<p>Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Instruments issued under the Programme to be listed on the Luxembourg Stock Exchange. The Instruments may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Instruments which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Instruments) will state whether or not the Instruments other than Exempt Instruments are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.</p>
Clearing of Mortgage Bonds:	Mortgage Bonds will only clear through Közpointi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (KELER) and Clearstream Banking, société anonyme (Clearstream, Luxembourg) and Euroclear Bank S.A./N.V. (Euroclear), as more fully described under " <i>Form of the Mortgage Bonds</i> " and " <i>Settlement Procedures for the Mortgage Bonds</i> " below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in " <i>Form of the Mortgage Notes</i> " below.
Clearing of Notes:	Notes will clear through Euroclear and Clearstream, Luxembourg, as more fully described under " <i>Form of the</i>

Notes" and "Settlement Procedures" below.

Governing Law:

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

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

Selling Restrictions:

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

United States Selling Restrictions:

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

Representation of the holders of the Instruments:

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

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

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

- (c) the euro equivalent of Zero Coupon Mortgage Securities or Zero Coupon Notes (as specified in (i) the applicable Final Terms in relation to (x) the Mortgage Bonds or (y) the Mortgage Notes, described under "*Form of the Mortgage Bonds*" and, in relation to Mortgage Notes, or (ii) the applicable Final Terms in relation to the Notes, as the case may be) and other Mortgage Securities or Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the audited consolidated annual financial statements for the financial year ended 31 December 2011 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial year ended 31 December 2011	Pages 5 to 95
– Independent Auditors' Report	Page 4
– Consolidated Income Statement	Page 5
– Consolidated Comprehensive Income Statement	Page 6
– Consolidated Financial Position	Pages 7 to 8
– Consolidated Cash Flow Statement	Pages 9 to 10
– Consolidated Statement of Shareholders' Equity	Page 11
– Notes to the Consolidated Financial Statements	Pages 12 to 95

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;

- (b) the audited consolidated annual financial statements for the financial year ended 31 December 2012 and the audit reports thereon including the information set out at the following pages in particular:

Document	Section incorporated
Consolidated IFRS Financial Statements for the financial year ended 31 December 2012	Pages 6 to 98
– Independent Auditors' Report	Pages 4 to 5
– Consolidated Income Statement	Page 6
– Consolidated Comprehensive Income Statement	Page 7
– Consolidated Financial Position	Pages 8 to 9
– Consolidated Cash Flow Statement	Pages 10 to 11
– Consolidated Statement of Shareholders' Equity	Page 12

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;

- (c) the Articles of Association of the Issuer;
- (d) 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 8 March 2007 (pages 42-67 thereof); (b) Base Prospectus dated 4 March 2008 (pages 48-74 thereof); (c) Base Prospectus dated 24 April 2009 (pages 48-74 thereof); (d) Base Prospectus dated 28 May 2010 (pages 52-78 thereof); and (e) Base Prospectus dated 31 May 2011 (pages 64-90 thereof);
- (e) 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 4 March 2008 (pages 75-101 thereof); (b) Base Prospectus dated 24 April 2009 (pages 75-101 thereof); (c) Base Prospectus dated 28 May 2010 (pages 79-105 thereof); and (e) Base Prospectus dated 31 May 2011 (pages 91-117 thereof); and
- (f) the section "Terms and Conditions of the Notes" from each of the Previous Base Prospectuses relating to the Programme as follows: (a) Base Prospectus dated 8 March 2007 (pages 84-110 thereof); (b) Base Prospectus dated 4 March 2008 (pages 116-144 thereof); (c) Base Prospectus dated 24 April 2009 (pages 116-142 thereof); (d) Base Prospectus dated 28 May 2010 (pages 120-146 thereof); and (e) Base Prospectus dated 31 May 2011 (pages 134-159 thereof).

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

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

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

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

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

FORM OF THE MORTGAGE BONDS

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

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

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

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

The Mortgage Bonds will be cleared through KELER and Clearstream, Luxembourg which has its registered office at 67, Boulevard Grand-Duchesse Charlotte, L-1331 Luxembourg and through Euroclear which has its registered office at 1 Boulevard du Roi Albert, 1210 Brussels, Belgium – see "*Settlement Procedures for the Mortgage Bonds*".

If the applicable Final Terms specify any amendment to the Terms and Conditions of the Mortgage Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 3, 4, 5 (except Condition 5(b)), 9, 10 (insofar as such Mortgage Bonds are not listed or admitted to trade on any stock exchange) or 11, they will not necessitate the preparation of a supplement to this Base Prospectus. If the Terms and Conditions of the Mortgage Bonds of any Series are to be modified in any other respect, a supplement to this Base Prospectus will be prepared, if appropriate.

SETTLEMENT PROCEDURES FOR THE MORTGAGE BONDS

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

ISSUE OF HUF DENOMINATED MORTGAGE BONDS

Version 1 (Euroclear Free of Payment)

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

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

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

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

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

Version 2 (Clearstream Delivery against Payment)

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

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

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

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

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

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

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

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

ISSUE OF NON-HUF DENOMINATED MORTGAGE BONDS

Version 1 (Euroclear Free of Payment)

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

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

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

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

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

Version 2 (Clearstream Delivery against Payment)

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

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

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

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

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

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

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

Payments

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

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

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

FORM OF THE MORTGAGE NOTES

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

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, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Mortgage Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Mortgage Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Mortgage Note for an interest in a Permanent Global Mortgage Note or for definitive Mortgage Notes is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Global Mortgage Note will be exchangeable (free of charge), in whole but not in part, for definitive Mortgage Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 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 Mortgage Notes which have an original maturity of more than one year and on all receipts and interest coupons relating to such Mortgage Notes:

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

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

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

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Mortgage Notes*"), the Agent shall arrange that, where a further Tranche of Mortgage Notes is issued which is intended to form a single Series with an existing Tranche of Mortgage Notes 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.

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 8. In such circumstances, where any Mortgage Note is still represented by a Global Mortgage Note and the Global Mortgage Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Mortgage Notes and payment in full of the amount

due has not been made in accordance with the provisions of the Global Mortgage Note then the Global Mortgage Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Mortgage Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant in relation to the Mortgage Notes (the **Mortgage Note Deed of Covenant**) dated 15 May 2013 and executed by the Issuer.

The Issuer 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, other than where such Mortgage Notes are Exempt Notes, 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 THE NOTES

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the 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 Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

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

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

Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

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

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

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

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

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series.

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

A note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of

the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a Deed of Covenant in relation to the Notes (the **Note Deed of Covenant**) dated 15 May 2013 and executed by the Issuer.

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

APPLICABLE FINAL TERMS OF THE MORTGAGE BONDS/MORTGAGE NOTES

Set out below is the form of Final Terms which will be completed for each Series/Tranche of Mortgage Bonds or Mortgage Notes which are not Exempt Mortgage Bonds or Exempt Mortgage Notes issued under the Programme.

[Date]

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

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

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 15 May 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**). This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Mortgage [Bonds/Notes] is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and these Final Terms have been published on the Luxembourg Stock Exchange website (<http://www.bourse.lu>).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [●] which are incorporated by reference in the Base Prospectus dated 15 May 2013. 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 dated 15 May 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 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 and these Final Terms have been published on the Luxembourg Stock Exchange website (<http://www.bourse.lu>).

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

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

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

1. (a) Series Number: []
- (b) Tranche Number: []
- (c) Date on which the Mortgage [Bonds/Notes] will be consolidated and form a single Series: The Mortgage [Bonds/Notes] will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Mortgage Note for interests in the Permanent Global Mortgage Note, as referred to in paragraph 21 below, which is expected to occur on or about [*date*]][Not Applicable]
2. Specified Currency or Currencies: []
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: []
 (*Required only for listed issues*)
5. (a) Specified Denominations: []

[The Mortgage Bonds/Mortgage Notes will be tradable only in principal amounts of at least the Specified Denomination and to the extent permitted by the relevant clearing system(s), integral multiples of the Tradable Amount (specified in Part B, item 9 below) in excess thereof – REFER TO PART B, ITEM 10 OF THE FINAL TERMS.]

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

(N.B. Mortgage Bonds/Mortgage Notes must have a minimum denomination of EUR 100,000 (or equivalent))

(Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:

"[€100,000] and integral multiples of [€1,000] in

excess thereof up to and including [€199,000]. No Mortgage [Bonds/Notes] in definitive form will be issued with a denomination above [€199,000].")

(b) Calculation Amount []

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

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

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

(b) Interest Commencement Date: []

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

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]
[[[] month [BUBOR/LIBOR/EURIBOR]] +/- []
per cent.
Floating Rate]
[Zero Coupon]
(see Item [13]/[14]/[15] below)*

9. Redemption/Payment Basis: *Subject to any purchase and cancellation or early redemption, the Mortgage [Bonds/Notes] 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 Items [13] and [14] below and identify there][Not Applicable]*

11. Put/Call Options: *[Investor Put]
[Issuer Call]
[Not Applicable]
[(see Item [17]/[18]/[19] below)]*

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

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

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(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]
(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 a long or short first or last coupon.)
- (g) Party responsible for calculating amounts payable: [Agent/if not 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]
 - Interest Determination Date(s): []
(Second Budapest business day prior to the start of each Interest Period if BUBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate.)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (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]
Actual/365 (Fixed)
Actual/365 (ÁKK)
Actual/365 (Sterling)
Actual/360
[30/360] [360/360] [Bond Basis]
[30E/360] [Eurobond Basis]
30E/360 (ISDA)
(See Condition 3 for alternatives.)

15. **Zero Coupon Mortgage [Bond/Note]** [Applicable/Not Applicable]

Provisions

(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
Maximum period: [] days
17. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (iii) Method of selection: []
- (d) Notice periods: Minimum period: [] days
Maximum period: [] days
(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 five 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]
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [] per Calculation Amount

(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Mortgage Bonds/Mortgage Notes will need to be Exempt Mortgage Bonds/Exempt Mortgage Notes)

(c) Notice periods:

Minimum period: [] days

Maximum period: [] days

(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 15 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:

[] per Calculation Amount

(N.B. In relation to any issue of Mortgage Bonds/Mortgage 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/Mortgage 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 payable on redemption for taxation reasons or on event of default):

[] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE BONDS/MORTGAGE NOTES

21. Form of Mortgage Notes:

(a) Form:

[Temporary Global Mortgage Note exchangeable for a Permanent Global Mortgage Note which is exchangeable for definitive Mortgage Notes only upon an Exchange Event]

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

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

(b) New Global Note

[Yes/No]

22. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which item 14(c) relates.)
23. Talons for future Coupons to be attached to definitive Mortgage Notes: [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]

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

Signed on behalf of the Issuer:

By:
Duly authorised

By:
Duly authorised

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made for the Mortgage [Bonds/Notes] to be admitted to trading on [[the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange]/[]]. /Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [EUR] []

2. RATINGS

Ratings: [The Mortgage [Bonds/Notes] to be issued [have been]/[are expected to be] rated] [The following ratings reflect ratings assigned to Mortgage [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) and associated defined terms].

Each of *[defined terms]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).

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

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

[3. NOTIFICATION

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

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

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

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

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

[(i)] Reasons for the offer: []

[(ii)] Estimated net proceeds: []

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

Indication of yield: []

7. HISTORIC INTEREST RATES (*FLOATING RATE MORTGAGE BONDS/NOTES ONLY*)

Details of historic [LIBOR/EURIBOR/specify other Reference Rate] rates can be obtained from [Reuters].

8. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

(iii) Alphabetical code of Series: []

(iv) Any clearing system(s) other than Clearstream Banking, société anonyme[,and] Euroclear Bank S.A./N.V. [and KELER] and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
(If the Series of Mortgage Bonds/Mortgage Notes is listed on the Official List of the Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER.)

(v) Delivery: Delivery [against/free of] payment

(vi) Names and addresses of additional Paying Agent(s) (if any): []

(vii)	Deemed delivery of clearing system notices for the purposes of Condition 10 [<i>Notices</i>]:	Any notice delivered to Holders 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):	<i>[insert list and place where such documents are so available]</i>
(ix)	Place of issue:	Outside Hungary
[(x)	Place of creation of Mortgage Bonds:	Hungary]*
(xi)	Number of Mortgage Bonds:	
	(b) Series:	[]
	(c) Tranche:	[]
(xii)	Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[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 the life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p> <p>[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 Mortgage 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.]</p> <p><i>[Not applicable in the case of Mortgage Bonds.]</i></p>
[(xiii)	Serial number of the Mortgage	[]]*

* Only required for issues of Mortgage Bonds.

Notes:

- 9. TRADEABLE AMOUNT** [[]/Not Applicable. [*Not applicable in the case of Mortgage Bonds tradeable in KELER.*]
- 10. DISTRIBUTION**
- (i) Method of distribution: [Syndicated/Non-syndicated]
 - (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
 - (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
 - (iv) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
 - (v) U.S. Selling Restrictions: Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]
 - (vi) Additional United States selling restrictions: [Not Applicable/*give details*]
(Additional selling restrictions are only likely to be relevant for certain structured Mortgage Bonds/Mortgage Notes, such as commodity-linked Mortgage Bonds/Mortgage Notes)

Certificate of the Hungarian asset controller (vagyonellenőr) to be attached to and form part of the Final Terms for each series of [Mortgage Bonds/ Notes] pursuant to Section 11(2)(n) of the Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről).

* Only required for issues of Mortgage Notes.

APPLICABLE PRICING SUPPLEMENT

EXEMPT MORTGAGE BONDS AND EXEMPT MORTGAGE NOTES

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Mortgage Bonds and Exempt Mortgage Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF MORTGAGE BONDS OR MORTGAGE NOTES DESCRIBED BELOW.

[Date]

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

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

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Mortgage [Bonds/Notes] described herein. This document must be read in conjunction with the Base Prospectus dated 15 May 2013 [as supplemented by the supplement[s] dated [date[s]]] (the **Base Prospectus**). Full information on the Issuer and the offer of the Mortgage [Bonds/Notes] is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying Agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from <http://www.fhb.hu>.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus [dated [original date] which are incorporated by reference in the Base Prospectus].

[Include whichever of the following apply or specify as "Not Applicable". 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 Pricing Supplement.]

[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: | [] |
| | (b) | Tranche Number: | [] |
| | (c) | Date on which the Mortgage [Bonds/Notes] will be consolidated and form a single Series: | The Mortgage [Bonds/Notes] will be consolidated and form a single Series with [<i>identify earlier Tranches</i>] on [the Issue Date/exchange of the Temporary Global Mortgage Note for interests in the Permanent Global Mortgage Note, as referred to in paragraph 23 below, which is expected to occur on or |

- about [date]][Not Applicable]
2. Specified Currency or Currencies: []
 3. Aggregate Nominal Amount:
 - (a) Series: []
 - (b) Tranche: []
 4. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
 5. (a) Specified Denominations: []
 - (b) Calculation Amount: []
(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
 6. (a) Issue Date: []
 - (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Mortgage Bonds/Mortgage Notes, for example Zero Coupon Mortgage Bonds/Mortgage Notes.)
 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]
 [[specify Reference Rate] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
 (further particulars specified below)
 9. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [specify other]
 10. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Mortgage Bonds/Mortgage Notes into another Interest Basis or Redemption/Payment Basis]][Not

- Applicable]
11. Put/Call Options: [Investor Put]
[Issuer Call]
[Not Applicable]
[(further particulars specified below)]
12. (a) Status of the Mortgage [Senior/[Dated/Perpetual] Subordinated]
[Bonds/Notes]:
- (b) [Date [Board] approval for [] [and [], respectively]]
issuance of Mortgage
[Bonds/Notes] obtained: *(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 [Applicable/Not Applicable]
[Bond/Note]Provisions *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Mortgage Bonds/Mortgage Notes in definitive form.)
- (d) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
(Applicable to Mortgage Bonds/Mortgage Notes in definitive form.)
- (e) Day Count Fraction: [30/360/Actual/Actual (ICMA)/specify other]
- (f) [Determination Date(s): [[] in each year][Not Applicable]
(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 a long or short first or last coupon)
- (g) Other terms relating to the method of calculating interest for Fixed Rate Mortgage [None/Give details]
[Bonds/Notes] which are Exempt Mortgage

[Bonds/Notes]:

14. Floating Rate Mortgage [Applicable/Not Applicable]
[Bond/Note]Provisions (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [] month [LIBOR/EURIBOR/specify other Reference Rate].
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(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]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)
Other
(See Condition 3 for alternatives)
 - (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Mortgage [Bonds/Notes] which are Exempt Mortgage [Bonds/Notes], if different from those set out in the Conditions: []
15. Zero Coupon Mortgage [Applicable/Not Applicable]
[Bond/Note]Provisions *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [] per cent. per annum
 - (b) Reference Price: []
 - (c) Any other formula/basis of determining amount payable for Zero Coupon Mortgage [Bonds/Notes] which are Exempt Mortgage [Bonds/Notes]: []
 - (d) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

16. Index Linked Interest Mortgage [Applicable/Not Applicable]
[Bond/Note] Provisions *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent [give name]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (e) Specified Period(s)/Specified Interest Payment Dates: []
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
- (g) Additional Business Centre(s): []
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: []
17. Dual Currency Interest Mortgage [Applicable/Not Applicable]
[Bond/Note]Provisions *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*

or impracticable:

- (d) Person at whose option []
Specified Currency(ies) is/are
payable:

PROVISIONS RELATING TO REDEMPTION

18. Notice periods for Condition 5(b) Minimum period: [] days
[Redemption and Purchase – Maximum period: [] days
Redemption for taxation reasons]:
19. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining
subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/ specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice periods: Minimum period: [] days
Maximum period: [] days
(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 five 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)
20. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining
subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) Notice periods: Minimum period: [] days
Maximum period: [] days
(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 15 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)

21. Final Redemption Amount: per Calculation Amount/specify other/see Appendix]
22. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5(e) [*Redemption and Purchase – Early Redemption Amounts*]): per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE [BONDS/NOTES]

23. Form of Mortgage Notes:
- (a) [Form:] [Temporary Global Mortgage Note exchangeable for a Permanent Global Mortgage Note which is exchangeable for definitive Mortgage Notes only upon an Exchange Event]
- [Temporary Global Mortgage Note exchangeable for definitive Mortgage Notes on and after the Exchange Date]
- [Permanent Global Mortgage Note exchangeable for definitive Notes only upon an Exchange Event]
- [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.*]
- (b) [New Global Note: [Yes][No]]
24. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which Items 14(c) and 16(g) relate)
25. Talons for future Coupons to be attached to Definitive Mortgage Notes: [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]

* Include for Notes that are to be offered in Belgium.

26. Details relating to Partly Paid Mortgage Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Mortgage Notes and interest due on late payment. [Not Applicable/give details. N.B. A new form of Temporary Global Mortgage Note and/or Permanent Global Mortgage Note may be required for Partly Paid issues]
27. Details relating to Instalment Mortgage Notes: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Instalment Amount(s): [give details]
- (b) Instalment Date(s): [give details]
28. Other final terms: [Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. 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 [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By: By:
Duly authorised *Duly authorised*

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. RATINGS

Ratings: [The Mortgage [Bonds/Notes] to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].
(The above disclosure is only required if the ratings of the Mortgage Bonds/Mortgage Notes are different to those stated in the Base Prospectus)

2. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

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

3. [USE OF PROCEEDS

Use of Proceeds: []
(Only required if the use of proceeds is different to that stated in the Base Prospectus)

4. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []
- (vi) Deemed delivery of clearing system notices for the purposes of Condition 10 [Notices]: Any notice delivered to Holders 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.

[(vii) 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.]/

[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Mortgage 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.]]

[*Not applicable in the case of Mortgage Bonds.*]

5. DISTRIBUTION

(vii) Method of distribution: [Syndicated/Non-syndicated]

(viii) If syndicated, names of Managers: [Not Applicable/*give names*]

(ix) Stabilising Manager(s) (if any): [Not Applicable/*give name*]

(x) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]

(xi) U.S. Selling Restrictions: Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]

(xii) Additional United States selling restrictions: [Not Applicable/*give details*]
(Additional selling restrictions are only likely to be relevant for certain structured Mortgage Bonds/Mortgage Notes, such as commodity-linked Mortgage Bonds/Mortgage Notes)

TERMS AND CONDITIONS OF THE MORTGAGE BONDS

Any reference in the Terms and Conditions to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

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

The Issuer has entered into an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 15 May 2013 and made between the Issuer, Deutsche Bank AG as principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Mortgage Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms (or Pricing Supplement, in the case of Exempt Mortgage Bonds) attached to or endorsed on this Mortgage Bond which supplement these Terms and Conditions (the **Conditions**) and, in the case of a Mortgage Bond which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Mortgage Bond**), may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, complete the Conditions for the purposes of this Mortgage Bond. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Mortgage Bond.

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

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Paying Agents. If the Mortgage Bonds are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms (as defined below) will be published on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>). If this Mortgage Bond is an Exempt Mortgage Bond, the applicable Pricing Supplement will only be available for collection or inspection by a Holder (as defined below) holding one or more unlisted Mortgage Bonds of that Series and such Holder must produce evidence satisfactory to the Issuer or, as

the case may be, the relevant Paying Agent as to its holding of such Mortgage Bonds and identity. The Holders are deemed to have notice of, and are subject to, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Terms and Conditions of the Mortgage Bonds include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

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-hitelintézettről és a jelzáloglevélről*), issue and deposit with Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**) a document (the **Document**), which does not qualify as a security, with the particulars of this Series of Mortgage Bonds. In the event that further Mortgage Bonds are issued in accordance with Condition 11 or a part of this Series of Mortgage Bonds are cancelled in accordance with Condition 5(h), the Document will be cancelled and a new Document (the **new Document**) amended in accordance with the particulars of the further Mortgage Bonds or, as the case may be, the outstanding part of this Series of Mortgage Bonds will be issued.

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

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

(c) *Kind*

Unless this Mortgage Bond is an Exempt Mortgage Bond, this Mortgage Bond may be a Fixed Rate Mortgage Bond, a Floating Rate Mortgage Bond or a Zero Coupon Mortgage Bond, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

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

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

(d) *Title*

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

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

(e) *Closure of KELER*

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

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

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

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

- (ii) The Replacement Mortgage Bonds to be issued by the Issuer upon the occurrence of an Exchange Event will:
 - (A) constitute a new Series of Mortgage Bonds with terms (save for their respective issue dates and save as provided in (vi) below) identical to the Cancelled Mortgage Bonds which they are replacing;
 - (B) be delivered to the securities account managers who have Cancelled Mortgage Bonds credited to their securities account with KELER (the Securities Account Managers) in accordance with the last available records of KELER (as determined in accordance with Condition 1(f)); and
 - (C) be represented by printed certificates.
- (iii) The Issuer will promptly (and in any event within five days of its occurrence) give notice to any stock exchange (in accordance with the then applicable rules and regulations of that stock exchange) on which the Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 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 **Holder**s 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 and 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 (other than, in the case of Exempt Mortgage Bonds, Dual Currency Interest Mortgage Bonds or Index Linked Interest Mortgage Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons).

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

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

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

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

(i) deleting "; and

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

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

(ii) inserting in Condition 4(b)(i) after the word "Budapest" the words ", in the relevant place of presentation".

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

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

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

- (H) Condition 10 shall be amended by
 - (iii) inserting after the word "sent" in the last paragraph: "(together with this Mortgage Bond)"; and
 - (iv) deleting the end of the sentence from "together with" and replacing it with".".
- (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

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

3. INTEREST

(a) *Interest on Fixed Rate Mortgage Bonds*

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

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

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 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 (or, if it is a Partly Paid Mortgage Bond, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

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

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Mortgage Bonds 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 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 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 subparagraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

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

(B) Screen Rate Determination for Floating Rate Mortgage Bonds

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

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

(expressed as a percentage rate per annum) for the Reference Rate (being either BUBOR, LIBOR or EURIBOR, 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 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 in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the

Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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

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

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

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

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

where:

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

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

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

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

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D₂ will be 30.

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

The Agent, or (if applicable) the Calculation Agent, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, KELER, the relevant regulatory authority and any stock exchange on which the relevant Floating Rate Mortgage Bonds 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 first Business Day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be 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) by the Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Issuer and the Holders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Exempt Mortgage Bonds*

The rate or amount of interest payable in respect of Exempt Mortgage Bonds which are not also Fixed Rate Mortgage Bonds or Floating Rate Mortgage Bonds shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Mortgage Bonds are Index Linked Interest Mortgage Bonds the provisions of Condition 3(b) shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Mortgage Bonds and to the Agent were references to Index Linked Interest Mortgage Bonds and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

(d) *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 of Hungary (*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 Budapest and 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 and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(c) *Interpretation of principal and interest*

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

- (i) any additional amounts which may be payable with respect to principal under Condition 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:

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

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 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 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 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 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 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 will be 365).

(d) *General provisions applicable to payments*

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

case may be, for his share of each payment so made by the Issuer to, or to the order of, the Holders.

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

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

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) *Redemption and Purchase – Early redemption amounts*, 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 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 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 taking reasonable measures available to it,

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

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent 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 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 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 notice 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 nor more than the maximum period of notice specified in 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 of this Mortgage Bond must deliver, within the notice period, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent both an ownership certificate issued by KELER or the relevant Securities Account Manager (which document certifies, in addition to the title of the Holder, that the Mortgage Bonds are held on an account blocked for the benefit of the Issuer) and a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**). With respect to Mortgage Bonds credited to the securities account of Clearstream, Luxembourg and/or the agent bank of Euroclear at KELER, to exercise the right to require

redemption of the relevant Mortgage Bonds the Holder must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Clearstream, Luxembourg and/or Euroclear (which may include notice being given on his instruction by Clearstream, Luxembourg and/or Euroclear to the Agent by electronic means) in a form acceptable to Clearstream, Luxembourg and/or Euroclear from time to time. Any Put Notice given by a Holder of any Mortgage Bond pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption, an Event of Default has occurred and is continuing in which event such Holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph (d) and instead to declare such Mortgage Bond forthwith due and payable pursuant to Condition 8.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above 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) *Specific redemption provisions applicable to certain types of Exempt Mortgage Bonds*

- (i) The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Mortgage Bonds and Dual Currency Redemption Mortgage Bonds may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 5(b), Index Linked Interest Mortgage Bonds and Dual Currency Interest Mortgage Bonds may be redeemed only on an Interest Payment Date.
- (ii) Partly Paid Mortgage Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(g) *Purchases*

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

(h) *Cancellation*

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

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

If the amount payable in respect of any Zero Coupon Mortgage Bond upon redemption of such Zero Coupon Mortgage Bond pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 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 paragraph 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 Holders 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 will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and/or interest which would otherwise have been receivable in respect of the Mortgage Bonds, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Mortgage Bonds:

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

8. EVENTS OF DEFAULT

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

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

- (i) the Issuer fails to make payment 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
- (ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Bonds and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or
- (iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 8(b)) owing by the Issuer is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this subparagraph (v) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money

relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or

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

then any Holder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Mortgage Bond held by the Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 5(e)), together with the accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Pursuant to the relevant provisions of Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Bonds, together with the relevant asset cover, to another mortgage loan credit institution. This transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer the Mortgage Bonds will be cancelled and the transferee mortgage loan credit institution will issue its mortgage bonds (the **New Mortgage Bonds**) to the Holders on the same terms and conditions as those of the Mortgage Bonds. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Bond held by it to be due and payable pursuant to this Condition 8(a), although this will not prejudice any rights a Holder may have under the New Mortgage Bonds.

(b) *Definitions*

For the purposes of this Condition 8:

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

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(d). Notice of any variation, termination, appointment or change in 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 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 leading English language daily newspaper of general circulation in London, and, for so long as the Mortgage Bonds are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. So long as the Mortgage Bonds are listed on the Official List of the Luxembourg Stock Exchange, the Issuer will also request that notices to holders of the Mortgage Bonds be published on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any the relevant stock exchange or other relevant regulatory authority. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and, in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

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

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, SUBMISSION TO JURISDICTION AND WAIVER OF SOVEREIGN IMMUNITY

- (a) *Governing law*

The Mortgage Bonds and any non-contractual obligations arising out of or in connection with the Mortgage Bonds are governed by, and construed in accordance with, Hungarian law.

(b) *Submission to jurisdiction*

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

(c) *Waiver of sovereign immunity*

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the courts of any relevant jurisdiction in relation to the recognition of any arbitral award rendered by the Money and Capital Markets Arbitration Courts and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final award or judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Disputes.

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

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

- (a) any modification (except as mentioned above) of the Mortgage Bonds or the Agency Agreement which, in the sole opinion of the Issuer, is not prejudicial to the interests of the Holders; or

- (b) any modification of the Mortgage Bonds, or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 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

Any reference in the Terms and Conditions to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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 Pricing Supplement in relation to any Series/Tranche of Exempt Mortgage Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, complete the following Terms and Conditions for the purpose of such Mortgage Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Mortgage Note and definitive Mortgage Note. Reference should be made to "Applicable Final Terms of the Mortgage Bonds/Mortgage Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Mortgage Notes.

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

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

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

The Mortgage Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 15 May 2013 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Mortgage Note (or the relevant provisions thereof) are set out in Part A of the Final Terms (or Pricing Supplement, in the case of Exempt Mortgage Notes) attached to or endorsed on this Mortgage Note which supplement these Terms and Conditions (the **Conditions**) and, in the case of a Mortgage Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Mortgage Note**), may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, complete the Conditions for the purposes of this Mortgage Note. References to the applicable Final Terms are, unless otherwise stated, to Part A of 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. Exempt Mortgage Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Mortgage Notes do not have Receipts, Coupons or Talons attached on issue.

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 Mortgage Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Mortgage Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant in relation to the Mortgage Notes (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Mortgage Note Deed of Covenant**) dated 15 May 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 and the Mortgage Note Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. 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 (<http://www.bourse.lu>). If this Mortgage Note is an Exempt Mortgage Note, the applicable Pricing Supplement will only be obtainable by a Mortgage Noteholder holding one or more Mortgage Notes and such Mortgage Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Mortgage Notes and identity. The Mortgage Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Mortgage Note Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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 Specified Currency in 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.

Unless this Mortgage Note is an Exempt Mortgage Note, this Mortgage Note may be a Fixed Rate Mortgage Note, a Floating Rate Mortgage Note or a Zero Coupon Mortgage Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

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

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

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

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

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

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

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

So long as the relevant clearing systems so permit, the Mortgage Notes may be tradeable only in principal amounts of at least the Specified Denomination (or its foreign currency

equivalent) and integral multiples of such other EUR 1,000 (or its foreign currency equivalent).

2. STATUS OF THE MORTGAGE NOTES

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

3. INTEREST

(a) *Interest on Fixed Rate Mortgage Notes*

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

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

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

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

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

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 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; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
- (iii) in the Conditions:

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

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

(b) *Interest on Floating Rate Mortgage Notes*

(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 on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 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:

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

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Mortgage Notes 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.

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate (being either BUBOR, LIBOR or EURIBOR, 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 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 paragraph 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 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 Global Mortgage Note, the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Mortgage Note (or, if they are Partly Paid Mortgage Notes, the aggregate amount paid up); or
- (2) in the case of Floating Rate Mortgage Notes 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) if "Actual/365 (A'KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

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

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

where:

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

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

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

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

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Mortgage Notes 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 first London Business Day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will 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) by the Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Mortgage Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Mortgage Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Exempt Mortgage Notes*

The rate or amount of interest payable in respect of Exempt Mortgage Notes which are not also Fixed Rate Mortgage Notes or Floating Rate Mortgage Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Mortgage Notes are Index Linked Interest Mortgage Notes the provisions of Condition 3(b) shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Mortgage Notes and to the Agent were references to Index Linked Interest Mortgage Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

(d) *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 of Hungary (1959. évi IV. törvény a Polgári Törvénykönyvről) (the **Civil Code**) until whichever is the earlier of:

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

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

Payments will be subject in all cases to (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, Receipts and Coupons*

Payments of principal in respect of definitive Mortgage Notes will (subject as provided below) be made in the manner provided in Condition 4(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Mortgage Notes, and payments of interest in respect of definitive Mortgage Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Mortgage Notes in definitive form (other than Long Maturity Mortgage Notes (as defined below) and save as provided in Condition 4(d)) 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 Mortgage Notes*

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

(d) *Specific provisions in relation to payments in respect of certain types of Exempt Mortgage Notes*

Payments of instalments of principal (if any) in respect of definitive Mortgage Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Mortgage Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Mortgage Note to which it appertains. Receipts presented without the definitive Mortgage Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Mortgage Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Dual Currency Mortgage Note or Index Linked 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.

(e) *General provisions applicable to payments*

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

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

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

(f) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 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) London;
 - (C) each Additional Financial Centre specified in the applicable Final Terms; and
 - (D) Budapest;
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open;
- (iii) a day on which KELER, Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(g) *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 Exempt Mortgage Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Mortgage Notes, the Amortised Face Amount (as defined in Condition 5(e)(iii)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Notes.

Any reference in the Conditions to interest in respect of the Mortgage Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 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 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 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 taking reasonable measures available to it,

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

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

Mortgage Notes redeemed pursuant to this Condition 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 Mortgage Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, a list of the serial numbers of such Redeemed Mortgage Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Mortgage Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 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 nor 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 Mortgage Note will, following delivery of the Put Notice, be held to its order or under its control. If this Mortgage Note is represented by a Global Mortgage Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Mortgage Note the holder of this Mortgage Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Mortgage Note is represented by (i) a Global Mortgage Note which has not been issued in a new global note (NGN) form as specified in the applicable Final Terms, at the same time present or procure the presentation of the relevant Global Mortgage Note to the Agent for notation accordingly or (ii) a Global Mortgage Note which has been issued in NGN form as specified in the applicable Final Terms, at the same time procure that proper instruction is given to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such redemption.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Mortgage Note pursuant to this Condition 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 or manner is so specified in the applicable Final Terms, at its nominal amount; or

- (iii) in the case of a Zero Coupon Mortgage Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

^y is 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) *Specific redemption provisions applicable to certain types of Exempt Mortgage Notes*

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Mortgage Notes and Dual Currency Redemption Mortgage Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 5(b), Index Linked Interest Mortgage Notes and Dual Currency Interest Mortgage Notes may be redeemed only on an Interest Payment Date.

Instalment Mortgage Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Mortgage Notes will be determined in the manner specified in the applicable Pricing Supplement.

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

(g) *Purchases*

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

(h) *Cancellation*

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

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

If the amount payable in respect of any Zero Coupon Mortgage Note upon redemption of such Zero Coupon Mortgage Note pursuant to Conditions 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, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Mortgage Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Mortgage Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Mortgage Note, Receipt or Coupon:

- (a) presented for payment in Hungary; or
- (b) the Holder of which is liable for such taxes or duties in respect of such Mortgage Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(f)); or

- (d) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Mortgage Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means 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 for payment under the Mortgage Notes may not be prescribed unless otherwise permitted by Hungarian law.

8. EVENTS OF DEFAULT

(a) *Events of Default relating to Mortgage Notes*

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

- (i) the Issuer fails to make payment 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
- (ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

- (iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 8(b)) owing by the Issuer is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this subparagraph (v) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or
- (vi) the Issuer becomes subject to any special supervisory measure of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*),

then any Holder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Mortgage Note held by the Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 5(e)), together with the accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Pursuant to the relevant provisions of Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution. This transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer the Mortgage Notes will be cancelled and the transferee mortgage loan credit institution will issue its mortgage bonds (the **New Mortgage Notes**) to the Holders on the same terms and conditions as those of the Mortgage Notes. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Note held by it to be due and payable pursuant to this Condition 8(a), although this will not prejudice any rights a Holder may have under the New Mortgage Notes.

(b) *Definitions*

For the purposes of this Condition 8:

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

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

Should any Mortgage Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced

Mortgage Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

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) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;
- (b) so long as the Mortgage Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(d). Notice of any variation, termination, appointment or change in 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 do not assume any obligation to, or relationship of agency or trust with, any Mortgage Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

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 leading English language daily newspaper of general circulation in London and for so long as the Mortgage Notes are admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and the Luxembourg Stock Exchange's website,

<http://www.bourse.lu>. It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Mortgage Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Until such time as any definitive Mortgage Notes are issued, there may, so long as any Global Mortgage Notes representing the Mortgage Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Mortgage Notes and, in addition, for so long as any Mortgage Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Mortgage Notes on 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 Mortgage Note, such notice may be given by any holder of a Mortgage Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

13. FURTHER ISSUES

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

14. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Mortgage Notes and any non-contractual obligations arising out of or in connection with the Mortgage Notes are governed by, and construed in accordance with, Hungarian law.

(b) *Submission to jurisdiction*

The Issuer and the Holders agree to subject any disputes which may arise out of or in connection with the Mortgage Notes, the issue thereof or any document created in connection with such issue (including a dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Notes) (the **Disputes**), to the exclusive jurisdiction of the Money and Capital Markets Arbitration Court defined under Section 376 of the Capital Markets Act. The Money and Capital Markets Arbitration Court shall proceed in accordance

with its own rules of procedure provided that the arbitration proceedings shall be conducted in the English language.

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 Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Mortgage Noteholders holding not less than 10 per cent. in nominal amount of the Mortgage Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Mortgage Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Mortgage Noteholders whatever the nominal amount of the Mortgage Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Mortgage Notes, the Receipts or the Coupons (including modifying the date of maturity of the Mortgage Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Mortgage Notes or altering the currency of payment of the Mortgage Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Mortgage Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Mortgage Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Mortgage Noteholders shall be binding on all the Mortgage Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

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

Any such modification shall be binding on the Mortgage Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Mortgage Noteholders in accordance with Condition 12 as soon as practicable thereafter.

APPLICABLE FINAL TERMS OF THE NOTES

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[Date]

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

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

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 15 May 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**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date] which are incorporated by reference into the Base Prospectus dated 15 May 2013 and are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 15 May 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 and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and these Final Terms has been published on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>).

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

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

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

1. (a) Series Number: []
- (b) [Tranche Number: []]
- (c) Date on which the Notes will be consolidated and form a single Series: [The Notes 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, as referred to in item 21 below, which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency or Currencies: []
3. Aggregate Nominal Amount:
- (a) [Series: []]
- (b) [Tranche: []]
4. [Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
5. (a) Specified Denominations: []
- [The Notes will be tradeable only in integral principal amounts of Specified Denominations: EUR 100,000* and integral multiples of EUR 1,000† in excess thereof up to and including EUR 199,000‡. No Notes in definitive form will be issued with a denomination above EUR 199,000§.]
- (N.B. Notes must have a minimum denomination of EUR 100,000 (or equivalent).)*
- (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")*
- (b) Calculation Amount []

* Or its foreign currency equivalent.
† Or its foreign currency equivalent.
‡ Or its foreign currency equivalent.
§ Or its foreign currency equivalent.

Specified Denomination.

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

6. (a) Issue Date: []
(b) Interest Commencement Date: []

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

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

8. Interest Basis: [[] per cent. Fixed Rate]
[[] month [LIBOR/EURIBOR]] +/- [] per
cent. Floating Rate]
[Zero Coupon]
(see item [13]/[14]/[15] below)

9. Redemption/Payment Basis: Subject to any purchase and cancellation or
early redemption, the Notes 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 items 13 and 14
below and identify there][Not Applicable]

11. Put/Call Options: [Investor Put]
[Issuer Call]
[Not Applicable]
[(see item [17]/[18]/[19] below)]

12. (a) Date [Board] approval for issuance of [] [and [], respectively]]
Notes obtained

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

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

each Interest Payment Date

- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(Amend appropriately in the case of irregular coupons.)
- (c) Fixed Coupon Amount(s): [] per [] in nominal amount
- (d) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) [Determination Date(s): [] in each year][Not Applicable]
(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 a long or short first or last coupon)
14. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [] month [LIBOR/EURIBOR].
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than

Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)

- Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate.)

(g) ISDA Determination:

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

(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]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360] [360/360][Bond Basis]
[30E/360] [Eurobond Basis]
30E/360 (ISDA)]
(See Condition 4 for alternatives.)

15. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph.)

(a) Accrual Yield: [] per cent. per annum

(b) Reference Price: []

(c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

PROVISIONS RELATING TO REDEMPTION

16. Notice periods for Condition 6.2: Minimum period: [] days
Maximum period: [] days

17. Issuer Call: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph.)

- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (c) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []

- (d) Notice periods: Minimum period: [] days
Maximum period: [] days
(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]
(If not applicable, delete the remaining subparagraphs of this paragraph.)

- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [] per Calculation Amount

(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes)

- (c) Notice periods: Minimum period: [] days
Maximum period: [] days

(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 15 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: [] per Calculation Amount
20. Early Redemption Amount payable on redemption for taxation reasons or on event of default): [] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:
- (a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves.)*
- (b) New Global Note: [Yes/No]
22. Additional Financial Centre(s): [Not Applicable/give details]
- (Note that this item relates to the place of payment and not Interest Period end dates to which items 14(c) relates.)*
23. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the 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]

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

Signed on behalf of the Issuer:

By: By:
Duly authorised Duly authorised

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made for the Notes to be admitted to trading on [[the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange]/[] with effect from []./ Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [EUR] []

2. RATINGS

The Notes to be issued [have been]/[are expected to be] rated/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].

Each of *[defined terms]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

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

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

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. 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 other services for, the Issuer and its affiliates in the ordinary course of business. – *Amend as appropriate if there are other interests*]

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

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

[(i)] Reasons for the offer: []

[(ii)] Estimated net proceeds: []

5. YIELD (*Fixed Rate Notes Only*)

Indication of yield: []

6. HISTORIC INTEREST RATES (*Floating Rate Notes Only*)

Details of historic [LIBOR/EURIBOR/specify other Reference Rate] rates can be obtained from [Reuters].

7. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): []

(vi) Deemed delivery of clearing system notices for the purposes of Condition 13: 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.

(vii) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being

satisfied that Eurosystem eligibility criteria have been met.]/

[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 Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the 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.]]

8. DISTRIBUTION

- | | | |
|-------|--|--|
| (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) | If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| (iii) | Stabilising Manager(s) (if any): | [Not Applicable/ <i>give name</i>] |
| (iv) | If non-syndicated, name of relevant Dealer: | [Not Applicable/ <i>give name</i>] |
| (v) | U.S. Selling Restrictions: | Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable] |
| (vi) | Additional United States selling restrictions: | [Not Applicable/ <i>give details</i>] |

(Additional selling restrictions are only likely to be relevant for certain structured Mortgage Bonds/Mortgage Notes, such as commodity-linked Mortgage Bonds/Mortgage Notes)

APPLICABLE PRICING SUPPLEMENT

EXEMPT NOTES

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[Date]

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

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

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated [date] [as supplemented by the supplement[s] dated [date[s]]] (the **Base Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying Agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from <http://www.fhb.hu>.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus [dated [original date]] which are incorporated by reference in the Base Prospectus].

[Include whichever of the following apply or specify as "Not Applicable". 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 Pricing Supplement.]

[If the 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: []
- (b) Tranche Number: []
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes 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, as referred to in paragraph 23 below, which is expected to occur on or about [date]][Not Applicable]

2. Specified Currency or Currencies: []
3. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
4. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
5. (a) Specified Denominations: []
- (b) Calculation Amount: []
(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
6. (a) Issue Date: []
- (b) Interest Commencement Date: *[specify/Issue Date/Not Applicable]*
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon 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]
 [[*specify Reference Rate*] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [*specify other*]
 (further particulars specified below)
9. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [*specify other*]
10. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis][Not Applicable]*
11. Put/Call Options: [Investor Put]
 [Issuer Call]
 [Not Applicable]
 [(further particulars specified below)]

12. (a) Status of the Notes: [Senior/[Dated/Perpetual] Subordinated]
- (b) [Date [Board] approval for issuance of Notes obtained: [] [and [], respectively]]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form.)
- (d) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
(Applicable to Notes in definitive form.)
- (e) Day Count Fraction: [30/360/Actual/Actual (ICMA)/specify other]
- (f) [Determination Date(s): [[] in each year][Not Applicable]
(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 a long or short first or last coupon)
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes which are Exempt Notes: [None/Give details]
14. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]

- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [] month [LIBOR/EURIBOR/specify other Reference Rate].
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(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 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA) Other]

(See Condition 4 for alternatives)

- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Conditions: []
15. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes: []
- (d) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]
16. Index Linked Interest Note [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent [give name]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (e) Specified Period(s)/Specified Interest Payment Dates: []
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]

- (g) Additional Business Centre(s): []
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: []
17. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

18. Notice periods for Condition 5(b): Minimum period: [] days
Maximum period: [] days
19. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/ specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice periods: Minimum period: [] days
Maximum period: [] days
(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 five 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)

20. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (c) Notice periods: Minimum period: [] days
Maximum period: [] days
(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 15 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)
21. Final Redemption Amount: [[] per Calculation Amount/specify other/see Appendix]
22. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5(e)[Redemption and Purchase – Early Redemption Amounts]): [[] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes:
- (a) [Form:] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes only upon an Exchange Event]
- [Temporary Global Note exchangeable for definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for definitive Notes only upon an Exchange Event]
- [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14

December 2005.¹]

- (b) [New Global Note: [Yes][No]]
24. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which Items 15(c) and 17(g) relate)
25. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the 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]
26. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment. [Not Applicable/give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
27. Details relating to Instalment Notes: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Instalment Amount(s): [give details]
- (b) Instalment Date(s): [give details]
28. Other final terms: [Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. 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 [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:
Duly authorised

By:
Duly authorised]

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

¹ Include for Notes that are to be offered in Belgium.

PART B – OTHER INFORMATION

1. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].
(The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus)

2. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. 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 other services for, the Issuer and its affiliates in the ordinary course of business – Amend as appropriate if there are other interests]

3. [USE OF PROCEEDS

Use of Proceeds: []
(Only required if the use of proceeds is different to that stated in the Base Prospectus)

4. OPERATIONAL INFORMATION

- (a) ISIN Code: []
- (b) Common Code: []
- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): []
- (f) Deemed delivery of clearing system notices for the purposes of Condition 10: Any notice delivered to Holders 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.
- (g) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as

eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the 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.]]

5. DISTRIBUTION

- | | | |
|-----|--|--|
| (a) | Method of distribution: | [Syndicated/Non-syndicated] |
| (b) | If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| (c) | Stabilising Manager(s) (if any): | [Not Applicable/ <i>give name</i>] |
| (d) | If non-syndicated, name of relevant Dealer: | [Not Applicable/ <i>give name</i>] |
| (e) | U.S. Selling Restrictions: | Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable] |
| (f) | Additional United States selling restrictions: | [Not Applicable/ <i>give details</i>]
<i>(Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes)</i> |

TERMS AND CONDITIONS OF THE NOTES

Any reference in the Terms and Conditions to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

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

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

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

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 15 May 2013 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms (or Pricing Supplement, in the case of Exempt Notes) attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and, in the case of a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Note**), may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, complete the Conditions for the purposes of this Note. References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of 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. Exempt Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than

the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant in relation to the Notes (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Note Deed of Covenant**) dated 15 May 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 and the Note Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. If the 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 (<http://www.bourse.lu>). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Note Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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 Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

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

If this Note is an Exempt Note, this Note may also be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

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

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

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

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

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

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

2. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding, the Issuer shall not create or permit to be outstanding any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any Guarantee in respect of any Indebtedness, without, in the case of the creation of a Security Interest, at the same time and, in any other case, promptly

according to the Noteholders an equal and rateable interest in the same or providing to the Noteholders such other security as shall be approved by an Extraordinary Resolution of the Noteholders.

As used herein:

Indebtedness means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt, mortgage bonds issued in accordance with Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről és a jelzáloglevélről*), as amended) which are, or are intended to be or are capable of being, listed or traded on any stock exchange, over the counter or on other organised market for securities and which are:

- (i) denominated, payable or optionally payable in a currency other than Hungarian Forint; and
- (ii) not initially and primarily distributed to investors inside Hungary.

Guarantee means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness.

Security Interest means any mortgage, charge, pledge, lien or other similar encumbrance or security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

Permitted Security Interest means a Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof that is created pursuant to an asset-based financing or like arrangement (including a securitisation transaction) whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues, provided that, the aggregate outstanding amount of assets or revenues that are the subject of such security shall not at anytime exceed an amount equal to 15 per cent. of the total assets of the Issuer, but always subject to the laws and regulations applicable to the Issuer, as evidenced by its most recent audited financial statements (or, if at any time the Issuer prepares consolidated financial statements, its most recent audited consolidated financial statements).

4. INTEREST

4.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream,

Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

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

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

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

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

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

4.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

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

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

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

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

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x)

above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

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

(b) Rate of Interest

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

(i) ISDA Determination for Floating Rate Notes

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

- (A) the Floating Rate Option is as specified in the applicable Final Terms;

- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

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

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

(ii) **Screen Rate Determination for Floating Rate Notes**

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

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

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

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

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

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

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

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

The Agent 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 Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2(d):

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

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

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

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

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

where:

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

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

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

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

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D₂ will be 30.

(e) Notification of Rate of Interest and Interest Amounts

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

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, by the Agent shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Exempt Notes

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Notes are Index Linked Interest Notes the provisions of Condition 4.2 shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Notes and to the Agent were references to Index Linked Interest Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

4.4 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and

- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

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

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 7 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.

5.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below) and save as provided in Condition 5.4) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

5.3 Payments in respect of Global Notes

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

5.4 Specific provisions in relation to payments in respect of certain types of Exempt Notes

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Dual Currency Note or Index Linked 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.

5.5 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the

records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

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

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

5.6 Payment Day

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation;
 - (ii) London;
 - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

5.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7;

- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

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

6. REDEMPTION AND PURCHASE

6.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each 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.

6.2 Redemption for tax reasons

Subject to Condition 6.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate 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 13, the Noteholders (which notice shall be irrevocable), if:

- (a) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to

redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3 Redemption at the option of the Issuer (Issuer Call)

This Condition 6.3 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons), such option being referred to as an Issuer Call. The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 6.3 for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

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 Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

6.4 Redemption at the option of the Noteholders (Investor Put)

This Condition 6.4 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an Investor Put. The applicable Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 6.4 for full information on any Investor Put. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the

Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6 accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by (i) a Global Note which has not been issued in a new global note (**NGN**) form as specified in the applicable Final Terms, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly or (ii) a Global Note which has been issued in NGN form as specified in the applicable Final Terms, at the same time procure that proper instruction is given to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such redemption.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 6.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.4 and instead to declare such Note forthwith due and payable pursuant to Condition 9.

6.5 Early Redemption Amounts

For the purpose of Condition 6.2 above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

^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 Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator 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 Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator 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 Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365)

6.6 Specific redemption provisions applicable to certain types of Exempt Notes

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Notes and Dual Currency Redemption Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 6.2, Index Linked Interest Notes and Dual Currency Interest Notes may be redeemed only on an Interest Payment Date.

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

6.7 Purchases

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

6.8 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

6.9 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 6.1, 6.2, 6.3 or 6.4 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

7. TAXATION

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

- (a) presented for payment in Hungary; or
- (b) the Holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.6); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means Hungary or any political subdivision or any authority thereof or therein having power to tax; and

- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

8. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal are made within a period of 10 years and/or claims in respect of interest are made within a period of five years after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5.2 or any Talon which would be void pursuant to Condition 5.2.

9. EVENTS OF DEFAULT

9.1 Events of Default

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) the Issuer fails to make payment of any principal or interest due in respect of the Notes and such failure to pay continues for a period of 15 days; or
- (b) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (c) the Hungarian Financial Supervisory Authority initiates the liquidation of the Issuer with the competent court, or any order is made by a competent court in respect of the commencement of liquidation proceedings against the Issuer; or
- (d) the Hungarian Financial Supervisory Authority resolves on the voluntary winding up of the Issuer; or
- (e) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (f) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 9.2) owing by the Issuer or any Principal Subsidiary is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer or any Principal Subsidiary defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this subparagraph (e) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or
- (g) if the Issuer or any Principal Subsidiary ceases or gives notice of its intention or otherwise any indication of its intention to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Issuer or any Principal Subsidiary stops payment of, or

admits inability to pay its debts (or any class of its debts) as they fall due or is adjudicated by any competent court or is found bankrupt or insolvent; or

- (h) if (A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrator or other similar official, or an administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or an encumbrance takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days or (C) the Issuer or any Principal Subsidiary becomes subject to any special supervisory measures of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*); or
- (i) if the Issuer or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors),

then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

9.2 Definitions

For the purposes of the Conditions:

Indebtedness for Borrowed Money means any indebtedness for any borrowed money or amounts raised under any acceptance or acceptance credit facility.

Principal Subsidiary means at any time a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 15 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:
 - (i) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition;

- (ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, its assets represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

Notwithstanding the above definition, FHB Commercial Bank Ltd. shall always be deemed to be a Principal Subsidiary.

A report by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

10. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

11. 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) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) provided such a Paying Agent exists, the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.4. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

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

12. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. NOTICES

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

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on 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 Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at

any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

15. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing law

The Agency Agreement, the Note Deed of Covenant, the Notes, the Receipts and the Coupons and any non-contractual obligations arising therefrom shall be, governed by, and construed in accordance with, English law.

17.2 Submission to jurisdiction

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 17.2, each of the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

- (c) This Condition 17.2(c) is for the benefit of the Noteholders, the Receiptholders and the Couponholders only. To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders, may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction and (ii) concurrent proceedings in any number of jurisdictions.

17.3 Appointment of Process Agent

The Issuer irrevocably appoints the Hungarian Trade Commission at its office at 46 Eaton Place, London SW1 8AL as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of the Hungarian Trade Commission being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

17.4 Waiver of immunity

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgement, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

USE OF PROCEEDS

The net proceeds from each issue of Instruments will be applied by the Issuer for the financing of its mortgage loan business. If in respect of an issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

History and development of the Issuer

FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) was established on 21 October 1997 and duly registered in Hungary as a company limited by shares by the Court of Registration of the Budapest Metropolitan Court under Reg. No Cg. 01-10-043638 on 18 March 1998. Its registered seat is Üllői út 48., 1082 Budapest, Hungary, telephone: +36 1 452 9100. The Issuer operates in Hungary as a specialised credit institution under Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és a pénzügyi vállalkozásokról*) (the **Credit Institutions Act**) and Act XXX of 1997 on mortgage credit institutions and mortgage bonds (*1997. évi XXX. törvény a jelzáloghitelintézetéről és a jelzáloglevélről*) (the **Mortgage Credit Institutions Act**) and supervised by the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*, the **HFSA**). The main activity of the Issuer is mortgage-based lending financed by the issuance of mortgage bonds. Its two basic business lines are (primarily retail) lending and refinancing of other credit institutions. The Issuer's lending business consists largely of retail mortgage lending and, to a lesser extent, the provision of commercial mortgage credits.

The Issuer's business

The Issuer's business activities concentrate on the entire mortgage financing market building upon the Issuer's commercial background. The Issuer is also the parent bank of the FHB Banking Group (the **Group** or the **FHB Group**), which provides a wide range of banking, mortgage and capital markets services.

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

History of the Issuer

The Issuer was established as a private limited company after the enactment of the Mortgage Credit Institutions Act in 1997, with the majority of its share capital controlled by the Hungarian state. The Issuer's privatisation started in 2003 and was completed in 2007. The Issuer has been operating as a public limited company since the admission of the Issuer's shares to trading on the Budapest Stock Exchange in 2003.

The FHB Group

Formation of the Group

The Group was formed in 2006 with a view to ensuring a balanced growth in the rate of return on equity, primarily through the diversification of the Issuer's activities, increase of business volume, reorganisation of its client structure, entry into new markets, broadening its product scale and reduction of risk exposure. The Group is composed of the Issuer and its various financial institution subsidiaries (as set out in "*Members of the Group*" below).

Since the establishment of the Group, loan products of the Issuer have increasingly been sold through its subsidiary, FHB Commercial Bank Ltd. (**FHB Bank** or **FHB Commercial Bank**), and the Issuer's main focus has moved towards refinancing mortgage loans originated by FHB Commercial Bank and other partner banks, project lending and raising funds in the capital markets primarily through the issuance of mortgage bonds and senior unsecured bonds. Retail and corporate loan products sold through FHB Commercial Bank for, and on behalf of, the Issuer are booked on the balance sheet of the Issuer.

The Issuer has limited its direct lending activities to subsidised housing loans, land development loans, reverse mortgage loans, large commercial mortgage loans and housing project loans. FHB Commercial Bank is primarily engaged in selling non-subsidised, market-based retail loan products and corporate loan products.

On 30 November 2011, the Issuer divested its wholly owned subsidiary, FHB Service Ltd., which carried out primarily advisory, problem loan management and back-office activities (including IT services) within the Group. A substantial part of the activities of FHB Service Ltd had been transferred to the Issuer (such as accounting and reporting functions) and FHB Bank (such as loan back-office functions) before the transaction was effected. Nevertheless, FHB Service Ltd. will (under its new trade name, EXO-BIT Zrt.) continue to provide the Group with IT services as an external service provider under outsourcing arrangements.

Members of the Group

- *FHB Commercial Bank*
FHB Commercial Bank was established with the purpose of facilitating the expansion of lending activities and to introduce a commercial banking business line with primary focus on mortgage-based real estate financing. Front office activities, agency activities and the operation of the agent networks are carried out by FHB Bank within the Group.

As part of the strategic cooperation arrangements between the FHB Group and the Allianz Group (Hungary) (**Allianz Hungary** or the **Allianz Group Hungary**) (see "*Business strategy of the Group*" below), the FHB Group acquired Allianz Bank from Allianz Hungary in October 2010 and, following that acquisition, Allianz Bank was merged into FHB Commercial Bank in April 2011.

- *FHB Life Annuity Ltd.*
FHB Life Annuity Ltd. (formerly FHB Annuity Ltd.) was set up to maximise the benefits from cross-selling possibilities by offering the Issuer's financial products to elderly customers.

FHB Life Annuity Ltd. offers two main products for elderly customers: (1) "FHB Annuity", which is sold directly by FHB Life Annuity Ltd., and (2) "FHB Mortgage Annuity", which is a reverse mortgage product, meaning that such agreements are booked directly on the balance sheet of the Issuer. In respect of the "FHB Mortgage Annuity", FHB Life Annuity Ltd. is involved in both product development and sales activities, with the latter performed on the basis of an agency agreement concluded with the Issuer.

- *FHB Real Estate Ltd.*
FHB Real Estate Ltd. was established with a view to rationalising internal operations throughout the Group. It specialises in real estate valuation and real estate management activities.

The core business of FHB Real Estate Ltd. is to provide collateral evaluation and services in relation to investments in, and sales activities in respect of, real estate, as well as the provision of real estate management and real estate appraisal services to the members of the Group. In addition to those rendered to members of the Group, FHB Real Estate Ltd. also offers evaluation services to external clients.

To provide reliable information for real estate appraisals, mortgage lending, real estate agency, evaluation and other activities throughout the Group and to external business partners, a comprehensive database system and source of reference in respect of the housing market has been developed by FHB Real Estate Ltd. under the name of the "FHB House Price Index".

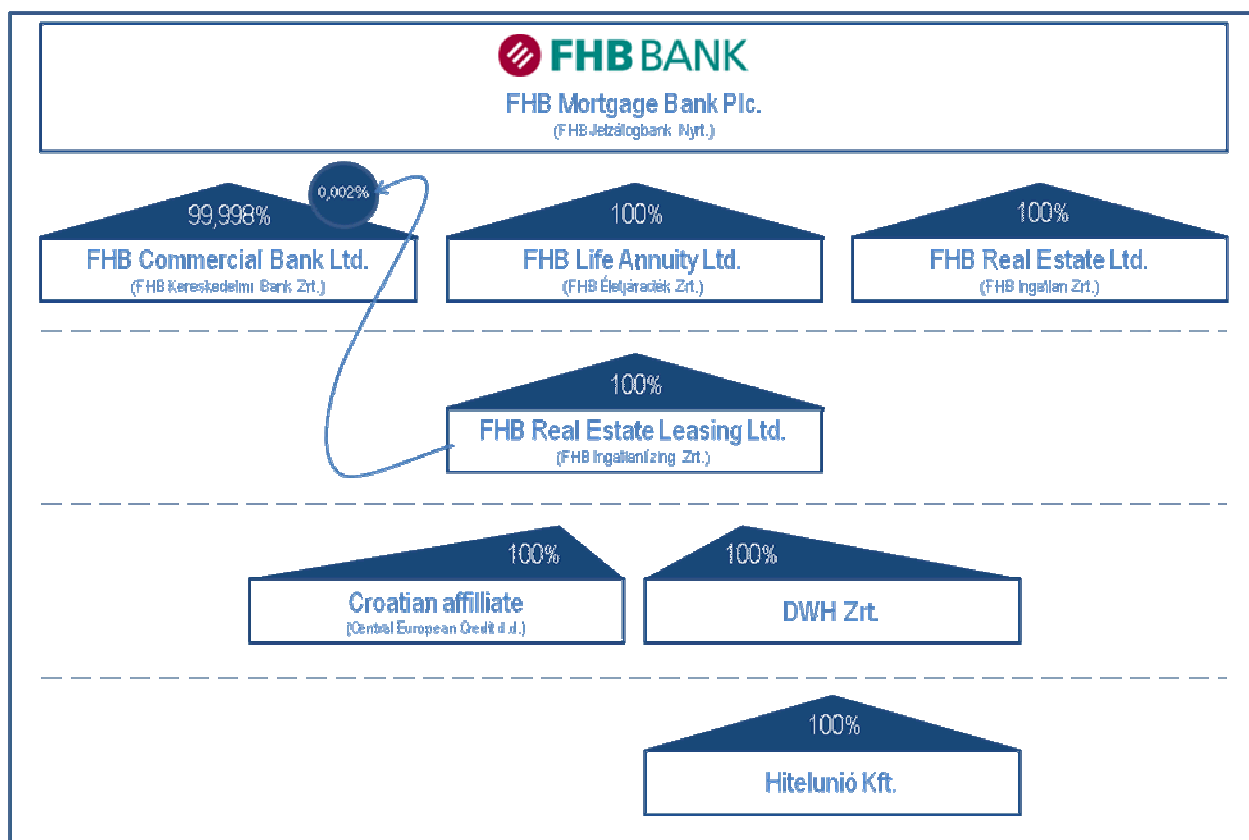
The FHB House Price Index is based on actual purchase and sale transaction prices with sufficiently long series of data and large sample sizes to reflect movements in property prices in the Hungarian market for real estate with the degree of reliability expected by professionals in the financial and housing markets. The FHB House Price Index shows changes on a quarterly basis in purchase and sale prices of Hungarian residential real estate from 1998 through the processing of transaction data of over 800,000 residential properties.

- *FHB Real Estate Leasing Ltd.*
FHB Real Estate Leasing Ltd. (formerly, Central European Credit Ltd.) was acquired by the Group in April 2009. FHB Real Estate Leasing Ltd. provides real estate leasing services mainly for private individuals. FHB Real Estate Leasing Ltd. also offers mortgage products solely on a real estate collateral basis (for general, purchase and refinancing purposes) to private individuals as well as to legal entities. FHB Real Estate Leasing Ltd. cooperates with other members of the Group and continues to participate in the premium real estate financing market.

For more information on the activities of selected members of the Group in the calendar years of 2011 and 2012 respectively, see "*Business Overview – Activities of Selected Members of the Group in 2011 and 2012*" below.

The structure of the Group

The structure of the Group as at 15 May 2013 is presented in the table below:



Business strategy of the Group

The FHB Group focuses on client-oriented banking services both in the retail and corporate segments. Its target customer groups are primarily middle class families and young professionals and career starters in the retail segment and small and medium-sized enterprises (SMEs) in the corporate segment. The FHB Group also focuses on online banking and mobile payment services.

Cooperation arrangements with Allianz Hungary

One of the major pillars of the FHB Group's current business strategy is a long-term, 20-year exclusive strategic cooperation arrangement between Allianz Hungary and the FHB Group (the underlying agreements, which were concluded on 2 July 2010, cannot be terminated prior to the end of the fifth year of their term).

Besides the expansion of the FHB Group's customer base and branch network through the acquisition of Allianz Bank (see "*Formation of the Group*" above), the strategic cooperation between Allianz Hungary and the FHB Group provides for further synergies that may be realised, including:

- cooperation on a mutual exclusivity basis in the sales of the FHB Group's products (including banking, life annuity and investment products) through the distribution channels of Allianz Hungary and, *vice versa*, the sale of the products of Allianz Hungary (including insurance services and products relating to pension, health and investment funds managed by Allianz Hungary) to nearly two million customers through the branch network of the FHB Group;
- the provision of the full spectrum of insurance services (and not merely selling points) by FHB branches for the whole customer base of Allianz Hungary (with approximately one million customer contacts on a yearly basis);
- brand-licence arrangements between Allianz Hungary and the FHB Group under which branches taken over by FHB Commercial Bank are co-branded.

Key short-term business targets for 2013

Key short-term business targets for 2013 include the:

- management of loan portfolio quality (with strengthened prevention and collection procedures);
- adoption of an even more conservative funding policy (with increased emphasis on liquidity management and liquidity reserves, diversification of funding sources, increase in the level of deposit collection, etc.);
- improvement of the FHB Group's position in domestic SME financing (with increased risk standards and collateral requirements and the exclusion of product-based lending) to offset the impacts of declining demand for mortgage loans;
- implementation of a move in respect of the Group's core sales activity towards fee generating products (e.g. transaction-based products, insurance distribution and fee-based retail investment services).

Rating developments

The following table sets out: (i) bank financial strength ratings (**BFSR**); (ii) long-term and short-term foreign and local currency bank deposit ratings (the **Bank Deposit Ratings**); and (iii) covered-bond ratings assigned by Moody's to the Issuer and the mortgage bonds issued by it over the period from 5 September 2002 to 15 February 2013 in chronological order.

Rating		Date	Action
Bank Financial Strength Rating	D-	05/09/2002	First rating
Long- and Short-Term Bank Deposit	A3/P-2	05/09/2002	First rating
Mortgage (Covered) Bonds	A1	07/10/2002	First rating
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	A2/P-1	13/12/2002	Upgrade
Bank Financial Strength Rating	D	04/08/2004	Upgrade
Bank Financial Strength Rating	D+	29/09/2005	Upgrade
HUF-denominated Mortgage (Covered) Bonds	Aa2	20/12/2005	Upgrade
Foreign currency-denominated Mortgage (Covered) Bonds	Aa2	31/05/2006	Upgrade
Foreign Currency Long-Term and Short-Term Bank Deposit	A2/P-1	January 2007	Placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	September 2007	Downgrade
Mortgage (Covered) Bonds	Aa3	01/04/2008	Downgrade
Mortgage (Covered) Bonds	A3	08/04/2009	Downgrade and placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	19/05/2009	Affirmed
Bank Financial Strength Rating	D+	19/05/2009	Affirmed with negative outlook
Mortgage (Covered) Bonds	A3	20/05/2009	Affirmed
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	21/01/2010	Affirmed with negative outlook
Long-Term and Short-Term Foreign and Local Currency Bank Deposit	Baa3/P-3	23/07/2010	Affirmed and placement on review for possible downgrade

Rating		Date	Action
Mortgage (Covered) Bonds	A3	27/07/2010	Placement on review for possible downgrade
Mortgage (Covered) Bonds	Baa1	08/12/2010	Downgrade
Bank Financial Strength Rating	D	05/04/2011	Downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	Ba1/Not Prime	05/04/2011	Downgrade
Mortgage (Covered) Bonds	Baa3	07/04/2011	Downgrade
Bank Financial Strength Rating	D	04/10/2011	Placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	Ba1/Not Prime	05/10/2011	Placement on review for possible downgrade
Mortgage (Covered) Bonds	Baa3	05/10/2011	Placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	Ba2/Not Prime	25/11/2011	Downgrade and placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	Ba3/Not Prime	16/12/2011	Negative outlook
Bank Financial Strength Rating	E+	16/12/2011	Negative outlook
Mortgage (Covered) Bonds	Ba1	20/12/2011	Downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	Ba3/Not Prime	12/12/2012	Placement on review for possible downgrade
Bank Financial Strength Rating	E+/b1	12/12/2012	Placement on review for possible downgrade
Mortgage (Covered) Bonds	Ba1	14/12/2012	Placement on review for possible downgrade
Long-Term and Short-Term Foreign and Local Currency Deposit	B2/Not Prime	14/02/2013	Downgrade with negative outlook
Bank Financial Strength Rating	E+/b3	14/02/2013	Downgrade with negative outlook
Mortgage (Covered) Bonds	Ba3	15/02/2013	Downgrade

The Issuer's current BFSR of E+ (corresponding to a standalone credit assessment of b3) and Bank Deposit Ratings of B2/Not Prime were issued by Moody's Italia S.r.l. (**Moody's Italia**) and the current rating of Ba3 on the mortgage bonds issued by the Issuer (including the Mortgage Securities issued under the Programme) was issued by Moody's Deutschland GmbH (**Moody's Deutschland**).

Each of Moody's Italia and Moody's Deutschland is established in the European Union and has been registered under Regulation (EC) No 1060/2009 on credit rating agencies as amended, the **CRA Regulation**). As such, each of Moody's Italia and Moody's Deutschland 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/data/document/2011_247_List_of_registered_CRAs_31_October_2011.pdf), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority up to the date of this Base Prospectus.

Refer also to "Credit ratings assigned to the Issuer or any Instruments may not reflect all the risks associated with an investment in those Instruments" in the section headed "Risk Factors" of this Base Prospectus.

Over-collateralisation commitment of the Issuer

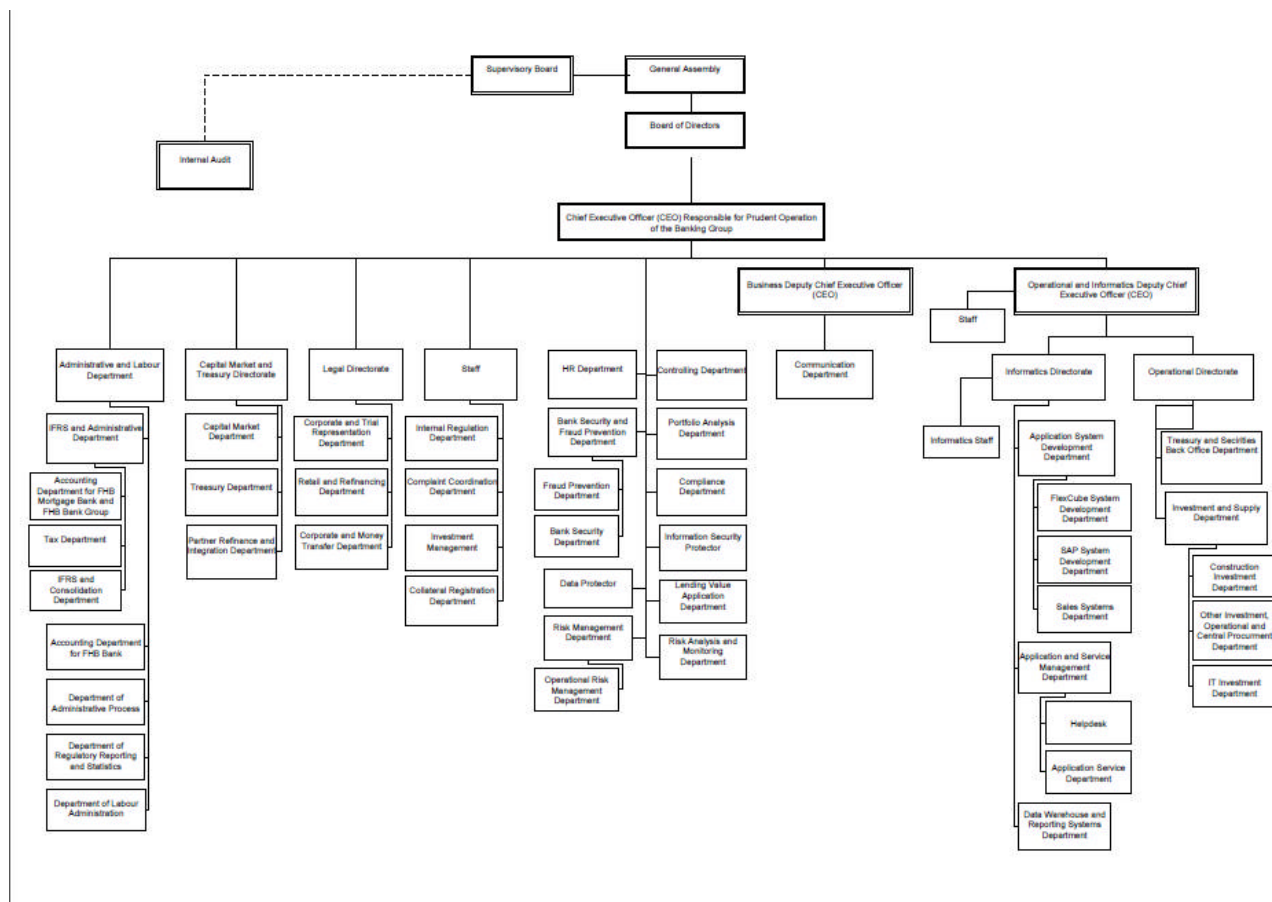
In 2008, with a view to supporting the ratings assigned by Moody's from time to time to the outstanding mortgage bonds issued by the Issuer, the Issuer issued a Notice to Mortgage Bond Holders (the **Notice**). Pursuant to the Notice, the Issuer undertakes that until and so long as the mortgage bonds issued by it are

outstanding, it will maintain (i) an additional amount of collateral over and above the statutory level, and (ii) sufficient liquid assets in the manner as described below. The method for calculating the level of over-collateralisation is in accordance with the coverage requirements of Hungarian law. The Issuer has committed itself to keeping such collateral level in place as long as the outstanding mortgage bonds issued by it are rated or, confirmation is obtained that a change in the level of over-collateralisation will not have a negative impact on the rating of such mortgage bonds. On such basis, Moody's considered such an undertaking for over-collateralisation as "committed".

Furthermore, the Issuer has undertaken in the Notice to maintain an appropriate level of liquidity in respect of the entire period in which any mortgage bond is outstanding by ensuring that sufficient liquid assets are available to cover liquidity liabilities that may arise over any twelve-month period following each calculation day.

Organisational Structure of the Issuer (as at 15 May 2013)

The Issuer's organisational structure is shown in the following diagram:



Administrative, management and supervisory bodies (as at the date of this Base Prospectus)

Directors and Officers

Members of the Board of Directors

Ákos Starcz: Appointed in April 2013. Since June 2008, he has also been a strategic director at Közép-Európai Média és Kiadó Zrt. and, since February 2009, the Chairman and CEO of Shopline-webáruház (previously Bookline.hu) Nyrt.

Dr Zoltán Spéder: Chairman, appointed in April 2008. Between 1995 and 2007, he was the vice-president of OTP Bank Plc.

Dr Christian Riener: Appointed in April 2008. Since 2000 he has worked at Vienna Capital Partners (VCP) in different positions, where he is currently a partner, a member of the board of directors and managing director.

Gabriella Balogh: Appointed in April 2013. She is also a member of the Board of Directors of FHB Commercial Bank Ltd.

Gábor Gergő Soltész: Appointed in April 2013. Deputy CEO of FHB Mortgage Bank Plc. He is also the CEO and member of the Board of Directors of FHB Commercial Bank.

Gyula Köbli: Appointed in April 2010, CEO of FHB Mortgage Bank Co. Plc. He has been the financial CFO at FHB Mortgage Bank Co. Plc. since November 2008, and has held the position of Chairman of the Board of Directors at FHB Commercial Bank Ltd. since November 2010.

Tamás Foltányi: Appointed in April 2010. He has been the operational Deputy CEO at FHB Mortgage Bank Co. Plc. since 2005.

Members of the Supervisory Board

Csaba Lantos: Appointed in April 2009. Chairman of the Supervisory Board of FHB Mortgage Bank Co. Plc. since June 2009.

Enikő Uhrin Mártonné: Appointed in April 2010. Between 2003 and 2008, she held the position of Director of the SAP Department at OTP Bank Plc.

Miklós Szabó: Appointed in April 2011. Since 2010, he has also been the CEO at EXO-BIT Zrt. (previously FHB Service Ltd).

Tibor Kádár: Appointed in April 2013. He is also the CFO of CEMP Group and Shoptline.hu Plc.

Management of FHB Mortgage Bank Co. Plc.

Members: Gyula Köbli, CEO, Tamás Foltányi, deputy CEO of the Operation and Informatics Directorate and Gábor Gergő Soltész, deputy CEO.

The address of each member of the Board of Directors, the Supervisory Board and the management is Üllői út 48., 1082 Budapest, Hungary.

Conflicts of Interest

To the best knowledge of the Issuer, there are no conflicts of interest between the duties of the members of the Board of Directors, the Supervisory Board and the management of the Issuer, and their private interests and other duties.

Trend Information

There are no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects during the current financial year.

Major Shareholders

Ownership structure of FHB Mortgage Bank Co. Plc (as at 31 March 2013):

Shareholder	Number of shares	Percentage of ownership interest in the registered capital
State*	4,724,833	7.16%
Domestic institutional investors /	36,795,859	55.75%

companies		
Foreign institutional investors / companies	14,509,484	21.98%
Domestic private individuals	3,923,000	5.94%
Foreign private individuals	18,792	0.04%
FHB employees	177,055	0.27%
FHB treasury shares	53,601	0.08%
Other	5,797,386	8.78%
Shares total:	66,000,010	100.00%

*e.g.: Magyar Nemzeti Vagyonkezelő Zrt., social security funds, municipalities, state-owned enterprises.

Entities holding more than 5 per cent. ownership interest in the registered capital of the Issuer (as at 31 March 2013)

Name	Residence ¹	Profile ²	Number of Shares	Shareholding (per cent) ³	Voting rights (per cent) ^{3,4}
VCP Finanz Holding Kft.	B	I	15,970,000	24.20%	24.20%
A64 Vagyonkezelő Kft.	B	I	10,746,468	16.28%	16.28%
Allianz Hungária Biztosító Zrt.	B	I	7,272,621	11.02%	11.02%
Silvermist Estate SA	K	I	6,316,366	9.57%	9.57%
Magyar Nemzeti Vagyonkezelő Zrt.	B	I	4,724,833	7.16%	7.16%

¹ Resident (B), Non-resident (K).

² Institutional (I).

³ Data rounded up to two decimals.

⁴ Voting rights at the General Meetings of the Issuer.

The Issuer's registered capital consists of 66,000,010 Series "A" ordinary registered shares with a nominal value of HUF 100 each, representing a total nominal value of HUF 6,600,001,000.

State support

Loan from the Hungarian State

In 2009, the Issuer received a EUR 400 million loan from the Hungarian State which was funded from the credit facility provided by the International Monetary Fund to Hungary and repayable in eight equal instalments. The Issuer fully discharged its repayment obligations together with applicable interest under such loan in November 2012. Debt servicing payments on this loan totalled EUR 200 million in each of 2011 and 2012.

EU state aid investigation

In 2009, the Hungarian State also injected HUF 30 billion (approximately EUR 90 million) of capital into the Issuer under the recapitalisation scheme set out in the 2008 Financial Stabilisation Act (see "*The Hungarian Banking System and Capital Market – Legislative measures adopted as a response to the recent global and European financial crises – Financial Stabilisation Act*" below) (the **Scheme**). As the Scheme had been authorised by the European Commission before such recapitalisation was granted to the Issuer, this capital injection (the **Capital Injection**) was not initially notified to the European Commission for approval under EU state aid rules. The Issuer paid back the full amount of the Capital Injection together with consideration to the Hungarian State on 28 October 2010.

On 24 January 2011, the European Commission opened an in-depth investigation under EU state aid rules in relation to the Capital Injection. As a result, the Issuer and the Hungarian State concluded a new agreement on the Capital Injection under which the Issuer paid an additional consideration of HUF 1.744 billion for the Capital Injection to the Hungarian State on 15 December 2011.

In conclusion of its investigation under EU state aid rules, the European Commission gave final clearance to the Capital Injection on 22 February 2012.

FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENTS

The following table shows the audited Consolidated Income Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended 31 December 2011 and 31 December 2012, respectively:

In HUF million	2011	2012
Interest income	78,433	76,670
Interest expense	-56,935	-58,124
Net interest income	21,498	18,546
Fee and commission income	3,661	3,795
Fee and commission expense	-948	-1,203
Net fee and commission income	2,713	2,592
Profit/(Loss) from foreign exchange transactions	2,465	-1,392
Change in fair value of derivatives	2,987	1,339
Gains from securities	3,648	4,801
Net trading result	9,100	4,748
Other operating income	1,030	664
Other operating expense	-2,881	-3,315
Other results	-1,852	-2,651
Credit loss expense	-19,944	-9,756
Operating expense	-18,830	-16,893
Loss before tax	-7,314	-3,414
Income tax benefit/(expense)	1,696	-1,050
Loss for the year	-5,618	-4,464
Attributable to: loss of shareholders of the Bank	-5,618	-4,464
Earnings per share (HUF 100 face value)		
Basic earning per share (HUF)	-85.21	-70.45
Diluted earnings per share (HUF)	-85.21	-70.45

The Issuer, as the parent bank of the FHB Group, has classified, recorded and reported derivative transactions on a consolidated basis in accordance with international accounting standards. Depending on the type of derivatives, different accounting methods have been applied:

- in the case of *cash flow hedges*, the effective part of the relevant change in fair value appears as other comprehensive income. This is how the Issuer accounts its multicurrency swap transactions, involving cash flows with fixed interest rates;
- in the case of *fair value hedges*, gains or losses from revaluation have been accounted in the profit and loss statement; and
- in respect of *derivative transactions with trading purposes*, revaluation of gains or losses appear directly in the profit and loss statement.

IAS 39, as amended, allows the Issuer to carry liabilities associated with trading transactions at fair value.

For information purposes, most of the loans obtained by the Issuer, and bonds and mortgage bonds issued by it were carried at amortised cost. The fair value of loans has been established on the basis of an internal model, while the internal evaluation model applied previously to bonds and mortgage bonds has been replaced by a more advanced valuation method as part of the improvement of the Issuer's risk management system.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

The following table shows the audited Consolidated Comprehensive Income Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended 31 December 2011 and 31 December 2012, respectively:

In HUF million	2011	2012
Loss for the year	-5,618	-4,464
Other comprehensive income		
<i>Change in Cash-flow hedge reserve</i>	131	-249
<i>Change in fair value of financial assets available for sale</i>	-62	-3
<i>Foreign currency translation reserve</i>	1	10
<i>Deferred tax effect for other comprehensive income</i>	7	48
Other comprehensive income/(loss) for the period net of taxes	77	-194
Total comprehensive loss for the year, net of income taxes	-5,541	-4,658
Attributable to:- loss of shareholders of the Bank	-5,541	-4,658

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table shows the main features of the audited Consolidated Statement of Financial Position¹ of the Issuer in accordance with International Financial Reporting Standards for the years ended 31 December 2011 and 31 December 2012, respectively:

in HUF million	2011	2012
Cash on hand	2,554	2,164
Due from banks and Balance with the National Bank of Hungary	65,046	33,981
Securities held for trading	1,832	7,815
Financial assets available-for-sale	85,891	158,848
Derivative financial assets	2,695	4,344
Refinanced mortgage loans	226,890	164,990
Loans and advances to consumers	420,260	371,931
Impairment and provision	-39,033	-37,348
Investment property	11,311	11,463
Tangible assets	6,299	5,961
Goodwill and other intangible assets	14,174	12,753
Deferred tax asset	6,345	6,396
Other assets	11,850	9,327
Total assets	816,114	752,625
Due to banks	20,992	92,781
Issued securities	341,181	252,681
Deposits from customers	161,105	152,206
State loans	62,694	0
Derivative financial liabilities	60,511	23,184
Financial liabilities at fair value through profit or loss, except derivatives	97,342	104,888
Finance lease liabilities	10,060	11,029
Reserve for annuity payments	2,265	2,410
Current tax liability	6	42
Deferred tax liability	710	643
Provisions	267	173
Other liabilities	5,600	3,922
Subordinated debt	0	31,126
Total liabilities	762,733	675,085
Share capital	6,600	6,600
Share premium	1,709	1,709
Treasury shares	-29	-29
Non-core Subordinated Tier 1 capital	0	28,923
Cash-flow hedge reserve	201	0
Other reserves	-86	-4
Retained earnings	50,604	44,805
Loss for the year	-5,618	-4,464
Total shareholders' equity	53,382	77,540
Total liabilities and shareholders' equity	816,114	752,625

¹ Certain lines in the above table expands certain line items of the Issuer's audited IFRS Consolidated Statement of Financial Position for the financial years of 2011 and 2012 into subcategories [and certain lines in the above table show certain line items of the Issuer's audited IFRS Consolidated Statement of Financial Position for the financial years of 2011 and 2012 in a condensed manner]

CONSOLIDATED CASH FLOW STATEMENT

The following table shows the audited Consolidated Cash Flow Statement of the Issuer in accordance with International Financial Reporting Standards for the years ended 31 December 2011 and 31 December 2012, respectively:

in HUF million	2011	2012
Cash flow from operating activities		
Loss for the year	-5,618	-4,464
<i>Non cash adjustments to net profit from:</i>		
Depreciation and amortization	2,454	2,496
Decrease in fair value of Investment property	106	80
Revaluation of investment properties	-46	-60
Provision for losses	15,204	-1,779
Gain on tangible assets derecognized	1,410	29
Loss on intangible assets derecognized	-2,332	0
Share-based payment reserve	-135	-106
Expenses related to share-base payment	163	0
Capitalized interest on loans and advanced to customers	-1,672	-993
Fair value adjustment of derivatives	-831	-39,177
Fair value adjustment on financial liabilities through profit or loss, except derivatives	9,433	1,329
Change in annuity reserve	263	540
Change in foreign currency translation reserve	1	11
Impairment of goodwill and intangible assets	1,126	0
Operating profit before change in operating assets	19,526	-42,094
<i>Decrease/(Increase) in operating assets:</i>		
Securities held for trading	2,926	-5,983
Financial assets available-for-sale	17,362	-72,960
Refinanced mortgage loans	33,430	61,900
Loans and advances to customers	1,552	49,322
Other assets	-6,999	2,473
<i>Increase/(Decrease) in operating liabilities:</i>		
Deposits from customers	48,365	-8,899
Due to banks	-1,149	90,389
Other liabilities	868	-1,708
Net cash flow from operating activities	115,881	72,440
Cash flow from investing activities		
Proceeds from sales of tangible assets	60	33
Purchase of tangible and intangible assets	-1,260	-800
Purchase of investment property	-10	-313
Sale of investment property	65	141
Paid from reserves on annuity business	-377	-395
Net cash flow from disposal of subsidiaries	-6	0
Net cash outflow from investing activities	-1,528	-1,334
Cash flow from financing activities		
Proceed from issued securities	26,201	125,221
Principal repayment on issued securities	-94,919	-193,993
Treasury shares purchased	-69	0
Repayment of long term loans	-50,168	-63,900
Long term loan borrowing	233	219
Finance lease liabilities repayment	-4,140	969

in HUF million	2011	2012
Issue of Capital Securities (non-core tier 1 capital)	0	28,923
Net cash outflow from financing activity	-122,862	-102,560
Net increase in cash and cash equivalents	-8,508	-31,454
Opening balance of cash and cash equivalents	76,107	67,599
Closing balance of cash and cash equivalents	67,599	36,145
Breakdown of cash and cash equivalents:		
Cash on hand	2,554	2,164
Balances with National Bank of Hungary	8,707	5,117
Dues from banks with a maturity of less than 90 days	56,338	28,864
Closing balance of cash and cash equivalents	67,599	36,145
<i>Supplementary data</i>		
<i>Income tax paid</i>	<i>-1,245</i>	<i>-1,429</i>
<i>Interest received</i>	<i>76,322</i>	<i>76,639</i>
<i>Interest paid</i>	<i>-55,911</i>	<i>-55,426</i>

STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

The following table shows the audited Statement of Consolidated Shareholders' Equity of the Issuer in accordance with International Financial Reporting Standards for the years ended for the years ended 31 December 2011 and 31 December 2012, respectively:

in HUF million	Share capital	Treasury shares	Share premium	General reserve	Cash flow hedge reserve	Non-core subordinated Tier 1 capital	Share-based paymentreserve	Change in fair value of fin. assets available for sale	Foreign currency translation reserve	Retained earnings	Share-holders' equity
1 January 2011	6,600	-123	1,709	0	101	0	241	-187	19	50,604	58,964
Loss for the year										-5,618	-5,618
Other comprehensive income					100			-25	1		76
Purchase/(Sale) of treasury shares		94									94
Share-based payment							-161				-161
Change in share-based payment reserve							26				26
1 January 2012	6,600	-29	1,709	0	201	0	106	-212	20	44,986	53,381
Change of general reserve				181						-181	0
Loss for the year										-4,464	-4,464
Other comprehensive income					-201			-4	11		-194
Non-core Subordinated Tier 1						28,923					28,923
Change in share based payment reserve							-106				-106
31 December 2012	6,600	-29	1,709	181	0	28,923	0	-216	31	40,341	77,540

BUSINESS OVERVIEW

The financial information in this Base Prospectus has been extracted partly from the audited consolidated annual financial statements of the Issuer in respect of the financial years ended on 31 December 2011 and 2012 and from the unaudited controlling database of the Issuer.

The main activities of the Issuer, as a specialised credit institution and the parent bank of the FHB Banking Group (the **Group**), vary from residential lending to more elaborate retail and corporate mortgage products. In 2011 and 2012, the Group's business focused on four main areas: own lending, refinancing, deposit and account services, and sales of annuity schemes.

Scope of activities

The Issuer is authorised to pursue the following activities (listed in accordance with the classification of activities in the sectors of the economy, issued by the Central Office of Statistics (**TEÁOR**)):

Other lending operations (TEÁOR No 6492'08)

Within the category of lending operations listed in TEÁOR, the Issuer is licensed to perform only the following activities from the operations specified in Section 3(2) of the Mortgage Credit Institutions Act:

- acceptance of repayable funds from the public, except for the collection of deposits;
- provision of loans that are secured by either (i) a mortgage over real estate located in the European Economic Area (**EEA**), or (ii) on-demand suretyship provided by the Hungarian state; and
- undertaking suretyships, bank guarantees and other bankers' commitments in favour of those to whom a mortgage loan has been provided by the Issuer on condition that any exposure from such commitments are covered by real estate.

Other financial operations not listed elsewhere (TEÁOR No 6499'08)

- interest rate swap transactions and foreign exchange swap transactions to hedge interest rate risks of foreign exchange liabilities (funding sources), and other options and hedging transactions.

Other supplementary financial operations not listed elsewhere (TEÁOR No 6619'08)

- mortgage brokerage; and
- currency conversion.

Products and services of the FHB Group

The most significant proportion of the Group's outstanding loan portfolio is composed of retail housing mortgage loans. Within such housing loans, most of the loans have been granted for the financing of home purchases and home buildings. Since 2009, the leading products among the newly-granted loans within the Group have been "traditional" housing mortgage loans, followed by general-purpose mortgage loans (home equity loans).

Main products

Retail lending and credit products

- loans for purposes relating to real estate;

- general purpose mortgage loans (home equity loans);
- credit granted in relation to savings in housing saving funds;
- credit granted in relation to life insurance;
- current account credit line (overdraft limit);
- personal loans;
- "Fix" personal loans linked to life insurance policies or savings under voluntary pension schemes;
- flexible (revolving) credit line; and
- credit cards.

Retail home lending

- home building mortgage loans;
- home purchase mortgage loans;
- home extension mortgage loans;
- home modernisation mortgage loans;
- home alteration loans;
- "nest-building" loans;
- subsidised loans;
- credit granted in relation to savings in housing saving funds;
- reverse mortgages for elderly people; and
- (agricultural) farm development credits.

Corporate lending and credit products

- project and structured corporate real estate financing;
- current account credit line (overdraft limit);
- loans with mortgage collateral;
- loans with security deposits (*óvadék*) posted as collateral;
- refinanced loans²;
- revolving credit line; and
- bank guarantees.

Retail payment and savings products

- account packages;
- bank cards;
- term deposits;
- long term investment deposit accounts;
- saving deposit accounts;
- structured deposits;
- lottery linked deposits; and
- mobile phone payment services.

Corporate payment and savings products

- account packages;
- term deposits; and
- structured deposits.

² Loans refinanced by FHB Commercial Bank which had been originally provided under the "New Hungary Loan Programmes" introduced by the Hungarian government.

Breakdown of loans disbursed on a yearly basis (per cent.)

Breakdown of loans disbursed on a yearly basis (%)	31/12/2011	31/12/2012
Retail loans	32%	35%
Housing	13%	6%
General purpose mortgage loans	17%	25%
Reverse mortgage loans	2%	0%
Other	0%	0%
FHB Real Estate Leasing (formerly CEC Ltd.) loans	0%	3%
Corporate loans	68%	65%
Project loans	6%	4%
Commercial real estate financing	1%	2%
General purpose loans	2%	12%
Fixed purpose loans	22%	16%
Current account overdraft	35%	31%
FHB Real Estate Leasing (formerly CEC Ltd.) loans	2%	0%

The Group's network

The Group relies on the branch network of its commercial bank member, FHB Commercial Bank Ltd. (**FHB Bank** or **FHB Commercial Bank**), which offers the whole range of commercial banking services. The branch network of FHB Bank was significantly increased in 2010 from 22 to 46 branches, out of which 19 branches are situated in Budapest, whilst the others are located in towns with county status (*megyei jogú város*).

Network of agents

The Group's distribution system also relies on sales through a network of agents.

Refinancing

The Issuer's refinancing business line is predominantly based on cooperation arrangements with FHB Commercial Bank and other partner credit institutions, including MKB Bank Ltd., Kereskedelmi és Hitelbank Ltd. (Commercial and Credit Bank Ltd.), CIB Közép-Európai Nemzetközi Bank Ltd. (CIB Central European Bank Ltd.), Erste Bank Hungary Ltd., Raiffeisen Bank Ltd., AXA Bank SA Hungary Branch and Hanwha Bank.

Under these cooperation arrangements, the Issuer refinances those residential mortgage loans granted by partner credit institutions, which are secured by mortgages created as independent liens (as defined in Act IV of 1959 on the Civil Code of Hungary, within a meaning comparable to that of a non-recourse mortgage) (the **Independent Liens**) over real estate located in Hungary. Such refinancing transactions consist of the purchase of the relevant Independent Liens by the Issuer from partner credit institutions and a simultaneous undertaking by the respective partner credit institutions to repurchase the relevant Independent Liens with the repurchase price payable in accordance with the underlying mortgage repayment terms.

Prior to the approval of the underlying mortgage loans by partner credit institutions, the Issuer conducts evaluations of the real estate properties over which the relevant Independent Liens are being created. This is because of the statutory restrictions imposed by the Mortgage Credit Institutions Act, pursuant to which the purchase of Independent Liens is made conditional on, among other things, the evaluation of the relevant mortgaged properties by the purchaser mortgage credit institution. This also ensures that the approved

amount of the underlying mortgage loans does not exceed the applicable statutory thresholds as measured on the basis of the lending value of the relevant mortgaged properties.

Apart from the evaluation of the real estate properties that are subject to the relevant Independent Liens, the underlying mortgage loans are originated in accordance with the internal rules and procedures of each partner credit institution. Risks associated with the underlying mortgage loans are also borne by the respective partner credit institution. All these in turn mean that the Issuer is not involved in customer acquisition, marketing, contracting, credit assessments, client monitoring and other activities in relation to such refinanced mortgage loans.

Refinancing (consolidated)		
	31/12/2011	31/12/2012
Refinanced portfolio (IFRS, HUF millions)	226,890	164,990
New loans/year (HAS, HUF millions)	737	51

Consolidated Breakdown of refinanced loans by contractual term (%)		
	31/12/2011	31/12/2012
0-5 years	0.11%	0.00%
5-10 years	1.28%	0.88%
10-15 years	5.72%	4.18%
15-20 years	17.50%	18.56%
20-25 years	66.42%	66.91%
Above 25 years	8.97%	9.47%

Lending

In 2011, the aggregate net amount of the FHB Group's consolidated loan portfolio (excluding refinanced loans) decreased by HUF 5.4 billion, representing a 1.4 per cent decline year-on-year. In 2012, the FHB Group's consolidated loan portfolio (excluding refinanced loans) decreased by HUF 48.3 billion, representing an 11.5 per cent decline year-on-year. This decrease primarily resulted from early repayments under a statutory early repayment scheme for certain foreign currency denominated retail loans (the **FX Early Repayment Scheme**) (see "*The Hungarian Banking System – Legislative measures adopted in response to the recent global and European financial crises – Early repayment scheme*" below).

As at 31 December 2012, 52.7 per cent. of the total outstanding loans (including refinanced loans) were denominated in foreign currencies, moderately lower than the 59.4 per cent level of 31 December 2011.

Retail loans continued to dominate within the FHB Group's consolidated loan portfolio with a share of approximately 81 per cent as at 31 December 2012 and approximately 85 per cent in 2011.

The retail loan portfolio decreased by HUF 55.1 billion between 31 December 2011 and 31 December 2012, representing a 15.4 per cent year-on-year decline. This was mainly attributed to early repayments under the FX Early Repayment Scheme and partly due to changes in foreign exchange rates. As at 31 December 2012, 50.3 per cent of the retail loan portfolio was represented by housing loans, showing a moderate decrease from the 50.8 per cent level as at 31 December 2011. The share of general-purpose mortgage loans was 46.1 per cent of the retail loan portfolio as at 31 December 2012 and 45.7 per cent as at 31 December 2011.

Corporate lending continued expanding in 2012. As a result, the aggregate value of the portfolio of corporate loans rose from HUF 62.1 billion as at 31 December 2011 to HUF 68.9 billion as at 31 December 2012.

**Breakdown of the FHB Group's consolidated loan portfolio (excluding refinanced loans) by sector and loan products
(HUF millions, IFRS)**

in HUF million	31/12/2011	31/12/2012
Retail loans	358,192	303,042
Housing loans	181,924	152,348
Other mortgage loans	163,543	139,618
Consumer loans	7,728	6,348
Loans for employees	2,244	1,935
Retail leasing	2,753	2,793
Corporate loans	62,068	68,889
Corporate loans	61,217	67,962
Corporate leasing	851	927
Total own lending, gross	420,260	371,931
Impairment	-39,033	-37,348
Loans, net	381,227	334,583

Breakdown of the FHB Group's consolidated loan portfolio (excluding refinanced loans) by contractual term (%)

Contractual term of the Group's own loan portfolio		
Term	31/12/2011	31/12/2012
	%	%
0-5 years	9%	13%
5-10 years	4%	4%
10-15 years	12%	11%
15-20 years	20%	20%
20-25 years	36%	34%
Above 25 years	19%	18%

Breakdown of the FHB Group's consolidated loan portfolio (excluding refinanced loans) by interest reset period (%)

Breakdown of own loan portfolio by interest reset period (%)		
Interest period	31/12/2011	31/12/2012
Less than one year	66%	65%
1 year	5%	5%
5 years	21%	21%
10 years	2%	2%
Fixed	6%	7%

Quality of assets

The aggregate gross value of the total consolidated loan portfolio as determined in accordance with IFRS totalled HUF 537 billion as at 31 December 2012 as compared with HUF 647 billion as at 31 December 2011.

The overall portfolio quality deteriorated both in 2011 and 2012 and the proportion of non-performing loans increased as compared with the level in the previous years, primarily due to the macroeconomic environment

and early repayments of performing loans under the FX Early Repayment Scheme. The proportion of non-performing loans within the FHB Group's total consolidated loan portfolio (including refinanced loans) increased to 13.5 per cent as at 31 December 2012 from 9.4 per cent as at December 2011. The share of non-performing loans within the Group's consolidated loan portfolio (excluding refinanced loans) was 19.5 per cent as at 31 December 2012 and 14.5 per cent as at 31 December 2011. By the end of 2012, the total outstanding amount of provisions for non-performing loans in respect of the consolidated loan portfolio (excluding refinanced loans) decreased by HUF 1.7 billion to HUF 37.3 billion from HUF 39 billion as at 31 December 2011. The average ratio of impairments (excluding provisions for expected losses from early repayments under the FX Early Repayment Scheme) in respect of non-performing loans in the consolidated loan portfolio (excluding refinanced loans) was 52 per cent as at 31 December 2012 and 53 per cent as at 31 December 2011.

Funding, liquidity and capital resources

The main source of funding for the Issuer, as a specialised mortgage credit institution, is the issuance of mortgage bonds and senior unsecured bonds in the domestic and the international capital markets under its domestic and euro medium term note and mortgage securities programmes as updated from time to time. The majority of securities issued by the Issuer are listed on the Budapest Stock Exchange as well as on the Official List of the Luxembourg Stock Exchange. Besides public offerings, the Issuer routinely arranges also for private placements. At the Group level, several other types of funding possibilities are available, such as liability-side products developed for the retail and SME sectors. The total deposit portfolio reached HUF 152 billion as at 31 December 2012, representing a 5.5 per cent decrease from HUF 161 billion as at 31 December 2011.

In 2011 and 2012, the Hungarian capital market encountered a significant scarcity of liquidity due to the recent global and European crises in the financial and capital markets, with considerable difficulties in pricing of securities in the absence of quotes reflecting real market values on both the offer and the bid sides. In order to avoid maturity concentration which could have given rise to liquidity problems in the course of 2011 and 2012, the Issuer continued to engage in proactive asset-liability management (**ALM**) activities through, *inter alia*, a number of repurchase auctions and other types of repurchase transactions in respect of its certain securities both in the domestic and the international capital markets.

In 2011, the Issuer issued 8 new series of senior unsecured bonds and 3 new series of mortgage bonds through 27 transactions with a total nominal amount of approximately HUF 85.2 billion as compared with HUF 121 billion in 2010 and repurchased several series of senior unsecured bonds and mortgage bonds in an aggregate amount of HUF 30.8 billion. Redemption of senior unsecured bonds and mortgage bonds totalled HUF 92.8 billion in 2011.

New funds raised by the Issuer in 2012 through mortgage bond and senior unsecured bond issuances amounted to HUF 181.5 billion. The aggregate nominal value of repurchase transactions effected in the same period as part of the Issuer's ALM activities totalled nearly HUF 33.2 billion in respect of HUF-denominated senior unsecured bonds and mortgage bonds and EUR 261.25 million in respect of EUR-denominated senior unsecured bonds and mortgage bonds. In 2012, the redemption of HUF-denominated senior unsecured bonds and mortgage bonds totalled HUF 57.58 billion and the redemption of EUR-denominated mortgage bonds totalled EUR 72.15 million.

The following table shows the aggregate book value and face value (each figure is in HUF millions) of senior unsecured bonds and mortgage bonds in issue as at 31 December 2011 and 31 December 2012.

in HUF million	31/12/2011		31/12/2012	
	Book value	Nominal value	Book value	Nominal value
Non-listed mortgage bonds				

in HUF million	31/12/2011		31/12/2012	
	Book value	Nominal value	Book value	Nominal value
Fixed interest rate	105,800	105,599	66,038	65,868
Floating interest rate	567	567	291	291
Listed mortgage bonds				
Fixed interest rate	166,381	168,763	148,626	147,794
Floating interest rate	54,445	57,698	11,418	12,263
Total	327,193	332,628	226,373	226,216
Accrued interest	10,772	0	6,715	
Mortgage bonds Total	337,965	332,628	233,088	226,216
Non-listed bonds				
Fixed interest rate	37,965	38,690	54,158	53,774
Floating interest rate	0	0	5,207	5,162
Subordinated loan				
Subordinated loan	0	0	29,565	29,565
Listed bonds				
Fixed interest rate	54,354	55,870	42,999	44,081
Floating interest rate	5,728	5,740	1,398	1,396
Total	98,069	100,300	133,327	133,978
Accrued interest	2,489	0	5,702	0
Bonds Total	100,558	100,300	139,029	133,978

In 2012, the Issuer issued a HUF-denominated series of Lower Tier 2 subordinated bonds (*alárendelt kölcsöntőke*) (as defined in section 19 of Schedule 5 to the Credit Institutions Act) with a total face value of HUF 15 billion and a EUR-denominated series of Lower Tier 2 subordinated bonds with a total face value of EUR 50 million. The Issuer repurchased each of these series prior to maturity with the permission of the Hungarian Financial Supervisory Authority on 20 February 2013.

In December 2012, the Issuer issued a EUR-denominated series of Non-core Tier 1 capital securities (*alapvető kölcsöntőke*) (as defined in section 11 of Schedule 5 to the Credit Institutions Act) with a total face value of EUR 102 million.

Mortgage bond coverage

For information on the requirements applicable to the coverage for mortgage bonds and the Issuer's coverage register, see "*Certain Information relating to the Mortgage Securities*" below, and for further information on the over-collateralisation commitment of the Issuer, see the section "*Description of the Issuer – Over-collateralisation Commitment of the Issuer*" above.

The value of assets included in the coverage for mortgage bonds issued by the Issuer was as follows as at 31 December 2011 and 31 December 2012 (non-consolidated):

Outstanding mortgage bonds in issue		
in HUF million	31/12/2011	31/12/2012
Face value	386,418	304,041
Interest	83,595	74,691
Total	470,013	378,733

Value of assets included in the ordinary coverage		
Principal	438,811	356,290
Interest	246,940	210,290
Total	685,751	566,580

Value of assets included in the supplementary coverage		
Total	0	0

The position of the Issuer in the Hungarian Banking System/Market

Mortgage bond market shares³

Mortgage Banks	31/12/2011	31.12.2012	31/03/2013
OTP Mortgage Bank	70.7%	75.1%	75.6%
FHB Mortgage Bank	24.2%	21.0%	20.7%
UniCredit Mortgage Bank	5.1%	3.9%	3.9%

The aggregate mortgage bond portfolio of the three Hungarian mortgage banks amounted to 1,548 billion as at 31 December 2011, HUF 1,447 billion as at 31 December 2012 and HUF 1,466 billion as at 31 March 2013. The Issuer's market share in the mortgage bond market was 24.20 per cent at the end of the fourth quarter of 2011, 21 per cent. in 2012 and 3.9 per cent. at the end of the first quarter of 2013.

Activities of selected members of the Group in 2011 and 2012

The following is a summary of the main activities of FHB Commercial Bank, FHB Life Annuity Ltd. and FHB Real Estate Leasing Ltd. in 2011 and 2012.

FHB Commercial Bank

The aggregate gross amount of FHB Bank's loan portfolio totalled HUF 232.8 billion as at 31 December 2011, representing a 40.9 per cent increase year-on-year. The aggregate amount of the portfolio of loans to corporations totalled 58.2 billion as at 31 December 2011 with a share of 18.5 per cent of total loans. The aggregate gross amount of FHB Bank's loan portfolio totalled HUF 218 billion as at 31 December 2012. The aggregate amount of the portfolio of loans to corporations totalled HUF 55.7 billion as at 31 December 2012 with a share of 25.5 per cent of total loans.

The number of retail accounts managed by FHB Bank was over 154,000 as at 31 December 2011 as compared with the figure of 45,200 for 31 December 2010. As at 31 December 2011, the aggregate amount of retail and corporate deposits was HUF 158.5 billion, representing a 41.1 per cent increase from the figure for 31 December 2010.

In 2011, FHB Bank launched several new services and products (including lottery linked deposits) with a focus on online banking. The number of the newly introduced lottery linked deposits placed with FHB totalled 18,446 with an aggregate amount of HUF 521.3 million as at 31 December 2011.

The number of retail accounts managed by FHB Bank was over 162,400 as at 31 December 2012, representing a 3.8 per cent increase from the figure for 31 December 2011. As at 31 December 2012, the aggregate amount of retail and corporate deposits was HUF 152 billion.

³ Source: website of the Association of Hungarian Mortgage Banks (used exchange rate: of the Hungarian Central Bank as of 31 March 2013)

FHB Life Annuity Ltd.

As at 31 December 2012, the aggregate value of "FHB Annuity" agreements signed by FHB Life Annuity Ltd. totalled HUF 10.9 billion as compared with the figure of HUF 11.1 billion as at 31 December 2011. The aggregate value of "FHB Annuity" agreements entered into in 2012 totalled HUF 174 million as compared with the figure of HUF 139 million for 2011.

FHB Real Estate Leasing Ltd.

As at 31 December 2011, financing provided by FHB Real Estate Leasing Ltd. under financial leases increased to approximately HUF 3.1 billion, partly resulting from portfolio restructuring within the Group. Financing provided in 2012 totalled HUF 1 billion.

RISK MANAGEMENT

Introduction

Risk taking is inherent in the provision of financial services and the Issuer, as the parent bank of the FHB Banking Group (the **Group**) and the Group assume a variety of risks in undertaking their business activities. Risk is defined in general as any event that could: damage the core earnings capacity of the Issuer; increase earnings or cash flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations.

Risk Management – individual risk types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the Issuer's risk assessment processes and which are particularly relevant to the Issuer:

- credit risk;
- interest rate risk;
- liquidity risk;
- risks from maturity mismatches;
- foreign exchange rate risk;
- operational risk; and
- risks from prepayment.

Management of credit risk

(a) Customer rating

Before assuming risks and obligations, the Group examines its prospective customers' ability and willingness to repay loans as well as the value and marketability of real estate or other collateral offered by them as coverage. The Group performs simple and complex customer ratings, classifies loan applicants and other counterparties into categories and determines a credit limit for each class. Each rating is based on a scoring/rating system specially developed for that purpose. Thus, the amount of a loan granted is based on the rating of the relevant customer, the credit limit determined for such customer and the lending value of the underlying real estate or other collateral. In the case of foreign-currency-denominated loans, foreign exchange rate risk is also taken into consideration when establishing the amount of the loan to be granted. Credit limits for retail customers and foreign-currency-denominated lending to such customers are subject to stringent limitations imposed on the Issuer and the Group (see "*The Hungarian Banking System and Capital Market – Selected consumer protection legislation in the financial sector – Requirements on credit ratings in respect of residential loans*" and "*Legislative measures adopted in response to the recent global and European financial crises – Limitations in respect of foreign currency credits*" below).

The adequacy of the scoring/rating systems applied to classifying the customers and other counterparties is subject to regular review and permanently monitored by the Group.

(b) Exposure rating and provisioning

The Group rates its exposures in accordance with its internal rules and the relevant legal regulations. Determination of expected losses and provisions for them is based on the Group's previous empirical experience relating to performance rates and actual losses deriving from non-performing loans, taking into consideration arrears in respect of (re)payments of principal and interest, changes in the financial situation of clients, other risk factors and the actual value of real estate or other collateral

pledged as security. Provisions for losses on loans are appropriated in such a way that ensures sufficient coverage for expected losses both with respect to individual transactions and at the portfolio level.

(c) *Rating of collaterals for mortgage loans originated by the Group*

The Group accepts as collateral for mortgage loans a mortgage interest or Independent Lien (as defined in "*Certain information relating to the Mortgage Securities – The collateral system of mortgage bonds – Coverage requirement*" below) established on real estate property. The Group usually requires a mortgage that ranks first in right of satisfaction. Given that a restriction on transfer of title and creation of encumbrances is in each case also registered in respect of the relevant mortgaged property in the land register by virtue of the Mortgage Credit Institutions Act, the sale of, or the creation of any further encumbrance on, that mortgaged property is conditional on the Group's prior consent. Under its mortgage loan agreements, the Group is entitled to, when its right of satisfaction becomes exercisable, decide at its discretion to procure the sale of the relevant mortgaged real estate or may agree with the relevant borrowers on the joint sale of such properties. The Group's ability to enforce or exercise such rights may, however, be subject to statutory or regulatory restrictions (see "*The Hungarian Banking System and Capital Market – Legislative measures adopted in response to the recent global and European financial crises – Mortgage relief programme – Transitional quota regime for foreclosure proceedings*" below).

The Group considers the reliable and prudent valuation of real estate to be of key importance in maintaining the soundness of its mortgage lending activities on an ongoing basis. The Group has so far relied on its own specialised expert staff in the valuation of real estate offered and accepted as collateral, which is conducted in line with the provisions of No 25/1997 (VIII.1.) order of the Minister of Finance on the principles of the methodology applicable to the establishment of the lending value of real estate not qualifying as agricultural land and No 54/1997 (VIII.1.) order of the Minister of Agriculture on the principles of the methodology applicable to the establishment of the lending value of agricultural land, and has created a database built on data obtained from tax authorities to support its valuation activity. The Group also engages independent real estate appraisal agencies to involve them in the evaluation of prospective real estate collateral. However, the lending value of mortgaged real estate properties is still established by the Issuer's expert staff.

(d) *Coverage Supervisor*

In addition to performing its duties imposed by the relevant statutory provisions, the Issuer's Coverage Supervisor (PricewaterhouseCoopers Kft.) reviews the activity of the Issuer's evaluation experts in cases identified by it, and carries out spot checks on valuations.

(e) *Strict internal regulation*

Determination of lending values and the registration of ordinary and supplementary coverage for mortgage bonds issued by the Issuer are based on stringent internal regulations as approved by the Hungarian Financial Supervisory Authority (the **HFS**A).

Interest rate risk management

The Group's interest risk mainly derives from the following factors:

- changes in the capital and money markets during the period after loan disbursements and mortgage bonds issuances;
- discrepancies between the interest periods for, and price adjustments to, loans and funds;
- reinvestment risk, that is the difference between the yield obtained by the reinvestment of funds received through early repayments, prepayments and interest payments on the original loans;

- differing interest rates and structures in respect of assets, such as annuity-based loans and liabilities, such as mortgage bonds or deposits; and
- diverse maturity structures of assets and liabilities.

Interest rate risk is managed primarily by matching the maturity structures of liabilities and assets, GAP analysis, adjusting re-pricing periods, reducing potential differences between the interest rate structure (fixed or variable) of assets and liabilities and value-at-risk (VaR) analysis. Interest rate risk management at the portfolio level is becoming increasingly important along with the use of derivative transactions, such as swaps, for hedging purposes. To this end, the Group has signed ISDA master agreements with several reputable international financial institutions.

Liquidity risk management

Maintaining liquidity is a fundamental requirement in banking. The Group maintains liquidity primarily through matching the maturity of receivables and obligations and, subject to certain limitations, by using maturity transformation techniques. At the same time, the Group also seeks to ensure that its overall solvency is at all times sustained.

The Group monitors special liquidity indicators, the ratio of liquid assets and the coverage on maturing mortgage bonds issued by the Issuer on a daily basis. Monthly analyses include the examination of maturity coverage limits and mismatches occurring amongst the various maturity brackets.

Management of maturity mismatches

In addition to primary liquid assets, the Group finances liquidity shortages in a timely manner from funds raised by means of the issuance of new mortgage bond series or other capital market instruments and deposit taking. Some of the ordinary coverage required for mortgage bond series issued for this purpose is available on a continuous basis in the form of principal repayments on long-term mortgage loans included in the coverage for the relevant mortgage bonds which are released from that coverage when such principal repayments are made on such mortgage loans at the due dates.

Prepayment risk management

With the exception of extraordinary prepayments, the Group levies a fee on prepayments on loans. Imposing such charges mitigates the risks from prepayments. The Group's ability to recover its costs incurred from prepayments is however subject to statutory limitations in respect of loans (including mortgage loans) provided to consumer borrowers (see "*The Hungarian Banking System and Capital Markets – Selected consumer protection legislation in the financial sector*" below). To analyse the early repayment ratio on a portfolio basis, the Group uses stress tests and estimations as to the volume of prepayments. The results of these procedures are also taken into consideration in the course of planning new issuances of mortgage bonds by the Issuer.

Foreign exchange rate risk management

In accordance with its business policy, the Group strives to keep the risk stemming from the fact that receivables and payables arise in different currencies at a low level. In order to manage this type of risk, the Group sets limits on positions and monitors compliance with those limitations.

Hedging these risks mainly involves the use of derivative instruments (such as swaps). The Issuer is also required to hedge by derivative transactions the foreign exchange rate risk that arises in relation to mortgage bonds it issues whose respective coverage is denominated in a currency different from the currency in which the relevant mortgage bonds are denominated (see also "*Certain information relating to the Mortgage Securities – The collateral system of mortgage bonds – Coverage requirement*" below).

Operational risk management

The Group manages possible losses deriving from operational risk by adopting appropriate policies and internal regulations on operational processes and procedures and through controlling compliance with those internal regulations.

Capital requirement calculation

Since 31 December 2011, the Group has been authorised to determine capital charges for operational risk under Advanced Measurement Approaches. Further, the Issuer has obtained permission from the HFSA for the application of the Internal Rating Based Approach for calculating capital requirements for credit risk, effective from 1 July 2008.

CERTAIN INFORMATION RELATING TO THE MORTGAGE SECURITIES

Mortgage bonds (*jelzáloglevél*) are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on mortgage credit institutions and on mortgage bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetéről 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.

The collateral system of mortgage bonds

Coverage requirement

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

The ordinary coverage for mortgage bonds consists primarily of mortgage loans adjusted for the lending value of the respective mortgaged properties, established on the basis of detailed and strict statutory regulations. Each mortgage loan (or the repurchase price of each independent lien, as applicable) may only be taken into account as coverage up to 60 per cent. of the established lending value of the relevant mortgaged property, except in respect of residential real estate, where the relevant mortgage loan (repurchase price) may only be taken into account as ordinary coverage for up to 70 per cent. of the lending value of such residential mortgaged property. Principal and interest claims arising from mortgage loans and management fees received regularly by a mortgage credit institution may serve as ordinary coverage, if the mortgage securing the respective loan is registered 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 (*önálló zálogjog*) (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 European Union (the **EU**), the EEA, the Organisation for Economic Co-operation and Development (the **OECD**) or the European Central Bank (the **ECB**); (c) securities issued by member states or full members of the EU, the EEA, or the OECD; (d) securities issued by the European Investment Bank, the International Bank for Reconstruction and Development, the Council of Europe Development Bank or the European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship (*állami készfizető kezességvállalás*) provided by the Hungarian State; (f) securities the principal and interest payment on which are guaranteed by any of the issuers listed in (c) and (d) above; (g) certain loans granted with first demand suretyship provided by the Hungarian State; and (h) covered bonds (as defined in No 196/2007. (VII.30.) order of the government) which are recognised as eligible collateral by the central bank of a member state or the ECB, except for mortgage bonds issued by the relevant mortgage credit institution and covered bonds issued by a credit institution or investment firm closely linked to that mortgage credit institution. The total amount of claims towards any of the obligors listed in (c), (d), (f) and (h) above may not at any time exceed 2 per cent. of the aggregate nominal amount of all outstanding mortgage bonds issued by the relevant mortgage credit institution.

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

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

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

The role of the Coverage Supervisor

- *Monitoring the availability of coverage assets*

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

The Coverage Supervisor:

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

The appointment of the Coverage Supervisor is valid only with the approval of the HFSA.

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

The coverage register

The coverage register contains the up-to-date data, aggregated at a portfolio level, of all outstanding mortgage bonds issued by the relevant mortgage credit institution, the mortgaged properties securing the mortgage loans that constitute the ordinary coverage for those mortgage bonds and the total value of the ordinary and supplementary coverage. The maturity register sets out details with a monthly breakdown on liabilities arising under all outstanding mortgage bonds issued by the relevant mortgage credit institution and the credit receivables included in the ordinary and supplementary coverage.

Valuation of the coverage assets

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

Accordingly, the key elements 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 lending value of such real estate.

Registration of coverage assets

- Pursuant to applicable legal requirements, the Issuer maintains a coverage register as described above. The coverage registration rules of the Issuer were approved by the Board of Directors of the Issuer (Resolutions No 57/2007 (23 November 2007) and No 5/2008 (29 February 2008)), and by the HFSA (Resolution No E-I-206/2008 (11 March 2008)) and have been reviewed by the Coverage Supervisor. Statements of the Issuer's coverage register record, both at the portfolio level and on an individual basis, the updated data of assets included in the coverage for all outstanding mortgage bonds issued by the Issuer. The aim of the portfolio level statements is to monitor compliance with: (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.

Secure position of the holders of mortgage bonds in the ranking of creditors

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

Upon ordering the liquidation, the competent court also appoints a coverage administrator (*fedezeti gondnok*) (the **Coverage Administrator**) 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 in 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 two years following the commencement of the liquidation the Coverage Administrator or any holder of mortgage bonds may request the court to supplement the Restricted Assets from the liquidation assets of the mortgage credit institution. This is subject to proving that the Restricted Assets are not sufficient to cover the claims of the holders of mortgage bonds. After two years this right elapses. The court may only resolve on the conclusion of the liquidation proceeding and the dissolution of the relevant mortgage credit institution, if (i) all the claims arising under the mortgage bonds and the derivative transactions included in the coverage have been satisfied or transferred to another mortgage credit institution, or (ii) all the assets serving as coverage for such claims have been exhausted.

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

Special status of the mortgage bonds

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

Coverage system

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

For further information, see the subsection under the heading "*Secure position of the holders of mortgage bonds in the ranking of creditors*" above.

- ***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 "*Coverage requirement*" above).

- ***Independent Coverage Supervisor***

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

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

The Mortgage Credit Institutions Act grants 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 the subsection under the heading of "*Secure position of the holders of mortgage bonds in the ranking of creditors*" above.

- ***Special supervision by the HFSA***

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

- ***Increased publicity***

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

- ***Specialised credit institution***

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

Mortgage Securities created in an OECD member state other than Hungary

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

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

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

HUNGARIAN HOUSING AND MORTGAGE MARKET

Government subsidised loan scheme

The current 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. (For more information on this mortgage relief programme, 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 enter into 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 a subsequent monthly basis.

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 arrear for over 180 days and in excess of the mandatory monthly minimum net wage in effect or has been terminated by the relevant creditor for this reason, provided in each case that the (i) market value of that mortgaged residential property did not exceed HUF 15 million, if situated in the capital and towns with county status (*megyei jogú város*) or HUF 10 million, if located elsewhere, at the time of the origination of the original underlying mortgage loan, (ii) purchaser applicants, their spouse or registered partner, their children and their relatives who are moving together with the applicants into the purchased property do not have an ownership interest, *in rem* right to use or specified leasehold interest (including an interest under a financial lease) in another residential

property with certain limited exceptions, (iii) original creditor credit institution under the original underlying mortgage loan has consented to the sale and purchase transaction, (iv) total purchase price is applied towards the repayment of the original underlying mortgage loan, and (v) creditor credit institution under the original underlying mortgage loan has waived all of its claims against the borrower under the original underlying mortgage loan which exceed the proceedings that it receives from the sale and purchase transaction on condition that the requirement in (iv) above is met) (the **Mortgaged Property Purchase Loan**) up to HUF 10 million if that mortgaged residential property is situated in the capital and towns with county status and HUF 7 million, if located elsewhere;

- downsizing purchase of a residential property by borrowers who are in default for more than 90 days with respect to repayments on their existing mortgage loan, 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 arrear, (ii) the creditor credit institution under the original underlying mortgage loan has consented to these sale and purchase transactions, (iii) the total purchase price from the sale of the existing mortgaged residential property is applied towards the repayment of the original underlying mortgage loan, (iv) the creditor credit institution under the original underlying mortgage loan has waived all of its claims under the original underlying mortgage loan which exceed the proceedings that it receives from the sale of the existing mortgaged residential property on condition that the requirement in (iii) above is met, and (v) if the underlying borrower has (A) at least 50 per cent. ownership interest in the existing mortgaged residential property, (B) had his registered place of residence therein for at least 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 arrears over 90 days in excess of the mandatory monthly minimum net wage as of 30 September 2011 (provided that the (i) creditor credit institution under the underlying foreign currency mortgage loan has waived 25 per cent. of its claims under that foreign currency mortgage loan after its redenomination into HUF; (ii) market value of the mortgaged property securing the original foreign currency mortgage loan did not exceed HUF 20 million, if situated in the capital, or HUF 15 million, if located elsewhere at the time of the origination of the original foreign currency mortgage loan; and (iii) underlying borrower has (A) his registered place of residence in the underlying mortgaged property, (B) been living in that property in common household together with at least one dependant child (including adopted children and those under guardianship) for at least one year, and (C) not fallen behind on his payment obligations over 90 days in excess of the mandatory monthly minimum net wage in effect under any restructuring programme granted by the creditor credit institution under the underlying foreign currency mortgage loan) (the **Remortgaging Loan**);
- 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 one-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 Loan 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 of 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 (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.

Retail housing market in 2012⁴

The following is a brief discussion of selected statistical information with respect to the Hungarian retail housing (residential) market in 2012. This discussion does not purport to be, and is not, a complete description of such market.

Housing (residential) construction has been declining for four consecutive years and the statistics of the housing construction industry for 2012 still reflects the effects of the economic crisis.

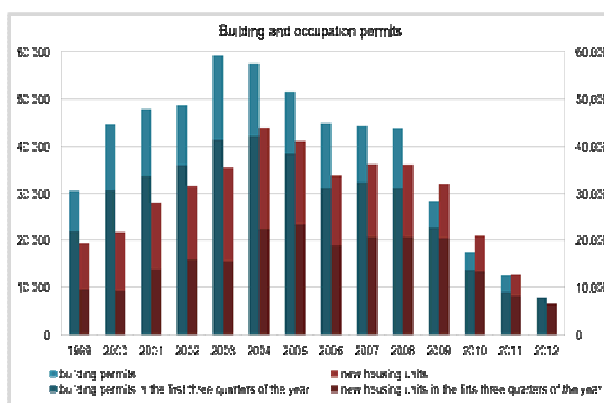
Home construction and the number of building permits decreased in 2011 and, although at a slower pace, in 2012. The number of newly built homes fell by 39 per cent. in 2011 and 17 per cent. in 2012 (year-on-year). The number of newly issued building permits for home construction decreased by 28 per cent. in 2011 and 15 per cent. in 2012.

In Budapest, the number of new home completions continued to decline and the number of new homes occupied in 2012 fell by 48 per cent. (year-on-year). Although towns with county status (*megyei jogú város*)

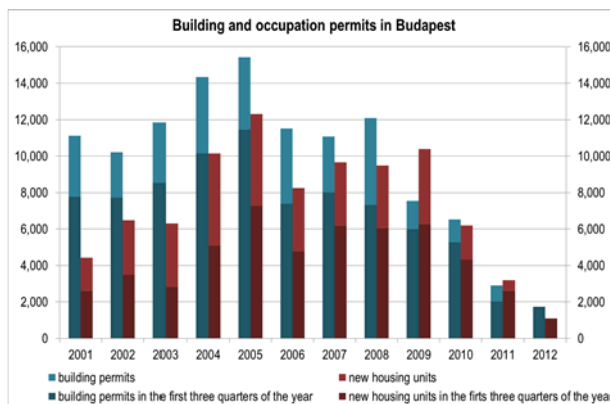
⁴ The sources of the information provided in this section: official statistics for 2012 published by the Hungarian Central Statistics Office

saw an 18 per cent. rise in the aggregate number of new homes, statistics show that this rise was limited to a few towns. Other towns and villages experienced a decline in the number of new homes on the average.

Among newly constructed dwellings, 64 per cent. was represented by family houses, 27 per cent. was made up of homes built in multi-storey or multi-family houses, and 4 per cent. consisted of commonhold apartments in residential parks or blocks-of flats. In 2012, the proportion of family houses and new dwellings in residential parks increased by 4 per cent. and 1 per cent. year-on-year, respectively. The proportion of homes built in multi-storey or multi-family houses decreased by 7 per cent. year-on-year. The average floor area of dwellings built in 2012 was 107 m² in 2012, showing a 4-m² increase year-on-year.



Source: Hungarian Central Statistics Office



Source: Hungarian Central Statistics Office

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	87,700	73,400

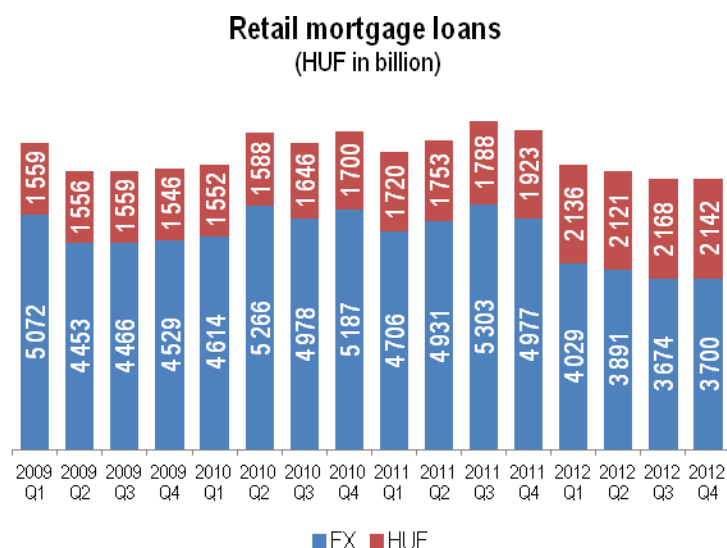
Average housing prices			
	2011	2012	Change in percentage (previous year=100%)
Resale homes	10.2	9.7	95.1
New homes	15.7	15.6	99.1

Retail mortgage lending in 2012

Demand for loans in the retail segment remained subdued in 2012.

On the basis of statistics published by National Bank of Hungary (the **NBH**), the total retail mortgage loan portfolio of banks decreased by 15.3 per cent. year-on-year and amounted to HUF 5.842 billion as at 31 December 2012.

The following chart shows selected statistical information on the basis of statistics published by the NBH with respect to the total retail mortgage and retail housing loan portfolios of Hungarian banks in 2012.



THE HUNGARIAN BANKING SYSTEM AND CAPITAL MARKET

Introduction

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

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

Hungary is currently not 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 the level of the EU 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 in the 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 3 December 2012.

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 and 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, by legislative order, impose 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; or (iii)

the deficiencies 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 even 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 take certain actions (such as appointing a special manager who either takes over the management of the Institution or work 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 to such a 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, 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, cover potentially 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 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 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 the:

- (i) quality of banks' capital by establishing EU-wide criteria for assessing the eligibility of 'hybrid' capital to be counted as part of a bank's overall capital;

- (ii) management of large exposures by restricting a bank's lending beyond a certain limit to any one party;
- (iii) risk management of securitisation, including a requirement to ensure that a bank does not invest in a securitisation unless the originator retains an economic interest;
- (iv) liquidity risk management; and
- (v) supervision of cross-border banking groups.

The 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 6.8 million). The minimum registered capital requirement amounts to at least HUF 3 billion (approximately EUR 10.2 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 HFSÁ 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 (*járvékos 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. 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) a countercyclical capital buffer that addresses the cyclical nature of lending (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 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 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:

- (i) Common Equity Tier 1 capital ratio of 4.5 per cent.;
- (ii) Tier 1 capital ratio of 6 per cent.; and
- (iii) total capital ratio of 8 per cent.

(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*:

- (i) 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;
- (ii) 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

- (iii) 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 Guarantee Fund (*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.

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 prolonged 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 ceases 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 Ítéltábla*). 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 Scheme is available to Eligible Borrowers for a period of 60 months, subject to an ultimate deadline expiring on 30 June 2017 (the **Fixed Rate Period**). Eligible Borrowers are entitled to opt for the application of the Scheme between 1 April 2012 and 31 May 2013 under each of their Covered Mortgage Loans, in respect of which the eligibility criteria for participation are met. The application of the Scheme is mandatory for the 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 opening to Eligible Borrowers with general-purpose Covered Mortgage Loans on 1 September 2012. Following the expiry of the Scheme, the exchange rates, at which repayments on Covered Mortgage Loans are calculated, will switch back to market rates. Eligible Borrowers 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 the (i) difference between the Fixed Rate and the Actual Rate for the relevant currency in respect of monthly payments of interest (including interest like charges and costs with the exception of late payment interest) (the **Waived Interest Shortfall**); and (ii) difference between the Fixed Rate and the Actual Rate in respect of monthly repayments of principal on Covered Mortgage Loans to the extent that the Actual Rate exceeds the statutory cap rates (the **Cap Rates**) set above the Fixed Rates for the relevant currency (the **Waived Principal Shortfall**). The Cap Rates are set at HUF 270 to the Swiss Franc, HUF 340 to the EUR and HUF 330 per JPY 100. Relevant Creditors 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*" below). 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:

- (i) 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
- (ii) 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 the 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 arrear 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 68,183) 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* also to retail residential loans, which are denominated in Swiss Francs, EUR or Japanese Yen and to be serviced in HUF and secured by a state guarantee provided pursuant to Act CXXXV of 2004.

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 in relation on account of losses incurred by them from early repayments under the FX Early Repayment Scheme (as described in "*Early repayment scheme*" above) 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*" above), 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 will be 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 will be 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*" above). 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*" above).

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, as to cheque remittances, by the issuer's relevant payment service provider).

In addition, 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), the Payment Transaction Duty will also be levied 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.

TAXATION

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Instruments. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Instruments, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It is based on laws currently in force in Hungary and applicable on the date of this Base Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Instruments by non-Hungarian Holders, or the payment of interest under the Instruments may trigger additional tax payments in the country of residence of the Holder, which is not covered by this summary, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration. Prospective purchasers of Instruments are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Instruments, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.

Withholding tax (foreign resident individual Holders)

The payments of interest on and capital gains realised upon the redemption or sale of publicly offered and traded Instruments (**Interest Income**) is taxed at 16 per cent. Instruments listed on a regulated market of an EEA member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EEA member state is considered as other income (**Other Income**) which is part of the individual's aggregated income and is taxed at 16 per cent. The capital gains realised on the sale of such Instruments is considered, as a general rule, capital gains income (**Capital Gains Income**). The tax rate applicable to Capital Gains Income is 16 per cent.

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

- (a) the Issuer is resident in Hungary for tax purposes;
- (b) the Issuer has a permanent establishment in Hungary and Interest Income realised on the basis of the Instruments is paid by the Hungarian permanent establishment of the Issuer;
- (c) the foreign resident individual Holder has a permanent establishment in Hungary to which the Interest Income is attributable.

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

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

Interest, as defined by Schedule 7 of the ART (which implements the provisions of the Savings Directive), realised on the Instruments by citizens of any other Member State of the European Union is not subject to

Hungarian tax where a paying agent based in Hungary provides data to the Hungarian state tax authority on the basis of Schedule 7 of the ART.

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

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

Withholding tax (foreign resident corporate Holders)

Interest on Instruments paid to foreign resident corporate Holders, who do not have a permanent establishment in Hungary, by resident legal entities or other persons and any capital gains realised by such foreign resident Holders on the sale of the Instruments is not subject to tax in Hungary.

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

Taxation of Hungarian resident individual Holders

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

According to the provisions of the Personal Income Tax Act, in the case of individual Holders, Interest Income is the income paid as interest and the capital gains realised upon the redemption or the sale of publicly offered and publicly traded debt securities. The withholding tax on Interest Income is currently 16 per cent. Instruments listed on a regulated market of an EEA member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EEA member state is considered as Other Income which is taxable as part of the individual's aggregated income and is taxed at 16 per cent. The capital gains realised on the sale or redemption of such Instruments is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 16 per cent. Under Act LXVI of 1998 on Healthcare Contributions (the **Healthcare Contribution Act**), Capital Gains Income realised by Hungarian resident individuals – subject to further conditions – is generally subject to a 14 per cent. healthcare contribution.

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

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

Taxation of Hungarian resident corporate Holders

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

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

Pursuant to Act C of 1990 on Local Taxes (the **Local Taxes Act**), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Instruments.

Luxembourg Taxation

The following summary is of a general nature and is 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. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Instruments should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident Holders

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 as amended (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident Holders, nor on accrued but unpaid interest in respect of the Instruments, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Instruments held by non-resident Holders.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the competent fiscal authority of Luxembourg, 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 Instruments coming within the scope of the Laws would at present be subject to withholding tax of 35 per cent.

(ii) Resident Holders

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended, as amended, (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Holders, nor on accrued but unpaid interest in respect of Instruments, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Instruments held by Luxembourg resident Holders.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg Paying Agent. Payments of interest under the Instruments coming within the scope of the Law would be subject to withholding tax of 10 per cent.

EU Savings Directive

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

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

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 15 May 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Instruments. Any such agreement will extend to those matters stated under "*Form of the Mortgage Bonds*", "*Terms and Conditions of the Mortgage Bonds*", "*Form of the Mortgage Notes*", "*Terms and Conditions of the Mortgage Notes*", "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Instruments under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. Until 40 days after the commencement of the offering of any Series of Instruments, an offer or sale of such Instruments within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act. The applicable Final Terms (or Pricing Supplement, in the case of Exempt Instruments) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each issuance of Exempt Instruments which are also Index Linked Instruments or Dual Currency Instruments shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Instruments which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the

Relevant Implementation Date) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

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

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

For the purposes of this provision:

- the expression an **offer of Instruments to the public** in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Hungary

In addition to the rules applicable to the European Economic Area as described above, in connection with any private placement in Hungary, each Dealer has represented and agreed and each further Dealer appointed under the Programme Agreement will be required to represent and agree that (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial and legal situation and its expected development, including that which was discussed in any personal consultation with an investor, and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY."

Italy

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

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of 4 November 2003; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**).

Any offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus or any other document relating to the Instruments in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**);
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

France

Each of the Dealers and the Issuer has represented and agreed that it has only made and will only make an offer of Instruments to the public (*appel public à l'épargne*) in France in the period beginning (i) when a prospectus in relation to those Instruments has been approved by the *Autorité des marchés financiers* (**AMF**), on the date of such approval or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the base prospectus all in accordance with

articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Instruments or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Instruments under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Mortgage Bonds was duly authorised by resolution 43/2002 of the Board of Directors of the Issuer dated 25 September 2002 and resolution 96/2003 of the Asset and Liability Committee of the Issuer dated 5 November 2003. The first update of the Programme was authorised by resolution 49/2004 of the Board of Directors of the Issuer dated 27 October 2004 and resolution 96/2004 of the Asset and Liability Committee of the Issuer dated 26 October 2004. The update of the Programme completed on 21 December 2005 was authorised by resolution No 30/2005 of the Board of Directors of the Issuer dated 27 June 2005 and resolution No 92/2005 of the Asset and Liability Committee of the Issuer dated 27 October 2005. The update of the Programme completed on 8 March 2007 and the increase of the Programme amount was authorised by resolution No 4/2007 of the Board of Directors of the Issuer dated 31 January 2007 and resolution No 76/2006 of the Asset and Liability Committee of the Issuer dated 15 November 2006. The update of the Programme completed on 4 March 2008 was authorised by resolution No 2/2008 of the Board of Directors of the Issuer dated 18 February 2008 and resolution No 21/2008 of the Asset and Liability Committee of the Issuer dated 15 February 2008. The update of the Programme completed on 24 April 2009 was authorised by resolution No 5/2009 of the Board of Directors of the Issuer dated 4 February 2009 and the resolution No 12/2009 of the Asset and Liability Committee of the Issuer dated 29 January 2009. The update of the Programme completed on 28 May 2010 was authorised by resolution No 27/2010 of the Board of Directors of the Issuer dated 18 March 2010 and the resolution No 43/2010 of the Asset and Liability Committee of the Issuer dated 24 March 2010. The update of the Programme completed on 31 May 2011 was authorised by resolution No 37/2011 of the Board of Directors of the Issuer dated 26 April 2011 and the resolution No 62/2011 of the Asset and Liability Committee of the Issuer dated 14 April 2011. The update of the Programme completed on 15 May 2013 was authorised by resolution 39/2013 of the Board of Directors of the Issuer dated 2 May 2013 and the resolution 14/2013 of the Asset and Liability Committee of the Issuer dated 29 January 2013.

Approval, listing and trading of Instruments

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available (in the case of (d) below, for inspection only) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with English translations thereof) of the Issuer;
- (b) the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2011 and 2012 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published unaudited interim (quarterly) financial statements of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;

- (d) the Programme Agreement, the Agency Agreement, the KELER Agreement (as defined in the Agency Agreement), the Mortgage Note Deed of Covenant, the Note Deed of Covenant, the forms of the Global Mortgage Notes, the Global Notes, the Mortgage Notes in definitive form, the Notes in definitive form, the receipts, the coupons and the talons;
- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, offering circulars, prospectuses, information memoranda, supplements, Final Terms and Pricing Supplements (in the case of Exempt Instruments) (save that Pricing Supplements will only be available for inspection by a Holder of such Instrument and such Holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Instruments and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Instruments listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

This Base Prospectus and the Final Terms applicable to each issue of Instruments will be available on the website of the Luxembourg Stock Exchange: <http://www.bourse.lu>.

Clearing Systems

Mortgage Bonds

The Mortgage Bonds have been accepted for clearance through KELER and, through a bridge with this clearing system, Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). Unless waived under the rules of the Luxembourg Stock Exchange for an individual Tranche of Mortgage Bonds, KELER is required to provide, for each issue of Mortgage Bonds to be listed on the Official List of the Luxembourg Stock Exchange, certification as to, *inter alia*, the existence of a bridge with Clearstream, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The appropriate Common Code and ISIN for each Tranche of Mortgage Bonds allocated by Clearstream, Luxembourg and/or Euroclear or KELER, as the case may be, will be specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Mortgage Bonds). If the Mortgage Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of KELER is Asbóth u. 9-11., 1075 Budapest, Hungary, the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg and the address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels.

Mortgage Notes and Notes

The Mortgage Notes and Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Mortgage Notes and Notes). If the Mortgage Notes and Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yield

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

Significant or Material Change

There has been no significant change in the financial position of the Issuer or its group which has occurred since 31 December 2012 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2012.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Auditors

The previous auditors of the Issuer were, until 25 April 2012, Ernst & Young Audit Ltd. of Váci út 20, H-1132 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for the financial year ended on 31 December 2011. The previous auditors of the Issuer have no material interest in the Issuer. Ernst & Young Audit Ltd. are members of the Chamber of Hungarian Auditors.

The reports of the previous auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the previous auditors who have authorised the contents of that part of this Base Prospectus. As far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The current auditors of the Issuer are, from 25 April 2012, Deloitte Auditing and Consulting Ltd. of Dózsa György út 84/C., H-1068 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for the year ended on 31 December 2012. The current 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 reports of the current auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the current auditors who have authorised the contents of that part of this Base Prospectus. As far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Post-issuance information

The Issuer does not intend to provide post-issuance information in relation to any issues of Instruments, if not otherwise required by all applicable laws and regulations.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer and its affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER

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

Üllői út 48.
1082 Budapest
Hungary

PRINCIPAL PAYING AGENT

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1 Great Winchester Street
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United Kingdom

OTHER PAYING AGENT AND LUXEMBOURG LISTING AGENT

Deutsche Bank Luxembourg S.A.

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1115 Luxembourg
Luxembourg

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To the Issuer as to Hungarian law

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To the Dealers as to Hungarian law

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1075 Budapest
Hungary

AUDITORS TO THE ISSUER

Ernst & Young Audit Ltd.

Váci út 20.
1132 Budapest
Hungary

Deloitte Auditing and Consulting Ltd.

Dózsa György út 84/C.
1068 Budapest
Hungary

ARRANGER

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London E14 5LB
United Kingdom

DEALERS

BNP Paribas

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London NW1 6AA
United Kingdom

Citigroup Global Markets Limited

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Canary Wharf
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Crédit Agricole Corporate and Investment Bank

Broadwalk House
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Deutsche Bank Aktiengesellschaft

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60272 Frankfurt am Main
Germany

DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt am Main

Platz der Republik
60265 Frankfurt am Main
Germany

Raiffeisen Bank International AG

Am Stadtpark 9
1030 Vienna
Austria