BASE PROSPECTUS

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

(incorporated with limited liability in the Republic of Hungary)

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

Under this EUR 3,000,000,000 Euro Mortgage Bond 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 (*jelzáloglevelek*) (the **Mortgage Bonds**) and Notes (the **Notes,** together with the Mortgage Bonds, the **Instruments**) denominated in any currency agreed from time to time between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Instruments from time to time outstanding under the Programme will not exceed EUR 3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

An investment in Instruments involves certain risks. For discussion of these risks, see "*Risk Factors*" beginning on page 6 of this Base Prospectus.

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

ARRANGER

DRESDNER KLEINWORT

DEALERS

BAYERISCHE LANDESBANK | **BNP PARIBAS**

CITIGROUP | **DEUTSCHE BANK**

DRESDNER KLEINWORT | **DZ BANK AG**

RZB - AUSTRIA RAIFFEISEN ZENTRALBANK ÖSTERREICH AG

The date of this Base Prospectus is 8 March 2007.
This Base Prospectus replaces the Base Prospectus dated 21 December 2005.

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

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

References in this Base Prospectus to Instruments being listed (and all related references) shall mean that such Instruments have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Market in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Mortgage Bonds*" and "*Terms and Conditions of the Notes*") of Instruments will be set out in a final terms (the "*Final Terms*") which, with respect to Instruments to be listed on the Luxembourg Stock Exchange will be filed with the CSSF.

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

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

The figures in the section entitled "*The banking between2003 and third quarter 2006 outstanding performance, growing profitability, slowing growth*" have been extracted from the "*Reports of the activities of the supervised sectors" for 2004, 2005 and the first half of 2006*, respectively published by the Hungarian Financial Supervisory Authority. The Issuer accepts responsibility that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by Hungarian Financial Supervisory Authority, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

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

in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

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

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

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

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

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

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Instruments (provided that, in the case of any Tranche of Instruments to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Instruments allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) 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.

All references in this document to "*U.S. dollars*" refer to United States dollars. All references to "*HUF*" and "*Forint*" refer to Hungarian Forint. All references to "*Sterling*" and "*£*" refer to pounds sterling. All references to "*euro*", "*EUR*" and "*€*" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

As at 7 March 2007, the euro/HUF spot exchange rate published by the National Bank of Hungary was euro 1.00 = HUF 252.60.

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

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RISK FACTORS

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

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

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

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

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

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

With the exception of the risk factors in this section entitled "*Factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme*", the Issuer does not consider there to be any other risk factors relevant to its business.

Risk factors specific to the Issuer:

- Due to statutory restrictions the Issuer cannot keep client accounts. Consequently, direct client-related information, which would automatically be available for account keeping banks, have to be obtained from other sources. the Issuer signed an agreement with Bankközi Informatika Szolgáltató Ltd. (Inter-bank Information Service Providing Company) operating an inter-bank information system and other organisations to acquire, as soon as possible, information regarding eventual delays in client payments.

- Liquidity risk: Although the structure of the Issuer’s assets and liabilities can be coordinated with the maturity structure of bonds to be issued, there is no guarantee that maturity adequacy will prevail at all times. The volatility of the interest environment will boost demands for prepayment. The fundamental goal of liquidity management is to eliminate this type of risk.

- Fund renewing risk: The maturity of the Issuer’s 1 to 5-year interest assets is typically 5 to 20 years, and of liabilities, 5 to 15 years. In certain periods of time larger volumes of issue may be necessary in order to raise funds. The Issuer has developed techniques to manage the risk of such future issues.

- Interest risk: As a result of the Issuer’s activity as a mortgage company and the relevant specific legal regulations, the Issuer has a special assets-liabilities structure within the Hungarian banking system. Loans to clients are typically long-term and annuity based, with 1 to 5 years interest brackets, and a price adjustment clause in the case of most of the subsidised loans. Liabilities, on the other hand, are largely long-term, fixed interest bearing liabilities raised on the capital market.

- Prepayment risk: Pursuant to the provisions of the Act on Mortgage Companies and Mortgage Bonds in force on the date of this Base Prospectus, prepayment on mortgage loans, i.e. full or partial repayment prior to the due dates set forth in the loan agreement can be prohibited. In cases where prepayment is allowed the mortgage institution is entitled to enforce its profit lost. In consideration of the relevant statutory provisions, the Issuer allows prepayment subject to conditions preliminarily agreed upon. Besides long-term mortgage lending and typically fixed interest mortgage bonds, decreasing the interest alleviates prepayment risk.

- Exchange rate risk: The lending risk of the Issuer's foreign exchange-based transactions is increased by the fact that the typical currency of income from customers may be different from the currency of collateral sales. Lending denominated in foreign exchange and funds raised in foreign exchange do not necessarily mean that the Issuer's receivables and obligations arise in the same currency.

- the Issuer is not involved in any litigation where the value contested exceeds 10% of the Issuer's registered capital.

- the Issuer's public liabilities: As of the publication of this Circular the Issuer has no social security or tax liabilities based on a valid order.

Risk factors stemming from the state of the Hungarian economy

- Due to its size and openness, the Hungarian economy is prone to international, particularly European, trends and processes. Deteriorating internal and external indicators may force the successive governments to adopt austerity measures. Moreover, it is not impossible that governments take economic policy, budget or monetary decisions that may have a negative impact on the Issuer's profitability.

- International trends have a quick and powerful bearing on the changes in Hungarian interest rates as well as on stock market and financial market prices. Such changes have a significant effect on the Issuer's access to funds and the conditions of raising them. It was in an efforts to attenuate its vulnerability to risk in the capital market and to expand opportunities that the Issuer decided to launch a mortgage bond programme in the international market from 2003.

- FHB's activities and the profitability of its operation is strongly affected by the macroeconomic environment and the domestic and international perception of the Hungarian economy. The macroeconomic situation will, on the one hand, determine the magnitude of disbursable housing loans and the quality of the portfolio through the size disposable income of the population. On the other hand, the deficit of the budget and of the balance of payments, inflation, interest rates and the rate of the forint have an effect on mortgage bond issues and the demand for mortgage bonds, and, as such, on the cost of funds, and thus, ultimately, affect the Issuer's profitability.

- A possible negative trend in the real estate market may result in the need for supplementary coverage on mortgage bonds.

- Access to the European Union and integration into a more developed financial system means new challenges for the Issuer.

- While the inherent risks of the convergence of the Hungarian economy to the EU (rate of the forint and interest rates) are relatively easy to forecast in the medium term, due to the unknown character of the precise nature of the adaptation process, its intensity and volatility are unforeseen.

The maturity of the Mortgage Bonds issued within the scope of this Base Prospectus is maximum 15 years. The euro is likely to be introduced before the end of this period, therefore the last payments will be effected in a different currency, euro, at a forint-to-euro exchange rate to be determined at a future stage.

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

The Instruments may not be a suitable investment for all investors

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

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

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including Instruments with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Instruments and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Risks related to the structure of a particular issue of Instruments

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

Instruments subject to optional redemption by the Issuer

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

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

Index Linked Instruments, and Dual Currency Instruments

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

(i) the market price of such Instruments may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly Paid Instruments

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

Variable rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Instruments

Fixed/Floating Rate Instruments may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate 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, the fixed rate may be lower than then prevailing rates on its Instruments.

Instruments issued at a substantial discount or premium

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

Risks related to Instruments generally

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

Modification

The conditions of the Instruments contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

EU Savings Directive

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

Change of law

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

The 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.

Integral multiples of less than EUR 50,000

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

Trading in clearing systems

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

Regulatory risk

A significant risk relating to the legislative environment may stem from the amendment of the decree on housing subsidies. There were some major changes in the recent years, all of which had an influence on the demand for loans, and thus affected the Issuer’s operation and profitability. The Issuer monitors changes in the legislative environment and draws up models to explore their short-term and long-term impact on profitability and financial plans.

Competition

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

The Issuer’s own distribution network is narrower compared to that of other market agents. To offset this, The Issuer developed a wide network of agents. Own lending is supplemented by refinancing. The risk in this field stems primarily retaining refinancing customers and mounting competition in the refinancing market.

Risks related to the market generally

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

The secondary market generally

Although application has been made to list the Instruments on the Luxembourg Stock Exchange, Instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Instruments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for 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.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

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.

GENERAL DESCRIPTION

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

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

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

Issuer:	FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*)
Description:	Euro Mortgage Bond and Euro Medium Term Note Programme for the issuance of Mortgage Bonds and Notes
Arranger:	Dresdner Bank Aktiengesellschaft
Dealers:	Bayerische Landesbank BNP Paribas Citigroup Global Markets Limited Deutsche Bank Aktiengesellschaft Dresdner Bank Aktiengesellschaft DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Raiffeisen Zentralbank Österreich Aktiengesellschaft and any other Dealers appointed in accordance with the Programme Agreement.
Principal Paying Agent:	Deutsche Bank AG, London Branch
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 "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Instruments may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Instruments may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 3 of the Terms and Conditions of the Mortgage Bonds and Condition 4 of the Terms and Conditions of the Notes.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Instruments may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Type of Mortgage Bonds:	For a description of certain aspects relevant to the Mortgage Bonds, see "*Certain Information relating to the Mortgage Bonds*".
Form of Mortgage Bonds:	The Mortgage Bonds will be issued in dematerialised registered form as described in "*Form of the Mortgage Bonds*". The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms) integral multiples of EUR 1,000 (or its foreign currency equivalent) in excess thereof. If Mortgage Bonds are cleared through KELER, they will be tradeable only in principal amounts which are multiples of the Specified Denomination.
Form of 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) 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 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Instruments of the relevant Series); or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

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

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

Other provisions in relation to Floating Rate Instruments and Index Linked Interest Instruments: Floating Rate Instruments, and Index Linked Interest Instruments may also have a maximum interest rate, a minimum interest rate or both.

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

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

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

Partly Paid Mortgage Bonds:	Subject to the prior written consent of KELER (as defined below), the Issuer shall not issue Partly Paid Mortgage Bonds.
Partly Paid Notes:	Partly Paid Notes may be issued where the issue price is payable in more than one instalment.
Redemption:	The applicable Final Terms will indicate either that the Instruments cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Instruments will be redeemable at the option of the Issuer and/or the Holders upon giving notice to the Holders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Instruments having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions*" above.
Denomination of Instruments:	Instruments will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Instrument will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum denomination of each Instrument admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be EUR 50,000 (or, if the Instruments are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Instruments will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 7 of the Terms and Conditions of the Mortgage Bonds and Condition 8 of the Terms and Conditions of the Notes, respectively. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 of the Terms and Conditions of the Mortgage Bonds and Condition 8 of the Terms and Conditions of the Notes, respectively, be required to pay additional amounts to cover the amounts so deducted. The terms of the Mortgage Bonds contain a provision, pursuant to which the Agent must, at all times, be tax resident in Germany or the United Kingdom.
Negative Pledge:	The terms of the Mortgage Bonds will not contain a negative

pledge provision.

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

Cross Default:	The terms of the Mortgage Bonds will contain a cross default provision as further described in Condition 9 of the Terms and Conditions of the Mortgage Bonds.
Cross Acceleration:	The terms of the Notes will contain a cross acceleration provision as further described in Condition 10 of the Terms and Conditions of the Notes.
Status of the Mortgage Bonds:	The Mortgage Bonds will constitute unsubordinated obligations of the Issuer ranking *pari passu* among themselves. The Mortgage Bonds will be covered in accordance with the Hungarian Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*).
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Subordination:	Instruments may not be issued on a subordinated basis.
Rating:	The rating of Instruments to be issued under the Programme will be specified in the applicable Final Terms.
Listing and admission to trading:	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Instruments may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Instruments which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the Instruments are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

Clearing of Mortgage Bonds:	Mortgage Bonds will only clear through Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**), as more fully described under "*Form of the Mortgage Bonds*" and "*Settlement Procedures*" below.
Clearing of Notes:	Notes will clear through Euroclear and Clearstream, as more fully described under "*Form of the Notes*" and "*Settlement Procedures*" below.
Governing Law:	The Mortgage Bonds will be governed by, and construed in accordance with, Hungarian law. In relation to the Mortgage Bonds, any Dispute may be settled by the Hungarian Money and Capital Markets Arbitration Court, in accordance with its own rules of procedure, as more fully described in the Terms and Conditions of the Mortgage Bonds. The Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Instruments in the United States, the United Kingdom, Japan, Hungary, France and Italy 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; 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 the Mortgage Bonds, described under "*Form of the Mortgage Bonds*" or (ii) the applicable Final Terms in relation to the Notes, described under "*Form of 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 Bonds 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 Bonds, Index Linked Mortgage Bonds and Partly Paid Mortgage Bonds (each as specified in the applicable Final Terms in relation to the Mortgage Bonds, described under "*Form of the Mortgage Bonds*", or (ii) the Dual Currency Mortgage Notes, Index Linked Notes and Partly Paid Notes the applicable Final Terms in relation to the Notes, described under "*Form of 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 Bonds or Partly Paid Notes regardless of the subscription price paid); and

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

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the audited consolidated annual financial statements for the financial year ended 31 December 2004 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 years ended 31 December 2004	Pages 69 to 95
- Independent Auditors' Report	Page 69
- Financial Statements:	
- Statement of Income	Page 70
- Balance Sheet	Page 71
- Statement of Cash Flows	Page 72
- Statement of Shareholders' Equity	Page 73
- Notes to the Consolidated Financial Statements	Pages 74 to 95

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

(b) the audited consolidated annual financial statements for the financial year ended 31 December 2005 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 2005	Pages 37 to 70
- Independent Auditors' Report	Page 37
- Financial Statements:	
- Statement of Income	Page 38
- Balance Sheet	Page 39
- Statement of Cash Flow	Page 40
- Statement of shareholders' equity	Page 41
- Notes to the Consolidated Financial Statements	Pages 43 to 70

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

(c) the Articles of Association of the Issuer; and

(d) the Report of the Issuer for 2006 including the information set out at the following pages in particular:

Document	Section incorporated
2006 preliminary report (containing consolidated, unaudited financial statements prepared in accordance with IFRS for the twelve month period ended 31 December 2006)	Pages 2 to 35
- profit and loss statement	Page 20
- balance sheet	Page 21
- statement of cash flows	Page 22
- Statement of shareholders' equity	Page 23

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

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

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the website of the Issuer, www.fhb.hu. In addition, such documents will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. for Mortgage Bonds listed on the Luxembourg Stock Exchange and on the website of the Luxembourg Stock Exchange, www.bourse.lu.

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

FORM OF THE MORTGAGE BONDS

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

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

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

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

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

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

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

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

SETTLEMENT PROCEDURES FOR THE MORTGAGE BONDS

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

ISSUE OF HUF DENOMINATED MORTGAGE BONDS

Version 1 (Euroclear Free of Payment)

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

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

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

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

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

Version 2 (Clearstream Delivery against Payment)

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

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

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

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

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

In turn, Clearstream, Luxembourg 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 depositary will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

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

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

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

The relevant Dealer or Lead Manager, as the case may be, will instruct its 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 FINAL TERMS OF THE MORTGAGE BONDS

Set out below is the form of Final Terms which will be completed for each Series/Tranche of Mortgage Bonds 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]
under the EUR3,000,000,000
Euro Mortgage Bond and Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8 March 2007 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Mortgage Bonds 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 is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at and collection from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from www.fhb.hu.

This Base Prospectus and the Final Terms applicable to each issue of Mortgage Bonds will be available on the website of the Luxembourg Stock Exchange: www.bourse.lu.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Mortgage Bonds (the **Conditions**) set forth in the Base Prospectus dated [*original date*]. This document constitutes the Final Terms of the Mortgage Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated ●, save in respect of the Conditions which are extracted from the Base Prospectus dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Mortgage Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated ● and [*original date*]. Copies of such Base Prospectuses are available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].]

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

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

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

1.	Issuer:		FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*)
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
			(If fungible with an existing Series, details of that Series, including the date on which the Mortgage Bonds become fungible)
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	[(a)]	Issue Price (per Mortgage Bond):	[ ] per cent. of the Specified Denomination [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	[(b)	Net Proceeds:	
		(*Required only for listed issues*)	[ ]]
6.	(a)	Specified Denominations:	[ ]
			[*The Mortgage Bonds will be tradeable only in principal amounts of* Specified Denominations: EUR 50,000[1] and integral multiples of EUR 1,000[1] in excess thereof up to and including EUR 99,000[1]. No mortgage bonds in definitive form will be issued with a denomination above EUR 99,000[1]. *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.*]

[1] Or its foreign currency equivalent.

			(N.B. If an issue of Mortgage Bonds is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR50,000 minimum denomination is not required.)
	(b)	Calculation Amount	(*If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a)	Issue Date (value date):	[ ]
	(b)	Interest Commencement Date:	[ ]
8.	Maturity Date:		[*Fixed rate* - *specify date/* *Floating rate* - Interest Payment Date falling in or nearest to [*specify month*]]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[BUBOR/LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at the Specified Denomination] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid][*] [*specify other*] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
11.	Change of Interest Basis or Redemption/ Payment Basis:		[*Specify details of any provision for change of Mortgage Bonds into another Interest Basis or Redemption/ Payment Basis*]

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

12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	[Date [Board] approval for issuance of Mortgage Bonds obtained:	[ ] [and [ ], respectively]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Bonds)*
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Mortgage Bond Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear] (*If payable other than annually, consider amending Condition 4*)
	(b)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount per Mortgage Bond:	[ ] per Calculation Amount
	(d)	Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [specify other]]
	(f)	Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
	(g)	Party responsible for calculating amounts payable:	[Agent/*if not Agent, insert details of Calculation Agent*]

	(h)	Other terms relating to the method of calculating interest for Fixed Rate Mortgage Bonds:	[None/*Give details*]
16.	**Floating Rate Mortgage Bond 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/s*pecify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount:	[Agent/*if not Agent, insert details of Calculation Agent*]
	(f)	Screen Rate Determination:	
	–	Reference Rate:	[ ] (*Either BUBOR, LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
	–	Interest Determination Date(s):	[ ] (*Second Budapest business day prior to the start of each Interest Period if BUBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	–	Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

	(g)	ISDA Determination:	
		– Floating Rate Option:	[ ]
		– Designated Maturity:	[ ]
		– Reset Date:	[ ]
	(h)	Margin(s):	[+/-] [ ] per cent. per annum
	(i)	Minimum Rate of Interest:	[ ] per cent. per annum
	(j)	Maximum Rate of Interest:	[ ] per cent. per annum
	(k)	Day Count Fraction:	[Actual/365 or Actual/Actual Actual/365 (Fixed) Actual/365 (ÁKK) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 *Other*] (*See Condition 4 for alternatives*)
	(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Mortgage Bonds, if different from those set out in the Conditions:	[ ]
17.	**Zero Coupon Mortgage Bond Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 6(e)(iii) and Condition 6(i) apply/*specify other*] (*Consider applicable day count fraction if not HUF or U.S. dollar denominated*)
18.	**Index Linked Interest Mortgage Bond Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Index/Formula:	[*give or annex details*]

	(b)	Calculation Agent responsible for calculating the Interest Amount(s):	[ ]
	(c)	Provisions for determining Rate of Interest where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(e)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(f)	Additional Business Centre(s):	[ ]
	(g)	Minimum Rate of Interest:	[ ] per cent. per annum
	(h)	Maximum Rate of Interest:	[ ] per cent. per annum
	(i)	Day Count Fraction:	[ ]
19.	**Dual Currency Interest Mortgage Bond Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details, including notice period for currency selection*]
	(b)	Calculation Agent, if responsible for calculating the interest payable:	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
		(iii) Method of selection:	[ ]
	(d)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
21.	Investor Put:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22.	Final Redemption Amount:		[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)

23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e)):	[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE BONDS

24.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate*)
25.	Details relating to Partly Paid Mortgage Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Mortgage Bonds and interest due on late payment:	[Not Applicable/*give details*][*]
26.	Redenomination applicable:	Redenomination [not] applicable (*if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates*))
27.	Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

28.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b)	Stabilising Manager (if any):	[Not Applicable/*give name*]
29.	If non-syndicated, name of relevant Dealer:		[*Name*]
30.	TEFRA rules applicable:		TEFRA C

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

31. Additional selling restrictions: [Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION

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

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ………………………………………. By: ……………………………………….
Duly authorised *Duly authorised*

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

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

2. RATINGS

Ratings:	The Mortgage Bonds to be issued have been rated:
	[S & P: [ ]]
	[Moody's: [ ]]
	[[Other]: [ ]]
	(*The above disclosure should reflect the rating allocated to Mortgage Bonds 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 has an interest material to the offer. – *Amended as appropriate if there are other interests*]

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

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

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

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

7. **PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Mortgage Bonds only*)**

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

[*Where the underlying is an index include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Where the underlying is a security include the name of the issuer of the security and the International Securities Identification Number (ISIN) or equivalent identification number. Where the underlying is a basket of underlyings, include the relevant weightings of each underlying in the basket.*]

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

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

9. **OPERATIONAL INFORMATION**

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Alphabetical code of Series:	[ ]
(iv)	Any clearing system(s) other than Clearstream Banking, société anonyme, 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 is listed on the Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER*)
(v)	Delivery:	Delivery [against/free of] payment
(vi)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(vii)	List of such documents available for inspection or collection (free of charge):	[*insert list and place where such documents are so available*]]
(viii)	Place of issue:	Outside Hungary
(ix)	Place of creation of Mortgage Bonds:	Budapest
(x)	Number of Mortgage Bonds:	
	(a) Series:	[ ]

(b) Tranche: [ ]

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

TERMS AND CONDITIONS OF THE MORTGAGE BONDS

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

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

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

The Issuer has entered into an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 8 March 2007 and made between the Issuer, Deutsche Bank AG as principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

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

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

1. TYPE, FORM, KIND AND TITLE

(a) *Type*

The Mortgage Bonds are registered securities.

(b) *Form*

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

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

So long as the relevant clearing systems so permit, the Mortgage Bonds may be tradeable only in principal amounts of at least EUR 50,000 (or its foreign currency equivalent) and integral multiples of EUR 1,000 (or its foreign currency equivalent).

(c) *Kind*

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

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

(d) *Title*

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

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

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

(e) *Closure of KELER*

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

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

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

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

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

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

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

(c) be represented by printed certificates.

(iii) The Issuer will promptly (and in any event within 5 days of its occurrence) give notice to any stock exchange (in accordance with the then applicable rules and regulations of that stock exchange) on which the Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 11 upon the occurrence of an Exchange Event and the issuance of Replacement Mortgage Bonds. The Issuer will procure that the replacement of the Cancelled Mortgage Bonds with Replacement Mortgage Bonds shall occur no later than 45 days after the date of the giving of the notice referred to in the immediately preceding sentence. Subject to Condition 1(e)(ii), the Issuer will procure that Replacement Mortgage Bonds are made available at the specified office of the Paying Agent for the time being in Luxembourg.

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

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

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

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

"(a) *Form and Denomination*

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

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

"(c) *Title*

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

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

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

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

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

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

"; and

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

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

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

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

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

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

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

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

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

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

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

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

(i) deleting "; and

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

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

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

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

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

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

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

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

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

(J) Condition 11 shall be amended by

(i) inserting after the word "sent" in the last paragraph: "(together with this Mortgage Bond)"; and

(ii) deleting the end of the sentence from "together with" and replacing it with"."; and

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

(f) *Records of KELER*

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

(i) the name of the Securities Account Manager to which the statement is issued; and

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

shall be evidence of the records of KELER.

2. STATUS OF THE MORTGAGE BONDS

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

3. REDENOMINATION

(a) *Redenomination*

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

The election will have effect as follows:

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

(ii) the amount of interest due in respect of the Mortgage Bonds will be calculated by reference to the aggregate nominal amount of Mortgage Bonds credited to the securities account of the relevant Holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(iii) after the Redenomination Date, all payments in respect of the Mortgage Bonds other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Mortgage Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the Holder;

(iv) if the Mortgage Bonds are Fixed Rate Mortgage Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and

(v) if the Mortgage Bonds are Floating Rate Mortgage Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

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

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

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

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

Treaty means the Treaty establishing the European Community, as amended.

4. INTEREST

(a) *Interest on Fixed Rate Mortgage Bonds*

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

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

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

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

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

(A) in the case of Mortgage Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Mortgage Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in the Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in the Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Terms and Conditions of the Mortgage Bonds:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement

Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

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

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

(i) *Interest Payment Dates*

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

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

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

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

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

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

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

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

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

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

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

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

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

(ii) *Rate of Interest*

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

(A) *ISDA Determination for Floating Rate Mortgage Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Series/Tranche of the Mortgage Bonds (the **ISDA Definitions**) and under which:

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

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the Budapest inter-bank offered rate (**BUBOR**) or the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

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

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

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

(1) the offered quotation; or

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

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

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

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

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

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

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

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

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

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

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

(A) if "Actual/365" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(C) if "Actual/365 (ÁKK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;

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

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

(F) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

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

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

(vi) *Certificates to be final*

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

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

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

(d) *Interest on Partly Paid Mortgage Bonds*

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

(e) *Accrual of interest*

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

(i) the date on which all amounts due in respect of such Mortgage Bond have been paid; and

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

5. PAYMENTS

(a) *Method of payment*

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

(b) *Payment Day*

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

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

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than Budapest and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and

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

(c) *Interpretation of principal and interest*

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

(i) any additional amounts which may be payable with respect to principal under Condition 7;

(ii) the Final Redemption Amount of the Mortgage Bonds;

(iii) the Early Redemption Amount of the Mortgage Bonds;

(iv) the Optional Redemption Amount(s) (if any) of the Mortgage Bonds;

(v) in relation to Zero Coupon Mortgage Bonds, the Amortised Face Amount (as defined below); and

(vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Bonds.

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

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

$$\mathrm{RP} \times (1 + \mathrm{AY})^{\mathrm{y}}$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

(d) *General provisions applicable to payments*

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

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

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Mortgage Bonds in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

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

6. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

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

(b) *Redemption for tax reasons*

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

(i) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Mortgage Bonds; and

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

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

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

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

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

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

(i) not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 11; and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;

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

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

If Investor Put is specified in the applicable Final Terms, upon the Holder of any Mortgage Bond giving to the Issuer in accordance with Condition 11 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Mortgage Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable final Terms.

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

(e) *Early Redemption Amounts*

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

(i) in the case of a Mortgage Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Mortgage Bond (other than a Zero Coupon Mortgage Bond and a Partly Paid Mortgage Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Mortgage Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(iii) in the case of a Zero Coupon Mortgage Bond, at its Amortised Face Amount set out in Condition 5(c).

(f) *Partly Paid Mortgage Bonds*

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

(g) *Purchases*

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

(h) *Cancellation*

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

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

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

(i) the date on which all amounts due in respect of such Zero Coupon Mortgage Bond have been paid; and

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

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

7. TAXATION

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

(a) presented for payment by or on behalf of a Holder who is liable for such taxes or duties in respect of such Mortgage Bond by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Bond; or

(b) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the Holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(b)); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Mortgage Bond to another Paying Agent in a Member State of the European Union.

As used herein:

(i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 11.

8. PRESCRIPTION

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

9. EVENTS OF DEFAULT

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

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

(i) the Issuer fails to make payment of any principal or interest due in respect of the Mortgage Bonds and such failure to pay continues for a period of 15 days; or

(ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Bonds and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or

(iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

(iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or

(v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 9(b)) owing by the Issuer is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this sub-paragraph (v) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or

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

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

(b) *Definitions*

For the purposes of this Condition 9:

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

10. PAYING AGENTS

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

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

(a) there will at all times be an Agent which is tax resident in Germany or the United Kingdom;

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

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

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

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

11. NOTICES

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

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

12. FURTHER ISSUES

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

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

(a) *Governing law*

The Mortgage Bonds are governed by, and shall be construed in accordance with, Hungarian law.

(b) *Submission to jurisdiction*

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

(c) *Waiver of sovereign immunity*

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

14. MEETING OF HOLDERS AND MODIFICATION

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

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

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

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

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

15. LANGUAGE

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

FORM OF THE NOTES

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

(i) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *sociéte anonyme* (**Clearstream, Luxembourg**); and

(ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg.

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

So long as the Notes are represented by a temporary Global Note or permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of EUR 50,000 and higher integral multiples of EUR 1,000, notwithstanding that no definitive notices will be issued with a denomination above EUR 99,000.

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 upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

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

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

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

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

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 8 March 2007 and executed by the Issuer.

FORM OF FINAL TERMS OF THE NOTES

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[*Date*]

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

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

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8 March 2007 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at and collection from the registered office of FHB Mortgage Bank Co. Plc. at Váci út 20., 1132 Budapest, Hungary and the office of Deutsche Bank Luxembourg S.A. (in its capacity as the Luxembourg Paying agent) at 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg and may be obtained from www.fhb.hu.

The Base Prospectus and, in the case of Notes admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

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

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

1.	Issuer:		FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*)
2.	(a)	Series Number:	[ ]
	[(b)	Tranche Number:	[ ]]

(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)

3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	(a) [Series:	[ ]
	(b) [Tranche:	[ ]
5.	[Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	(a) Specified Denominations:	[ ] [*The Notes will be tradeable only in integral principal amounts of* Specified Denominations: EUR 50,000[2] and integral multiples of EUR 1,000[2] in excess thereof up to and including EUR 99,000[2]. No notes in definitive form will be issued with a denomination above EUR 99,000[2].] (*N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR 50,000 minimum denomination is not required.*)
	(b) Calculation Amount	(*If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
7.	(a) Issue Date:	[ ]
	(b) Interest Commencement Date:	[ ]
8.	Maturity Date:	[*Fixed rate - specify date*/ *Floating rate* - Interest Payment Date falling in or nearest to [*specify month*]]

2 Or its foreign currency equivalent.

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

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear] (*If payable other than annually, consider amending Condition 5*)

	(b)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount(s):	[ ] per [ ] in nominal amount
	(d)	Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
	(f)	Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]

(f)	Screen Rate Determination:	
	• Reference Rate:	[ ]. (*Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
	• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
(h)	Margin(s):	[+/-] [ ] per cent. per annum
(i)	Minimum Rate of Interest:	[ ] per cent. per annum
(j)	Maximum Rate of Interest:	[ ] per cent. per annum
(k)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 *Other*] (*See Condition 5 for alternatives*)
(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]

17.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7.5(c) and 7.10 apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
18.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Calculation Agent responsible for calculating the interest due:	[ ]
	(c)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(e)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
	(f)	Additional Business Centre(s):	[ ]
	(g)	Minimum Rate of Interest:	[ ] per cent. per annum
	(h)	Maximum Rate of Interest:	[ ] per cent. per annum
	(i)	Day Count Fraction:	[ ]
19.	Dual Currency Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
	(b)	Calculation Agent, if any, responsible for calculating the interest payable:	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

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

(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
(c)	Notice period (if other than as set out in the Conditions):	[ ] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

22. Final Redemption Amount: [ ] per Calculation Agent/*specify other*/see Appendix]

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

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

23. Early Redemption Amount payable on 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 7.5): [ ] per Calculation Amount/*specify other*/see Appendix].

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:

	(a)	Form:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/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 [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]] (*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. Need to amend Exchange Events to disapply any Noteholder/Issuer optional exchange where Notes are expressed to have a minimum denomination of EUR 50,000 and are tradeable in integral multiples of EUR 1,000 thereafter in order for Notes to be accepted by the clearing systems.*)
	(b)	New Global Note:	[Yes/No]
25.	Additional Financial Centre(s) or other special provisions relating to Payment Days:		[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):		[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:		[Not Applicable/*give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28.	Details relating to Instalment Notes:		
	(a)	Instalment Amount(s):	[Not Applicable/*give details*]
	(b)	Instalment Date(s):	[Not Applicable/*give details*]

29.	Redenomination applicable:	Redenomination [not] applicable *(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
30.	Other final terms:	[Not Applicable/*give details*] (*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

31.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b)	Stabilising Manager (if any):	[Not Applicable/*give name*]
32.	If non-syndicated, name of relevant Dealer:		[*Name*]
33.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:		[TEFRA D/TEFRA C/TEFRA not applicable]
34.	Additional selling restrictions:		[Not Applicable/give details]

[**LISTING AND ADMISSION TO TRADING APPLICATION**

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

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: …..…..…..…..…..…..…..……….	By: …..…..…..…..…..…..…..……….
Duly authorised	*Duly authorised*

FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	[Luxembourg/other (*specify*)/None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ]./ Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	EUR [ ]

2. RATINGS

The Notes to be issued have been rated:

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

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

3. NOTIFICATION

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

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

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

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

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

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

6. YIELD (*Fixed Rate Notes only*)

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

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

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

[Where the underlying is an index include the name of the index and a description if composed by the issuer and if the index is not composed by the issuer include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Where the underlying is a security include the name of the issuer of the security and the international securities identification number (ISIN) or equivalent identification number. Where the underlying is a basket of underlyings, include the relevant weightings of each underlying in the basket.]

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

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

9. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream	[Not Applicable/*give name(s) and number(s)*]

	Banking, société anonyme and the relevant identification number(s):	
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(vi)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*include this text if "yes" selected in which case the Notes must be issued in NGN form*]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of 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 8 March 2007 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to

Couponholders shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 8 March 2007 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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

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

1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

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

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

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

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

2. STATUS OF THE NOTES

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

3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding, the Issuer shall not create or permit to be outstanding any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any Guarantee in respect of any Indebtedness, without, in the case of the creation of a Security Interest, at the same time and, in any other case, promptly according to the Noteholders an equal and rateable interest in the same or providing to the Noteholders such other security as shall be approved by an Extraordinary Resolution of the Noteholders.

As used herein:

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

(i) denominated, payable or optionally payable in a currency other than Hungarian Forint; and

(ii) not initially and primarily distributed to investors inside Hungary.

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

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness.

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

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

4. REDENOMINATION

4.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:

(i) in the case of the Notes represented by a global Note, by applying the Rate of Interest to the full nominal amount outstanding of the Notes, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and

(ii) in the case of Definitive Notes, by applying the Rate of Interest to the Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and then multiplying such rounded figure by the number of times the relevant Definitive Note can be divided by the Calculation Amount; and

(g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

4.2 Definitions

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

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

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

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty establishing the European Community, as amended.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up).

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

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

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

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

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

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

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

    (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

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

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

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

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

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

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

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

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

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

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

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

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

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

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

(b) Rate of Interest

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

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

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

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

(A) the offered quotation; or

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

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

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

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

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

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

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

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

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

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

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/365" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (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);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) 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;

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

(v) 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (I) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (II) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(e) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a

Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

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

5.4 Interest on Partly Paid Notes

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

5.5 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

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

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

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long**

Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

6.3 Payments in respect of Global Notes

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

6.4 General provisions applicable to payments

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

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

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

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

6.5 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

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

(i) 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 (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET System is open.

6.6 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

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

7.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

(a) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

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

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

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

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the option of the Issuer (Issuer Call)

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

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable final Terms.

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

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

7.7 Partly Paid Notes

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

7.8 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

7.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

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

(a) presented for payment in the Republic of Hungary; or

(b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

(i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

10.1 Events of Default

(a) If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

(b) 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

(c) 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

(d) 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

(e) the Hungarian Financial Supervisory Authority resolves on the voluntary winding up of the Issuer; or

(f) any order is made or an effective resolution is passed for the winding up of the Issuer; or

(g) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 10.2) owing by the Issuer or any Principal Subsidiary is accelerated by reason of default (howsoever defined) and such acceleration has not been rescinded or annulled, or the Issuer or any Principal Subsidiary defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any Indebtedness for Borrowed Money or in the honouring of any guarantee or indemnity in respect of any Indebtedness for Borrowed Money, provided that no such event referred to in this sub-paragraph (e) shall constitute an Event of Default unless the Indebtedness for Borrowed Money whether alone or when aggregated with other Indebtedness for Borrowed Money relating to all (if any) other such events which shall have occurred shall exceed EUR 25,000,000 (or its equivalent in any other currency or currencies); or

(h) 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

(i) if (A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrator or other similar official, or an administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days or (C) the Issuer or any Principal Subsidiary becomes subject to any special supervisory measures of the Hungarian Financial Supervisory Authority pursuant to Section 157(1) or 163 of Act CXII of 1996 on credit institutions and financial enterprises (*1996. évi CXII. törvény a hitelintézetekről és pénzügyi vállalkozásokról*); or

(j) 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),

(k) then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

10.2 Definitions

For the purposes of the Conditions:

Indebtedness for Borrowed Money means any indebtedness for any borrowed money or amounts raised under any acceptance or acceptance credit facility.

Principal Subsidiary means at any time a Subsidiary of the Issuer:

(a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 15 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:

   (i) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition;

   (ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, represent (or, in the case aforesaid, are equal to) not less than15 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 than15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

Notwithstanding the above definition, FHB Commercial Bank Ltd. Shall always be deemed to be a Principal Subsidiary.

A report by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. PAYING AGENTS

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

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

(a) there will at all times be an Agent;

(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 continental Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

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

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

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

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

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

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

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

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

(a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

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

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. FURTHER ISSUES

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

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

18.2 Submission to jurisdiction

The Issuer irrevocably agrees, for the benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and accordingly submit to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders, may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes, the Receipts and the Coupons, against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

The Issuer appoints the Hungarian Trade Commission at its office at 46 Eaton Place, London SW1 8AL as its agent for service of process, and undertakes that, in the event of the Hungarian Trade Commission ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.4 Waiver of immunity

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

USE OF PROCEEDS

The net proceeds from each issue of Instruments will be applied by the Issuer for the financing of its mortgage loan business. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms of the Mortgage Bonds or the Notes.

DESCRIPTION OF THE ISSUER

History and development of the Issuer

FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Bank**, the **Issuer** or **FHB**) was established on 21 October 1997 and registered in Hungary by the Court of Registration of the Budapest Metropolitan Court under Cg. 01-10-043638 on 18 March 1998. Its registered address is Váci út 20., 1132 Budapest; telephone: +36 1 452 9100. FHB operates exclusively in Hungary as a specialised credit institution. It has twelve local sales units through which it develops business directly with borrowers and it also establishes relationships from its head office with the main Hungarian commercial banks from whom it purchases mortgages (independent lien, in Hungarian "*önálló zálogjog*").

Due to the specific conditions in the Hungarian mortgage banking market, including government policies specifically designed to stimulate the sector in recent years, the Issuer's business and balance sheets have expanded materially since its establishment in 1997. Total assets have risen from 4.8 billion Hungarian forints at year-end 1998 to approximately 539.3 billion Hungarian forints as at 30 September 2006 according to IFRS. On establishment in 1997, the Issuer had 75 employees whereas as at 30 September 2006 the figure was 375 (on a consolidated basis).

The Issuer's business

The Issuer's mission is to increase shareholder value by operating on a prudent, sound and profitable basis as a significant participant in the Hungarian mortgage lending market and as a recognised issuer in both the domestic and international capital markets.

Under Act XXX of 1997 on Mortgage Credit Institutions and Mortgage Bonds (the **Mortgage Credit Institution Act**), the Issuer's business is restricted to extending mortgage loans, the appraisal of collateral and market value of real estate and management of real estate used to secure mortgage loans, the undertaking of surety or guarantee and the provision of custody and administrative services in connection with its own securities issues and other ancillary activities. It may not take deposits and its investment in real estate (except for operating premises) may not exceed five per cent. of its own funds. The Issuer itself is the operating entity which directly holds all the loan assets or independent liens and issues the mortgage bonds.

The Issuer's objectives are:

- to provide long-term housing loans to the widest possible eligible client base through different distribution channels;
- to maintain its position as a service-provider;
- to enhance the range of refinancing transactions with commercial banks;
- to obtain low-risk, long-term funding from domestic and international markets;
- to increase market share in the field of retail housing loans;
- to improve the efficiency of its operations and profitability;
- to secure sufficient credit rating through prudent operation and strict internal rules;
- to maintain its position in product innovation both in refinancing and in retail lending; and
- to exploit, as fully as possible, the advantages derived from its status as a specialised mortgage bank.

It provides its services through two main distribution channels:

- refinancing mortgage loans generated by Hungarian commercial banks; and
- providing loans to individuals and house builders directly or through different agents.

Refinancing – The Issuer's refinancing activity (wholesale business)

The Issuer co-operates very closely with its eight partner credit institutions. When a partner credit institution grants a residential mortgage loan in the retail market, the partner credit institution offers the independent lien, pledged as collateral for the mortgage, to the Issuer for purchase. At the same time, the partner credit institution undertakes to repurchase the lien, in accordance with the underlying mortgage repayment terms. Partner credit institutions originate mortgages on which they carry the risk according to their own internal rules. This means that in these cases the Issuer is not involved in customer acquisition, marketing, credit assessment, contracting, client-monitoring and other activities in the retail market.

However, the Mortgage Credit Institution Act (amongst other regulations) only permits the Issuer to purchase independent liens pledged on real estate which has been valued by the Issuer. To meet this requirement, the Issuer provides valuation services for all of its partner credit institutions before refinancing takes place. This ensures that by the time a partner credit institution makes a decision on granting a loan, the permitted value of the loan accepted by the Issuer is known, allowing the Issuer to comply with regulatory limits.

Direct lending – The Issuer as originator (retail business)

The Issuer is also engaged in direct lending through its 12 sales offices. It has almost 2,500 official agents employed by 7 insurance companies, 37 saving cooperatives, 191 other firms. In the majority of cases, the Issuer directly grants residential mortgage loans. The volume of lending to corporates started to grow for the first time in 2006. The Issuer's direct lending objectives are achieved by enhanced use of agents to extend its network of sales offices and by maintaining innovative product development. The agents currently used are a combination of networks of specially trained insurance company agents, one "*Bausparkasse*" company, saving co-operatives and independent private companies.

In the third quarter of 2005, the Bank introduced a new product within its own lending activities: project financing activity appeared for the first time on the Bank's balance sheet.

The Issuer's business activity is strictly governed by the Mortgage Credit Institution Act, which limits its business to granting loans secured by a mortgage. Its lending policy is focused on financing the development and acquisition of residential real estate, the extension of housing loans with or without state subsidy and the provision of loans for residential construction on a commercial basis. The Issuer is one of three mortgage banks currently eligible to receive a government interest subsidy on its funding. See "*The Hungarian Housing and Mortgage Market - Government Housing Policy and Subsidised Loan Scheme*" below.

History

The Land Mortgage Bank Foundation (*Földhitelintézeti Alapítvány*) (the **Foundation**) was established in 1992, based on an initiative of the National Commercial and Credit Bank Plc. (*Országos Kereskedelmi és Hitelbank Rt.*). The Foundation's role was to prepare new legislation for the re-establishment of a long-term mortgage market, to prepare a feasibility study on the establishment and operation of the institutional framework to support the new market and to make proposals concerning the necessary amendments to other relevant pieces of legislation.

Following an initiative of the Minister of Finance, five banks established a joint venture company in 1996 in order to prepare for the incorporation of the Issuer (*Jelzálog Hitelintézetet Előkészítő Részvénytársaság*), the role of which was to establish the first bank after the Second World War to undertake exclusively the business of mortgage lending and the refinancing of such by issuing mortgage bonds.

The Mortgage Credit Institution Act was approved by Parliament in April 1997 and FHB was established on 21 October 1997. Four banks (*Magyar Befektetési és Fejlesztési Bank Rt., Mezőbank Rt., Postabank és Takarékpénztár Rt., and Pénzintézeti Központ Bank Rt.)* and the Ministry of Finance together contributed 3 billion Hungarian forints of share capital (state entities controlled 85per cent. of the shares). The Issuer's operating licence was granted by the predecessor of the Hungarian Financial Supervisory Authority (*Pénzügyi Szervezetek Állami Felügyelete*, the **PSZÁF**) to start its operation as a specialised credit institution under Act CXII of 1996 on Credit Institutions and Financial Enterprises (the **Credit Institutions Act**) on 5 March 1998.

The objectives in establishing a specialised mortgage bank included the alleviation of the capital shortage which was still a dominant feature in the Hungarian economy, the introduction of long-term real estate financing in Hungary, the provision of new safe investment opportunities for long term savings (of which the volume was expected to increase dramatically) and the promotion of real estate development.

For the first two and a half years, the Issuer's business grew slowly due to ownership and strategy changes as a result of political developments. In addition, finance was still unaffordable for the vast majority of the population. In late 1999, a stimulus was provided in the form of a government interest subsidy, which was greatly increased in 2001. Mortgage bonds totalling 780 million Hungarian forints, 2 billion Hungarian forints and 6.7 billion Hungarian forints were issued in 1998, 1999 and 2000, respectively, through private issues in the domestic Hungarian market. In 2001, the Issuer began to issue mortgage bonds by public auction which were listed on the Budapest Stock Exchange. Mortgage bonds totalling 17 billion Hungarian forints were issued in 2001, 75 billion Hungarian forints in 2002, 190.2 billion Hungarian forints in 2003, 121.3 billion Hungarian forints in 2004, 61.6 billion Hungarian forints in 2005 and 39.5 billion Hungarian forints in the first six months of 2006. The total volume of outstanding mortgage bonds had reached 454.8 billion Hungarian forints by September 2006.

In September 1999, the Hungarian Privatisation and State Holding Company (ÁPV Rt.), which at that time was the majority shareholder of the Issuer, issued a tender for the privatisation of the Issuer. Despite a fair offer being submitted, the Hungarian government (the **Government**) cancelled the sale, because it decided to support the strengthening of the domestic mortgage market. Since early 2000, the Issuer's long term strategy has been fixed and it has played the key role in the implementation of the Government's housing subsidy system. In co-operation with a variety of commercial banks, savings banks and insurers, the Issuer has also contributed to the growth of the number of building programmes through the provision of long-term mortgage loans.

In 2003, the Hungarian Government decided to privatise a minority stake (up to 50 per cent. of the voting share capital minus 1 voting share) of the Issuer's share capital (Government Decisions 2094/2003 (V. 20.) and 2165/2003 (VII. 22.)).

The most significant recent event in 2003 was the successful partial privatisation of FHB and the listing of its shares on the Budapest Stock Exchange in November of that year. The listing price of the shares on the first day of trading (24 November, 2003) was 4,300 Hungarian forints. After the privatisation a total of 3,511,431 shares remained with ÁPV Rt., reducing state ownership of FHB from 94.7per cent. to 53.2per cent. The holding of FHB Rt., 349,000 common shares (equivalent to 5.3per cent. of the share capital) was disposed of by means of a combination of a public and private placement (the private placement being pursuant to an employee stock ownership plan).

Realising the potential in the field of mortgage lending, two further banks decided to establish their mortgage lending units: a HypoVereinsbank subsidiary commenced business in 1999 and a subsidiary of OTP, the largest commercial bank in Hungary started its operations in 2002.

In May 2005, the ÁPV Rt. announced a new tender for the privatisation of FHB. A few weeks later Moody's Investors Services Limited (**Moody's**) put FHB on its watch list with a possible downgrade. But in September 2005, as the privatisation tender was announced as unsuccessful, Moody's confirmed the A2/P-1 foreign currency deposit and debt ratings and A1 covered bond rating of FHB, following the government-related issuer methodology. In the same rating action, Moody's also upgraded to D+ from D, FHB's Financial Strength Rating. The review focused on the stability of FHB's ownership structure, anticipated government support in case of need, and the long-term viability of FHB's business model. In December 2005, Moody's separated the ratings for FHB's Hungarian Forint and non-Hungarian Forint denominated covered bonds: the non-Hungarian Forint denominated covered bond rating was A1 and the Hungarian Forint denominated covered bond rating was Aa2.

In May 2006 Moody's upgraded all foreign currency denominated Covered Bonds issued by FHB Aa2 from A1. As a result of the previously published (on 24 May 2006) Moody's Methodology entitled "Revised Foreign-Currency Ceilings to Better Reflect Reduced Risk of a Payments Moratorium in Wake of Government Default" the ratings of these bonds are no longer constrained by the former foreign currency ceiling for Hungary.

Pursuant to the Resolution No. 8/2006 (passed on 21 April 2006) of the General Meeting of FHB, the legal corporate name of FHB was changed. There were two reasons behind the decision. The different members of the FHB group needed to be unequivocally identified by name but the Issuer also had to meet the statutory obligation of indicating its corporate form in its name. FHB operates as a public company and such it was obliged to use "Nyrt" in its name. On 30 May 2006 the Metropolitan Court acting as court of registration registered the change of the Issuer's legal corporate name from "FHB Land Credit and Mortgage Bank Ltd." to "FHB Mortgage Bank Co. Plc." and the abbreviated corporate name from "Rt." to "Nyrt". The above mentioned modification is not a change in the corporate form of FHB or its form of operation and is not to be considered as a transformation or legal succession.

According to Moody’s announcement in January 2007, the A2/P-1 foreign currency long-term and short-term bank deposit ratings of FHB were placed on review for possible downgrade, pending the outcome of the potential privatisation of FHB announced by the Hungarian government in October 2006. The change in the review to a possible downgrade reflects the fact that the A2 foreign currency bank deposit rating is now placed at the foreign currency bank deposit ceiling for Hungary and cannot move any higher. In February 2007 ÁPV Zrt. announced again a new tender for its adviser in connection with the privatisation of FHB.

New business strategy of FHB

The Board of Directors approved the strategic guidelines developed by management by virtue of Resolution No. 58 of 2005 (21 December), and subsequently approved the medium-term strategic plan developed on the basis of the guidelines by its Resolution No. 1 of 2006 (7 February).

Major goals of the approved strategy:

- To gain over 12 per cent. market share from the increment of the housing loan market by the end of the strategic period (2010) concerning own origination.

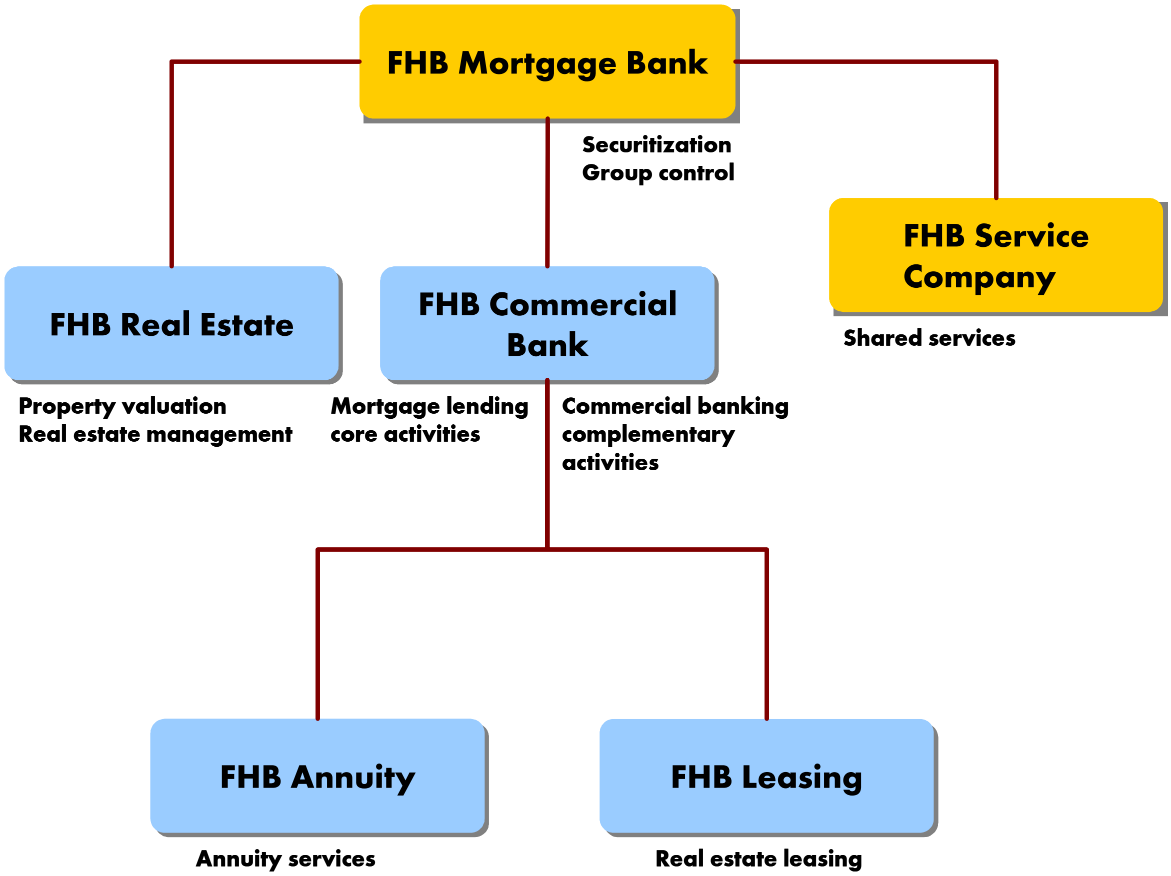
- Increasing the volume of business by diversification of the Bank’s activities, penetration of new markets, launching new products and diminishing risk exposure.

- Maintaining the ROE ratio above the market average but not less than 20per cent.

The Bank's aim is to increase the value of equity through offering its domestic and foreign clients and investors a choice of banking, real estate, mortgage and capital market services of high standards that is wider than at present relying on its existing values and activities as a mortgage bank and within an efficient model of institution and operation.

Introduction of activities that can be deployed solely in a commercial banking context will be a great contribution to the implementation of the strategic goals as it will give the Bank an opportunity to add standard banking products to its current basic business in both the corporate and the retail market. As a first step towards the implementation of the modified strategic guidelines the development of the project to establish an FHB Bank Group with the participation of representatives of the Bank and consultants. The project also includes the development of independent IT, marketing and HR strategies.

The future structure of the FHB Bank Group is presented in the table below:



The Bank, continuing on its turnaround of 2005, hopes to grow own lending activity. It is believed that in the next five years, the portfolio of own disbursed housing loans can increase by 22per cent. per annum. The total loan portfolio will also include new mortgage based products. The Bank expects further expansion of FX lending in the mid-term, and the share of foreign currency loans can rise further while the share of subsidised loans will similarly decrease.

The Bank projects that stronger competition in the housing loan market and entry to the Euro-zone will result in decreased net interest margins.

Shareholders' equity is expected to grow 2.5 times higher than the current level, and the dividend policy is not expected to change (payout ratio is a maximum of 25 per cent. of the net profit).

Activities aimed at the construction of FHB Bank Group

The following tasks related to company foundation and capital increase were accomplished in the third quarter of 2006:

FHB Commercial Bank Ltd.

In May 2006 HFSA (PSZÁF) issued a licence for the establishment of a commercial bank. The Court of Registration entered FHB Commercial Bank Ltd. in the Register of Companies with effect from 14 June 2006. The HFSA issued the operational licence in December 2006.

FHB Services Ltd.

The Court of Registration entered on record the capital increase, the amendment of the scope of business and other changes with effect from 11 April 2006.

FHB Real Estate Ltd.

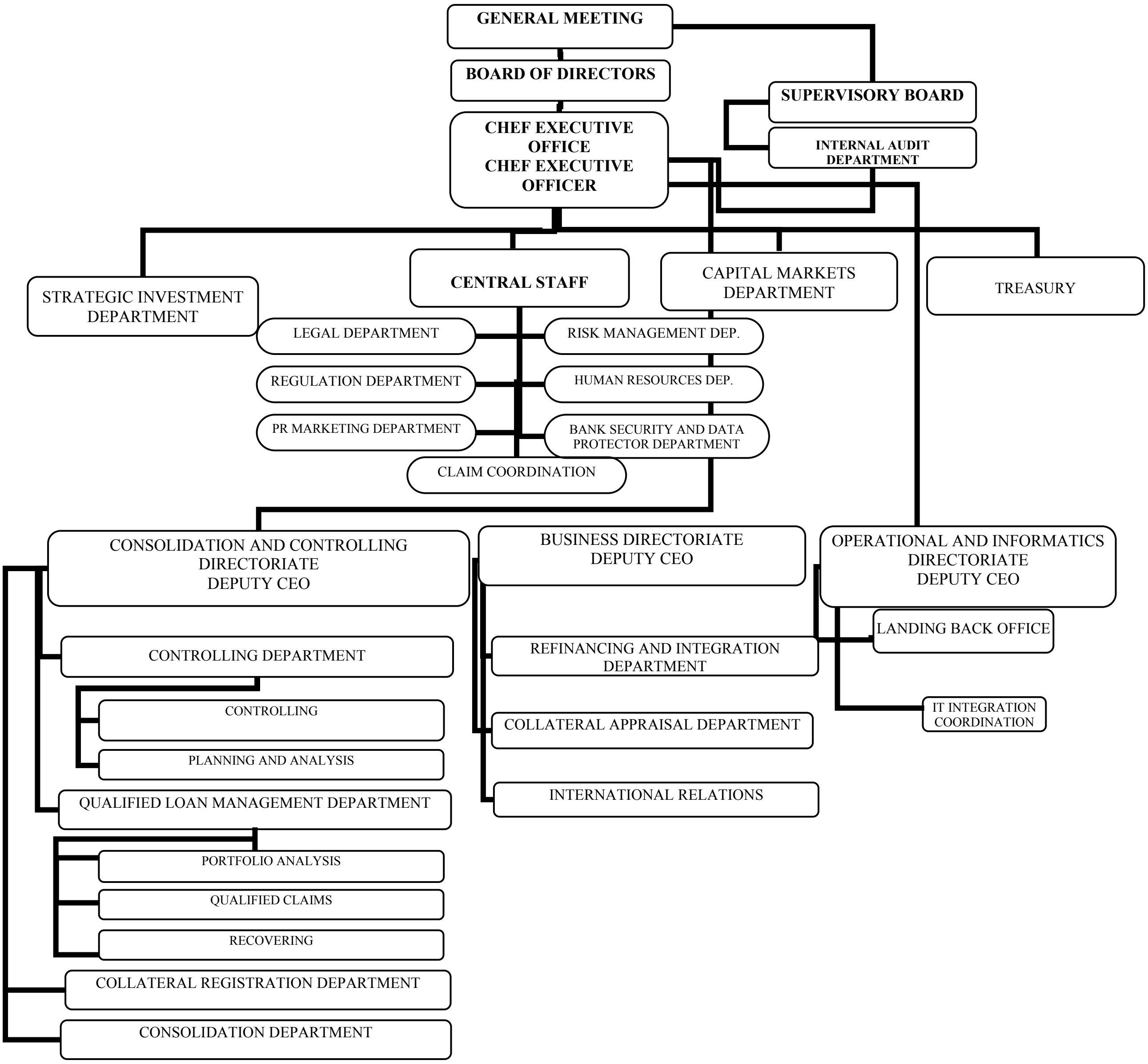
The Court of Registration entered the company in the Register of Companies with effect from 8 May 2006.

FHB Annuity Real Estate Investment Ltd.

The company was founded on 9 June 2006. 95 per cent. of the company's shares are held by FHB and 5 per cent. to FHB Services Ltd.

Organisational Structure

The Issuer's organisational structure is shown in the following diagram:



Administrative, management and supervisory bodies

Directors and Officers

Members of the Board of Directors

Ferenc Karvalits Chairman: Appointed in May 2005. In 1988 he graduated at the Budapest University of Economics from the faculty of economics. In 1993 he earned his Master of Economic Policy Management at the Columbia University. Between 2002-2005 he was CEO of CIB Central European International Bank Ltd.

Dr Márton Vági: Appointed in July 2002. He obtained his degree at the Foreign Economy faculty of the Budapest University of Economics in 1987, and his doctorate in 1994. Since 1994 he has hold a candidate's degree in economic sciences. Since 1 April, 2000 he was managing director of the Energy Industry Asset Management and Infrastructure Directorate of Hungarian Privatisation and State Holding Company (ÁPV Ltd)., and from 1 January, 2005 its the deputy CEO.

Dániel Gyuris: Appointed in January 1999. He has been CEO of FHB since January 1999. He obtained a degree at the University of Agricultural Sciences in Gödöllő in 1984, which was followed by a degree at the University of Economics, Budapest in 1996.

László Harmati: Appointed in July 2002. Member of the Board of Directors of FHB Ltd., Deputy CEO. He obtained his degree at the Budapest University of Economics in 1995 from the faculty of economics. In 1993 he attended a financial course at the Leuven University. From 2000 he was the head of department of the Regulation Policy at the Hungarian National Bank.

Dr Gábor Csányi: Appointed in May 2005. He is Member of the Board of Directors of FHB. In 1986 he graduated as a lawyer from the faculty of law at the University of ELTE. Since 1989 he has been a counsellor and a is member of Csányi, Rátkai and Zala Lawyer's Office. From 2002 he has been member of the Board of Directors of ÁPV Rt.

Dr Zoltán Szedlacskó: Appointed in May 2003. He obtained his degree at the Budapest University of Economics in 1976. At present he is employee of Kárpát Holding Kft. and member of the supervisory Board of the Budapest Transport Ltd., and member of the Board of Directors of WizzAir.

Dr Károly Salamon: Appointed in April 2006. In 1977 he obtained his degree as a certified electrical engineer from Kálmán Kandó Electric Industry and Technical College. In 1983 he took his degree in applied mathematics at Lóránd Eötvös University of Sciences; in 1990 he obtained his MBA in the United States (Pittsburgh). Later he took his degree in strategic information systems at the Budapest University of Economics. Since 1995 he has been Deputy CEO of the Hungária Insurance Company.

Dr Gábor Borsányi: Appointed in April 2006. In 2000 he graduated as a lawyer from the faculty of Law at the University of Miskolc; between 2002-2004 he took his degree at Ferenc Deák post-graduate Institute of Law at Péter Pázmány Catholic University and in December, 2003 obtained the certificate on information and data protection. Between May 2001 and September, 2002 he was a member of the Supervisory Board of CIB Securities Ltd; since March, 2002 he has been member of the Supervisory Board and Chairman of CIB Investment Fund Management Ltd.

Members of the Supervisory Board

Róbert Somfai: Appointed in July 2002. Chairman of the Supervisory Board of FHB. He obtained his degree at the Budapest University of Economics in 1985 from the faculty of economics. Since 1990 he has been a director for the Capital Financial Advisory Ltd. He is a specalist in credit mediation, crisis management, administration of property, establishment of special purpose companies.

Ágnes Winkler Appointed in July 2002. Member of the Supervisory Board of FHB. She obtained her degree at the Budapest University of Economics in 1995 from the faculty of economics in 1985 she obtained a financial specialised economics degree. Since 2002 she has been the managing director of Gravopack Kft. She is a member of the Supervisory Board of Kraft Ltd.

Orsolya Kata Molnár: Appointed in May 2005; Member of the Supervisory Board. In 1998 she graduated at the State Administrative University. Since 1999 she has been working at ÁPV Rt; she is human political manager at the Human Resources Economy Directorate, then she is manager assistant and managing director at the Secretariat of the Deputy CEO of this area.

Éva Baranyi: Appointed in May 2005; Member of the Supervisory Board. In 1990 she graduated from the Technical University from Heavy Industry, in 1996 obtaining the Special Engineer degree on General Informatics at the Technical University of Kálmán Kandó. Since 1997 she has been a chartered accountant and from 1999 Deputy Managing Director at the Privatisation Settlement Directorate of ÁPV Rt.

Mónika Kék: Appointed in May 2005; Member of the Supervisory Board. In 1996 she graduated at the Budapest University of Economics from the faculty of economics. From 2004 she has been Deputy Head of the Financial Services department. She is member of the Supevisory Board of Hungarian Export-Import Bank Ltd.

Dr Gyula Czok: Appointed in May 2006. He is Member of the Supervisory Board of FHB. In 1986 he graduated at the Budapest University of Economics on the faculty of economist. Between 2002-2004 he is investment expert at the Agricultural and Regional Development Ministry

Dr Erik Landgraf: Appointed in May 2006. He is Member of the of the Supervisory Board of FHB. In 1988 he graduated at the Budapest Eötvös Lóránd University of Sciences; in 1995 post graduated at banking faculty. From 1991 he has been working in different banks, and from 1999 he has been the chief counsellor of FHB.

Viet Nguyent Hoang: Appointed in May 2006. He is Member of the of the Supervisory Board of FHB. In 1992 he graduated at the Budapest University of Economic. He has been working at BÉB, at Takarék Bróker and at Magyar Takarékszövetkezeti Bank between 1991-2003, since he is an employee of FHB at the Risk Management Department.

Márta Szántó: Appointed in May 2006. She is Member of the Supervisory Board of FHB. In 1990 she graduated at the Pécs University of Economic. From 1990 she has been working at Agrobank, from 1992 at the Inter-Európa Bank in Szeged, between 2000-2002 at Erste Bank Hungary and from 2002 she is an employee of FHB at the Risk Management Department.

Management of FHB

Members: Dániel Gyuris CEO, Jenő Siklós CFO, and László Harmati deputy CEO of Business Directiorate, and Tamás Foltányi deputy CEO of Operation and Informatics Directoriate.

The address of each of the member of the board of directors and supervisory board is Váci út 20., 1132 Budapest, Hungary.

Conflicts of Interest

There are no conflicts of interest between the duties of the members of the board of directors and the supervisory board to FHB, and their private interests and other duties.

Major Shareholders

Ownership structure of FHB (as at 31 December 2006):

Shareholder	Number of shares	Ownership share in the share capital
Series "A" ordinary shares		
ÁPV Zrt. – Series "A"	33,001,020	50.01per cent.
Domestic institutional investors / companies	7,248,499	10.98per cent.
Foreign institutional investors / companies	16,185,069	24.53per cent.
Domestic private individuals	1,463,389	2.22per cent.
Foreign private individuals	35,452	0.05per cent.
FHB employees	57,205	0.09per cent.
FHB	8,674	0per cent.
Total:	58,000,010	87.88per cent.
Series "B" voting preference shares*		
ÁPV Zrt. – Series "B"	2,114,300	3.20per cent.
Institutional investors – Series "B"	5,885,700	8.92per cent.
Total:	8,000,000	12.12per cent.
Shares total:	***66,000,010***	***100.00per cent.***

*The proportion of Series "B" voting shares is the following: APV Zrt.: 33.92 per cent., Allianz Hungária Biztosító Zrt.: 66.08 per cent.

Owners holding more than 5per cent. ownership share of the entire equity capital (at the end of the December 2006)

Name	Nationality[1]	Activity[2]	Quantity (pcs)	Share (per cent.)[3]	Voting rights (per cent.)[3,4]	Notes[5]
ÁPV Rt.	B	Á	33,000,010	56.90	50.01	
UBS AG	K	L	6.471.680	11.16	9.81	
Allianz Hungária Biztosító Rt.	B	I	1.252.350	2.16	1.90	

[1] Resident (B), Non-resident (K)
[2] Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)
[3] To be given rounded up to two decimals
[4] The voting right assuring participation in decision making in the General Shareholder's Meeting of Issuer.
[5] E.g.: strategic investor, financial investor, etc.

FHB's registered capital consists of 66,000,010 registered shares of 100 Hungarian forint nominal value each. Of the shares 58,000,010 of a total nominal value of 5,800,001,000 Hungarian forint are Series "A" registered ordinary shares.

The remaining 8,000,000 of 100 Hungarian forint nominal value each are Series "B" registered voting preference shares. Holders of Series "B" registered voting preference shares are entitled to sell, transfer, contribute to another company, or otherwise alienate (for the purpose of this provision: transfer) all or some of their Series "B" voting preference shares. Holders of voting preference shares are entitled to all powers pertaining to ordinary shares as well as the additional rights defined in the Statutes. Upon the request of a simple majority of holders of Series "B" voting preference shares, the Chairman of the General Meeting may order a secret ballot on particular issues. Voting preference rights can only be exercised at the General Meeting in person or by proxy.

The General Meeting may only adopt a resolution regarding the following issues in the event of a "yes" vote of a simple majority holders of Series "B" voting preference shares attending:

a) Amendment of the Statutes, including the change of the form of operation of the Bank;

b) Decision on the merger and consolidation of the Bank into, or de-merger from, another company limited by shares, or the transformation of the Bank into another corporate form; and on the increase or reduction of the registered capital;

c) Election and recall of the members of the Board of Directors and the auditor;

d) Resolution on an issue not laid down in the Statutes as the exclusive competence of the General Meeting pursuant to a statutory provision, or on an issue on the agenda which falls within the competence of another body of FHB.

Given the method of their production and the fact that FHB is a lending institution, registered shares may not be converted into other types of shares.

Within the scope of the relevant statutory provisions and the statutes, the shares of FHB are freely transferable; they may be acquired or transferred in the manner determined by a separate legal regulation solely through crediting or debiting to securities accounts.

Shareholders have a right to receive a portion of the after-tax profits of FHB in proportion to the nominal value of their shares (dividend) pursuant to the legal regulations on accounting, ordered to be distributed by the General Meeting. At least twenty business days shall elapse between the day of the resolution providing for the initial date of dividend payment and the initial date of dividend payment. Dividend payment shall be due on the 60th day following the resolution of the General Meeting.

The Bank and the holders of voting preference shares signed a syndication agreement with effect from 14 December, 2004. The Agreement sets out the legal relationship between the parties, specifically issues relating to the transfer of voting preference shares.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF INCOME

The following table shows the audited consolidated Statement of Income of the Issuer according to International Financial Reporting Standards for the years ended 31 December 2004 and 31 December 2005, for the nine months ended 30 September 2006 and 30 September 2005, respectively and consolidated non-audited Statement of Income for the years ended 31 December 2006 and 31 December 2005, respectively:

(all amounts are expressed in thousands of Hungarian forints)

	Year ended 31 December 2006 (non-audited)	Period ended 30 September 2006 (audited)	Year ended 31 December 2005 (audited)	Year ended 31 December 2005 (non-audited	Period ended 30 September 2005 (audited)	Year ended 31 December 2004 (audited)
Interest income	55,880,723	41,667,782	53,068,552	53,070,485	39,375,723	46,846,974
Interest expense	(38,755,956)	(29,022,818)	(36,513,772)	(36,515,758)	(27,125,748)	(31,920,697)
Net interest income	17,124,767	12,644,964	16,554,780	16,554,727	12,249,975	14,926,277
Fee and commission income	1,561,478	1,144,634	1,225,153	1,222,994	861,812	847,764
Fee and commission expense	-951,442	(636,299)	(820,143)	(819,620)	(532,928)	(608,709)
Profit from FX transactions	696,213	534,499	414,996	415,081	290,477	34,202
Change in fair value of trading derivatives	(208,920)	(197,531)	123,006	133,525	233,423	
Gain less losses from securities	369,581	281,262	226,828	226,828	263,491	(1,180,360)
Other operating income	237,980*	35,293*	116,327*	116,068*	24,165*	13,957*
Other operating expense	(74,132)	(59,706)	(49,669)	(49,691)	(17,136)	(219,790)
Operating income	18,755,525*	13,747,116*	17,791,278*	17,799,912*	13,373,279*	13,813,341*
Losses/Provisions on loans and advances	(408,598)	(316,670)	(228,338)	(228,550)	(173,655)	(157,744)
General and administration cost	(8,419,737)*	(5,997,405)*	(6,862,048)*	(6,855,039)*	(4,840,368)*	(5,414,231)*
Profit/(Loss) before tax	9,927,190	7,433,041	10,700,892	10,716,323	8,359,256	8,511,366
Taxation expense	(2,288,875)	(1,893,882)	(2,234,784)	(2,235,646)	(1,858,059)	(1,209,246)
Profit (Loss) for the period	**7,638,315**	**5,539,159**	**8,466,108**	**8,480,677**	**6,501,197**	**7,302,120**

*The Bank states its revenues and expenses relating to the property valuation netted in the Operating expenses row since 30 September 2006. For certifying the comparability, the data as at 31 December 2005 has changed in the following way below: Other income and expenditure decreased by HUF million 632.4, and Operating expenses decreases HUF million 632.4.

The Bank's risk management strategy and accounting policy corresponding to IFRS had been reviewed in the second quarter of the year with due regard to the increased number and value of hedge transactions as well as to the standards applicable since 2005. The purpose of the modifications was to ensure the minimum volatility of the after-tax profit caused by the hedge transactions in line with the Bank's risk management strategy and mortgage banking activities. Simultaneously with the changes a more advanced method has been introduced, which improves the evaluation of the efficiency of the Bank's FX and interest rate risk management.

In the framework of the review, based on international accounting standards, the Bank has reclassified its hedge transactions, and recorded and reported them accordingly hereinafter. Different accounting methods have been applied depending on the type of the hedge:

- In case of ***cash flow hedges***, the efficient part of the change in fair value appears in shareholder's equity. This is how the Bank accounts its fixed-fixed-interest Hungarian forints /FX hedge transactions.

- In case of ***fair value hedges***, gains or losses from revaluation have been accounted in the profit and loss statement. For the time being, the Bank does not have this type of hedge. The Bank considers its variable-rate FX-FX and Hungarian forints -FX derivative transactions as ***trading transactions***, thus the revaluation gains or losses appear directly in the profit and loss statement.

For information purposes, the Bank has presented the fair value of its loans and mortgage bonds also by applying new methodology. The fair value of loans have been established on the basis of an internal model, while the internal evaluation model applied to date to mortgage bonds shall be replaced by a more advanced valuation model in the framework of the improvement of the Bank's risk management system.

CONSOLIDATED BALANCE SHEET

The following table shows the audited consolidated Balance Sheet of the Issuer according to International Financial Reporting Standards as at 31 December 2004 and 31 December 2005, as at 30 September 2006 and 30 September 2005 respectively and consolidated non-audited Balance Sheet for the years ended 31 December 2006 and 31 December 2005, respectively:

(all amounts are expressed in thousands of Hungarian forints*)*

	Year ended 31 December 2006 (non-audited)	30 September 2006 (audited)	31 December 2005 (audited)	Year ended 31 December 2005 (non-audited	30 September 2005 (audited)	31 December 2004 (audited)
Assets						
Cash	37,128	2,290	781	781	2,376	1,924
Due from National Bank of Hungary	19,348,740	24,238,813	29,128,156	29,111,170	5,701,280	10,181,322
Placements with other banks	20,062,712	18,677,444	11,402,455	11,387,134	18,195,789	18,848,957
Investments available for sale	2,854,666	3,461,169	3,420,111	3,419,128	4,008,980	3,871,005
Loans	212,428,568	206,423,163	171,264,316	170,713,875	158,357,691	132,471,979
Refinancing of mortgage loans	269,190,180	269,639,152	259,912,451	259,710,776	255,402,059	241,288,506
Fair value of derivatives	2,928,709	6,219,007	772,667		271,847	
Property and equipment	6,280,498	3,783,898	1,792,570	1,794,317	1,561,178	1,133,552
Other assets		6,742,300	4,181,032	7,889,397	23,174,881,	7,273,491
Total Assets	537,757,371	539,187,236	481,874,539	484,026,578	466,676,081	415,070,736
Liabilities						
Deposits from banks	44,748,692	50,978,803	31,496,058	31,443,253	21,588,603	8,995,686
Mortgage bond liabilities	455,657,575	454,879,627	421,112,594	404,515,486	417,620,792	384,420,416
Fair value of derivatives	3,788,404	701,842	3,198,503		1,154,364	2,683,220
Other liabilities	4,635,100	3,701,957	2,326,828	24,312,714	5,466,821	1,474,110
Total Liabilities	508,829,771	510,262,229	458,133,983	460,271,453	445,830,580	397,573,432
Subordinated debt		-	-		-	-
Shareholders' Equity						
Share capital	6,600,001	6,600,001	6,600,001	6,600,001	6,600,001	6,600,001
Treasury Shares	(11,988)	(11,988)	(2,849)	(2,849)	(2,849)	-
Share premium	1,209,562	1,209,562	1,446,047	1,446,047	1,446,047	1,709,014
General reserve	2,602,948	2,480,567	1,897,032	1,891,109	1,761,790	1,157,536
Cash flow hedge reserve	(2,354,911)	(137,793)	(1,907,468)	(1,907,468)	(2,771,773)	(1,139,073)
Stock option reserve	182,171	74,845	210,036	210,036	124,368	220,393
Changes in fair value of available for sale financial assets	(6,003)	(19,232)	(979)	(979)		-
Retained earnings/(deficit)	20,705,820	18,729,045	15,498,736	15,519,228	13,687,917	8,949,433
Total Shareholders' Equity	28,927,600	28,925,007	23,740,556	23,755,125	20,845,501	17,497,304
Total Liabilities and Shareholders' Equity	537,757,371	539,187,236	481,874,539	484,026,578	466,676,081	415,070,736

CONSOLIDATED CASH FLOW STATEMENT

The following table shows the audited consolidated Cash Flow Statement of the Issuer according to International Financial Reporting Standards for the years ended 31 December 2004 and 31 December 2005, for the nine months ended 30 September 2006 and 30 September 2005 respectively, and the non-audited consolidated Cash Flow Statement for the years ended 31 December 2006 and 31 December 2005 respectively:

(all amounts are expressed in thousands of Hungarian forints)

	Year ended 31 December 2006 (non-audited)	Period ended 30 September 2006 (audited)	Year ended 31 December 2005 (audited)	Year ended 31 December 2005 (non-audited	Period ended 30 September 2005 (audited)	Year ended 31 December 2004 (audited)
Cash flows from operating activities						
Net profit / (loss)	7,638,315	5,640,185	8,466,107	8,480,677	6,501,197	7,302,121
Non cash adjustments to net income (loss) to net cash from operating activities:						
Depreciation	469,652	413,300	449,914	447,667	313,922	303,866
Provision for losses	272,291	308,033	175,356	175,356	125,938	127,281
(Profit) / loss on sale of fixed assets	(995)	(609)	(11,441)	(11,427)	(1,794)	163,199
Share option reserve	182,171		(10,357)	151,183	(96,025)	220,393
Share granted			161,540		161,541	
Cash flow hedge reserve				(95,992)		
Derivatives	(2,151,073)	(6,260,814)	(1,025,779)	(19,828)	(3,433,403)	1,544,147
Operating profit / (loss) before changes in operating assets	**6,410,361**	**100,095**	**8,205,340**	**9,127,636**	**3,571,376**	**9,661,007**
Refinancing of mortgage loans	(9,277,729)	(9,726,701)	(18,623,945)	(18,630,681)	(14,113,553)	(48,750,105)
Loans	(41,436,642)	(35,466,955)	(38,965,096)	(38,871,401)	(26,010,185)	(26,551,413)
Accrued interest receivable				(769,440)		462,454
Other assets	(394,999)	(2,587,311)	3,092,459	1,606,432	(15,901,390)	(4,341,474)
Increase (decrease) in operating liabilities:						
Due to other banks	(1,917,366)	19,482,745	22,500,372	22,453,923	12,592,917	2,995,686
Accrued interest payable				953,881		11,301,150
Other liabilities	2,234,138	(745,830)	(574,359)	(693,092)	2,737,829	(884,058)
Net cash from operating activities	(44,382,237)	(28,943,957)	(24,365,229)	(24,822,742)	(37,123,006)	(78,709,053)
Cash flows from investing activities						
Increase in available for sale investments	560,421	(59,311)	431,066	435,051	(137,975)	(380,749)
Proceeds from sale of property and equipment	1,925	1,891	24,475	24,475	2,021	28,916
Purchase of property and equipment	(4,958,510)	(2,405,910)	(1,121,966)	(1,121,480)	(741,775)	(866,527)

Net cash used in investing activities	(4,936,164)	(2,463,330)	(666,425)	(661,954)	(877,729)	(1,218,360)
Cash flows from financing activities						
Capital increase						
Share premium received						
Repayment of subordinated debt						
(Purchase)/sale of own shares	(245,624)	(245,624)	(265,816)	(265,816)	(265,816)	
Cash flow hedge reserve						
Long term bank loans	15,170,000					
Dividends paid	(1,776,933)					
Instalment from mortgage bonds	(25,228,476)	(14,560,445)	(26,054,700)	(26,054,700)	(23,888,700)	(15,949,830)
Proceeds from issue of mortgage bonds	59,776,623	48,600,512	62,851,358	63,395,804	57,022,493	121,832,222
Net cash from financing activities	47,695,590	33,794,443	36,530,842	37,075,288	32,867,977	105,882,392
Net increase / (decrease) in cash and cash equivalents	(1,082,811)	2,387,156	11,490,188	11,590,592	(5,132,759	25,954,979
Cash and cash equivalents at beginning of year	40,531,391	40,531,391	29,032,203	28,908,493	29,032,203	3,077,224
Cash and cash equivalents at end of period	39,448,580	42,918,547	40,531,391	40,499,085	23,899,444	29,032,203
Cash and cash equivalents comprises of:						
Cash	37,128	2,290	781	781	2,376	1,924
Due from Central Bank	19,348,740	24,238,813	29,128,155	29,111,170	5,701,280	10,181,322
Placements with other banks, with a maturity of less than 90 days	20,062,712	18,677,444	11,402,455	11,387,134	18,195,789	18,848,957
Cash and cash equivalents at end of period	39,448,580	42,918,547	40,531,391	40,499,085	23,899,445	29,032,203
Supplemental information:						
Interest received	55,246,872	41,450,176	52,341,529	52,355,497	38,930,608	46,026,326
Interest paid	(38,516,667)	(29,115,621)	(35,561,881)	(35,561,876)	(26,478,044)	(24,753,996)
Tax paid	(2,409,054)	(1,387,666)	(2,332,413)	(2,332,413)	(710,792)	(1,215,577)

STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

The following table shows the statement of audited consolidated Shareholders' Equity of the Issuer according to International Financial Reporting Standards for the years ended 31 December 2004 and 31 December 2005, for the nine months ended 30 September 2006 and 30 September 2005 respectively, and the statement of non-audited consolidated Shareholders' Equity for the nine months ended 30 September 2006 and for the year ended 31 December 2006:

(all amounts are expressed in thousands of Hungarian forints*)*

	Share Capital	Treasury Shares	Share premium	General reserve	Cash-flow hedge reserve	Share Option Reserve	Fair value of available for sale financial assets	Retained earnings (deficit)	Shareholders' Equity
31 December 2004 (Adjusted)	**6,600,001**	**0**	**1,709,014**	**1,157,536**	**(1,139,073)**	**220,393**	**-**	**8,949,433**	**17,497,304**
Transfer to general reserve	-	-	-	604,254	-	-	-	(604,254)	0
Adjusted change of cash-flow hedge reserve	-	-	-	-	(1,632,700)	-	-	(87,641)	(1,720,341)
Treasury share repurchased							-		
Shares granted	-	(2,849)	(262,967)	-	-	(224,208)	-	-	(490,024)
Creation of stock option reserve	-	-	-	-	-	128,183	-	161,544	289,727
Dividends for 2004	-	-	-	-	-	-	-	(1,320,000)	(1,320,000)
Profit for the period							-	6,588,835	6,588,835
30 September 2005	**6,600,001**	**(2,849)**	**1,446,047**	**1,761,790**	**(2,771,773)**	**124,368**	**0**	**13,687,917**	**20,845,501**
Transfer to general reserve	-	-	-	135,242	-	-		(135,242)	0
Change of cash-flow hedge reserve	-	-	-	-	864,305				864,305
Treasury share repurchased									
Shares granted	-								0
Creation of stock option reserve	-	-	-	-	-	85,668			85,668
Dividends for 2004	-	-	-	-	-	-			0
Changes in fair value of available for sale financial assets							(979)	(18,849)	(19,828)

Profit for the period								1,964,910	1,964,910
31 December 2005	**6,600,001**	**(2,849)**	**1,446,047**	**1,897,032**	**(1,907,468)**	**210,036**	**(979)**	**15,498,736**	**23,740,556**
Transfer to general reserve	-	-	-	583,535	-	-		(583,535)	0
Change of cash-flow hedge reserve	-	-	-	-	1,769,675	-			1,769,675
Owned share repurchased		(259,749)							(259,749)
Shares granted	-	250,610	(236,485)	-	-	(210,036)		210,036	14,125
Creation of stock option reserve	-	-	-	-	-	74,845			74,845
Dividends for 2005	-	-	-	-	-	-		(1,848,000)	(1,848,000)
Changes in fair value of available for sale financial assets							(18,253)		(18,253)
Profit for the period								5,451,808	5,451,808
30 September 2006	**6,600,001**	**(11,988)**	**1,209,562**	**2,480,567**	**(137,793)**	**74,845**	**(19,232)**	**18,729,045**	**28,925,007**
Transfer to general reserve	-	-	-	122,381	-	-		(122,381)	0
Change of cash-flow hedge reserve	-	-	-	-	2,217,118	-			2,217,118
Owned share repurchased	-	-	-	-	-	-	-	-	-
Shares granted	-	-	-	-	-	-	-	-	-
Creation of stock option reserve	-	-	-	-	-	107,326			107,326
Dividends for 2005	-	-	-	-	-	-		-	-)
Changes in fair value of available for sale financial assets							13,229		13,229
Profit for the period								2,099,156	2,099,156
31 December 2006	**6,600,001**	**(11,988)**	**1,209,562**	**2,602,948**	**(2,354,911)**	**182,171**	**(6,003)**	**20,705,820**	**28,927,600**

The Bank's 2004 shareholders' meeting approved a two-year (2004-2005) free of charge share allocation scheme for the members of the Bank's Board of Directors, and for its executive and senior managers. The first shares had been allocated under this scheme in May 2005. In April 2005, the Shareholders' Meeting extended the share allocation scheme for two more years.

Pursuant to IFRS 2 rules, FHB should present at fair value the share based benefits to be granted in the form of shares. Thus the fair value of shares specified in the scheme but not yet allocated shall be accounted as expenses.

MATERIAL CONTRACTS

In 8 August 2006 FHB entered into a EUR 50,000,000 loan agreement evidenced by a Schuldschein, with a maturity of 2 years and 2 days. The mandated manager is Bayerische Landesbank. The purpose of the facility is general funding purposes, as in the case of the CHF 150,000,000 Term Loan Facility signed in September 2005. This facility is a subordinated obligation of FHB.

BUSINESS OVERVIEW

The financial information in this Base Prospectus has been extracted from the audited consolidated annual audited and non/audited semi-annual and 3rd quarter financial reports of the Issuer.

The main activities of the Issuer, as a specialised financial institution, include financing the development and purchase of retail housing and extending state subsidised housing loans. In order to reach the broadest possible range of the population with its services, the Bank opened twelve regional co-ordination offices in different regions of Hungary.

In the second half of 2004, the Bank started to grant non- Hungarian forints denominated loans to its clients to meet the requirements of the market and broaden the scope of its services. In addition, from the beginning of 2005, the Bank has offered new products to corporate clients in the field of project financing.

Scope of Activities

The Issuer is authorised for the following activities (on the basis of the list of licensed operations (TEÁOR)):

Other lending operations (TEÁOR No. 6522)

Within the above group of operations, FHB is licensed to perform only the following activities from among the operations specified in Article 3 of the Mortgage Credit Institution Act, specifically:

- acceptance of repayable funds from the public, not including the collection (management) of deposits;
- extension of money loans under coverage secured by mortgages established on real estate located in the territory of Hungary;
- provision of loans without stipulating mortgage, under joint and several surety provided by the state;
- provision of surety and bank guarantee and assumption of other bankers' commitments,

Other financial operations not listed elsewhere (TEÁOR No. 6523)

- 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. 6713)

- mortgage brokerage;
- currency conversion.

Products

In line with the business strategy for 2005 FHB continued to offer its clients a wide range of retail home loan facilities including products developed by the Bank and liens purchases offered by partner banks.

The Bank's traditional home loan products with subsidised interest offered to its retail customers are the followings:

- home purchase mortgage loan;
- home extension mortgage loan;
- home building mortgage loan;
- home modernisation mortgage loan;

- mortgage loan to consolidate home loans (re-mortgage loans);
- general mortgage loan (home equity loans); and
- remodelling loan.

Since the second half of 2004, the amount of home equity loans extended to retail customers is also significant, although this product does not involve state subsidies. In addition, FHB also offers preferential home building schemes, tax refund support and support for accessible housing.

Over the year 2005, the Bank substantially expanded its lending business, which resulted in a total of 51.0 billion forints direct disbursement to clients, 43.9 per cent. more than in 2004. The breakdown of loans extended by the Bank has changed: the leading product remains purchase loans, contributing 45.3 per cent. to the loan portfolio, although its weight has been steadily diminishing. Home equity loans contributed 30.2 per cent. to the loan portfolio by the end of the period reported and have become increasingly significant within the Bank's own lending.

Breakdown of loans disbursed

Type of loan	Year ended 31.12.2003 (per cent.)per cent.	Year ended 31.12.2004 (per cent.)per cent.	9 months ended 30.09.2005 (per cent.)	Year ended 31.12.2005 (per cent.)per cent.	9 months ended 30.09.2006 (per cent.)
Building	23.30	30.02	18.22	17.70	12.98
Purchase	65.60	50.83	48.70	45.30	31.85
Extension	6.30	6.56	2.41	2.20	1.62
Modernisation	2.20	3.30	0.89	0.70	0.09
General mortgage loan	1.80	7.78	26.14	30.10	40.93
Remodelling	0.80	1.50	2.99	3.00	3.88
Re-mortgage	-	0.03	0.65	0.03	0.08
Commercial refinancing	-	-	-	-	4.31
Land development	-	-	-	-	2.36
Home building project	-	-	0.60	0.99	1.73

Launched in the second half of 2004, foreign exchange-denominated loans have gained more and more ground, similarly to the general Hungarian market trend. As a result, disbursement in currencies other than HUF amounted to 43.3 per cent. of the loan portfolio by 31 December 2005.

There was a steady increase in the disbursement of **Home purchase loans** until the third quarter of 2005, when the Bank disbursed 7.0 billion HUF. The fourth quarter showed a slight drop due to seasonal effects and a general lag in real estate sales. Because of its seasonal nature, **building loan** disbursements peaked in the summer and early autumn months. The seasonality of **loans for other housing related purposes** was even stronger as works to be covered from such loans – such as extension, improvement and remodelling – can be implemented within a shorter period. These disbursements topped in August and September. **Home equity loans** showed a steady ascent with a particularly keen demand for FX loans.

The Bank launched its **project financing product** in 2005. Project lending contributed 1.4 per cent. to own disbursements in the third quarter and 1.8 per cent. in the fourth quarter.

In December 2005, the Bank launched its **land development loans**, a product subsidised by the State.

The net amount of loans disbursed by the Bank over the last year until 20 September 2006 grew by HUF 48.3 billion or 30.4 per cent. The increase in the third quarter of 2006 was HUF 10.1 billion, 5.1 per cent. the higher than the 30 June 2006 figure. Own lending was 35.4 billion forints, 20.7 per cent. higher than the

31 December 2005 figure. In 2006, the Bank disbursed loans directly to customers in the amount of HUF 45.4 billion (including 16.6 billion forints in the third quarter), 30.4 per cent., or 10.6 billion forints more than in the reference year (year-on-year growth of disbursements in the third quarter of 2006 was 3.4 per cent.). Of the disbursements in the first three quarters of 2006 61.2 per cent. were contributed by foreign exchange-denominated loans.

The Bank's leading product, home equity mortgage loans contributed 35.8 per cent. of the total loans disbursed in the third quarter and 40.9 per cent. in the year of reporting. The vast majority of these loans were disbursed in foreign currencies, mainly in Swiss francs (95.4 per cent.). Loans extended for the purchase of homes are the second biggest product with a contribution of 27.2 per cent. in the third quarter and 31.9 per cent. in the first three quarters, followed by building loans contributing 15.5 per cent. to third quarter disbursements. The realignment of loan products that started in 2005 continued also in 2006 and the change in disbursement structure was highly conspicuous compared to the third quarter of 2005, when building loans contributed 17.6 per cent. to own loans, the contribution of purchase loans was 43.5 per cent., and of home equity loans, 31.2 per cent. (96.8 per cent. of the latter was denominated in foreign exchange).

The new products launched by the Bank in late 2005 and in the course of the year of reporting show a significant development: the portfolio of housing project loans amounted to 1.3 billion HUF at the end of September 2006. The housing projects loan product contributed 2.2 per cent. to disbursements in the third quarter, similarly to subsidised land development loans, which amounted 3.2 per cent. of total loans disbursed. Substantial growth was achieved by the new product introduced at the end of June 2006 for the financing of commercial real estate projects. Its contribution to loan disbursements in the third quarter was 9.8 per cent. in the first three quarters of 2006, 4.3 per cent. and the portfolio's value is almost 2.0 billion forints.

Contractual term of FHB's own loans

Term	**31.12.2003 (per cent.)per cent.**	**31.12.2004 (per cent.)per cent.**	**30.09.2005 (per cent.)per cent.**	**31.12.2005 (per cent.)per cent.**	**30.09.2006 (per cent.)**
0-5 yrs	0.30	0.27	0.32	0.49	1.06
5-10 yrs	6.08	4.95	3.73	3.37	2.76
10-15 yrs	27.30	23.72	21.38	20.54	18.52
15-20 yrs	32.30	33.55	32.55	31.98	31.16
20-25 yrs	31.90	35.33	39.48	40.72	42.12
Above 25 yrs	1.50	2.18	2.54	2.90	4.38

Maturities of loans have not changed significantly since the end of 2004, the ratio of loans with maturities of between 5-10 years has gradually decreased between December of 2004 and September 2006. However, the ratio of the loans with maturity of between 20-25 years grew by more than 10 percentage points between December 2003 and September 2006.

Distribution of own loan portfolio by interest period

Interest period	**31.12.2003 (per cent.)per cent.**	**31.12.2004 (per cent.)per cent.**	**30.09.2005 (per cent.) per cent.**	**31.12.2005 (per cent.) per cent.**	**30.09.2006 (per cent.) per cent.**
Within year	0.10	0.58	10.20	14.68	25.91
1 year	15.90	13.39	13.25	12.67	11.13
5 years	83.80	84.66	73.79	69.60	59.45
10 years	0.20	1.37	2.27	3.06	3.51

In 2005 and in the first nine months of 2006, the ratio of loans with interest periods of under one year grew highly compared to the previous years, reflecting the increase in CHF-denominated loans with floating interest.

Direct FHB distribution network

In 2005, the contribution of refinanced loans to total disbursements continued to decline, from 64.9 per cent. in 2004 to 46.8 per cent. in 2005. This was due mainly to the growth of low-interest foreign exchange based loans.

Own lending achieved a spectacular rise compared to the previous year. The gross amount of loans granted by the Bank increased by HUF 39.0 billion , or 29.5 per cent., reaching 171.3 billion HUF. Annual disbursement amounted to 51.0 billion HUF. The growth of own lending was considerably more intensive than projected and the contribution of own lending to total lending also increased substantially.

In 2005, the Bank came under strong pressure to repay many of its clients. Prepayments amounted to 14.4 billion HUF by the end of the year including 10.4 billion HUF of prepaid refinanced loans.

In keeping with its original concept, the Bank has not developed a large network of branches with large staff. Besides the Budapest head office, clients could visit ten "co-ordination" offices (in Kecskemét, Székesfehérvár, Győr, Kaposvár, Miskolc, Debrecen, Szeged, Nyíregyháza, Zalaegerszeg and Pécs) by the end of June 2005. The year-on-year increase in loans distributed directly by the Bank was 11.7 per cent. in 2005.

In terms of acceptance of loan applications, the previously existing balance between the Budapest head office and the co-ordination offices shifted towards the co-ordination offices in 2005, partly due to the performance of two new offices and partly to a considerably more active network of agents throughout the country.

The Bank continues to consider the operation and efficiency of the coordination offices as an important task and offices are upgraded on a continuous basis. Besides the re-modelling of existing offices, two new offices were added to the network in the course of the year 2005, in Zalaegerszeg and Nyíregyháza.

The average loan size slightly decreased from 4.1 million HUF in 2004 as at 31 December 2005 the aggregate average value of the Bank's own loans and refinanced portfolio was 3.9 million HUF.

The Bank's distribution network continued to play a key role in own disbursements, contributing 41.3 per cent., although this contribution is substantially less than the previous year's figure (54.7 per cent.) due to the increasing activity of agents.

Agency activities – improvement of services

In order to reduce the negative impact of competition on the market, at the end of 2004, the Bank embarked upon a dynamic development of its network of agents with a view of promoting agents' activity and improving the efficiency of co-operation. As a result, individual entrepreneurs and small agencies appeared in addition to long-standing major partners. Besides expanding its network of agents the Bank also paid special attention to developing services extended to its agents.

Due to these developments 55.7 per cent. of own disbursements took place through the network of agents in 2005, and the amount of loans disbursed through the Bank's sales channels was 28.3 billion forints.

The number of contracted partners as at 31 December 2004 was 208, and the number of agents selling the Bank's products was 1,835. This network development targeting essentially the small enterprise sector was continued in 2005. In addition, contracts were signed with brokerage firms with nationwide networks and new agents of the existing insurance and home savings partners acquired authorisation to sell FHB loan products. As a result, the number of contracted partners as of 31 December 2005 was 594, with more than four thousand registered agents.

There was no substantial change in the performance of the various channels of own lending in the third quarter of 2006 compared to the third quarter of 2005. The contribution by the network of agents was 59.9 per cent., the Bank's own network contributed 37.6 per cent. and syndicated loans contributed 2.4 per cent. to own loans. By contrast, in the same period of 2005, the breakdown of the same data; was 58.2 per cent. contributed by agents, 2.2 per cent. by syndicated loans and 39.5 per cent. by the Bank's own network. At the same time, the dynamic development of the network of agents as well as the expansion of promotional services extended to agents were conspicuous in the performance of the various channels of lending: the Bank's own network contributed 33.9 per cent., the network of agents 63.9 per cent., and the contribution of syndicated loans was 2.2 per cent. to loan disbursements in the first three quarters of 2006. The same figures in 2005 were 47.1 per cent., 51.0 per cent. and 1.9 per cent. respectively.

Refinancing

Conducted through the purchase of independent liens, FHB's refinancing business was operating with ten (after mergers: eight) partners at the end of September 2005. Framework cooperation agreements were signed with Kereskedelmi és Hitelbank Ltd. (Commercial and Credit Bank Co.) and CIB Közép-Európai Nemzetközi Bank Ltd. (CIB Central European Bank Co.) in 2001, and with ERSTE Bank Hungary Ltd., Inter-Európa Bank Rt, MKB Hungarian Foreign TradeBank Ltd. (Hungarian Foreign Trade Bank Co.), Konzumbank Ltd. (largely merged with MKB Ltd.) Postabank és Takarékpénztár Ltd. (Postabank) (largely merged with Erste Bank Ltd.) and Raiffeisen Bank Ltd. in 2002, with Általános Értékforgalmi Bank Ltd. (General Banking and Trust Co. Ltd.) in 2003, and with ELLA (First Housing Loan Bank) in 2004.

The effect of a considerable drop in demand in the housing loans market and the penetration of FX loans had the greatest impact on refinancing. In 2005, new refinancing transactions amounted to 44.8 billion HUF, some 68.4per cent. of the 2004 figure of 65.6 billion HUF.

In keeping with the trend which started in the second half of 2004, refinancing continued to decline in the first quarter of 2005, then increased in the second quarter, so that the majority of refinancing (58.1 per cent.) occurred in the second half.

The increase was due to a large extent to the fact that the Bank started refinancing FX loans in December 2004. The new FX loan facilities rapidly gained ground within the refinancing portfolio: in the fourth quarter of 2005, the contribution of newly disbursed FX refinancing was 70.6per cent. and its contribution to annual disbursements was 55.2 per cent. of total loans disbursed. At the end of 2005, the refinanced FX loan portfolio amounted to 24.2 billion HUF, which was 9.3per cent. of the total refinanced portfolio.

Refinancing (Bln Hungarian forints)

	Q1 2004	**Q2 2004**	**Q3 2004**	**Q4 2004**	**Q1 2005**	**Q2 2005**	**Q3 2005**	**Q4 2005**	**Q1 2006**	**Q2 2006**	**Q3 2006**
Bln Hungarian forints	25.476	22.718	9.728	8.145	6.960	11.822	13.941	12.120	11.429	10.129	12.554

The portfolio of refinanced loans showed a 5.6 per cent. year-on-year increase and amounted to 269.4 billion HUF as at 30 September 2006. Newly refinanced mortgage loans amounted to 12.6 billion forints, 9.9 per cent. less than the figure for the same period in the preceding year, at the same time the 34.1 billion forints refinanced loans disbursed in the first three quarters of 2006 exceeded the reference year figure by 4.2 per cent.

Refinancing Units

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006
Units	4,799	4,205	2,021	1,618	1,215	1,409	1,964	1,454	1,585	1,021	1,456

Within the refinancing portfolio, the proportion of FX-based loans continued their steady increase: in the third quarter of 2005, 64.5 per cent. of refinancing was denominated in foreign exchange and the trend continued in 2006 to reach 84.0 per cent. in the third quarter. The great majority of the third quarter refinancing was denominated in Swiss francs.

Contractual term of refinanced loans

Term	31.12.2003 (per cent.)	31.12.2004 (per cent.)	30.09.2005 (per cent.) per cent.	31.12.2005 (per cent.)	30.09.2006 (per cent.)per cent.
0-5 yrs	0.40	0.05	0.05	0.04	0.05
5-10 yrs	23.30	19.34	3.27	3.37	3.40
10-15 yrs	24.90	24.35	19.18	18.55	16.82
15-20 yrs	48.30	48.97	25.68	25.53	24.44
20-25 yrs	1.60	5.36	48.64	49.34	52.24
Above 25 yrs	1.50	1.93	3.19	3.16	3.06

The terms of refinanced loans from purchase to maturity has tended to shift towards the longer term: while at the end of 2002 the share of loans with terms exceeding 15 years was 42 per cent., in 2003 it was over 51 per cent., it was 56 per cent. at the end of 2004, it was over 78 per cent. at the end of 2005, and it was close to 80 per cent in the third quarter of 2006.

Syndicated loans and partners

The Bank's standard products (including mortgage bonds, and home purchase, extension and modernisation loans with subsidised interest) are sold in the context of syndicated cooperation. The loans are secured by the real estate property valued by, and encumbered with the lien of, the bank, and the debtors (guarantors) meet the Bank's requirements.

In 2005 the Bank disbursed 1.0 billion forints to its partners: 33.9 per cent. less than in 2004. The decline is a result of the fact that in 2005 the Bank’s major consortial partner chose to refinance the subsidized loans it had extended instead of opting for consortial loans. Consequently, the contribution of consortial loans to own lending dropped from 4.4 per cent. in 2004 to 2.0 per cent. in 2005.

However, a Framework Agreement for Consortial Co-operation was concluded on 31 December 2005 to create a total of 27 savings co-operatives to lend for the purpose of land development.

Portfolio analysis

On 31 December 2005, the Bank’s classified assets amounted to 442.2 billion forints, pending commitments amounted to 7.8 billion forints and future commitments amounted to 89.2 billion forints.

Receivables from customers amounted to 171.1 billion forints (31.7 per cent. of the portfolio) and 7.8 billion forints disbursement commitment based on valid loan agreements (1.5 per cent.). Of these receivables, 5.6 billion forints attached to 1,513 contracts and 0.3 billion forints in commitments were classified in the categories from watch to bad, with 0.6 billion forints total loss in value and provisions.

The refinancing loan portfolio amounted to 259.7 billion forints (48.2 per cent. of the entire portfolio) from eight commercial banks; all of the loans were classified as problem-free. The Bank had term or sight deposits with ten commercial banks amounting to 11.3 billion forints (2.1 per cent. of the entire portfolio). As regards to holdings in other companies, the Bank had at 31 December 2005 a 100 per cent. ownership stake in FHB Service Company Ltd. The nominal value of this investment is 65 million forints, and is classified as problem-free. Future commitments amounting to 89.2 billion forints as at 31 December 2005 constitute 16.5 per cent. of the entire loan portfolio.

In 2005 the quality of the portfolio continued to be good. Compared to 2004 there was a slight decrease in the rate of problem-free disbursements in the portfolio as a whole and also in the loan portfolio (specifically, the items receivables from clients and commitments).

As at 31 December 2005, 98.9 per cent. of the classified portfolio was problem-free (compared to 99.2 per cent. as at 31 December 2004). The aggregate rate of substandard, doubtful and bad debts was 0.4 per cent. (as opposed to 0.3 per cent. as at 31 December 2004), and the rate of transactions on the watch list was 0.7 per cent. (as opposed to 0.5 per cent. on 31 December 2004).

The proportion of problem-free loans in the loan portfolio was 96.7 per cent. (as opposed to 97.4 per cent. as at 31 December 2004), the combined rate of substandard, doubtful and bad debts was 1.2 per cent. (as opposed to 1.0 per cent. on 31 December 2004), and the rate of loans on the watch list was 2.1 per cent. (as opposed to 1.6 per cent. on 31 December 2004).

There were 80 foreclosures in process as at 31 December 2005, from which 8 were being processed via auctions. The number of foreclosures completed in the period was 89, from which one was an auction, 26 were simple foreclosures, and 62 receivables were carried out via tenders.

There has been virtually no change in the average loss in value, (0.1 per cent. for the entire portfolio and 0.3 per cent. for the loan portfolio).

Breakdown of portfolio by classification, loss in value and provision
Data in millions of Hungarian forints

CLASSIFI-CATION	31.12.2004			31.12.2005			30.09.2006		
	Total accounts receivable	Loss in value and provisions	Ratio (per cent.)	Total accounts receivable	Loss in value and provisions	Ratio (per cent.)	Total accounts receivable	Loss in value and provisions	Ratio (per cent.)
Problem-free	393,995	0	0.00	533,247	0	0.00	634.604	0	0.00
Watch	2,188	0	0.00	3,788	2	0.10	5.812	5	0.10
Substandard	305	32	10.50	535	58	10.80	1.097	118	10.70
Doubtful	1,061	329	31.60	1,617	492	30.40	2.350	737	31.40
Bad	16	16	100.00	1	1	100.00	1	1	100.00
TOTAL	397,565	377	0.10	539,188	553	0.10	643.864	861	0.10

In the first nine months of 2006, the structure of the Bank’s portfolio retained its high quality. Nevertheless, the ratio of problem-free accounts receivable was slightly down from the figure of the second quarter of 2006 for both the entire portfolio and, specifically, the loans portfolio. As at 30 September 2006, 98.6 per cent. of the rated portfolio was problem free (as opposed to 98.8 per cent. as at 30 June 2006 and 99.0 per cent. as at 30 September 2005). The aggregate contribution of substandard, doubtful and bad transactions was 0.5 per cent. (0.5 per cent. as at 30 June 2006 and 0.4 per cent. as at 30 September 2005), and transactions on the watch list contributed 0.9 per cent. of the qualified portfolio (0.7 per cent. as at 30 June 2006 and 0.6 per cent. as at 30 September 2005).

At the end of September 2006, the total of problem loans (loans classified as substandard, doubtful or bad) increased by 658 million forints compared to the previous quarter, resulting in a 167 million forint increase in loss in value and provisions to cover for such loans. The average rate of loss in value and provisions within the entire portfolio and specifically in the loan portfolio is around a stable 0.1 per cent. and 0.4 per cent. respectively.

Collateral valuation

In 2005 the number of valuations increased substantially along with the expansion of own lending: in 2004 the Bank valued 28,000 collaterals while this number was 33,000 in 2005. The number of valuations in conjunction with the Bank's own lending was 17,000 and the number of valuations by partner banks was 16,000. The valuation of collaterals was most intensive in the second and third quarters: 55.2 per cent. of all valuations took place in this period.

In 2005, the Bank generated 632 million forints in income from valuation fees in 2005 as opposed to 732 million forints paid to subcontractors. The income was 14.4 per cent. higher than the previous year's figure while costs increased by 66.3 per cent. due to increasing competition and the consequent rise in valuation fees.

Funding, Liquidity and Capital Resources

The issuance of mortgage bonds is the primary means of fundraising available to the Issuer. The cost is relatively small due to the Hungarian government's interest subsidy policy.

In the first two years of its existence, FHB issued small sized mortgage bonds exclusively through private placements. This strategy has been gradually replaced by the introduction to the public market of series with higher nominal values and increased liquidity. These issues are sold by public auction and listed on the Budapest Stock Exchange. Private placements can still be made, but are likely to form a less significant proportion of mortgage bond issuance in the future.

At the beginning of 2003, the value of the portfolio of mortgage bonds was 101,644 million Hungarian forints, and the year-end portfolio value amounted to 277,906 million Hungarian forints. The total face value of mortgage bonds issued throughout the year was 190,242 million Hungarian forints.

The fourth quarter of 2003 was a milestone for the Bank with the approval by the Luxembourg Stock Exchange of its EUR 1,000,000,000 Euro Mortgage Bond Programme. In December 2003, the Bank issued its largest series under the Programme (33,202,500,000 Hungarian forints or EUR125,000,000 equivalent in nominal amount).

The value of mortgage bonds issued by FHB in 2004 amounted to 121.3 billion Hungarian forints: 10.8 per cent. more than the Bank's estimate of 109.5 billion Hungarian forints. During the previous year, four repurchases were made at a cost of 32.4 billion Hungarian forints, including one series of mortgage bonds maturing for a repayment figure of 200 million Hungarian forints. Taking into account changes in exchange rates, the Bank's mortgage bond portfolio increased by 88.8 billion Hungarian forints during 2004.

The year 2004 was also a milestone for the Bank, as it issued mortgage bonds directly in Euros for the first time. Furthermore, its capital market activities concerning the trade of mortgage bonds was extended to include repurchases.

The pricing for mortgage bonds in 2004 was based on the reference yield of Hungarian government securities and the swap curve of similar maturities. The spread over the government bond paid by the Issuer has ranged from 25-40 basis points in the Hungarian capital market and from 18-28 basis points abroad.

The volatile interest environment and the higher yield expectations of domestic investors forced the Bank to cover the majority of its financing needs from foreign capital market sources; an adequate background for this purpose was provided by FHB's effective international bond programme and its good credit rating. In 2004 – unlike the regular monthly auction activities in previous years – only two domestic mortgage bond series were issued in the domestic market.

In 2005 the Bank issued new bonds amounting to 61.6 billion forints. Issues were strongest in the second quarter, when the Bank issued mortgage bonds with a total face value of 41.1 billion forints as opposed to 17.2 billion forints in the first quarter, only 3.3 billion forints in the fourth quarter, and no issues in the third quarter. Throughout the year scheduled principal repayments by the Bank amounted to 7.9 billion forints in addition to mortgage bonds repurchased at Stock Exchange auctions with a value of almost 18.2 billion forints.

Due to the volatility of interest rates and higher yields expected by domestic investors, the Bank raised most of the funds required in foreign capital markets. FHB's ongoing international bonds scheme and the Bank's credit rating provided a good framework for these efforts. Similar to the auction practice of 2004, relatively few bonds were issued domestically in 2005.

The Bank started the first quarter of 2005 with a repurchase followed by the issue of two new series: a private placement took place in the international market in February, and a domestic public issue occurred in March. In February the Bank issued mortgage bonds with a total face value of EUR50 million. In March the Bank reappeared in the Hungarian capital market with a public offering after over a year's absence. The Hungarian Financial Supervision Authority (PSZÁF) approved the Bank's new 220 billion forints domestic mortgage bond programme for 2005-2006 at the end of February, and the new series was issued under the programme.

In the second quarter of 2005, the Bank issued four new series of mortgage bonds, including three public placements outside Hungary and one public domestic issue. In addition, the March public issue was tapped up in June. Two repurchase transactions were concluded, in April and May respectively, and the Bank repaid the one-year series in mid-June. The total nominal value of the new foreign issues in the second quarter was EUR125 million, or approximately 31 billion HUF, and of the series issued in Hungary was 10 billion HUF.

In the third quarter of 2005, the Bank offered no new series in the domestic or foreign markets, nor did it initiate repurchases. This was due, on the one hand, to the fact that three new series had been issued in June, the last month of the previous quarter and on the other hand that it was deemed expedient and opportune to involve long-term resources other than mortgage bonds.

Accordingly, the Bank drew down on a syndicated loan of CHF150 million with a maturity of five years in the third quarter. The loan documentation was signed in September 2005, which was followed by the first drawdown. The involvement of a syndicated loan instrument proved extremely successful as the interest premium, hence the cost of funds, was no higher than the costs of mortgage bonds with similar conditions.

In the fourth quarter of 2005, FHB issued a new mortgage bond in the Hungarian capital market with a total nominal value of approximately three billion forints. In the fourth quarter, the full amount was drawn down from the syndicated loan obtained in September 2005.

As at 31 December 2005, the total nominal value of outstanding issues under the Bank's international mortgage bond programme (approved by the Luxembourg regulator) was EUR 690 million. The unused amount is EUR 310 million from the original EUR 1,000,000,000 programme limit. The update of the programme in accordance with the EU Prospectus Directive has been completed, and the offering document was approved by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) on 21 December 2005.

By the end of 2005, the Bank raised new long-term funds amounting to 85.8 billion forints, including new mortgage bonds issued with a total nominal value of 61.6 billion forints and a syndicated loan amounting to 24.2 billion forints.

The investors' confidence in mortgage bonds issued by FHB was demonstrated by the fact that the Bank was awarded the Budapest Stock Exchange's title of "loan securities issuer of the year" for the fifth time in a row. On 20 December 2005, Moody's, the international rating agency, upgraded FHB's HUF mortgage bonds rating from A1 to Aa2.

In the first three quarters of 2006, FHB raised long-term funds amounting to a total of 53.1 billion forints, 13.6 billion of which were raised through a loan evidenced by a Schuldschein. Mortgage bonds generated 39.5 billion forints, of which 25.5 billion forints were received in the first quarter and 14.0 billion forints were received in the second quarter. In accordance with its strategy for issues, the Bank did not issue a new mortgage bond series in the Hungarian or international capital markets in the third quarter.

Outstanding mortgage bonds issued under the international mortgage bond programme amounted to EUR 840 million as at 30 September 2006.

In 2006 the Bank's repayments on mortgage bonds amounted to 9.1 billion forints (including 2.0 billion in the third quarter). Repurchases amounted to 5.4 billion forints, all of which were made in the third quarter.

The volume of trading in FHB's mortgage bonds in the secondary stock exchange market was 5.6 billion forints in the third quarter of 2006 (excluding the repurchase made in July), which was substantially higher than the one billion forints in the second quarter and also exceeded the trading volume in the third quarter of 2006 (2.3 billion forints). A large portion of trading involved fixed interest earning mortgage bonds, primarily those with a maturity in 2008.

Mortgage bond coverage

In accordance with the relevant statutory provisions, the Bank has undertaken to keep a stricter mortgage bond coverage ratio, i.e., to ensure a principal-to-principal adequacy at all times. Accordingly, the aggregate amount of ordinary collateral (net of loss in value) plus supplementary collateral principal always exceed the aggregate nominal value of outstanding mortgage bonds in circulation. The same adequacy rule is satisfied with respect to interest-to-interest.

In accordance with the provisions of the Mortgage Credit Institutions Act and in keeping with its Rules on Collateral Registration, the Bank monitors the collateral situation and the compliance with the requirement of proportionality. In order to ensure appropriate mortgage bond coverage, the Bank verifies, before the extension of a loan, whether the conditions for ordinary collateral are met.

By the end of 2005, the ordinary collateral portfolio included 46,511 items with 123,170 real estate properties involved as coverage.

In the refinancing segment, a total of 177 independent lien contracts were repurchased in the course of 2005 involving 10,817 real estate properties covering 9,917 loan contracts.

As at 31 December 2005, the net value of ordinary collateral was 757,556 million forints, which was 6.2 per cent. higher than the amount of ordinary collateral as at 31 December 2004 (713,112 million forints)

At the end of the fourth quarter in 2004, the net value of ordinary collateral was 713.1 billion HUF, while at the end of December 2003 it was 541.7 billion HUF.

The value of assets involved as collateral as at 31 December 2005 was as follows:

Outstanding mortgage bonds in circulation	**Hungarian forints**
face value:	403,838,820,000
interest:	182,703,302,273
total:	589,542,122,273

Ordinary collateral value	**Hungarian forints**
principal:	424,063,762,591
interest:	333,492,526,180
total:	757,556,228,771

Value of assets involved as supplementary collateral	Hungarian forints
principal:	0
interest:	0
total:	0

The value of assets involved as collateral as at 30 June 2006 was as follows:

Outstanding mortgage bonds in circulation	Hungarian forints
face value:	448,990,320,000
interest:	173,713,852,768
total:	622,704,172,768

Ordinary collateral value	Hungarian forints
principal:	454,447,257,723
interest:	326,612,639,619
total:	781,059,897,342

Value of assets involved as supplementary collateral	Hungarian forints
principal:	0
interest:	0
total:	0

The value of assets involved as collateral as at 30 September 2006 was as follows:

Outstanding mortgage bonds in circulation	Hungarian forints
face value:	438,122,080,000
interest:	167,815,647,091
total:	605,938,000,000

Ordinary collateral value	Hungarian forints
principal:	466,560,302,349
interest:	325,216,790,761
total:	791,777,093,110

Value of assets involved as supplementary collateral	Hungarian forints
principal:	0
interest:	0
total:	0

Assets involved as supplementary collateral are loans with a State guarantee.

As at the end of September 2006, the Issuer had 46 series in circulation with a total nominal value of 432,835 million Hungarian forints. (Series denominated in euro are calculated at the National Bank of Hungary's foreign exchange mid-rate as at the date of issue).

The number of fixed interest mortgage bonds in circulation was 34; their total nominal value was 355,834,890,000 Hungarian forints.

The number of variable interest mortgage bonds in circulation was 12; their total nominal value was 76,835,430,000 Hungarian forints.

The position of the Issuer in the Hungarian Banking System/Market

It was not until the commencement of FHB's operation in March 1998 that post-Second World War mortgage banking was launched in Hungary. The introduction of this highly novel form of operation and investment was a slow process in the domestic market.

Established in 1999, HypoVereinsbank Jelzálogbank Ltd., the second mortgage bank established in Hungary, initially focused on corporate financing. OTP Bank Ltd. established its own mortgage bank, the third such institution in Hungary, in 2001.

Mortgage loan companies are specialised credit institutions, the operation and legislative regulation of which is significantly different from that of other credit institutions. The most important special feature of mortgage loan institutions is that they may extend loans only if covered by a mortgage on real estate or a State guarantee. Unlike in the case of commercial banking regulations, as a condition to the granting of the loan, the mortgage credit institution imposes, at all times, a prohibition of alienation and encumbrance on the mortgaged property, and has it registered at the Land Registry. The majority of its loans granted must be long-term loans with a minimum maturity of five years. One prerequisite for the provision of such loans is that the real estate offered as coverage for a loan should be marketable, and it should be possible to appraise its value; furthermore, its ownership should be clear and such ownership has to be proven by the corresponding data of ownership in the Land Registry.

Further, if the mortgaged real estate is located in an EEA member state, the mortgage established on such real estate must provide the same security as a mortgage established under the laws of Hungary. A mortgage established on real estate located in an EEA member state will provide the same security as a mortgage established under the laws of Hungary if, among other conditions, the mortgage is registered in an official register and in the course of a judicial enforcement or liquidation proceeding, the mortgage credit institutions claim will rank prior to the claims of other creditors in right of satisfaction.

A mortgage credit institution may only acquire the ownership of real estate in certain cases. Such cases include the reduction of losses deriving from the financial services rendered by the mortgage credit institutions. In these cases, the real estate has to be sold by way of a public auction within three years.

The Bank may grant loans for up to a maximum of 70 per cent. of the lending value of the real estate serving as collateral. The lending value is established on the basis of the market value of the real estate net of the identified risks expressed in terms of money terms. (The principles and methods of the establishment of the lending value are regulated by Decree No. 25/1997 (VIII.1.) of the Minister of Finance on the Principles and Methodology Applicable to the Establishment of the Lending Value of Real Estate not Qualifying as Agricultural Land, and by Decree No. 54/1997. (VIII.1.) of the Minister of Agriculture on the Principles and Methodology for the Establishment of the Lending Value of Agricultural Land.)

The funding sources for the loans granted are raised by FHB by issuing long term covered mortgage bonds. The security for this type of investment is guaranteed by the strict legislative regulations for mortgage banks, the low risks of the credit portfolio underlying the covered mortgage bonds, and the very strict and stable coverage system. The existence of the collateral for covered mortgage bonds is regularly controlled by the Property Supervisor at the time of each issue as well as after each issue, on an ongoing basis. The maturity of covered mortgage bonds is typically longer than five years, which is in line with the maturity of loans.

In making efforts to fully embrace the advantages of mortgage banking in the area of raising long term funding, FHB aims to channel the funds into long term housing and real estate financing and, by rapid but secure growth, to reach the efficiency and profitability standards of international mortgage banks as soon as possible. The management of the Bank expects its share of the home lending market to stabilise around 30 per cent. in the long run.

Mortgage bond market shares

	31.12.2003 per cent.	**31.12.2004 per cent.per cent.**	**31.12.2005 per cent.per cent.**	**30.09.2006 per cent.**
OTPJ	63.10	64.70	62.90	67.40
FHB	31.20	30.00	31.43	28.02
HVBJ	5.70	5.30	5.67	4.58

Source: banks' flash reports

Competition in mortgage banking

After-tax profits as well as the ROAE and ROAA of mortgage banks continued to soar in 2003, a trend which continued in 2004 and in the first nine months of 2005, although housing lending peaked in July 2003, which was before the tightening of interest subsidies by the government. Since then, the pace of growth has slackened. The banks successfully launched foreign exchange-based loans in order to maintain borrowers' interest in home loans.

Major indicators of the Hungarian mortgage banks (in billions of Hungarian forints)

Item	**HVBJ**			**FHB**			**OTPJ**		
	2004	2005	H1 2006	2004	2005	H1 2006	2004	2005	H1 2006
Balance sheet total	88.1	106.76	101.19	415.00	481.87	524.91	885.86	960.62	1,077.64
Subscribed capital	3.00	3.00	3.00	6.60	6.60	6.60	20.00	20.00	20.00
Own equity	6.08	7.81	8.80	17.50	23.74	27.11	31.38	36.99	39.64
Interests received	8.53	10.15	4.60	46.85	53.07	37.54	115.25	120.29	57.51
Interests paid	6.13	6.99	3.33	31.92	36.51	19.21	75.97	72.24	35.86
Net interest	2.40	3.15	1.27	14.93	16.55	8.34	39.28	48.05	21.65
Earnings before taxes	1.77	2.06	0.99	8.51	10.70	4.92	12.65	7.26	3.75

Source: banks' flash reports

In recent years the sector has shown tremendous growth. In 2003 FHB's earnings before taxes were ten times that of the previous year, and that high growth was maintained through the first half of 2005. In 2003 the balance sheet total more than doubled, from 115.56 billion Hungarian forints to 310.1 billion Hungarian forints, and the year 2004 was also successful when the growth exceeded 33 per cent. In 2005 the growth has slowed, which was similar in the first six months of 2006. OTPJ's 2003 earnings before taxes was also more than ten times the 2002 figure, and its balance sheet total tripled; this trend continued in 2004 and 2005. In 2004 and 2005 and the first six months of 2006, HVBJ's achievement is also spectacular, though its dynamism is not on a par with the other two mortgage banks. The table above illustrates the three banks' respective market shares.

On the liabilities side, in the third quarter of 2006 OTPJ had a 67.40 per cent., FHB a 28.02 per cent. and HVBJ a 4.58 per cent. market share. (The shares on the assets side do not entirely correspond to this distribution, but the difference is not substantial.)

The three mortgage banks' aggregate income from interest was 93.9 billion Hungarian forints in 2003, 170.58 billion Hungarian forints in 2004, 184.5 billion Hungarian forint in 2005 and 99.65 billion Hungarian forints in the first half of 2006. Their combined earnings before taxes reached 14.2 billion Hungarian forints in 2003, increased to 22.8 billion Hungarian forints in 2004, exceeded 20 billion Hungarian forints in 2005 and was close to 10 billion Hungarian forints in June 2006.

In 2004, 2005 and the first nine months of 2006, the quality of the three mortgage banks' assets remained excellent; the rate of problematic loans is below 1 per cent. for each mortgage bank, which was mainly due to their carefully conceived lending policies coupled with stringent scoring. The maturity of assets and liabilities was well co-ordinated, and the share of stable liabilities was high.

In the Hungarian mortgage market, Eston International, a research company, foresees the intensification of competition and the appearance of new participants from 2007. The margins are predicted to diminish and the quality of banking service is expected to increase due to the fierce competition.

Strategy

FHB's new medium term business strategy was accepted by the Board of Directors in February 2006. 2006 was dedicated to the implementation of the strategy, as result of which the FHB Bank Group was created.

In 2007, the main focus will be shifted to the extension of the strategy, and it is anticipated that the contribution of the individual members of the FHB Bank Group will already start to appear in the results. Management of the Bank believes that the Bank's market share of the retail mortgage loans will increase in 2007. This will be supported by new mortgage loan products to be introduced by FHB Commercial Bank and the commercial banking branch network set up in the first half of 2006.

The Bank's strategic plan has been assuming a slight drop of the profit in the years 2007 and 2008. The FHB Bank Group's consolidated IFRS pre-tax profit planned for the year 2007 is 8.1-8.2 billion forints. This already includes 1.1-1.2 billion forints of bank contribution expenses – beyond the operating expenses budgeted by the strategy – introduced as part of the austerity package to improve the budget deficit.

RISK MANAGEMENT

Management of lending risk

(a) Customer rating

Before undertaking risks and obligations, FHB examines its potential customers' capabilities and readiness to repay loans as well as the value and marketability of real estate collateral offered by them as coverage. The Bank performs simple and complex customer ratings, classifies loan applicants into categories from 1 to 5, and determines a loan limit for each. Each rating is based on a scoring system specially developed for the purpose. Thus, the size of the loan extended is based on the rating of the customer, the limit determined for the customer, and the lending value of the real estate collateral. In the case of foreign exchange-denominated loans, the exchange rate risk is also taken into consideration when determining the loan to be extended.

(b) Rating of lendings

When rating its lendings, the Bank applies the categories and provision limits prescribed by its internal rules and relevant legal regulations.

The categories of qualification and the related limits of provisioning are as follows:

- "**A**" problem free (0 per cent. provision)

  A receivable is problem free if the likelihood of its recovery is documented and the Bank does not expect loss on the receivable, or if the payment default period is not longer than 15 days (or 30 days in the case of retail loans).

- "**B**" to be monitored separately (0-10 per cent. provision)

  Receivables, investments and off-balance sheet commitments are assigned to the 'to be monitored' category, if there is no likelihood of a loss at the time of the categorisation but the Bank has acquired information than the given risk assumption needs different management than the regular risk management. This category also includes items that need special management based on the type of the loan, the identity of the debtor or other relevant conditions, despite that no concrete threat is identified at the time of categorisation.

- "**C**" below average (10+-30 per cent. provision)

  Receivables, investments and off-balance sheet commitments are assigned to the 'below average' category if, on the basis of available information, they entail risks that are higher than the regular risks or, at the time of the categorisation, an uncertain degree of capital or capital type loss is expected.

- "**D**" doubtful (30+-70 per cent. provision)

  Receivables, investments and off-balance sheet commitments are assigned to the 'doubtful' category where it is clear that they will result in losses to be booked by the Bank but the amount of such losses is not known at the time of the categorisation and if the delay in repayment is considered 'long' (over 90 days) or if it is regular, and claims generally subject to litigation.

- "**E**" bad (70+-100 per cent. provision)

  Receivables, investments and off-balance sheet commitments are assigned to the 'bad' category if the loss to be incurred is expected to be higher than 70 per cent. of the amount of the risk assumed by the Bank and the debtor fails to settle its repayment obligation despite repeated requests to do so or the debtor is subject to liquidation (with the exception of the receivables that are generated during the liquidation procedure).

(c) Rating of collaterals

FHB accepts as collateral for the loans a mortgage or independent lien established on the property. The Bank usually requires a mortgage right that ranks first in right of satisfaction, and since a restraint on alienation or encumbrance is also, at all times, registered with the Land Registry, the Bank's approval is required for the sale or encumbrance of the property.

The Bank considers the realistic valuation of real estate to be of key importance in maintaining the security of mortgage lending on an ongoing basis. The Bank has so far relied on its own specialised in the valuation of real estate Duty offices offered and accepted as collateral, which is in line with the provisions of Decree No. 25/1997 (VIII.1.) of the Minister of Finance on the principles and methodology applicable to the establishment of the lending value of real estate not qualifying as agricultural land and Decree No. 54/1997 No. (VIII.1.) of the Minister of Agriculture on the principles and methodology applicable to the establishment of the lending value of agricultural land, and has created a data base built on data from the Duty Offices to support the valuation activity. In the wake of the modification of its scope of business, the Bank signed agreements with two independent valuation agencies to involve them in the valuation of prospective real estate collateral. However, the lending value of real estate will still be appraised by the Bank's expert staff.

(d) Coverage Supervisor

In addition to performing its duties prescribed by the relevant statutory provisions, the Bank's Coverage Supervisor (PriceWaterhouseCoopers Kft.) reviews the work of FHB's valuation experts in cases identified by the Property Supervisor, and performs spot checks of valuations.

Strict internal regulation

The determination of lending values as well as the registration of ordinary and supplementary collateral are based on stringent internal regulations approved by the PSZÁF.

Interest rate risk management

The Bank's interest risk derive from the following factors:

- Changes in the capital and money markets during the period after the disbursement of loans and the issuance of mortgage bonds;

- Discrepancy of the interest periods and price adjustment of loans and funds;

- Reinvestment risk, i.e., the difference between the yield achieved by the reinvestment of funds received by prepayments and the original loan interest;

- Differing repayment rates of annuity-based loans and mortgage bonds; and

- Differing maturity structures of assets and liabilities.

Interest rate risk is managed primarily by natural hedging, i.e., by the approximation of the maturity structures of liabilities and assets, the adjustment of re-pricing periods, and the limitation of potential differences between fixed and variable assets and liabilities. The interest rate risk management at the portfolio level is becoming increasingly important along with the involvement of derivative transactions, such as swaps, for hedging purposes. To this end, last year FHB signed ISDA agreements with several reputable international financial institutions.

Liquidity risk management

Maintaining liquidity is a fundamental element of banking. The Bank maintains liquidity through the matching of maturity of receivables and obligations. At the same time, in order to maintain profitability, the Bank applies maturity transformation controlled by limits while maintaining solvency at all times.

The Bank monitors special liquidity indicators, the ratio of liquid assets and the coverage on mature mortgage bonds on a daily basis. Monthly analysis include maturity coverage limits and mismatches occurring in the various maturity brackets.

Management of maturity mismatches

In addition to primary liquid assets, the Bank finances liquidity shortages, by the time they arise, from funds generated by the issuance of new mortgage bond series. Some of the ordinary coverage required for mortgage bond series issued for this purpose is available on a continuous basis in the form of long-term mortgage loans released from the mortgage bonds when principal repayments are made at the due dates. Additional ordinary coverage on new series is constituted by the increment of the regular collateral portfolio generated by lending.

Prepayment risk management

With the exception of extraordinary prepayments, the Bank sets conditions for, and charges a fee on, prepayments. Imposing charges alleviates the risk of prepayment.

Exchange rate risk management

In accordance with its business policy, the Bank intends to keep the risk stemming from the fact that receivables and payables arise in different foreign currencies at a low level. In order to manage this type of risk, the Bank determines position limits and monitors their observation.

Hedging risk also involves the utilisation of derivative instruments (swaps). Pursuant to the Mortgage Credit Institutions Act, a Mortgage Credit Institution may enter into derivative transactions solely for hedging and liquidity purposes. A new rule under the Mortgage Credit Institutions Act, effective from 1 January 2007, is that the value of such derivative transactions may account for the ordinary coverage, provided that certain conditions are met.

The collateral system of covered mortgage bonds

Cover requirement

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

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

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

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

The role of the Coverage Supervisor

- Control of the existence of coverage items

Articles 16 and 17 of the Mortgage Credit Institution Act provide the mandate and the tasks of the Coverage Supervisor. The Coverage Supervisor carries out its activities to protect the interests of investors (holders of the covered mortgage bonds). The Coverage Supervisor monitors the existence of the required coverage for the covered mortgage bonds and the registration of the mortgages and other liens that serve as a collateral for the ordinary coverage of mortgage bonds, and the data and lending value of these real properties to the registry of ordinary and supplementary coverages. The commissioning of the Coverage Supervisor is valid with the authorisation granted by the Hungarian Financial Supervisory Authority. The Coverage Supervisor of FHB is PricewaterhouseCoopers Kft.

- Checking of the satisfaction of the requirements of proportionateness

The aggregate coverage registry contains the up-to-date data, aggregated at the portfolio level, of the outstanding covered mortgage bonds in the market, the mortgaged property items constituting the regular coverage for the covered mortgage bonds and the regular and supplementary coverage values. The aggregated maturity register contains the data of the liabilities relating to the outstanding covered mortgage bonds in the market and the credit receivables specified as regular and supplementary coverage, in a monthly breakdown.

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

Valuation of the coverage items

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

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

- assessment of the long-term permanent nature of the value of the real estate,

- the time requirement for the sale of the real estate,

- establishment of its lending value.

Registration of coverage items

Pursuant to the applicable legal requirements, FHB maintains a coverage registry for the mortgaged property items constituting the ordinary coverage for the covered mortgage bonds and for the value of the ordinary and supplementary coverage. The coverage registration rules of FHB were approved by the legal predecessor of PSZÁF by its Resolution No. I-1403/2004, and have been reviewed by the Coverage Supervisor. The statements of the coverage register of FHB records, at a portfolio level and on an individual basis, the updated data of the coverage items underlying the covered mortgage bonds. The aim of the portfolio level statements is to check compliance with the proportionateness requirements and that of the maturity matching between the covered mortgage bonds and the credit receivables.

Secure position of the holder of the covered mortgage bonds in the ranking of creditors

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

In the case of liquidation proceedings against a mortgage credit institution the rules governing the liquidation of credit institutions must be applied with the following differences:

The court will appoint a coverage curator (*fedezeti gondnok*) who will satisfy the claims of the holders of the mortgage bonds and the contracting parties of those derivative transactions which were registered in the registry of coverage as being part of the ordinary coverage. The claims of these contracting parties will rank equally to the claims of the holders of mortgage bonds in right of satisfaction.

After the settlement of the costs of the independent Coverage Supervisor, the costs of registration and enforcement of the claims of the holders of the mortgage bonds and the fee of the coverage curator, the following items must be used exclusively for the settlement of the liabilities owed to holders of the covered mortgage bonds

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

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

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

For further information on the mortgage bonds, please see the section entitled "Certain Information Relating to the Mortgage Bonds".

Special status of the covered mortgage bond

Summing up the rules laid out in this chapter, the following is a list of the six basic pillars on which the special strength and security of the covered mortgage bond relies:

- Cover system

The ordinary coverage for the covered mortgage bonds is provided for by mortgage loans adjusted with the lending values established on the basis of detailed and strict statutory regulations. Each mortgage loan may only be taken into account as coverage to an extent of 60 per cent. of the lending value. If the mortgaged real estate is residential real estate, the mortgage loan may only be taken into account as coverage for up to 70 per cent. of the lending value. Where there is no sufficient ordinary coverage, supplementary coverage must be used on a mandatory basis, which may only be comprised of assets guaranteed by the Hungarian State or other EEA or OECD Member States or certain international financial institutions (e.g. government securities, loans with state surety).

- Strictly defined coverage proportions

From among the coverage items, the supplementary coverage may account for a maximum of 20 per cent. from the third year of the operation of the bank, while the covered mortgage bond refinancing limit may be up to 60 per cent. or 70 per cent. respectively of the lending value in the case of each loan.

- Independent Coverage Supervisor

The registration, current portfolio and the mortgage bond issues are supervised and controlled by the independent Coverage Supervisor to protect the interests of investors.

- Special status of the holders of mortgage bonds

Pursuant to the amendment of the Mortgage Credit Institution Act effective from 1 January 2007, the claims arising from the mortgage bonds and those derivative agreements that were registered in the coverage registry will be settled, by a coverage curator appointed by the court, separately from the liquidation proceeding. All the ordinary and the supplementary coverage of the mortgage credit institution and other receivables deriving from mortgage loans disbursed, together with other liquid assets will serve as the exclusive collateral of the claims deriving from mortgage bonds and the above-mentioned derivative agreements. Only the costs related to the enforcement and registration of the mortgage credit institution's receivables, the fee of the coverage curator and some costs generated by the Coverage Supervisor shall be settled from these assets in priority to the settlement of the claims of the holders of the mortgage bonds and the contracting parties of derivative agreements which accounted for ordinary coverage.

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

- Special supervision by the PSZÁF

Pursuant to the Mortgage Credit Institution Act the PSZÁF is obliged to carry out comprehensive on-site audits of mortgage credit institutions on an annual basis.

- Increased publicity

A mortgage credit institution is obliged to provide information to the public each quarter, concerning the value of the covered mortgage bonds in the market and the available coverage items.

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

CERTAIN INFORMATION RELATING TO THE MORTGAGE BONDS

Mortgage bonds ("*jelzáloglevél*") are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről).

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

Mortgage credit institutions must at all times have "coverage" ("*fedezet*") available at a value which is more than the equivalent of the outstanding principal and interest of all outstanding mortgage bonds. In order to achieve this the mortgage credit institution must ensure that: (a) the total amortised value of those principal claims which are taken into consideration as coverage, exceed 100 per cent. of the outstanding principal of all outstanding mortgage bonds, and (b) that the total amount of interest payable on the amortised value of those principal claims which are taken into consideration as coverage must exceed 100 per cent. of the interest payable on the outstanding principal of all outstanding mortgage bonds. Mortgage credit institutions must ensure that the above coverage requirements are also met on a present value basis. Such coverage may consist of ordinary coverage and supplementary coverage. Principal and interest claims arising from mortgage loans and management fees received regularly by the mortgage credit institution, may serve as ordinary coverage, if the mortgage securing the loan is registered with the real estate registry and, in the case of mortgage loans secured by mortgages registered in another Member State of the European Economic Area, subject to further prudential requirements. The repurchase price of the individual liens may also serve as ordinary coverage. The supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) money held on a separate blocked account at the National Bank of Hungary; (b) securities issued by the Hungarian government; (c) securities issued by member states or full members of the European Union, European Economic Area, Organisation for Economic Co-operation and Development; (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank, European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship ("*állami készfizető kezességvállalás*") provided by the Hungarian government; (f) securities the principal and interest payment of which are guaranteed by any of the issuers listed in (c) and (d) above; or (g) certain loans extended with first demand suretyship provided by the Hungarian government. The total amount of claims towards any of the obligors listed in (c), (d) and (f) above may not exceed at any time two per cent. of the total amount of supplementary coverage.

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

In the event of the transformation or liquidation of a mortgage credit institution it may transfer wholly or partially to another mortgage credit institution its obligations arising from mortgage bonds and those derivative transactions which are included in the coverage. This transfer is subject to the permission of the PSZÁF, but does not require the prior consent of the holders of the mortgage bonds or the contracting parties in the relevant derivative transactions. The obligations arising from mortgage bonds may only be transferred together with the related ordinary and supplementary coverage. The mortgage credit institution accepting the portfolio must offer new mortgage bonds on the original terms and conditions.

Effective from 1 January 2007, the following rules apply to the liquidation of mortgage credit institutions. Upon ordering the liquidation, the competent court also appoints a coverage curator. In the event of the liquidation of a mortgage credit institution, claims arising from mortgage bonds and derivative transactions included in the coverage will not become due and payable at the time of the commencement of the liquidation. The coverage curator acts outside the ordinary liquidation proceedings. It satisfies the claims arising from the mortgage bonds using the designated assets of the mortgage credit institution when the interest and principal payments become due. The contracting parties in those derivative transactions which are registered in the coverage are in the same position as the holders of the mortgage bonds with respect to their claims from such derivative transactions. The rules on satisfying claims arising from the mortgage bonds must be applied duly to satisfying claims arising from such derivative transactions.

Following the settlement of the fees of the coverage curator, the fees relating to the administration and enforcement of certain claims in relation to the liquidation and the costs relating to the activities of the coverage supervisor, the following (the **Restricted Assets**) may only be used for the satisfaction of obligations owed to holders of mortgage bonds and contracting parties of derivative transactions included in the coverage: (a) the ordinary and supplementary coverage registered in the coverage registry at the commencement of the liquidation, (b) (i) that part of the ordinary coverage which cannot be included in the coverage because it exceeds the statutory limits; 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 and (C) meet the criteria for supplementary coverage. The Restricted Assets only become part of the liquidation assets of the mortgage credit institution, if all the claims of the holders of mortgage bonds and contracting parties of derivative transactions included in the coverage are satisfied or transferred to another mortgage credit institution.

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

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

Within two years following the commencement of the liquidation the coverage curator or any holder of mortgage bonds may request the court to supplement the Restricted Assets from the liquidation assets of the mortgage credit institution. This is subject to proving that the Restricted Assets are not sufficient to cover the claims of the holders of the mortgage bonds. After two years this right is forfeited. Only the coverage curator may act with respect to the assets so supplemented.

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

Effective from 1 January 2007, only the holders of the mortgage bonds and the contracting parties in the derivative transactions included in the coverage (to the extent of their claims arising form the mortgage bonds and such derivative transactions) may commence enforcement proceedings with respect to the

Restricted Assets. Payment to these persons in the enforcement proceedings is subsequent to the payment of the statutory enforcement costs.

HUNGARIAN HOUSING AND MORTGAGE MARKET

Overview

By contrast to other Central and Eastern European countries, home ownership was possible in Hungary even during the period of Communist rule. A significant part of individual savings were invested in real estate. In addition, during the 1990s, local municipalities and the Government sold off, relatively cheaply, most of the state-owned housing to the former tenants. This explains why over 90 per cent. of Hungarian homes are owner-occupied.

House prices are still very high compared to income levels. Between seven and eleven years' income, on average, is required for the purchase or building of a property. Despite this, the ratio of owner-occupied property is still high, while the volume of rental accommodation is lagging behind demand.

During the 1990s, construction of new houses in Hungary fell well below official targets of 40,000 homes per annum, partly due to a lack of affordable finance. While in 1990, close to 44,000 new properties were constructed, this number dropped below 20,000 by the year 1999. Currently, there are approximately four million flats and houses in Hungary with a ratio of 400 flats per 1,000 residents being close to the European average. However, the existing properties were not properly maintained and at least 25 per cent. of these is in need of modernisation.

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

This situation prompted the Government to introduce a new housing policy in February 2000.

Government Housing Policy and Subsidised Loan Scheme

A key strategic objective of the Government is to enable as many Hungarians as possible to acquire and maintain their own home.

The main method by which home ownership is being stimulated is the interest subsidy received by mortgage banks on mortgage bonds that are used for the financing of residential mortgage loans meeting the criteria set out in Government Decree No. 12/2001 (I. 31.) on the state subsidy regime on housing, as amended by Government Decrees No. 79/2003 (VI.6.), No. 221/2003 (XII.22.), No. 251/2004 (VIII.30.), No. 3/2005 (I.12.), No. 155/2005 (VIII.11.), No. 203/2005 (IX.28.) and 244/2005 (X.31.) (the **Decree**). Through the interest subsidy scheme, the Government aims to cap mortgage loan interest rates at a level acceptable to the vast majority of potential customers. As at the date of this Base Prospectus, the following are the main criteria set out in the Decree:

(a) the loan is granted for the purchase, construction, enlargement, modernisation of residential property and the renovation, modernisation of the jointly owned parts of condominiums as well as the payment of the instalments of housing loans obtained for the same purposes;

(b) a loan may not be granted to finance the purchase of a property by an individual from his/her spouse, common law spouse or close relative (except for the termination of joint property) ;

(c) at least one of the debtors is a "subsidised person"; or a foreign person authorised by the minister responsible for regional development to receive direct subsidy;

(d) the amount of the loan cannot exceed HUF 15,000,000 in case of the purchase of a new property or HUF 5,000,000 in case of the purchase, enlargement, or modernisation of a used property;

(e) in case of the construction, purchase or enlargement of an apartment, a declaration from the members of the same family living together in a household is required to the effect that they do not have any outstanding subsidised housing loan or (i) if they do have such loan, they undertake, in a joint declaration, to repay it within 360 days after the execution of the new loan agreement and (ii) in case of the breach of the above obligation to repay the first loan outstanding, the eligibility to receive state subsidy will cease to exist and the interest subsidy already allotted will become due and payable within 30 days.

(f) the requirement in subsection (e) is not applicable to that parent or grandparent, who is only a co-debtor of its child or grandchild and does not acquire ownership over the property, in relation to which the housing loan was granted;

(g) the joint value of the annual rate of interest of the transaction and the overall costs during the subsidised term is a maximum amount of 110 per cent. of the yield on government securities calculated in accordance with the relevant provisions of the Decree, plus 4 per cent. and minus the amount of interest subsidies calculated in accordance with the relevant provisions of the Decree.

Prior to 16 June 2003, the Government interest subsidy payable to the Issuer on its mortgage bond funding was equal to the relevant new mortgage bond coupon plus 2 per cent., with a cap of 10 per cent. This interest subsidy calculation was valid for 5 years only. All mortgage bonds issued by the Issuer prior to 16 June 2003 will continue to benefit from the interest subsidy according to this calculation for 5 years from the date of issue.

On 16 June 2003, the Government's new interest subsidy regime came into effect. The key changes were as follows:

- the method of interest subsidy calculation is now fixed for any maturity of a mortgage bond, up to 20 years.
- the interest subsidy is no longer calculated according to the coupon of the new mortgage bond being issued but by reference to the weighted average yields on government treasury bonds of similar maturities during auctions over the preceding 3 months.
- the maximum amount of interest subsidy that mortgage banks can apply for is 105 per cent. of the average government bond yield (in the case of financing loans for the building or purchasing of a new residential property) or 105 per cent. *less* 1 per cent. (in the case of financing loans for the purchasing or improvement of a used property). If the coupon on the Issuer's newly issued mortgage bonds is lower than the maximum interest subsidy allowed on the basis of the treasury bill average, the former will be the applicable interest subsidy rate. All calculations are made at the time a new mortgage bond (or tap issue) is issued.

On 22 December 2003, the Government's modified interest subsidy regime came into effect. The key changes were as follows:

- the rate of interest subsidies is equal to 60 per cent. of the yield on gilt-edged securities (see below) when constructing or purchasing a new home, and is equal to 40 per cent. of the yield on gilt-edged securities in case a second-hand home is purchased, expanded or upgraded.
- interest level cap is abolished.
- different rules (see below) and amounts exist for new (15 million Hungarian forints) and used properties (5 million Hungarian forints).

The method of calculation of the interest subsidy was amended in 2004 and came into effect from 7 September 2004 as follows:

The rate of interest subsidy is equal to 60 per cent. of the yield on government securities with respect to the construction or purchase of a new property and 40 per cent. of the yield on government securities in case of the purchase, enlargement or modernisation of used properties.

The calculation method for the yield on government securities is the following: the arithmetical mean of average yields emerging from government securities auctions held in the three calendar months prior to the monthly publication of such average yields by the Government Debt Management Agency Ltd. (*Államadósság Kezelő Központ Rt.;* **ÁKK Rt.**), when such an arithmetical mean is weighted by the quantities accepted at the relevant auctions. The rate of the subsidy has to be determined for the same term as the term of the series of mortgage bonds that are used for the financing of the housing loan is and in the absence of such information, the rate of the subsidy has to be determined by taking the yield on government securities relating to the next term as a basis, provided that in case the next two terms are involved, then the arithmetic mean of the associated yields on government securities must be taken into consideration. Term is defined in accordance with the definition of the remaining average term pursuant to Section 5(1)(49) of Act CXX of 2001 on the Capital Markets (the **Capital Markets Act**). In the case of a mortgage bond with fixed interest, the rate of subsidy must be determined on the basis of the applicable yield on government securities at the time of issuance of the mortgage bonds, for the full term of the mortgage bond, but not more than 20 years.

In those cases where the mortgage bank has not itself generated the loan, the benefit of the interest subsidy is passed on to the commercial bank in the cost of the refinancing loan, less a margin retained by the mortgage bank to cover its costs.

The interest subsidy is claimed by mortgage banks in relation to eligible mortgage bonds which are covered by residential mortgage loans meeting the criteria set out in the Decree. Payments of interest subsidy are made according to an agreement entered into by the mortgage bank and the Ministry of Finance and monies are transferred by the Hungarian State Treasury (*Magyar Államkincstár*).

There is no legal requirement that the Government shall maintain the interest subsidy scheme in its current form. Should the interest subsidy be terminated by the Government, mortgage banks will continue to be entitled to claim the interest subsidy in relation to mortgage bonds issued prior to the termination of the interest subsidy scheme or issued after the date of termination but covered by mortgage loans that were granted prior to the date of the termination of the interest subsidy scheme. Accordingly, termination need not have any effect on existing qualifying mortgage loan borrowers.

In 2005, a new "Nest building programme" was introduced. The main features were:

- young couples under 30 were eligible for buying a first home
- low level (10 per cent.) of own resources acceptable
- government guarantee for the remaining part between 60-90 per cent. LTV ratio
- deferred start of instalments

Any new measure: extension of the state guarantee for the mortgage loans of civil servants and public sector employees.

The most important legislative changes in connection with state subsidies on housing and the valuation of non-agricultural property used as loan collateral took place in the third quarter of 2005. . The Decree has been amended many times during the year. The August 2005 amendment reduced the maximum available amount of housing subsidy while, at the same time, expanded the scope of eligible persons to all the employees in public service. Decree No. 25/1997 (VIII. 1.) PM of the Minister of Finance on the Methodology of Valuation of Non-agricultural Property Used as Loan Collateral was also amended in

August 2005. The comprehensive amendment of this later Decree has upgraded the former regulation based on the accumulated experience of the mortgage lending sector.

Hungary is a member of the European Union, and is subject to European law and legislation including, among other things, the state aid rules of the Treaty establishing the European Community, as amended (the **Treaty**). The Subsidy Supervision Office of the Ministry of Finance reviewed the Government Decree No. 12/2001 (I.13.) on state subsidies for housing purposes, and based on this investigation, stated that the Decree as described above does not contain elements that would be incompatible with either Hungarian or EU provisions governing state subsidies.

HOUSING POLICY BETWEEN 2000 AND 2006

1990-2000: the establishment of the main institutions

In the early 1990s, Hungarian housing policy began to decline in its relative importance. In the period between 1990 and 1994, the main goal of housing policy was to effect the rehabilitation/reorganisation of the housing system. The period between 1995 and 2000 gave rise to a number of important events such as the finishing of the privatisation procedure of the construction industry and the establishment of new institutions: saving banks, a home savings bank, mortgage banks and new real estate institutions.

The Hungarian government started a new and active housing policy in 2000 by subsidising communal housing constructions and housing lending. The main objectives of the government were: to extend the provision of long-term housing loans to the widest possible group of the Hungarian population thereby enabling the citizens to acquire and maintain their own home in the long term.

2000: active housing policy

In order to achieve the above-mentioned governmental goals from 2000, a Government Decree No. 1041/2000 (V.31.) was passed in July 2000. Many of the components of the multi-stage system were retained, for example the home building benefit (the so-called social policy benefit), home extension benefit, tax refund, reduced duty fee to young persons, support on housing-related savings, prefab loans, support to accessibility-related conversions, etc.

In addition, as of July 2000, supplementary interest subsidy was granted not only to married couples under 35 years of age and families supporting three or more minor children as well as couples having a third child within three years, but this interest subsidy was extended to all married couples and single parents. Another benefit was the extension of low-interest loans not only for those who built or purchased their first new home but – only for one occasion - also for the building or purchase of a new home. The maximum amount of subsidised loan increased from HUF 8 million to HUF 10 million in the case of used apartments and to HUF 30 million in case of new apartments. The interest payable by the costumer was 2.00 per cent. lower than the funding cost of the covered mortgage bonds - and was capped to 6.00 per cent. and the subsidy was valid only in the case of 5 year loan maturity.

2001-2002: increasing state subsidies

The duty formerly imposed on the purchase of new properties was abolished, procedure was simplified, and from 2001, the Land Registries were obliged to register mortgage loans to the land registry by way of an extraordinary procedure. The leased homes programme implemented by the municipalities was also launched.

From October 2001, the government has not only retained the former interest subsidy system but increased the amount of interest subsidy from 3 per cent. to 10 per cent. granted for mortgage bonds that are used for the financing of eligible loans, and the duration of the subsidised term was increased to 20 years (Government Decree No. 207/2001 (X. 30.)). Based on the general interest subsidy the three mortgage banks offer long term funds raised in the capital market by way of mortgage bonds to the commercial banks participating in the programme pursuant to refinancing agreements. Under this programme, from February 2000 loans may be disbursed in the market at interest rates more than 10 per cent. below the market rates prevailing in the previous years. Such loans could be obtained, for the purchase of new or used apartments, the enlargement or modernisation of homes, for residential construction and for the renovation of the jointly owned parts of condominiums.

Due to the strong demand for subsidised loans, the number of residential construction works and the turnover of the domestic housing market has significantly increased, thereby enhancing the economic development. As a result of the growing number of construction works due to the government's increased involvement by the interest subsidies in the housing market, the state budget has suffered an unexpected level of burden, the deficit has increased parallel with the boom experienced in the housing market.

2003: gradually decreasing state subsidies

The Decree on housing support was amended twice in 2003. Based on a change in the rules of settlement between the Government and the mortgage credit institutions in June, the settlement become based on the yield on government securities. Such change resulted in the decrease of the interest margin that could be achieved by banks. The maximum loan size has decreased to HUF 15 million, the interest rate was capped at 5.00 per cent. in the case of new apartments and 6.00 per cent. in the case of used apartments.

The amendment passed in December reduced the proportion of government support and increased interest rates borne by clients. At the same time, the maximum amount of loan was also reduced. The amendments, along with the expansion of FX-based loans offered by commercial banks contributed to a drop in demands for subsidised Hungarian forint loans.

2004: new restrictions in the state housing policy

Clients' expectations of a new increase in housing subsidies and benefits did little to boost the number of new loan transactions and resulted in postponing loan applications. The 1 April 2004 amendment of the Decree envisioned a decrease in residential construction support . The tax relief provided by the Decree went down to HUF 120,000 from HUF 240,000 and the state limited in an amount of HUF 5 million the yearly income of the persons eligible for the state subsidy.

Another significant change in the legislative environment was the amendment of the Mortgage Credit Institution Act. Entered into effect as of 14 June 2004, the amendment was generated by Act XLVIII of 2004 on the Amendment of Certain Acts on Financial Services. The amendment of the Mortgage Credit Institution Act enables credit institutions to purchase mortgage loans or independent liens from other lending institutions or insurance companies even in cases where such institutions and companies are not entitled to impose a restriction on alienation or encumbrance of the mortgaged property. In such instances it is sufficient for the original lender (i.e. the credit institution or insurance company) to notify the client in the loan agreement that in case the mortgage loan (or independent lien) is sold to a mortgage credit institution, the mortgage credit institution will be entitled to a restriction of alienation and encumbrance on the mortgaged property.

The amendment paved the way for FHB to offer its partner banks the refinancing of non-subsidised mortgage loans (including foreign exchange-denominated mortgage loans). This amendment further enhanced the security of the coverage of mortgage bonds in line with international regulatory requirements.

As a result of the changes in the provisions relating to interest subsidy it became unequivocal that subsidised interest is applicable for mortgage bonds denominated in currencies other than the Hungarian forint, subject to the terms of those loans disbursed in Hungarian forints.

The Credit Institutions Act was amended several times in the course of 2004. In terms of the Bank's operation, the most significant amendments related to the rules of debtor registration, and full-fledged client information in respect of FX-based housing loans.

2005: novelties, "social subsidies"

The legislative changes which took place in the first quarter of 2005 brought significant changes in the rules for housing loans under the Credit Institutions Act.

According to a new rule effective from February 2005; at least 70 per cent. of the costs should be covered by invoices – in order to be eligible for the subsidy, and the tax (VAT) reclaim possibility was abolished. The new allowance however for the new couples under age 30 who do not own their own flat and for single parents means that the state undertakes a guarantee for part of the repayment.

The amendments promulgated as part of Act CXXXV of 2004 on the Budget for 2005 extended the scope of State surety to include, in addition to civil servants, members of the prosecutor’s office, the courts and the armed forces. This means that debtors working in the public sector are eligible for home loans with uniform terms and conditions.

A further step in the Government's housing policy was Decree No. 4/2005. (I. 12.). of the Government on the rules of undertaking and enforcing State surety in connection with housing loans for young persons. The Decree is aimed at helping young people who have only a minimum of own funds and therefore, would not be eligible to receive loans in the absence of a sufficient coverage but are capable to repay loan installments to acquire their own homes. State surety can be undertaken on the portion exceeding 60 per cent. of the loan security value of the real estate, up to a maximum of 100 per cent.

Pursuant to the amended Decree No. 4/2005. (I. 12.). of the Government, young couples under the age of 35 and individual under the age of 35 who raise a child alone were eligible to obtain state surety for their housing loans if they satisfied some other requirements set out in the above decree.

2006: growing number of restrictions

Based on the latest amendment of the Decree, in case of the installment payments already started by 1 January of 2007, the tax relief granted by the Decree relates to a 5 year period.

The Hungarian real estate market between 2000 and 2006

Budapest has remained the fastest growing area within the Hungarian real estate market. The sharp fall in the demand for private utilisation of the old inner city buildings is coupled with an increasing interest on the part of the business sector to move to the inner city. The inner city is aiming to be a governmental and banking district of high standards along with infrastructure projects aimed at satisfying the demands of this sector. Some 70-80 per cent. of the branch offices of the largest banks of the world are located in this part of Budapest. Further, long-term growth is expected in all areas of the real estate market coupled with an increasing demand for funding. The real estate market has been growing in Hungary since 1996 and is expected to undergo a gradual consolidation process over the next decade.

As to the ***market in office buildings***, besides the well-positioned head offices and other premises of formerly state-owned enterprises available, substantial construction projects were also launched. Currently, it seems that the office buildings constructed four or five years ago prove to be insufficient to satisfy the latest requirements of the market. Many lessees are interested in undivided up-to-date spaces of a minimum of 1500-2000 square metres. Therefore, the demand for 'Category A' office buildings outside the city centre is growing. In 1998, demand for 50,000 m2 office space was recorded, while the total amount office areas offered was about 84,500 m^2. In 1999, the total amount of office areas offered was 118,000 m^2, mostly consisting of new constructions along Váci út.

During 2004-2005 the market in office buildings stagnated, but in 2006, it gained momentum. In Budapest the construction activity concentrated in Ferencváros, in inner-Buda, but a dynamic development could be experienced also at Lágymányos and along Váci út, which was considered as the most popular site for office buildings for a number of years.

In the first quarter of 2006, 58,000 m2 new office space was delivered, twice as much as for the same period in 2005. The monthly lease fee of a 'Category A' office building reached EUR 20-21 per m^2 in 2006 and the average monthly fee was EUR 13-16 per m^2.

Commercial properties satisfying the requirements of multinational enterprises by offering commercial premises, large retail facilities and combining shopping with catering and entertainment have been successful. In 2000, there were already about 40 shopping malls operating in Budapest. Competing networks have started to expand to larger cities as well, and many so-called commercial/trading parks have appeared around Budapest.

The market for shopping malls reached its limits in 2005, so developers constructed new project concepts, like One Stop Shops, smaller shopping malls or outlets. The competition between hypermarkets intensified, and the expansion of do-it-yourself networks slowed down in 2005. Significant development took place in Érd, Törökbálint, Szombathely, Győr, Tatabánya and in Budapest, where lease fees increased to an amount from EUR 20 to 80/m^2 per month.

Warehouses, logistics centres and industrial parks: high-standard real estate was practically unavailable until year 2000; the market was comprised primarily of real estate in need of refurbishment. The demand for real estate of appropriate functional and technical standards gradually increased over the following years. In the 1990s, real estate of a total area of between 500 and 1000 m^2 were the most popular. The demand for warehouses tailored to the logistics companies, requirements grew swiftly from the year 2000. The majority of the large-scale green field investment projects were implemented in industrial parks.

In 2005, greater demand appeared for the newly developed warehouses. The lease fees changed to between EUR 5.5 and 6/m^2 per month, by contrast to the EUR 3-4/m^2 per month fees for the older warehouses. The market for industrial properties became more stable with experts indicating less demand for such properties in 2006.

Housing market around 2000

Partly due to the lack of solvent demand, the domestic housing market was quite idle until 1998. The number of newly built apartments declined throughout Hungary until 1995. In 1999, 23,000-25,000 new homes were built and the objective was to build 40,000 new homes each year. The quality of the existing apartments was not quite up to the expected standards: a substantial proportion of them lacked all or some of the standard modern comfort requirements. Renovation and refurbishment projects were hardly launched in Hungary at all. By contrast, in Western Europe the value of renovation and refurbishment accounts for about half of the total value of new construction. Some 78 per cent. of the total of approximately four million apartments were built more than 20 years ago, moreover, about half of these are older than 50 years.

Another characteristic feature of the domestic housing market is the small proportion of leased homes – more than 90 per cent. of apartments are owner-occupied. The corresponding figures in Germany, France and the USA are 41 per cent., 54 per cent. and 64 per cent., respectively. This is one of the reasons for the very low level of mobility of the Hungarian population in terms of housing, particularly compared to international standards. By contrast, housing prices remain extremely high in Hungary in comparison with household incomes in comparison with the corresponding figures in the western countries. While in the United States of America two or two and a half years' average income of a household will buy a home (in Great Britain this figure is 3-4 years' income), in Hungary 7-11 years' average household income is required to finance the purchase or construction, on average, of a home.

Banks provided very modest funding in this market segment in 1999, the share of housing loans had dropped from the 16.6 per cent. in 1990 to 1.8 per cent. by mid-1999 within the number of loans granted by credit institutions. The portfolio of housing loans was also very small in comparison with household incomes, at 2.6 per cent. (by contrast, in France and in the USA the corresponding percentages are 48 and 69 per cent., respectively). At that time, less than 10 per cent. of the purchase price of apartments was financed from loans in Hungary, compared to 70 per cent. in western countries.

According to market analysis, about 40,000 new apartments should have been constructed each year in Hungary and a very large number of existing homes needed renovation, the annual credit requirement of such constructions would have been at least HUF 400-500 billion.

The market was characterised by a monopolistic structure with OTP Bank playing a dominant role, together with savings co-operatives which together had a joint market share of 90 per cent. The market share of the remaining banks was negligible, at the end of 1999, the mortgage-type housing loan portfolio within their total portfolio amounted to merely HUF 15 billion, equalling some 0.3-0.4 per cent. of their balance sheet total figures. By the end of 2001, this proportion had improved somewhat and in the field of mortgage-based housing loans, a fundamental change in the market share of credit institutions started from 2002. Banks entering the market of housing loans faced a variety of obstacles, including the high rate of inflation, the low level of solvent demand on the part of retail customers, the poor repayment discipline, the substantial costs of network building, etc.

Housing market between 2003-2006

<u>2003</u>

In 2003, the production of the construction industry surpassed the previous year's level by 0.7 per cent. While still lagging far behind the dynamism of preceding years, this modest overall growth is considered positive compared to the spectacular decline in early 2003. Building constructions continued to be dominated by subsidised homes as well as industrial and commercial constructions. The year of 2003 was medium-to-good for the real estate market: after a drop in sales in the first three quarters, there was a turn in the last quarter and an upward trend took shape. Based on the Government's intention to reduce the State subsidy for housing loans, many people have decided to purchase land and other properties in advance of the end of the year. As a result an effect, a boom in sales could be experienced.

CSO statistics confirmed 2003 to be an outstanding year in terms of housing construction: 2003 was considered to be a peak since 1986 in the number of new building permits and the number of completed homes was also the highest since 1991. In 2003, a total of 35,500 homes have obtained occupancy permits and the construction of more than 59,000 new homes was started on the basis of newly issued permits. This massive expansion in housing construction was mostly due to developments that occurred in the fourth quarter of 2003, when 39 per cent. more new building permits and 28 per cent. more occupancy permits were issued compared to the previous year. Within the newly constructed properties, about 62 per cent. were constructed by the retail sector, one-third by business enterprises, and 4 per cent. by municipalities. The average floor area of new homes (95 m^2) did not change compared to 2002.

The housing loan market expanded unexpectedly fast in 2003, it increased to HUF 1,395 billion by the end of 2003 from HUF 693 billion in 2002. Banks were able to offer very favourable conditions for their customers at that time. The annual growth of the retail housing portfolio reached 94 per cent. in 2003, which was comparatively high but could not compete with the peak of 141 per cent. increase in 2002.

<u>2004</u>

The development of the construction industry in 2004 gained more impetus with the volume of production rising by 6.8 per cent. compared with 2003. This relatively high growth is due to the construction of highways, motorways. Except for the period from January-April 2004, the volume of building construction on a monthly basis was less than in the equivalent months in 2003. However, from June 2004, the performance of the infrastructural construction exceeded the figures in the same period of 2003, it grew, on a yearly basis, by 21.9 per cent.

In 2004, 44,000 apartments received occupancy permits, which figure is 24 per cent. higher than in 2003. The authorities issued 57,500 construction permits, 3 per cent. less than in the previous year. Construction increased, particularly in Budapest where 25 per cent. of the construction works took place - 25 per cent. of the construction permits were related to apartments in Budapest. The structure of the constructions showed changes: the proportion of the constructions executed by professional construction firms increased compared to the number of construction works executed by private individuals.

Changes in the housing loans portfolio in 2004 had not only a quantitative but also a structural aspect. There was a significant drop in the growth of monthly housing loan portfolios from the beginning of the year along with keener foreign exchange-based mortgage lending. The shrinking of the monthly portfolio slowed until it came to a halt in August, but the monthly increase of loans continued to lag behind the 2003 figures.

Appearance of foreign exchange-based mortgage loans reversed the negative trend and the monthly loan portfolio started to slowly increase in April. By the end of the summer of 2004, the contribution of FX-based loans to the overall growth of housing loans was about the same as that of HUF denominated housing loans. However, FX loans only contributed 5.1 per cent. of the total loans and Hungarian forint denominated loans substantially decreased by that time through repayment.

In 2004, housing loans increased by 26.7 per cent. due to the shrinkage in the state subsidy system, the increase of the HUF interest level. Non-housing mortgage loans acquired for general purposes (home equity loans) grew by 70.8 per cent. in 2004.

2005

The construction industry grew by a relatively high 16.6 per cent. in 2005. The development of the biggest sub-sector, the "structure-finished" buildings, grew by 23.2 per cent., the sanitary and other engineering rose by 7.7 per cent in 2005.

In 2005, 41,000 occupancy permits were issued, 6 per cent. less than in 2004. A total amount of 51,500 construction permits were issued, 10 per cent. less than in the previous year. 30 per cent. of new residential constructions were executed in Budapest, the same tendency appears in case of used flats. The number of the properties in Budapest with an occupancy permit was 21 per cent. higher than in the previous year, as compared to other big cities in Hungary, where the residential construction fell by 20 per cent. in 2005.

In 2005, about 50 per cent. of housing construction was executed by the individuals and 45 per cent. by professional construction firms. The respective figures were 57 and 38 per cent. in 2004. In 2005, more new condominiums were built than family houses, and 2/3 of the new flats was built by construction enterprises.

FX-denominated housing loans increased significantly in 2005, backed by the low FX interest rates and the strong Hungarian forint. The demand for HUF loans, especially the state subsidy related loans diminished in 2005. HUF denominated loans increased by HUF 46 billion or by 2.6 per cent., while FX loans rose by HUF 327 billion, or by 225.4 per cent. in 2005. At the end of 2005, the FX-loans represented 20.7 per cent. of the total residential loan portfolio versus the 7.6 per cent. of 2004. 92.1 per cent. of FX loans were denominated in CHF.

The rate of growth of the residential loans was slower in 2005 than in previous years: the loan portfolio increased by 140 per cent. in 2002, by 93.7 per cent. or by HUF 730 billion in 2003, by 26.7 per cent or HUF 402 billion in 2004, and by 19.5 per cent. or by HUF 373 billion in 2005.

The quarterly growth of the residential loans between 2003-2006 (in HUF billion)

	Q1	Q2	Q3	Q4
2003	123	198	223	183
2004	117	92	102	91
2005	45	99	120	109
2006	85	156	96	n.a.

Except for Q1 of 2005, the whole year resulted in higher development then in 2004. The second quarter of 2006 exceeded the previous 9 quarters.

Residential building permits

	H1 2002	**H2 2002**	**H1 2003**	**H2 2003**	**H1 2004**	**H2 2004**	**H1 2005**	**H2 2005**	**H1 2006**
Number	22,615	26,147	25,902	33,339	27,862	29,597	24,885	26,605	19,803
Total	**48,762**		**59,241**		**57,459**		**51,490**		**19,803**

Source: Central Statistics Office of the Republic of Hungary

Occupancy permits

	H1 2002	**H2 2002**	**H1 2003**	**H2 2003**	**H1 2004**	**H2 2004**	**H1 2005**	**H2 2005**	**H1 2006**
Number	10,015	21,496	9,181	26,362	13,659	30,254	15,069	26,015	12,995
Total	**31,511**		**35,543**		**43,913**		**41,084**		**12,995**

Source: Central Statistics Office of the Republic of Hungary

The retail home market achieved an unprecedented expansion in 2003, its growth amounted to HUF 1,394 billion, thereby duplicating the 2002 year-end figure of HUF 693 billion and exceeded HUF 1,589 billion in the first half of 2004. The increase resulted from the fact that credit institutions could offer mortgage bond based housing loans with extremely favourable terms and conditions.

Residential loan portfolio

	June 2002	**Dec 2002**	**June 2003**	**Dec 2003**	**June 2004**	**Dec 2004**	**June 2005**	**Dec 2005**	**June 2006**
Portfolio HUF bn	394	693	1,007	1,394	1,589	1,910	2,054	2,283	2,526

Source: Central Statistics Office of the Republic of Hungary

The growth rate of housing loans in 2004 returned to the average level, due to the reduction of state subsidies, the increase in the Hungarian forint interest level, and the slowing demand. As an effect of the Decree, the amount the housing loan portfolio increased by 141 per cent. in 2002 compared to 2001; annual growth in 2003 amounted to 94 per cent. As a consequence of the amendment of the Decree in December 2003 and the changing market conditions, the housing loan portfolio in 2004 exceeded the year-end figure of 2003 only by 27 per cent.; the portfolio as of 31 December 2004 amounted to approx. 1,910 billion Hungarian forints. The growth rate of the housing loan portfolio slowed between the end of 2004 and 2005, but started to increase in the first half of 2006.

The first quarter of 2005 reflects a considerable setback compared to 2004. FX housing loans have taken over the leadership in the growth of the housing loan portfolio, and have significantly exceeded the growth of HUF denominated housing loans since August 2004 in terms of both amount and growth rate. The permanently low CHF interest rate and the strong Hungarian forint have driven demands towards FX loans even if the annual interest rate of HUF denominated housing loans has been decreased.

General mortgage loans (home equity loans) increased in 2005 with the portfolio reaching HUF 388 billion, more than twice the figure for 2004.

First half of 2006

In the first half of 2006, the number of occupancy permits issued fell by 6 per cent. just as in the case of construction permits which decreased by 20 per cent. compared to the previous year. The setback that could be experienced in the second quarter of 2006 was mainly due to the slowdown of the development of the construction industry in Budapest and whilst the number of "do-it-yourself" constructions undertaken by individuals increased and the ratio of professional enterprises decreased.

At the end of June 2006, the growth in the proportion of the FX denominated loans within the residential loan portfolio has continued. The residential mortgage loan portfolio increased to HUF 3,160.7 billion, composed of 41.7 per cent of FX loan, compared to the 19.8 per cent. figure of the same period of 2005.

The increase of the FX loan portfolio in the housing loan portfolio is due to the increasing ratio of the FX home equity loans in 2005, which was HUF 257.4 billion or 11.1 per cent. as at the end of June 2005, and which increased to 20.1 per cent. at the end of June 2006.

Residential mortgage loans outstanding (in HUF billion)

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006
Housing loans	1,956	2,054	2,174	2,283	2,367	2,526
Home equity loans	214	257	319	388	461	635
Total	2,170	2,311	2,493	2,671	2,828	3,161
Home equity loans %	9.9	11.1	12.8	14.5	16.3	20.1

Source: National Bank of Hungary

The growth in home equity loans continued in 2006, and the growth rate is expected to increase. The average monthly growth of home equity loans in 2005 was HUF 18 billion, but in the first six months of 2006 the growth exceeded HUF 41 billion. 92.1 per cent. of home equity loans are FX denominated and the portfolio home equity loans reached the HUF 635 billion, an increase of 146.6 per cent.

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 for at least the current financial year.

THE HUNGARIAN BANKING SYSTEM AND CAPITAL MARKET

Evolution of the Hungarian banking system and its performance between 2003 and third quarter 2006

The history of the Hungarian banking system

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

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

The establishment of certain supplementary institutions promoted the strengthening of the Hungarian financial sector. They included Hitelgarancia Ltd. (Credit Guarantee Plc.), which was founded in 1992 to provide guarantees primarily for loans to medium-sized enterprises for limiting the credit risks involved with this particular segment. Országos Betétbiztosítási Alap (National Deposit Insurance Fund) has been operating since 1993, providing guarantees for both the principal and interest amounts of the deposits of private individuals. Since joining the EU, the guarantee amounts have been increased to HUF 6 million per individual and per bank. Since 1993, OTIVA (National Institution Protection Fund of Savings Co-operatives), the joint organisation of savings co-operatives, has been co-ordinating legislation pertaining to savings co-operatives based on the participants' mutual interests. Eximbank and MEHIB Ltd. (Hungarian Export Credit Insurance Company) are also important supplementary institutions promoting the banking system in the areas of export credit insurance and insurance coverage against exchange rate risks.

State consolidation - twice

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

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

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

The development and evolution of the Hungarian banking market has been following the relevant international trends: the directives aimed at creating a single European market give preference to the universal banking model. Hungary was the first country in the region to pass new laws (regulating certain specialist lending institutions, home savings funds and mortgage loan institutions), which promoted specialisation, and at the same time – in line with the principle of universal banking – enabled lending institutions to provide traditional investment banking services, to trade in securities and to participate in the public issuance of securities as lead managers or co-managers. Since 1998 foreign lending institutions have been permitted, in line with the EU standards, to establish branch offices in Hungary pursuant to European procedures. The new regulation on sovereign risks establishing the mandatory level of reserves to be generated was also introduced in 1998.

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

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

The effects of EU accession

The major institutional, regulatory and professional development that had occurred in the banking sector over the past fifteen years has resulted in the emergence of ownership, institutional and product structures which characterise a modern market economy. Today, the Hungarian banking system essentially meets the requirements of the EU's single money and capital markets in terms of both regulation and competitiveness. In 2001 Hungary harmonised the capital adequacy requirements of banks and investment companies with the EU's Directive 93/6.

EU membership means that Hungary has become a part of the internal market, which has considerably simplified procedures for EU lending institutions wishing to operate in the Hungarian market, to engage in cross-border transactions, and to establish branch offices in Hungary.

Banks play a prominent role within the financial sector. About three-quarters of mediated capital is concentrated at banks. However, despite the spectacular development experienced since the introduction of the two-tier banking system, the level of penetration continues to be low in comparison to the international trends (amounting to 76 per cent. of the GDP at the end of June 2005 compared to 36.6 per cent. at the end of

2002, 69 per cent. at the end of 2003, and 72 per cent. in December 2004). while in non-Central European emerging markets, it is 100-200 per cent. and over 200 per cent. in developed EU member states.

In 2006, the main characteristics of the development of the Hungarian financial and banking system are: a rapid growth of business; a smooth decrease in profitability; and a slow expansion of the capital markets, insurance companies, investment service providers and investment funds, which has been detrimental to the banks. Inter-sectoral integration of the large financial groups is strong: this can be justified based on the economies of scale, the synergies inherent in the mutual acquisition of markets, the dissemination and transfer of risks, the more economical use of capital and the easier sale of combined products within a group.

Supervision and regulation of the banking system

In the Hungarian banking system both the NBH and the PSZÁF perform supervisory functions. The two institutions supervise of all of the legal entities engaged in banking in Hungary.

National Bank of Hungary

The NBH controls the volume of money in circulation and foreign exchange management; it adopts decisions and resolutions on the governance of the money market, interest rates, foreign exchange transactions and the supply of statistics. The NBH requires that all lending institutions create reserve funds amounting to a specified portion of their adjusted liabilities.

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

Hungarian Financial Supervisory Authority

Since April 2000 the supervision of the banking sector has been carried out by a consolidated authority, the PSZÁF supervising the entire Hungarian financial sector, including banks, investment service providers, investment fund managers, insurers and pension funds. However, the NBH has retained some supervisory powers. In co-operation with the Governor of the NBH and the Minister of Finance, the PSZÁF supervises compliance with the provisions of the Credit Institutions Act and the Capital Markets Act (paying special attention to capital adequacy, operations, liquidity and the valuation of assets).

The PSZÁF's authorisation is required, among others, for the establishment of a bank and the modification of its scope of business. Certain activities such as, for instance, the issuance of cash substitutes including direct debit and credit cards and the operation of electronic transfer systems for accounts settlement and money processing require a special licence issued by the NBH. The PSZÁF is entitled to launch site audits, to take actions in the interest of ensuring compliance with the Credit Institution Act, and to initiate proceedings. The PSZÁF and the NBH co-operate in performing the supervisory tasks. The licensing by the PSZÁF of certain financial services is requires a preliminary opinion or approval from the NBH.

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

The banking sector between 2003 and third quarter 2006 – outstanding performance, growing profitability, slowing growth

Between 2003 and 2005 the most striking development in the Hungarian banking system was the rate of growth of banking business and the penetration rate. EU membership has also played a large part in this development. The main consequence of the financial increase was the robust growth of retail FX loans, the majority of which covered in their entirety by the banks using derivatives.

The structure of financial intermediation significantly changed between 2003 and 2005. On the liability side, the importance of bank deposits diminished, while the savings products of investments funds, mutual funds and insurance companies increased. On the asset side, growth continued to be driven by lending. The solution of this asymmetry was the increase in foreign funding of the business of banks.

Since May 2004 when the single European passport made it possible for foreign banks to operate in Hungary, the Hungarian banking system offers a sophisticated level and was offering high quality services, so there has been limited scope for the further entry of foreign financial service providers.

The performance of the banking sector was particularly good between 2003 and 2005. Home loans reached unprecedented levels. Banks' involvement in financing enterprises increased along with a substantial growth in overdraft and consumer credit, and the proportion of FX loans within the total number of loans also increased. Aggregate earnings before tax of the sector at the end of 2005 amounted to HUF 380.9 billion as opposed to HUF 155.5 billion at the end of 2002. On an annual basis it increased by 20.4 per cent. These results are due to the growth of lending , high domestic interest rates and yield level and the relatively low cost of foreign funds.

The aggregate balance sheet total of the banking sector grew by 26.1 per cent. between 2002 and 2003, and by the end of 2004 it reached HUF 14,926 billion, which was 16.1 per cent. higher than in 2003. The growth remained also in 2004, and increased further in 2005. The aggregate balance sheet total as at year end of 2005 increased by 18 per cent. due to the growth in FX lending.

The performance in this period is due to the growth of lending and especially housing-related lending. On an annual basis, the aggregate loans increased by 33 per cent. (by HUF 2,000 billion), in 2003, by 16.7 per cent. (by HUF 1,358 billion) in 2004, and by 19.9 per cent (by HUF 1,886.5 billion) in 2005.

Main characteristics of the Hungarian banking sector between 2002 and third quarter 2006

Feature	2002	2003	2004	2005	06/2006	09/2006
Number of institutions	37	36	35	35	34	34
Number of employees	26,594	27,167	27,190	27,942	29,668	n.a.
Balance sheet total (bn Hungarian forints)	10,195.6	12,860.7	14,911.9	17,559.4	19,893.1	20,250.3
Credits/loans (bn Hungarian forints)	6,096.7	8,124.9	9,482.6	11,370.6	13,007.3	13,368.9
Deposits (bn Hungarian forints)	6,659.9	7,277.1	7,852.5	8,891.3	9,578.6	9,587.1
Shareholders' equity (bn Hungarian forints)	887.6	1,071.1	1,245.8	1,433.4	1,631.8	1,736.4
Earnings before taxes (bn Hungarian forints)	155.5	212.2	321.9	380.9	214.0	326.6
Return on average assets (ROAA)	1.39	1.50	1.95	1.96	1.95	n.a.
Return on average equity (ROAE)	15.02	17.06	23.39	22.29	23.73	n.a.
Interest margin	4.20	3.88	3.94	3.89	3.84*	n.a.

Source: PSZÁF reports for 2002, 2003, 2004, 2005, 2006 H1 and 2006 Q3

* Q1 2006

Return and efficiency indicators improved considerably between 2002 and 2005 due to greater activity. While the average return on assets (ROAA) was only 1.39 per cent. at the end of 2002, it reached 1.50 per cent. in 2003, it grew to 1.95 per cent. in 2004, stayed at 1.96 at the end of 2005 and more or less at the same level in the first half 2006. The average return on equity (ROAE) in the banking sector was 15.02 per cent. in 2002, 17.06 per cent. in 2003, 23.39 per cent. in 2004, 22.29 per cent. in 2005 and 23.73 per cent. in the first half of 2006. These indicators are also favourable by comparison to the international markets.

Besides the growth in the balance sheet total and lending, the fact that this growth did not entail a proportional increase in operating costs was also a significant contribution to profitability. Operating efficiency has been continuously improving: it was 3.71 per cent. in 2002, 3.34 per cent. in 2003, 3.00 per cent. in 2004 and 2.91 per cent. in 2005.

Between 2002 and 2003, the interest margin decreased from 4.20 per cent. to 3.88 per cent. but the decrease in the interest margin was not detrimental to banks, as cost effectiveness coupled with the net results from commissions improved in profitability. During 2004 and 2005, the interest margin increased again to 3.94 and 3.89 per cent. respectively. Net interest income grew by 17.1 per cent. in 2003, by 21.4 per cent in 2004 and by 13.4 per cent in 2005. In 2004, the banks maintained their profitability level through the preservation of the interest margin, the increase of the non-interest net income and the improvement of operational efficiency.

The boom in home lending had a positive effect on the securities portfolio of the banking sector. At the end of 2003. the securities portfolio grew to HUF 2,156.1 billion, thus, achieving a 42.1 per cent. year-on-year increase. The increase in the securities portfolio was due primarily to an increase in mortgage bond issues. The rapid growth of 2003 could not be repeated in 2004 (HUF 2,090 billion) because the outstanding volume of the mortgage bonds issued by the mortgage banks slightly decreased. In 2005 the volume increased again

(HUF 2,229 billion), but the ratio of the securities portfolio in the assets of banks shrank to 12.6 per cent. from 14.1 per cent in the year 2004.

Change in major assets in the banking sector

Item	31.12.2002.	31.12.2003.	31.12.2004.	31.12. 2005.	30.06.2006.	30.09.2006.
Total assets (HUF bn)	10,195.6	12,860.7	14,911.9	17,559,4	19,893.1	20,250.3
Including cash and settlement accounts (HUF bn)	490.7	452.2	725.8	696.6	607.9	696,3
Securities (HUF bn)	1,517.2	2,155.1	2,099.9	2,189.0	2,502.2	2,673.4
NBH and inter-bank deposits (HUF bn)	1,444.5	1,286.8	1,5613.8	2,179.4	2,357.1	2,095.5
Loans (HUF bn) (net)	6,096.7	8,124.9	9,482.6	11,370.6	13,007.3	13,368.9

Source: PSZÁF report for 2002, 2003, 2004, 2005, 2006 H1 and Q3 2006

Lending increased in the period of 2002-2006. In 2003 disbursements were HUF 2,028.2 billion higher then in 2002 and in 2004, the disbursements were HUF 1,357.2 billion or 16.7 per cent. higher than 2003. The growth rate accelerated to 20 per cent. in 2005 and reached 17.6 per cent. in the first three quarters of 2006.

The rate of increase in mortgage loans for housing within retail portfolios has been high since 2002. In the end of 2003, housing related loan disbursements grew strongly, almost doubling, and by the end of 2004, these loans reaching HUF 1,775 billion, although the growth rate slowed down to 27 per cent. and in 2005 to 20 per cent. Overdraft and consumer credits also went up, but their contribution was dwarfed by housing mortgage loans. In 2003, overdraft credits increased by HUF 15.8 billion or 35 per cent., these grew by 39.5 per cent. in 2004, by 54 per cent. in 2005 and in the first six months of 2006 they increased by 20.4 per cent. Consumer credits grew by HUF 134. billion or 33 per cent. in 2004 compared to December 2003 and by 79 per cent. in 2005. This growth rate continued by 30.4 per cent. in the first half of 2006.

The contribution of loans denominated in foreign currencies among entrepreneurial loans increased in 2003 by 43 per cent, in 2004 by 25 per cent. and in 2005 by 21.4 per cent., Hungarian forint loans continued to dominate, despite the fact that their ratio as a proportion of total loans continued to shrink from 64.7 per cent in 2002 to 52 per cent. in 2005. Foreign exchange denominated lending produced an even more spectacular growth than home loans, and its contribution to banks' household financing has grown: its ratio within housing loans increased from 1.31 per cent. in 2003 to close to 31 per cent. as at 30 June 2006.

Breakdown of household financing between 2002 and third quarter 2006

Item	31 Dec.2002.	31 Dec.2003.	31 Dec.2004.	31 Dec.2005.	30. June 2006.	30. Sept.2006.
Houshold financing (HUF billion) (gross)	1,204.158	2,000.328	2,597.116	3,370.849	3,955.448	4,175.845
HUF	1,167.761	1,899.063	2,219.024	2,271.685	2,259.661	2,284.582
FX	36.397	101.265	378.092	1,099.164	1,695.787	1,891.263
Consumer	222.302	395.212	526.181	941.753	1,228.264	1,325.102
Housing loans	697.221	1,392.933	1,774.845	2,139.076	2,379.897	2,476.113
HUF	685.120	1,374.789	1,629.836	1,667.408	1,647.467	1,640.099
FX	12.101	18.144	145.009	471.668	732.430	836.014
Housing loans:						
HUF ratio %	98.26	98.69	91.83	77.95	69.22	66.24
FX ratio %	1.74	1.31	8.17	22.05	30.78	33.76

Source: PSZÁF report for 2002, 2003, 2004, 2005, first half of 2006 and Q3 2006

Ongoing levels of growth was experienced in domestic financing during the period of 2002-2006. The ratio of FX to HUF denominated loans has changed radically. At the same time, significant growth occurred in consumer loans, the growth trend in which remained unchanged in 2005 and in 2006 as well.

The liability structure also changed between 2002 and 2005: the ratio of domestic deposits fell to 46.9 per cent. in 2005 from 59.9 per cent. in 2002, and the ratio of the foreign funding increased to 31.6 per cent. in 2005 from 13.6 per cent. in 2002.

The quality of the portfolio of the Hungarian banking sector improved between 2002 and 2004; however by year end of 2005 the quality of the portfolio deteriorated as compared to the end of 2004. At the end of 2005, 6.51 per cent. of the entire portfolio belonged to the watch category, and problematic* loans were 1.64 per cent. of the overall loan portfolio, which percentage is lower than in the previous year.

* Problematic items include substandard, doubtful or bad loans.

Rate of problematic items in the portfolio of the banking sector (%)

Item	Problem-free				To be watched				Problematic			
	12.2002	12.2003	12.2004	12.2005	12.2002	12.2003	12.2004	12.2005	12.2002	12.2003	12.2004	12.2005
Total balance sheet items	88.56	90.70	92.57	88.40	7.78	6.26	4.57	8.88	3.66	3.05	2.85	2.71
Placement to lending institutions	96.40	98.47	99.75	92.12	2.96	1.20	0.22	7.83	0.63	0.33	0.03	0.05
Entre-preneurial credits	84.58	85.22	88.76	83.08	11.69	11.14	7.33	13.57	3.73	3.64	3.91	3.35
Retail credits	91.15	94.94	94.42	92.31	5.50	2.64	3.17	5.18	3.36	2.42	2.41	2.51
Foreign Placement	82.54	82.76	81.15	76.13	14.86	14.26	15.92	20.21	2.60	2.97	2.93	3.66
Off-balance sheet items	97.22	97.54	97.75	95.91	2.36	2.15	1.61	3.72	0.42	0.32	0.63	0.37
Categorised items	92.83	93.89	94.79	91.85	5.11	4.34	3.31	6.51	2.06	1.77	1.90	1.64

Source: PSZÁF report for 2002, 2003, 2004, 2005, first half of 2006 and Q3 2006

In the first half of 2006, 93.31 per cent. of categorised items belonged to the problem free category, 5.18 per cent. was in the 'to be watched' category and the problematic category shrank to 1.51 per cent. from 1.64 per cent. in 2005. In the end of September 2006, these figures were. 93.17, 5.26 and 1.57 per cent. respectively

Foreign ownership continued to dominate in the banking sector in 1999: 65.4 per cent. of the total subscribed capital in the banking sector was directly owned by foreign owners. This ratio has increased dramatically to over 81 per cent. since the end of 2005. In 2003, the ownership structure of some banks changed: Erste Bank Hungary Nryrt. bought Postbank and MKB Bank Nyrt. acquired Konzumbank. During 2004, two new foreign banks started to operate in Hungary: the Bank of China Hitelintézet Rt. and the Sopron Ban Burgenland zrt..

Ownership structure in the banking sector based on subscribed capital (%)

Description	**12.1999**	**12.2000**	**12.2001**	**12.2002**	**12.2003**	**03.2004**	**12.2005**	**06.2006**
State ownership	19.50	21.30	25.00	6.90	0.95	0.95	0.92	0.94
Domestic private ownership	12.80	9.40	8.70	10.20	13.09	11.48	13.08	13.12
Foreign ownership	65.40	66.70	63.00	78.30	81.94	80.38	81.87	81.72
Preferential shares	2.30	2.60	3.30	4.60	4.02	4.09	4.13	4.22
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: PSZÁF report for 2002, 2003, 2004, 2005, first half of 2006 and Q3 2006

Concentration in the bank sector continues to be strong. In December 2004, the ten largest banks contributed 77.5 per cent. of the total assets of the entire sector. Concentration is also notable in the areas of lending and deposits. There is an even heavier concentration in home loans. More than half of the market is controlled by the OTP Group, but it lost some of its share to other lending institutions. This trend did not change in 2005 and 2006.

The growth of banks continued in the first half of 2006. The balance sheet total increased by 13.3 per cent. or by HUF 2,333.7 billion to HUF 19,893 billion. The change in the exchange rate of the HUF played an important role in this trend. The exchange rate movement of HUF itself should have increased the balance sheet total by 1.5-2 per cent, as the FX loan ratio among the aggregate assets of the banking system reached 40 per cent. by 30 June 2006. On the liability side, the proportion of FX sources was 34.3 per cent.

Lending activity of banks grew by 14.4 per cent. in the first six months of 2006 and the proportion of corporate loans was 44 per cent. as compared to 30 per cent. for retail loans. Within household financing, consumer loans demonstrated the most rapid growth rate. In the first half of 2006, the banks maintained their profitability , but the interest margin decreased.

In the third quarter of 2006, the size of business of the Hungarian banking sector slightly diminished partly due to the HUF's exchange rate movements, and partly due to the 26 per cent. decrease of banks' deposits with the NBH, and also because of a decrease of retail deposits with the banks. The lending activity also slowed down in the third quarter of 2006, although in absolute terms after-tax profit increased, its proportion to the aggregate assets decreased.

TAXATION

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences of 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. This summary is based on the Issuer's interpretation of the laws of Hungary currently in force and as applied on the date of this Base Prospectus, which are subject to change, possibly with retroactive effect.

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. 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.

Taxation of corporate Holders of Mortgage Bonds and Notes

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. Generally, 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.

According to the provisions of Act LIX of 2006 on special tax and contribution aiming to restore the balance to the state budget (**Special Tax Act**), a new tax (**Solidarity Tax**) was introduced from 1 September 2006 in the amount of 4 per cent. calculated on the basis of the pre-tax profit. The Solidarity Tax is payable generally by Hungarian corporations as determined by the Special Tax Act and the Hungarian permanent establishments of foreign corporations.

Pursuant to the 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.

Interest on Instruments paid to foreign resident corporate Holders by resident legal entities and any capital gains realised by a foreign resident Holder on the sale of Instruments is not subject to tax in Hungary if the foreign resident corporate Holder does not have a permanent establishment in Hungary. If a double taxation convention is in force between Hungary and the country of residence of the Holder the provisions of this double tax convention should be considered when assessing the Hungarian tax liabilities of a foreign resident corporate Holder.

Taxation of individual Holders of Instruments

The Act CXVII of 1995 on Personal Income Tax (**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, while foreign resident private individuals' tax liability is limited only to their income originating in Hungary or income that is otherwise taxable in Hungary on the basis of international treaties or reciprocity.

In respect of individual Holders, the taxation of Instruments depends on whether such Instruments are publicly placed or privately offered Instruments. Capital gains realised on the sale or redemption of Instruments distributed by way of private placement or Instruments traded privately is subject to personal income tax in Hungary as 'income realised as capital gains'. The income received as interest payments on the

Instruments is taxable as 'other income'. 'Other income' constitutes the part of the private individual's consolidated tax base which is taxed progressively according to the tax brackets. Health care contribution is also payable on the basis of 'income realised as capital gains' and 'other income'. Foreign resident individual Holders will not be subject to personal income tax in Hungary on the basis of 'other income' or 'income realised as capital gains' provided that such foreign individuals do not have a permanent establishment in Hungary.

In the case of publicly placed Instruments, the income paid as interest and the capital gains realised upon the redemption or the sale of publicly placed and publicly traded bonds received by the individual Holders shall be deemed as 'interest income'. The withholding tax on such interest income is 20 per cent. as from 1 September 2006.

From 1 September 2006, the **Payor** (*kifizető*) is obliged, under particular conditions, to withhold 20 per cent. tax on the interest income realised by individual Holders.

Pursuant to Act XCII of 2003 on the Rules of Taxation (**ART**) a Payor means 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 issuer of a note. 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, other 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. As from 1 September 2006, interest, as defined by Schedule 7. of the ART which implements the Savings Directive, realised by citizens of any other Member States of the European Union is not subject to Hungarian tax in the cases where a payer based in Hungary is obliged to provide data on the basis of Schedule 7 of the ART.

If a double taxation convention is in force between Hungary and the country of residence of the Holder the provisions of this double tax convention should be considered when assessing the Hungarian tax liabilities of a foreign resident individual Holder.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Instruments should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Instruments

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Instruments held by non-resident holders of Notes.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent for the subsequent three-year period and at a rate of 35 per cent. thereafter. 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 15 per cent.

(ii) Resident holders of Instruments

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Instruments held by Luxembourg resident holders of Notes.

Under the Law 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 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, from 1 July 2005, 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. However, for a transitional period, Belgium, Luxembourg and Austria are instead be 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 agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 8 March 2007, 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 Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Instruments under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

The Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.Until 40 days after the commencement of the offering of any Series of Instruments, an offer or sale of such Instruments within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Instruments or Dual Currency Instruments shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Instruments which additional selling restrictions shall be set out in the applicable Final Terms.

Japan

The Instruments have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) 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 (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

European Economic Area

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 to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Mortgage Bonds to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Mortgage Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

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

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

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Mortgage Bonds to the public" in relation to any Mortgage Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Mortgage Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any 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 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 Instruments has not been registered with CONSOB (the Italian Securities Exchange Commission) 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 Instruments be distributed in the Republic of Italy, except:

(a) to professional investors *(operatori qualificati),* as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July 1998, as amended; or

(b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May 1999, as amended.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of Instruments or distribution of copies of the Base Prospectus or any other document relating to Instruments in the Republic of Italy under (a) or (b) above must be:

(i) 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 and Legislative Decree No. 385 of 1 September 1993 (the **Banking Act**); and

(ii) in compliance with Article 129 of the Banking Act 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

(iii) in compliance with any other applicable laws and regulations.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, Instruments to the public in the Republic of France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this Base Prospectus, the relevant Final Terms or any other offering material relating to the Instruments, and that such offers, sales and distributions have been and shall only be made in France to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals, as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the *Code monétaire et financier*. This Base Prospectus prepared in connection with the Instruments has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Instruments or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Instruments under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Mortgage Bonds was duly authorised by resolution 43/2002 of the Board of Directors of the Issuer dated 25 September 2002 and resolution 96/2003 of the Asset and Liability Committee of the Issuer dated 5 November 2003. The first update of the Programme was authorised by resolution 49/2004 of the Board of Directors of the Issuer dated 27 October 2004 and resolution 96/2004 of the Asset and Liability Committee of the Issuer dated 26 October 2004. The update of the Programme completed on 21 December 2005 was authorised by resolution No 30/2005 of the Board of Directors of the Issuer dated 27 June 2005 and resolution No 92/2005 of the Asset and Liability Committee of the Issuer dated 27 October 2005. The update of the Programme completed on 8 March 2007 and the increase of the Programme amount was authorised by resolution No 4/2007 of the Board of Directors of the Issuer dated 31 January 2007 and resolution No 76/2006 of the Asset and Liability Committee of the Issuer dated 15 November 2006.

Listing of Mortgage Bonds

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 2004 and 2005 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-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 Deed of Covenant, the forms of the Global Notes, the Notes in definitive form, the receipts, the coupons and the talons;

(e) a copy of this Base Prospectus;

(f) any future base prospectuses, offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that the Final Terms relating to an Instrument which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Holder of such Instrument and such

Holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Instruments and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(g) in the case of each issue of Instruments listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

This Base Prospectus and the Final Terms applicable to each issue of Mortgage Bonds will be available on the website of the Luxembourg Stock Exchange: 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 Luxembourg Stock Exchange, certification as to, *inter alia*, the existence of a bridge with Clearsteam, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The appropriate Common Code and ISIN for each Tranche of Mortgage Bonds allocated by Clearstream, Luxembourg and/or Euroclear or KELER, as the case may be, will be specified in the applicable Final Terms. If the Mortgage Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of KELER is Asbóth u. 9-11., 1075 Budapest, Hungary, the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg and the address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels.

Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial position of the Issuer or its group which has occurred since 30 September 2006 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2005.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Auditors

The auditors of the Issuer are Ernst & Young Audit Ltd. of Váci út 20, H-1132 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2004, and 31 December 2005. The auditors of the Issuer have no material interest in the Issuer. Ernst & Young Audit Ltd. are members of the Chamber of Hungarian Auditors.

Ernst & Young Audit Ltd. have also audited the Issuer's unconsolidated accounts in accordance with International Financial Reporting Standards for each of the two financial years ended 31 December 2004 and 31 December 2005. Those accounts are qualified because, and only because, those accounts have been published earlier than the consolidated accounts in accordance with International Financial Reporting Standards for the corresponding periods and as a result could not include consolidated financial information.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus. As far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Post-issuance information

The Issuer does not intend to provide post-issuance information in relation to any issues of Instruments, if not otherwise required by all applicable laws and regulations.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER

FHB MORTGAGE BANK CO. PLC.
(*FHB JELZÁLOGBANK NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG*)
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1132 Budapest
Hungary

PRINCIPAL PAYING AGENT

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1 Great Winchester Street
London EC2N 2DB
United Kingdom

OTHER PAYING AGENT AND LUXEMBOURG LISTING AGENT

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To the Dealers as to Hungarian law

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Hungary

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United Kingdom

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Germany

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

Dresdner Bank Aktiengesellschaft
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60301 Frankfurt am Main
Germany

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