

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

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

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

**BNP PARIBAS**

**DEALERS**

**BAYERISCHE LANDESBANK**

**BNP PARIBAS**

**CALYON**

**DEUTSCHE BANK**

**DZ BANK AG**

**RZB - AUSTRIA RAIFFEISEN**  
**ZENTRALBANK ÖSTERREICH AG**

The date of this Base Prospectus is 24 April 2009.

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

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

**References in this Base Prospectus to 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 Markets 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, the Terms and Conditions of the Mortgage Notes or the Terms and Conditions of the Notes, respectively 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 sector between 2003 and third quarter 2007 outstanding performance, growing profitability, slowing growth*" have been extracted from the "*Reports of the activities of the supervised sectors*" for 2004, 2005, 2006 and the third quarter of 2007, 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 or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Instruments is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Instruments and 60 days after the date of the allotment of the relevant Tranche of Mortgage Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

**This Base Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a base prospectus for such offer.**

**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. All references to SDR are to the Special Drawing Rights of the IMF.**

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

**As at 21 April 2009, the euro/HUF fixing rate published by the European Central Bank was euro 1.00 = HUF 300.35.**

**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 and market risks (e.g. interest rate and currency movements).

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

The Issuer is financing the granting of mortgage loans by issuing mortgage bonds. The mortgage loans have a long term maturity and provide for repayments in the form of annuities. The mortgage bonds, on the other hand, are shorter term obligations of the Issuer providing for bullet repayments. Consequently the financing of the mortgage loans by issuing mortgage bonds results in liquidity and interest risks to the Issuer.

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 significant risk factors relevant to its business.

Risk factors specific to the Issuer:

- **Business Conditions and General Economy:** The profitability of the Issuers' businesses could be adversely affected by a worsening of general economic conditions in Hungary, globally or in certain individual markets such as the EEA. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the prospects of the Issuer.

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

- 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.

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

Credit risk may also be manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset. Another form of credit risk is settlement risk, which is the possibility that the Issuer may pay a counterparty – for example, a bank in a foreign exchange transaction – but fail to receive the corresponding settlement in return.

- Capital risk: capital risk is the risk that the Issuer has insufficient capital resources to:
  - (i) meet minimum regulatory capital requirements in Hungary and in other jurisdictions where regulated activities are undertaken. The Issuer's authority to operate as a bank is dependent upon the maintenance of adequate capital resources;
  - (ii) support its credit rating. In addition to capital resources, the Issuer's rating is supported by a diverse portfolio of activities, prudent risk management and a focus on value creation. A weaker credit rating would increase the Issuer's cost of funds; and
  - (iii) support its growth and strategic options.
- 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 fundamental goal of liquidity management is to eliminate this type of risk.
- Fund renewing risk: The maturity of the Issuer's one to five 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 activities 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 Mortgage Credit Institutions Act 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 recover its profit lost. In consideration of the relevant statutory provisions, the Issuer allows prepayment subject to conditions preliminarily agreed upon.

- 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 per cent. 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.
- Regulatory risk: A significant risk relating to the legislative environment may stem from the amendment of the decree on housing subsidies (see "*Hungarian Housing and Mortgage Market – Government Housing Policy and Subsidised Loan Scheme*"). There were two major changes in 2003, both of which had an influence on the demand for loans, and thus affected the Issuer's future operation and profitability. The Issuer monitors changes in the legislative environment and draws up models to explore their short-term and long-term impact on profitability and financial plans. However, it is important to note that any changes in the regulation may only affect future demand for subsidised loans and will have no impact on the existing loan agreements or the Issuer's ability to perform its obligations under the Instruments.
- Effect of governmental policy and regulation: the Issuer's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in Hungary, the European Union.

Areas where changes could have an impact include:

- (i) the monetary, interest rate and other policies of central banks and regulatory authorities;
  - (ii) general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Issuer operates;
  - (iii) general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
  - (iv) changes and rules in competition and pricing environments;
  - (v) further developments in the financial reporting environment;
  - (vi) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
  - (vii) other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Issuer's products and services.
- 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 a further increase in the number of agents in the housing loans market. Another example of the intensity



of market competition is the increasing volume of EUR or CHF denominated mortgage loans. The ratio of these products as a percentage of new disbursements has already exceeded the 80 per cent. level. Since there is no state subsidy for the interest payments under EUR or CHF denominated loans, Hungarian mortgage banks compete with the commercial banks in this segment of the mortgage market.

*Risk factors stemming from the Hungarian economy*

- Due to its size and openness, the Hungarian economy is prone to international, particularly European, market trends. Deteriorating internal and external indicators may force successive governments to adopt austerity measures. Moreover, it may be that governments take economic policy, budgetary or monetary decisions that may have a negative impact on the Issuer's profitability.
- Pursuant to the officially published statistics of the National Bank of Hungary, the Central Statistics Office of the second quarter of 2008 performance and status of the Hungarian economy, the introduction of some further restrictive measures may be possible and such governmental actions imposing further austerity measures may have direct or indirect negative impact on the domestic real-estate market, housing financing and the profitability of the Issuer.
- International trends have a quick and powerful bearing on the changes in Hungarian interest rates as well as on stock and financial market prices. Such changes have a significant effect on the Issuer's access to funds and the conditions of raising them. In an effort to mitigate its vulnerability to risk in the capital markets and to expand future opportunities, the Issuer launched a mortgage bond programme in the international markets from 2003.
- The Issuer's activities and the profitability of its operations are strongly affected by the macroeconomic environment and the domestic and international perception of the Hungarian economy. The macroeconomic situation will, on one hand, determine the magnitude of disburseable housing loans and the quality of the property portfolio through the size of disposable income of the population. On the other hand, the budget and balance deficits of payments, inflation, interest rates and the value of the forint have an effect on mortgage bond issues and the demand for them, and, as such, on the cost of funds, and thus, ultimately, on the Issuer's profitability.
- Investors must be particularly aware of the risks deriving from the changes in the economic cycle which, along with negative market trends on the international capital markets, may have an effect on the volume and profitability of mortgage lending and may increase the ratio of defaulting loans. A possible negative trend in the real estate market may result in the need for supplementary coverage on mortgage bonds.
- 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 (in relation to the value of the forint and interest rates) are relatively easy to forecast in the medium term, such risks cannot be fully understood over the long-term.

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

**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 Instruments with a multiplier or other leverage factor*

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

### *Inverse Floating Rate Notes*

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

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.

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 Instruments and (3) the Investor's Currency-equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. 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.

### *Market price*

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

### *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 rule.

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

<b>Issuer:</b>	FHB Mortgage Bank Co. Plc. ( <i>FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság</i> )
<b>Description:</b>	Euro Mortgage Securities and Euro Medium Term Note Programme for the issuance of Mortgage Bonds, Mortgage Notes and Notes
<b>Arranger:</b>	BNP Paribas
<b>Dealers:</b>	Bayerische Landesbank BNP Paribas CALYON Deutsche 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.
<b>Principal Paying Agent:</b>	Deutsche Bank AG, London Branch
<b>Risk Factors</b>	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme. These are set out under "Risk Factors". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme. These are set out under "Risk Factors" and include the fact that the Instruments may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Instruments and certain market risks.
<b>Certain Restrictions:</b>	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 " <i>Subscription and Sale</i> ") 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*".

<b>Programme Size:</b>	Up to EUR 3,000,000,000 (or its equivalent in other currencies calculated as described under " <i>General Description of the Programme</i> ") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Instruments may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
<b>Redenomination:</b>	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, in Condition 3 of the Terms and Conditions of the Mortgage Notes and Condition 4 of the Terms and Conditions of the Notes.
<b>Maturities:</b>	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.
<b>Issue Price:</b>	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.
<b>Type of Mortgage Securities:</b>	For a description of certain aspects relevant to the Mortgage Securities, see " <i>Certain Information relating to the Mortgage Securities</i> ".
<b>Form of Mortgage Bonds:</b>	<p>The Mortgage Bonds will be issued in dematerialised registered form as described in "<i>Form of the Mortgage Bonds</i>".</p> <p>The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so</p>



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 Mortgage Notes:**

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

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

**Form of Notes:**

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

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

**Fixed Rate Instruments:**

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

**Floating Rate Instruments:**

Floating Rate Instruments will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Instruments of the relevant Series); or
- (ii) on the basis of 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 Mortgage Notes:**

Partly Paid Mortgage Notes may be issued where the issue price is payable in more than one instalment.

**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, in Condition 7 of the Terms and Conditions of the Mortgage Notes 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 Instruments 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 Securities 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 Securities will contain a cross default provision as further described in Condition 9 of the Terms and Conditions of the Mortgage Bonds and in Condition 9 of the Mortgage Notes.

**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 Securities:**

The Mortgage Securities will constitute unsubordinated obligations of the Issuer ranking *pari passu* among themselves. The Mortgage Securities will be covered in accordance with the Hungarian Act on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzáloghitelintézetéről 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.
- Approval, 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 for the Mortgage Bonds*" below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in "*Form of the Mortgage Notes*" below.
- 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 Securities will be governed by, and construed in accordance with, Hungarian law. In relation to the Mortgage Securities, any Dispute may be settled by the Hungarian Money and Capital Markets Arbitration Court, in accordance with its own rules of procedure, as more fully described in the Terms and Conditions of the Mortgage Securities.
- The Notes will be governed by, and construed in accordance with, English law.

<b>Selling Restrictions:</b>	There are restrictions on the offer, sale and transfer of the Instruments in the United States, Japan and the European Economic Area (including the United Kingdom, Hungary, Italy and France) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Instruments see " <i>Subscription and Sale</i> ".
<b>United States Selling Restrictions:</b>	Regulation S, Category 1. TEFRA C for Mortgage Bonds; Regulation S, Category 1, TEFRA D for Mortgage Notes; Regulation S, Category 1, TEFRA C or TEFRA D for Notes.
<b>Representation of the holders of the Instruments:</b>	There is no provision for the representation of holders of the Instruments.

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) Annual Report of the Issuer for 2007 containing the audited consolidated annual financial statements for the financial year ended 31 December 2007 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 2007	Pages 39 to 92
– Independent Auditors' Report	Page 37 to 38
– Consolidated Profit and Loss Statement	Page 39
– Consolidated Balance Sheet	Page 40
– Consolidated Cash Flow Statement	Page 41
– Consolidated Statement of Shareholders' Equity	Page 42
– Notes to the Consolidated Financial Statements	Pages 43 to 92

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 2008 and the audit reports thereon<sup>1</sup> 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 2008	Pages 5 to 60
– Consolidated Profit and Loss Statement	Page 5
– Consolidated Balance Sheet	Page 6
– Consolidated Cash Flow Statement	Pages 7 to 8
– Consolidated Statement of Shareholders' Equity	Page 9
– Notes to the Consolidated Financial Statements	Pages 10 to 60
Audit report in relation to the Consolidated IFRS	Page 1 to 2

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<sup>1</sup> The financial statements for the year ended 31 December 2008 are due to be approved at the Annual General Meeting of the Issuer to be held on 28 April 2009.

Financial Statements for the financial year ended 31  
December 2008

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

- (c) the Articles of Association of the Issuer.

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.lu](http://www.fhb.lu). In addition, such documents will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. for Instruments listed on the Luxembourg Stock Exchange and on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://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-hitelintézetéről 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 depository will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

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

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

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

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

#### *Version 2 (Clearstream Delivery against Payment)*

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

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

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

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

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

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

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

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

## **ISSUE OF NON-HUF DENOMINATED MORTGAGE BONDS**

### *Version 1 (Euroclear Free of Payment)*

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

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

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

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

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

### *Version 2 (Clearstream Delivery against Payment)*

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

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

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

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

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

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

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

#### *Payments*

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

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

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

## FORM OF THE MORTGAGE NOTES

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

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

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

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

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

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

accordance with Condition 11 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Mortgage Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

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

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

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

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

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

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

A Mortgage Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Mortgage Note is still represented by a Global Mortgage Note and the Global Mortgage Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Mortgage Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Mortgage Note then the Global Mortgage Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Mortgage Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant in relation to the Mortgage Notes (the **Mortgage Note Deed of Covenant**) dated 24 April 2009 and executed by the Issuer.

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

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 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 in relation to the Notes (the **Note Deed of Covenant**) dated 24 April 2009 and executed by the Issuer.



## FORM OF FINAL TERMS OF THE MORTGAGE BONDS/MORTGAGE NOTES

*Set out below is the form of Final Terms which will be completed for each Series/Tranche of Mortgage Bonds or Mortgage Notes issued under the Programme.*

[Date]

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

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

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 24 April 2009 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Mortgage [Bonds/Notes] described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Mortgage [Bonds/Notes] is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at and collection from the registered office of 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](http://www.fhb.hu).

This Base Prospectus and the Final Terms applicable to each issue of Mortgage [Bonds/Notes] will be available on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Mortgage Bonds (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Mortgage Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 24 April 2009, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Mortgage Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 24 April 2009 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/Mortgage Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: 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/Mortgage Notes become fungible.)*
3. Specified Currency or Currencies: [            ]
4. Aggregate Nominal Amount:  
(a) Series: [            ]  
(b) Tranche: [            ]
5. [(a)] Issue Price (per Mortgage [    ] per cent. of the Specified Denomination [plus  
[Bond/Note]): [            ] accrued interest from [insert date] *(in the case of  
fungible issues only, if applicable)*  
  
[(b)] Net Proceeds: [            ]  
*(Required only for listed  
issues)*
6. (a) Specified Denominations: [            ]

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

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

*(N.B. If an issue of Mortgage Bonds/Mortgage Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR 50,000 minimum denomination is not required.)*

- (b) Calculation Amount *(If only one Specified Denomination, insert the Specified Denomination.*
- If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date (value date): [ ]
- (b) Interest Commencement Date: [ ]
- (N.B. An Interest Commencement Date will not be relevant for certain Mortgage Bonds/Mortgage Notes, for example Zero Coupon Mortgage Bonds/Mortgage Notes.)*
8. Maturity Date: *[Fixed rate - specify date/  
Floating rate - Interest Payment Date falling in or nearest to [specify month]]*
9. Interest Basis: *[[ ] per cent. Fixed Rate]  
[[BUBOR/LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]*
- [specify other]  
(further particulars specified below)*
10. Redemption/Payment Basis: *[Redemption at the Specified Denomination]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]<sup>1</sup>*
- [specify other]*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds/Mortgage Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11. Change of Interest Basis or Redemption/ Payment Basis: *[Specify details of any provision for change of Mortgage Bonds/Mortgage Notes into another Interest Basis or Redemption/ Payment Basis]*
12. Put/Call Options: *[Investor Put]  
[Issuer Call]*

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<sup>1</sup> Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.

[(further particulars specified below)]

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

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

14. Method of distribution: [Syndicated/Non-syndicated]

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

15. **Fixed Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 4.)*

- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons.)*

- (c) Fixed Coupon Amount per Mortgage Bond/Mortgage Note: [ ] per Calculation Amount

- (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/Notes]: [None/Give details]

16. **Floating Rate Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [            ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
- (c) Additional Business Centre(s): [            ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount: [Agent/*if not Agent, insert details of Calculation Agent*]
- (f) Screen Rate Determination:
- Reference Rate: [            ]  
*(Either BUBOR, LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement.)*
  - Interest Determination Date(s): [            ]  
*(Second Budapest business day prior to the start of each Interest Period if BUBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)*
  - Relevant Screen Page: [            ]  
*(In the case of EURIBOR, if not Reuters 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/Actual (ISDA) or Actual/Actual Actual/365 (Fixed) Actual/365 (ÁKK) Actual/365 (Sterling) Actual/360 30/360 or 360/360 or Bond Basis 30E/360 or Eurobond Basis 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/Notes], if different from those set out in the Conditions: [ ]
17. **Zero Coupon Mortgage [Bond/Note] Provisions** [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph.)
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Any other formula/basis of determining amount payable: [ ]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [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/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 Amount(s): [ ]
- (c) Provisions for determining Rate of Interest where calculation by reference to [need to include a description of market disruption or settlement disruption events and adjustment provisions]

Index and/or Formula is impossible or impracticable:

- (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/Note] Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [*give or annex details, including notice period for currency selection*]
  - (b) Calculation Agent, 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/*specify other/see Appendix*
  - (c) If redeemable in part:
    - (i) Minimum Redemption [            ]

Amount:

- (ii) Maximum Redemption Amount: [            ]
- (iii) Method of selection: [            ]
- (d) Notice period (if other than as set out in the Conditions): [            ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*

21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

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

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

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

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Mortgage Bonds/Notes will be derivative securities for the purposes of the Prospectus Directive and the*



*requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

23. Early Redemption Amount 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/MORTGAGE NOTES**

24. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]  
*(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate.)*
25. Details relating to Partly Paid Mortgage [Bonds/Notes]: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Mortgage [Bonds/Notes] and interest due on late payment: [Not Applicable/give details]<sup>2</sup>
26. Redenomination applicable: Redenomination [not] applicable  
*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
27. Other final terms: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*  
*(Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers.)*

## **DISTRIBUTION**

28. (a) If syndicated, names of Managers: [Not Applicable/give names]

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<sup>2</sup> Subject to the prior written consent of KELER, the Issuer shall not issue Partly Paid Mortgage Bonds.

- (b) Stabilising Manager (if any): [Not Applicable/give name]
29. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
30. TEFRA rules applicable: [TEFRA C/TEFRA D]<sup>3</sup>
31. Additional selling restrictions: [Not Applicable/give details]

#### [MISCELLANEOUS

32. Form of Mortgage Notes:
- (a) Form: [Temporary Global Mortgage Note exchangeable for a Permanent Global Mortgage Note which is exchangeable for definitive Mortgage Notes only upon an Exchange Event]
- [Temporary Global Mortgage Note exchangeable for definitive Mortgage Notes on and after the Exchange Date]
- [Permanent Global Mortgage Note exchangeable for definitive Notes only upon an Exchange Event]
- (N.B. If the Specified Denominations of the Mortgage Notes in Item 6 include language substantially to the following effect: "EUR 50,000 and integral multiples of EUR 1,000" the Temporary Global Mortgage Note must not be exchangeable for definitive Mortgage Notes.)*
- (b) New Global Note [Yes/No]
33. Talons for future Coupons or Receipts to be attached to definitive Mortgage Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
34. Details relating to Instalment Mortgage Notes:
- (a) Instalment Amount(s): [Not applicable/give details]
- (b) Instalment Date(s): [Not applicable/give details]<sup>4</sup>

#### [PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Mortgage [Bonds/Notes] described herein pursuant to the EUR 3,000,000,000 Euro Mortgage

<sup>3</sup> TEFRA C is applicable to Mortgage Bonds; TEFRA D is applicable to Mortgage Notes.

<sup>4</sup> Only relevant for Mortgage Notes.

Securities 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: .....  
Duly authorised

By: .....  
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/Notes] to be admitted to trading on [ ]. /Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [EUR] [ ]

### 2. RATINGS

Ratings: The Mortgage [Bonds/Notes] to be issued have been rated:

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

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

### [3. NOTIFICATION

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

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

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

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

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

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

[(ii)] Estimated net proceeds: [ ]

[(iii)] Estimated total expenses: [ ]

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

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

Indication of yield: [ ]

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

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

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[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.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

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

[The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].]

*(N.B. This paragraph 7 only applies if the Mortgage Bonds/Mortgage Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

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

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

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

*(N.B. This paragraph 8 only applies if the Mortgage Bonds/Mortgage Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**9. OPERATIONAL INFORMATION**

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Alphabetical code of Series: [ ]
- (iv) Any clearing system(s) other than Clearstream Banking, société anonyme[,/and] Euroclear Bank S.A./N.V. [and KELER] and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]  
*(If the Series of Mortgage Bonds/Mortgage Notes is listed on the Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER.)*
- (v) Delivery: Delivery [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: Hungary]<sup>5</sup>
- (x) Number of Mortgage Bonds:
- (b) Series: [ ]
- (c) Tranche: [ ]
- (xi) Intended to be held in a manner [Yes/No]

<sup>5</sup> Only required for issues of Mortgage Bonds.

which would allow Eurosystem eligibility:

[Note that the designation "yes" simply means that the Mortgage Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Mortgage Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during the life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]

[Include this text if "yes" selected in which case the Mortgage Notes must be issued in NGN form.]

[(xii) Serial number of the Mortgage Notes: [        ]]<sup>6</sup>

**10. TRADEABLE AMOUNT**

[[    ]/Not Applicable. [Not applicable in the case of Mortgage Bonds tradeable in KELER.]

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

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<sup>6</sup> Only required for issues of Mortgage Notes.

## TERMS AND CONDITIONS OF THE MORTGAGE BONDS

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

This Mortgage Bond is one of a Series (as defined below) of Mortgage Bonds issued by 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 24 April 2009 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-hitelintézetéről 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 Mortgage Bonds credited to their securities account with KELER (the Securities Account Managers) in accordance with the last available records of KELER (as determined in accordance with Condition 1(f)); and
- (C) be represented by printed certificates.

(iii) The Issuer will promptly (and in any event within five days of its occurrence) give notice to any stock exchange (in accordance with the then applicable rules and

regulations of that stock exchange) on which the Mortgage Bonds are for the time being listed and to the Holders in accordance with Condition 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 ".".

(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 jelzáloghitelintézetéről 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 **TARGET2 System**) is open; and
- (C) a day on which KELER and Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(ii) *Rate of Interest*

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

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate 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/Actual(ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (A' KK)" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;
- (D) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

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

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

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of

this Condition 4(b) whether by the Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Issuer and the Holders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

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

(d) *Interest on Partly Paid Mortgage Bonds*

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

(e) *Accrual of interest*

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

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

## 5. PAYMENTS

(a) *Method of payment*

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

(b) *Payment Day*

If the date for payment of any amount in respect of any Mortgage Bond is not a Payment Day (as defined below), the Holder thereof shall not be entitled to payment until the next following



Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Budapest and any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than Budapest and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) a day on which KELER 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:

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

where:

*RP* means the Reference Price;

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

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

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

(d) *General provisions applicable to payments*

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

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

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

## **6. REDEMPTION AND PURCHASE**

(a) *Redemption at maturity*

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

(b) *Redemption for tax reasons*

The Mortgage Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Bond is neither a Floating Rate Mortgage Bond, an Index Linked Interest Mortgage Bond nor a Dual Currency Interest Mortgage Bond) or on any Interest Payment Date (if this Mortgage Bond is either a Floating Rate Mortgage Bond, an Index Linked Interest Mortgage Bond or a Dual Currency Interest Mortgage Bond), on giving not

less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 11, to the Holders (which notice shall be irrevocable), if:

- (i) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 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 admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. So long as the Mortgage Bonds are listed on the 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, [www.bourse.lu](http://www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any the relevant stock exchange or other relevant regulatory authority. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and, in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

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

## **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 any non-contractual obligations arising therefrom, 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.

## TERMS AND CONDITIONS OF THE MORTGAGE NOTES

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

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

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

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

The Mortgage Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 24 April 2009 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

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

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

The Mortgage Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant in relation to the Mortgage Notes (the **Mortgage Note Deed of Covenant**) dated 24 April 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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

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

## **1. FORM, DENOMINATION AND TITLE**

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

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

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

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

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

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

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

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

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

## **2. STATUS OF THE MORTGAGE NOTES**

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

### 3. REDENOMINATION

#### (a) *Redenomination*

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

The election will have effect as follows:

- (i) the Mortgage Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Mortgage Note and Receipt equal to the nominal amount of that Mortgage Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Mortgage Noteholders, the stock exchange (if any) on which the Mortgage Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Mortgage Notes will be calculated by reference to the aggregate nominal amount of Mortgage Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Mortgage Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (x) in the case of Relevant Mortgage Notes in the denomination of euro 50,000 and/or such higher amounts as the Agent may determine and notify to the Mortgage Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Mortgage Noteholders in euro in accordance with Condition 6; and (y) in the case of Mortgage Notes which are not Relevant Mortgage Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Mortgage Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Mortgage Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Mortgage Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Mortgage Notes and Receipts so issued will also become void on that date although those Mortgage Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Mortgage Notes, Receipts and Coupons will be issued in exchange for Mortgage Notes, Receipts and Coupons

denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Mortgage Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Mortgage Notes;

- (v) after the Redenomination Date, all payments in respect of the Mortgage Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Mortgage Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Mortgage Notes are Fixed Rate Mortgage Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (A) in the case of the Mortgage Notes represented by a Global Mortgage Note, by applying the Rate of Interest to the full nominal amount outstanding of the Mortgage 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
  - (B) in the case of definitive Mortgage 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. Where the Specified Denomination of a Fixed Rate Mortgage Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without further rounding; and
- (vii) if the Mortgage Notes are Floating Rate Mortgage Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

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

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

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

**Redenomination Date** means (in the case of interest bearing Mortgage Notes) any date for payment of interest under the Mortgage Notes or (in the case of Zero Coupon Mortgage Notes) any date, in each case specified by the Issuer in the notice given to the Mortgage

Noteholders pursuant to Condition 3(a) 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 Mortgage Notes** means all Mortgage Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

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

#### 4. INTEREST

(a) *Interest on Fixed Rate Mortgage Notes*

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

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

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

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

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

(ii) in the case of Fixed Rate Mortgage Notes in definitive form, the Calculation Amount,

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

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

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



- (A) in the case of Mortgage Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
- (B) in the case of Mortgage Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
- (iii) in the Conditions:

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

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

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

(i) *Interest Payment Dates*

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

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

- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls 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 Mortgage Notes or Index Linked Interest Mortgage Notes is represented by a Global Mortgage Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Mortgage Notes (or, if they are Partly Paid Mortgage Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Mortgage Note or Index Linked Interest Mortgage Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Mortgage Note, the amount paid up).

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

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

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

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

(ii) *Rate of Interest*

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

(A) ISDA Determination for Floating Rate Mortgage Notes

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

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the Budapest inter-bank offered rate (**BUBOR**) or the London inter-bank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

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

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12:30 p.m. (Budapest time in the case of BUBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4(b)(ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4(b)(ii) above is greater

than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

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

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

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

- (1) in the case of Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes which are represented by Global Mortgage Note, the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Mortgage Note (or, if they are Partly Paid Mortgage Notes, the aggregate amount paid up); or
- (2) in the case of Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes in definitive form, the Calculation Amount,

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

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

- (A) if "Actual/Actual(ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/365 (A'KK)" is specified in the applicable Final terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the first London Business Day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed

and to the Mortgage Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

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

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

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

(d) *Interest on Partly Paid Mortgage Notes*

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

(e) *Accrual of interest*

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

- (i) the date on which all amounts due in respect of such Mortgage Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Mortgage Note has been received by the Agent and notice to that effect has been given to the Mortgage Noteholders in accordance with Condition 13.

## 5. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the



option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and

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

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

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

Payments of principal in respect of definitive Mortgage Notes will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Mortgage Notes, and payments of interest in respect of definitive Mortgage Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Mortgage Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) 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 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Mortgage Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Mortgage Note to which it appertains. Receipts presented without the definitive Mortgage Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Mortgage Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Mortgage Notes in definitive form (other than Dual Currency Mortgage Notes, Index Linked Mortgage Notes or Long Maturity Mortgage Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Mortgage Note, Dual Currency Mortgage Note, Index Linked Mortgage Note or Long Maturity Mortgage Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Mortgage Note** is a Fixed Rate Mortgage Note (other than a Fixed Rate Mortgage Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Mortgage Note shall cease to be a Long Maturity Mortgage Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Mortgage Note.

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

(c) *Payments in respect of Global Mortgage Notes*

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

(d) *General provisions applicable to payments*

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

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

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

- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) *Payment Day*

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

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London;
  - (C) each Additional Financial Centre specified in the applicable Final Terms; and
  - (D) Budapest;
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London, 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 (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open;
- (iii) a day on which KELER, Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(f) *Interpretation of principal and interest*

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

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Mortgage Notes;
- (iii) the Early Redemption Amount of the Mortgage Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Mortgage Notes;

- (v) in relation to Mortgage Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Mortgage Notes, the Amortised Face Amount (as defined in Condition 6(e)(iii)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Notes.

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

## **6. REDEMPTION AND PURCHASE**

### **(a) *Redemption at maturity***

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

### **(b) *Redemption for tax reasons***

The Mortgage Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Note is neither a Floating Rate Mortgage Note, an Index Linked Interest Mortgage Note nor a Dual Currency Interest Mortgage Note) or on any Interest Payment Date (if this Mortgage Note is either a Floating Rate Mortgage Note, an Index Linked Interest Mortgage Note or a Dual Currency Interest Mortgage Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 13, the Mortgage Noteholders (which notice shall be irrevocable), if:

- (i) other than as a result of the amendments to Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as introduced by Section 14 of Act LXI of 2006 on the Amendments to Certain Financial Laws and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Mortgage Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two members of the board of directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts

showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

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

- (i) not less than 15 nor more than 30 days' notice to the Mortgage Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Mortgage Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Mortgage Notes, the Mortgage Notes to be redeemed (**Redeemed Mortgage Notes**) will be selected individually by lot, in the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Mortgage Notes represented by a Global Mortgage Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, a list of the serial numbers of such Redeemed Mortgage Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Mortgage Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(c) and notice to that effect shall be given by the Issuer to the Mortgage Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Mortgage Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Mortgage Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Mortgage Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

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

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Mortgage Note pursuant to this Condition 6(d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6(d) and instead to declare such Mortgage Note forthwith due and payable pursuant to Condition 9.

(e) *Early Redemption Amounts*

For the purpose of Condition 6(b) above and Condition 9, each Mortgage Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Mortgage Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Mortgage Note (other than a Zero Coupon Mortgage Note but including an Instalment Mortgage Note and a Partly Paid Mortgage Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Mortgage Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Mortgage Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

(f) *Instalments*

Instalment Mortgage 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 6(e).

(g) *Partly Paid Mortgage Notes*

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

(h) *Purchases*

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

(i) *Cancellation*

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

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

If the amount payable in respect of any Zero Coupon Mortgage Note upon redemption of such Zero Coupon Mortgage Note pursuant to Conditions 6(a), 6(b), 6(c) or 6(d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Mortgage Note shall be the amount calculated as provided in Condition 6(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Mortgage Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Mortgage Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Mortgage Notes has been received by the Agent and notice to that effect has been given to the Mortgage Noteholders in accordance with Condition 13,

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

## 7. TAXATION

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

- (a) presented for payment in the Republic of Hungary; or
- (b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Mortgage Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Mortgage Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(e)); or
- (d) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Mortgage Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Mortgage Noteholders in accordance with Condition 13.



## 8. PRESCRIPTION

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

## 9. EVENTS OF DEFAULT

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

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

- (i) the Issuer fails to make payment of any principal or interest due in respect of the Mortgage Notes and such failure to pay continues for a period of 15 days; or
- (ii) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Mortgage Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (iii) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or
- (iv) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (v) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 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 Note held by the Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with the accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Pursuant to the relevant provisions of Act XXX of 1997 on Mortgage Loan Credit Institutions and Mortgage Bonds, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution. This

transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer the Mortgage Notes will be cancelled and the transferee mortgage loan credit institution will issue its mortgage bonds (the **New Mortgage Notes**) to the Holders on the same terms and conditions as those of the Mortgage Notes. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Note held by it to be due and payable pursuant to this Condition 9(a), although this will not prejudice any rights a Holder may have under the New Mortgage Notes.

(b) *Definitions*

For the purposes of this Condition 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 mortgage notes or other debt securities offered, issued or distributed whether by way of public offer, private placement, acquisition consideration or otherwise and whether issued in cash or in whole or in part for consideration other than cash.

**10. REPLACEMENT OF MORTGAGE NOTES, RECEIPTS, COUPONS AND TALONS**

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

**11. PAYING AGENTS**

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

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Mortgage Noteholders in accordance with Condition 13.

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

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Mortgage Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## **13. NOTICES**

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

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

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

#### **14. FURTHER ISSUES**

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

#### **15. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

(a) *Governing law*

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

(b) *Submission to jurisdiction*

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

#### **16. MEETINGS OF MORTGAGE NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

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

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

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

Any such modification shall be binding on the Mortgage Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Mortgage Noteholders in accordance with Condition 13 as soon as practicable thereafter.

## 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 24 April 2009 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the 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](http://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](http://www.bourse.lu)).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 24 April 2009. This document constitutes the Final Terms of the Notes 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 24 April 2009 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 24 April 2009 and are attached hereto. 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 dated [current date] and [original date]. Copies of such Base Prospectuses are available for viewing [at [website]] [and] [copies may be obtained from [address] during normal business hours.]

*[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<sup>1</sup> and integral multiples of EUR 1,000<sup>2</sup> in excess thereof up to and including EUR 99,000<sup>3</sup>. No notes in definitive form will be issued with a denomination above EUR 99,000<sup>4</sup>.]  
  
*(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,

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<sup>1</sup> Or its foreign currency equivalent.

<sup>2</sup> Or its foreign currency equivalent.

<sup>3</sup> Or its foreign currency equivalent.

<sup>4</sup> Or its foreign currency equivalent.

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: [ ]

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

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

9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[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 TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)
  - Relevant Screen Page: [ ]  
(In the case of EURIBOR, if not Reuters Reference EURIBOR01 ensure it is a page which shows a composite rate 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/Actual(ISDA)  
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.)
- (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.)
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent responsible for calculating the interest due: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (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.)*
- (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.)*
- (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 [ ] per Calculation Amount/specify redemption for taxation reasons or on other/see Appendix].

event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):

## 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 only upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event/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]

## **[PURPOSE OF FINAL TERMS**

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 Securities 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: .....  
*Duly authorised*

By: .....  
*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*]

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

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

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

[(ii)] Estimated net proceeds: [ ]

[(iii)] Estimated total expenses: [ ]

*(N.B. Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case [(i)] above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), 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.]*

*[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.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

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

[The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].]

*(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

**8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (DUAL CURRENCY NOTES ONLY)**

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

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

*(N.B. This paragraph 8 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

## 9. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vi) 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 24 April 2009 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive 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 in relation to the Notes (the **Note Deed of Covenant**) dated 24 April 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Note Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. 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](http://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 Note Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

## **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-hitelintézetéről és a jelzáloglevélről*), as amended) which are, or are intended to be or are capable of being, listed or traded on any stock exchange, over the counter or on other organised market for securities and which are:

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

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

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

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

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

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

## 4. 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 Melbourne and Wellington, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes 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(d):

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes 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 Melbourne and Wellington, 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 Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 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:

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

where:

**RP** means the Reference Price;

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

<sup>y</sup> 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.

## **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 (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

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

- (a) the Issuer fails to make payment of any principal or interest due in respect of the Notes and such failure to pay continues for a period of 15 days; or
- (b) the Issuer defaults in the performance or observance of or compliance with any other obligation on its part under the Notes and such default continues for a period of 30 days after written notice of such default shall have been given to the Issuer by a Holder; or
- (c) the Hungarian Financial Supervisory Authority initiates the liquidation of the Issuer with the competent court, or any order is made by a competent court in respect of the commencement of liquidation proceedings against the Issuer; or
- (d) the Hungarian Financial Supervisory Authority resolves on the voluntary winding up of the Issuer; or
- (e) any order is made or an effective resolution is passed for the winding up of the Issuer; or
- (f) the repayment of any Indebtedness for Borrowed Money (as defined in Condition 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

- (g) if the Issuer or any Principal Subsidiary ceases or gives notice of its intention or otherwise any indication of its intention to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Issuer or any Principal Subsidiary stops payment of, or admits inability to pay its debts (or any class of its debts) as they fall due or is adjudicated by any competent court or is found bankrupt or insolvent; or
- (h) if (A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrator or other similar official, or an administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary, or an 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
- (i) if the Issuer or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors),

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

## 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 than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, its assets represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

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

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

**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 which is tax resident in Germany or the United Kingdom;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) provided such a Paying Agent exists, the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within 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](http://www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on 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 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held

or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

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

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 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 Note Deed of Covenant, the Notes, the Receipts and the Coupons are, any non-contractual obligations arising therefrom shall be, 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.

## DESCRIPTION OF THE ISSUER

### *History and development of the Issuer*

FHB Mortgage Bank Co. Plc. (*FHB Jelzálogbank Nyilvánosan Működő Részvénytársaság*) (the **Issuer**) was established on 21 October 1997 and 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. The Issuer operates in Hungary as a specialised credit institution. The main activity of the Issuer is mortgage-based lending financed by the issue of covered mortgage bonds. Its two basic business lines are (primarily retail) lending and refinancing of other credit institutions. The lending business consists largely of characteristically retail mortgage lending, and to a lesser extent, commercial mortgage credits.

### *The Issuer's business*

The Issuer's business activity concentrates on the entire mortgage financing market building, based upon the Issuer's professional background. The FHB Bank Group (the **Group**) provides its domestic and international partners with a range of banking, mortgage and capital markets services.

Pursuant to 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 accept deposits and its investment in real estate (except for operating premises) may not exceed 5 per cent. of its total funds. The Issuer itself is the operating entity which directly holds all the loan assets or independent liens and issues the mortgage bonds.

The most important objective of the Issuer is to ensure the balanced growth of rate of return on equity, by restructuring its previous activity, product and client structure. As a result of this strategy, the diversification of the Issuer's product line from the previous monoline structure has started in 2006.

### *History of the Issuer*

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.*).

In 1996, five banks established a joint venture company 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 mortgage lending by issuing mortgage bonds.

The Mortgage Credit Institution Act was approved by the Hungarian Parliament in April 1997 and the Issuer was established on 21 October 1997. Four banks (*Magyar Befektetési és Fejlesztési Bank Rt., Mezőbank Rt., Postabank és Takarékpénztár Rt., and Pénzügyi Szervezetek Központ Bank Rt.*) and the Ministry of Finance together contributed 3 billion Hungarian forints of share capital (state entities controlled 85 per 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 **HFSA**) 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.



In September 1999, the Hungarian Privatisation and State Holding Company (**ÁPV Zrt.**), which at that time was the majority shareholder of the Issuer, issued a tender for the privatisation of the Issuer. 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 2001, the Issuer began to issue mortgage bonds by public auction which were listed on the Budapest Stock Exchange.

In 2003, partial privatisation and the admission to trading of the Issuer's shares on the Budapest Stock Exchange took place, thereby reducing state ownership in the Issuer from 94.7 per cent. to 53.2 per cent.

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

In February 2006 the Issuer's Board of Directors adopted a business strategy. As part of this strategy, the Issuer was turned into a bank group with a view to acquiring the ability to serve the entire market segment of mortgage lending and real estate finance in the future.

In May 2006, Moody's upgraded all foreign currency denominated covered bonds of the Issuer from Aa2 to A1.

In January 2007, according to Moody's announcement, the A2/P-1 foreign currency long-term and short-term bank deposit ratings of the Issuer were placed on review for a possible downgrade, pending the outcome of the potential privatisation of the Issuer announced by the Hungarian government in October 2006. On 29 August 2007, ÁPV Zrt. sold its Series "A" ordinary shares representing 50 per cent. + 1 vote in the Issuer on the Hungarian and international capital markets by way of an accelerated bookbuilding process. As a result of the sale, ÁPV Zrt.'s ownership interest in the Issuer dropped to 4.11 per cent. which is held exclusively in the form of Series "B" preference shares.

The ordinary shares sold by ÁPV Zrt. were bought by a significant number of Hungarian and foreign investment companies. None of the new shareholders gained a holding exceeding the five percent threshold as a result of the transaction. After the privatisation, approximately 88 per cent. of the Issuer's Series "A" ordinary shares, were free float, 66 per cent. of non-listed Series "B" preference shares: were held by Allianz Biztosító Zrt. (Allianz Insurance Ltd.) and the remaining 33 per cent. of the "Series "B" preference shares were held by the Hungarian State through ÁPV Zrt.

In September 2007, Moody's modified the Issuer's long term and short term foreign and local currency bank deposit rating to Baa3/P-3 from A2/P-1. Furthermore, as a result of the privatisation of the Issuer, Moody's has placed the outstanding mortgage bonds of the Issuer on a watch list.

On the 1 April 2008, Moody's downgraded the rating of the outstanding mortgage bonds of the Issuer to Aa3. In order to maintain this newly assigned rating and to prevent any further downgrade of the mortgage bonds outstanding from time to time due to any possible negative effect on their rating due to the Baa3/P-3 rating of the Issuer's bank deposit ratings, the Issuer issued a Notice to Mortgage Bond Holders (the **Notice**). Pursuant to the Notice the Issuer undertakes that until and so long as the mortgage bonds are outstanding, it will

maintain (i) an additional amount of collateral over and above the statutory level and it will also (ii) maintain sufficient liquid assets as described below. The method of calculation of the level of over-collateralisation is in accordance with the requirement for coverage under Hungarian law. The Issuer is obliged to keep such collateral level in place as long as the outstanding mortgage bonds are rated or, confirmation is obtained that a change in the level of over-collateralisation will not have a negative impact on the Aa3 rating of the mortgage bonds. On such basis, Moody's considers such undertaking for over-collateralisation as "committed".

Furthermore, the Issuer has undertaken in the Notice to maintain liquidity by ensuring that sufficient liquidity assets are available to cover liquidity liabilities arising in the twelve (12) months following each calculation day, for the period in which any mortgage bond is outstanding. Moody's is of the view that these provisions are sufficient to increase the TPI<sup>1</sup> of the programmes to "Probable-High", and has assigned such TPI to the Issuer's international and domestic mortgage bond programmes, accordingly.

On 8 April 2009, Moody's published in an announcement that it has downgraded to A3 from Aa3 the covered mortgage bonds issued by the Issuer and placed on review for possible downgrade. The TPI to the Issuer's mortgage bond programme has been lowered to "Probable".

### **Business strategy of the Issuer**

The Issuer's medium term business strategy was accepted by the Board of Directors in February 2006. The main goals were: the diversification of the Issuer's activity, the increase of business volume, the entry into new markets, the enhancement of the product scale and the reduction of risk exposure. By taking advantage of its knowledge and experiences on the mortgage markets, the Issuer's intention is to transact in the business mostly related to the real estate markets.

The primary objective of the Issuer is to ensure the balanced growth of rate of return on equity, by means of restructuring its previous activity, product and client structure. Due to that strategy, the diversification of the FHB product line from the previous monoline structure has commenced and the introduction of new products has been successfully achieved. As a result of the above structural changes, the Group was established in 2006.

FHB Commercial Bank Ltd. was established with the purpose to facilitate the expansion of lending activities and to introduce a commercial banking activity fundamentally based on mortgage-based real estate financing within the Group.

FHB Life Annuity Ltd. has been set up to maximise the benefits of cross-selling possibilities by offering the Issuer's financial products to elderly customers.

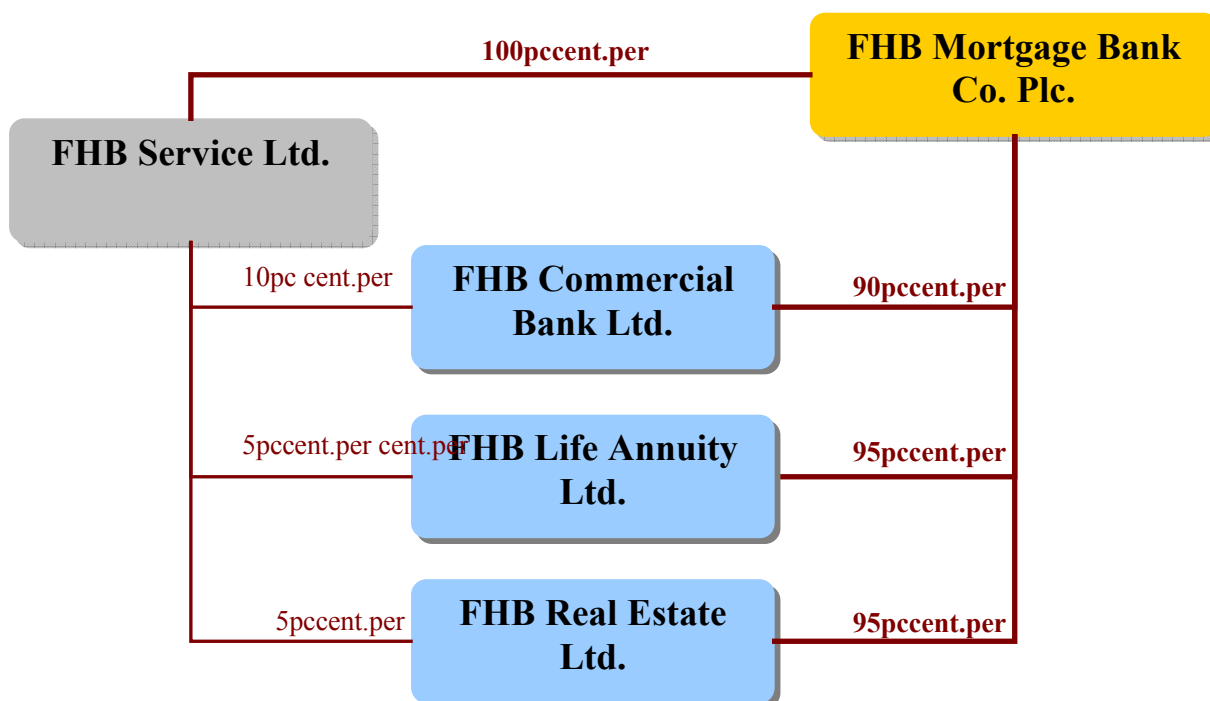
FHB Real Estate Ltd. was established to rationalise the internal operations within the Group. It specialises in real estate valuation and real estate management activities.

The operation of FHB Service Ltd. has been expanded to provide infrastructural, accounting, payroll and human resources, regulatory reporting and IT services for the Group.

The structure of the Group is presented in the table below:

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<sup>1</sup> TPI: Timely Payment Indicator is an assessment of the timeliness of payments of interest and principal on a covered bond following sponsor bank default. TPI determines the maximum rating that a covered bond programme can achieve.



### Activities of the Members of the Group

The following is a summary of the main activities of the members of the Group in the calendar years of 2007 and 2008.

#### *FHB Commercial Bank Ltd.*

Subsequent to the establishment of the Group, the front office activity was transferred to FHB Commercial Bank Ltd. (the **Commercial Bank**). Structurally, the agency activities and the agent networks are also carried out by the Commercial Bank.

Loans extended by the Commercial Bank in the financial year of 2008 amounted to almost HUF 59 billion (on a non consolidated basis) and are entirely consisting of mortgage loan products. The vast majority of the disbursements were made in CHF, while Euro and HUF based disbursements remained marginal representing an amount of HUF 0.3 billion in the financial year of 2008. The main products within the housing loans portfolio were the loan products disbursed with a purpose to financing the purchase of new and existing homes. Loan disbursements for small and medium sized enterprises (SME) started in the fourth financial quarter of 2008 and amounted to HUF 0.3 billion in the same financial year..

As of 31 December 2008, the number of retail accounts held with the Commercial Bank amounted to over 30,000. The total number of cards issued by the end of 2008 to the customers of the Commercial Bank exceeded 17,500.

#### *FHB Service Ltd.*

FHB Service Ltd.'s main activities include (i) advisory activities, (ii) investment activities in line with the strategic objectives of the Group and (iii) the provision of human resource services for the Issuer.

*FHB Real Estate Ltd.*

The core business of FHB Real Estate Ltd. is to provide collateral valuation, real estate investment and sales, real estate management and real estate valuation services to the members of the Group. In addition to the services rendered to members of the Group, FHB Real Estate Ltd. also offers valuation services to external clients.

In the first quarter of 2008, FHB Real Estate launched the real estate agency business. The major event in the second quarter of 2008 was the introduction of the real estate development business and the establishment of the operational framework of such business. Project management, engineering, expert services and consultancy services were launched in the third quarter of 2008, however, for the reason that actual investment projects have been suspended due to the current international financial crisis, such services are currently not operational.

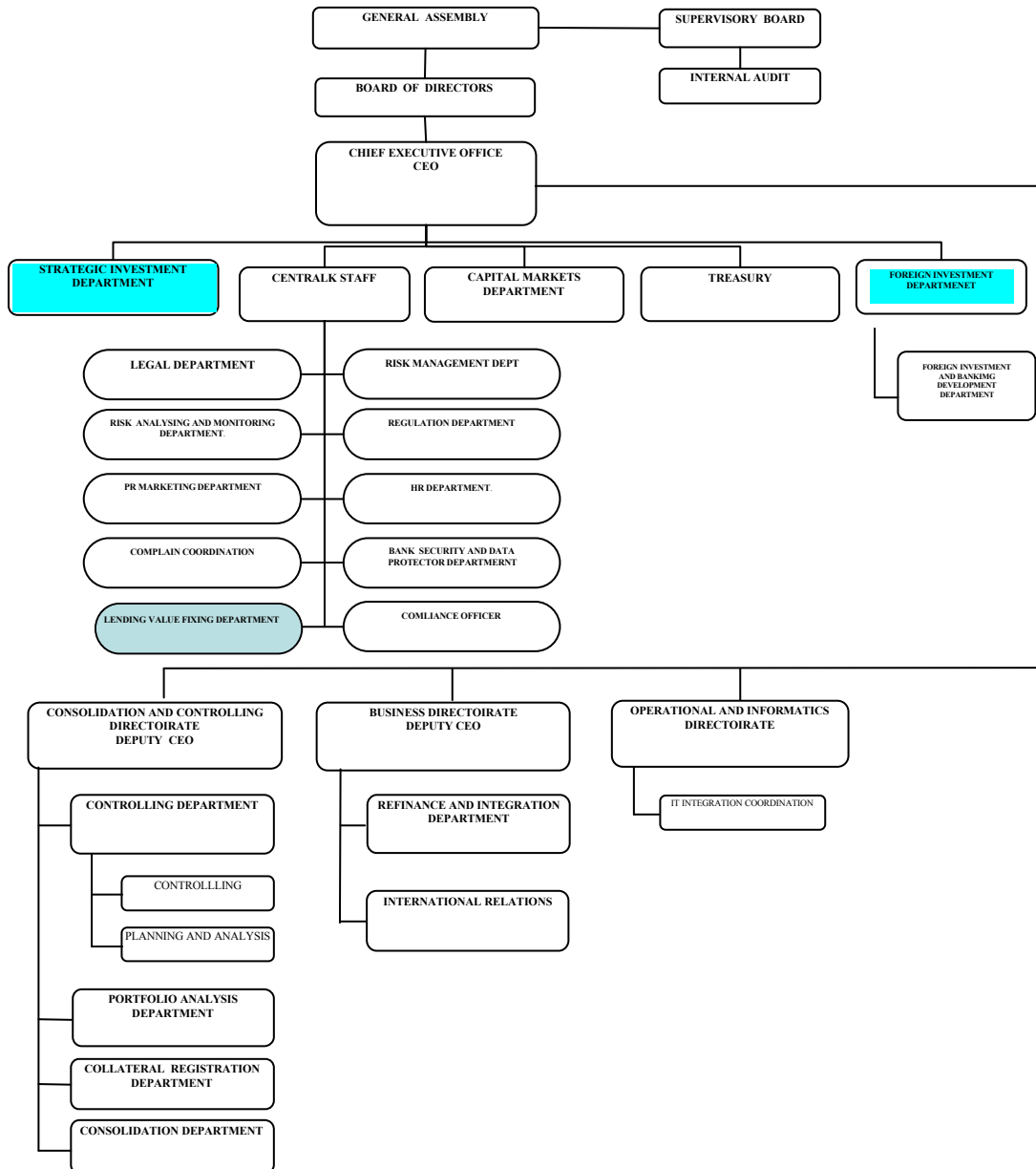
*FHB Life Annuity Ltd.*

FHB Annuity Ltd. offers two main products for elderly customers: (1) “FHB Annuity” is sold directly by FHB Annuity Ltd., and (2) “FHB Mortgage Annuity” is a reverse mortgage product, which means that the contracts are reported directly in the balance sheet of FHB Plc.

Since its establishment until 31 December 2008, FHB Annuity Ltd.’s customers entered into annuity contracts representing a total real estate value of HUF 6.0 billion “FHB Annuity” payments have amounted to HUF 1.7 billion in 2008 and HUF 2.2 billion since the launch of the FHB Annuity product.

## Organisational Structure (as at 15 September 2008)

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**

**Dr Zoltán Spéder:** Chairman, appointed in April 2008. Between 1995 and 2007 he was the vice-president of OTP Bank Co. Plc.

**Dr Christian Riener:** Appointed in April 2008. Since 2000 he worked at the Vienna Capital Partners (VCP) in different positions, he is a partner, member of the board and managing director

**Dr Márton Vági:** Appointed in July 2002. From 1 January, 2005 he is the deputy CEO. Since 2007, he is the Chief Executive Officer of National Development Agency.

**Dániel Gyuris:** Appointed in January 1999. He has been the CEO of FHB since January 1999.

**László Harmati:** Appointed in July 2002, he is a Member of the Board of Directors and deputy CEO of the Issuer, From 2000 until 2002 he was the head of the Regulation Policy Department at the Hungarian National Bank.

**Dr Károly Salamon:** Appointed in April 2006. Since 2006 he serves as the CEO and Chairman of the Board of Directors of Allianz Hungaria Ltd.

**Dr Gábor Borsányi:** Appointed in April 2006. Since 2006, he is the managing director of Allianz Bank.

**István Somkuti:** Appointed in April 2007. Since March 2006 he is the deputy CEO of the Hungarian Privatisation and State Holding Company (ÁPV Ltd).

#### **Members of the Supervisory Board**

**Róbert Somfai:** Appointed in July 2002. Chairman of the Supervisory Board of FHB. Since 1990 he has been a director at the Capital Financial Advisory Ltd.

**Ágnes Winkler** Appointed in July 2002. 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. Since 1999 she has been working at ÁPV Rt;

**Mónika Kék:** Appointed in May 2005. From 2004 until April 2009 she was the Deputy Head of the Financial Services Department of the Ministry of Finance. She is a member of the Supervisory Board of Hungarian Export-Import Bank Ltd.

**Dr Erik Landgraf:** Appointed in May 2006. From 1999 he has been the chief counsellor of FHB.

**Viet Nguyent Hoang:** Appointed in May 2006. He is an employee of the Risk Management Department of FHB.

#### **Management of FHB**

Members: Dániel Gyuris CEO, László Harmati deputy CEO of Business Directorate, Gyula Köblei, CFO and Tamás Foltányi deputy CEO of Operation and Informatics Directorate.

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**

To the best knowledge of the Issuer, there are no conflicts of interest between the duties of the members of the board of directors and the supervisory board to the Issuer, and their private interests and other duties.

**Material Contracts**

On 18 August 2008 the Issuer entered into a EUR 30,000,000 loan agreement evidenced by a Schuldschein, with a maturity of two years and one month. The mandated manager is Bayerische Landesbank. The purpose of the facility is general funding purposes. This facility is a subordinated obligation of the Issuer.

**Trend Information**

There are no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects during the current financial year.

## Major Shareholders

Ownership structure of FHB (as at 31 January 2009):

Shareholder	Number of shares	Ratio of ownership interest in the registered capital (per cent.)
<b>Series "A" ordinary shares</b>		
State*	960	0.00
Domestic institutional investors / companies	28,492,313	49.12
Foreign institutional investors / companies	27,184,214	46.87
Domestic private individuals	948,957	1.64
Foreign private individuals	2,000	0.00
FHB employees	101,055	0.17
FHB treasury shares	1,270,511	2.19
Total:	58,000,010	87.88
<b>Series "B" voting preference shares*</b>		
ÁPV Zrt. – Series "B"	2,715,260	4.11
Institutional investors – Series "B"	5,284,740	8.01
Total:	8,000,000	12.12
<b>Shares total:</b>		
	<b>66,000,010</b>	<b>100.00</b>

\*e.g.: ÁPV Zrt., social security, municipalities, companies in 100 per cent. state ownership,

**Entities holding more than 5 per cent. ownership interest in the registered capital of the Issuer** (at the 31 January 2009)

Name	Nationality <sup>1</sup>	Activity <sup>2</sup>	Quantity (pcs)	Share (per cent.) <sup>3</sup>	Voting rights (per cent.) <sup>3,4</sup>
Clearstream	K	L	6,218,004	9.42	9.61
Citibank Letétkezelő	B	L	7,737,775	11.72	11.95
VCP Finanz Holding Kft.	B	T	6,500,000	9.85	10.04
HSBC BANK PLC	K	I	6,270,635	9.50	9.69
A 64 Property Management	B	L	6,437,598	9.75	9.95
Silvesmist Estate SA	K	I	6,303,545	9.55	9.74
RZB Austria	K	L	7,249,790	10.98	11.20
Allianz Hungaria	B	I	6,480,282	9.82	10.01

<sup>1</sup> Resident (B), Non-resident (K)

<sup>2</sup> Custodian (L), State Budget (Á), International Development Institute (F), Institutional (I), Business Enterprise (T) Private (M), Employee, officer (D)

<sup>3</sup> Data rounded up to two decimals

<sup>4</sup> Voting right assuring participation in decision making in the General Shareholder's Meeting of the Issuer.

The Issuer's registered capital consists of 66,000,010 registered shares with a nominal value of HUF 100 each. Out of the total number of the registered shares the number of the Series "A" ordinary shares is 58,000,010, representing a total nominal value of HUF 5,800,001,000.



The number of the Series "B" registered voting preference shares is 8,000,000. 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 the 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 Issuer.
- (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 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 the Issuer.

Given the method of their production and the fact that the Issuer is a specialised credit 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 the Issuer 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 the Issuer 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.

The Issuer 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.

**For further information regarding possible changes in the ownership structure of the Issuer and the effect of such changes, upon their approval by the forthcoming shareholders' meeting, on the calculation of voting rights required to adopt a resolution at the shareholders' meeting to be held on 28 April 2009, please see "*Recent Developments*" below.**

## 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 2006, 31 December 2007, and 31 December 2008, respectively:

	Year ended 31 December 2006 (audited)	Year ended 31 December 2007 (audited)	Year ended 31 December 2008 (audited)
<i>(all amounts expressed to be in HUF thousands)</i>			
Interest income	55,850,838	60,539,912	73,662,853
Interest expense	(38,739,400)	(43,937,507)	(56,981,236)
Net interest income	17,111,438	16,602,405	16,681,617
Fee and commission income	1,561,478	1,869,944	2,467,129
Fee and commission expense	(925,365)	(239,008)	(459,422)
Profit from FX transactions	696,110	1,379,658	3,425,450
Change in fair value of trading derivatives	(195,633)	(427,604)	(55,102)
Gain less losses from securities	369,698	219,582	525,158
Other operating income	199,192	842,572	1,974,964
Other operating expense	(106,403)	(479,034)	(85,204)
Operating income	18,710,515	19,768,515	24,474,590
Losses/Provisions on loans and advances	(410,603)	(349,814)	(805,043)
General and administration cost	(8,456,512)	(12,128,636)	(13,612,110)
Profit before tax	9,843,400	7,290,065	10,057,437
Taxation expense	(2,203,830)	(2,158,135)	(3,374,658)
Profit (Loss) for the period	<b>7,639,570</b>	<b>5,131,930</b>	<b>6,682,779</b>

The Issuer's risk management strategy and accounting policy corresponding to IFRS had been reviewed in the second quarter of 2006 with due regard to the increased number and value of hedge transactions as well as to the accounting 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 Issuer'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 Issuer's FX and interest rate risk management.

In the framework of the review, based on international accounting standards, the Issuer has reclassified its derivative transactions, and recorded and reported them accordingly thereafter. Depending on the type of derivatives, different accounting methods have been applied:

- In the case of *cash flow hedges*, the effective part of the change in fair value appears in shareholder's equity. This is how the Issuer accounts its fixed-fixed-interest Hungarian forints/FX hedge transactions.
- In the case of *fair value hedges*, gains or losses from revaluation have been accounted in the profit and loss statement.
- The Issuer considers the derivatives that are not part of a hedge as *trading transactions*, thus the revaluation gains or losses appear directly in the profit and loss statement.

The amendment to IAS 39 allowed the Issuer to carry the liabilities connected to the mentioned hedges and trading transactions at fair value therefore, the Issuer has had some of its loans, bonds and mortgage bonds carried at fair value.

For information purposes, the Issuer has presented the fair value of its loans, bonds and mortgage bonds carried at amortised cost. The fair value of loans have been established on the basis of an internal model, while the internal evaluation model applied to date to bonds, mortgage bonds has been replaced by a more advanced valuation model in the framework of the improvement of the Issuer'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 2006, as at 31 December 2007 and as at 31 December 2008:

	As at 31 December 2006 (audited)	As at 31 December 2007 (audited)	As at 31 December 2008 (audited)
<i>(all amounts expressed to be in HUF thousands)</i>			
<b>Assets</b>			
Cash	37,128	487,887	554,755
Due from National Bank of Hungary	19,350,720	191,428	4,794,234
Placements with other banks	20,062,517	11,891,998	26,348,388
Investments available for sale	2,854,666	21,709,922	18,393,204
Refinancing of mortgage loans	269,190,180	294,719,978	286,612,512
Loans	211,681,817	265,102,077	327,134,134
Fair value of derivatives	2,540,266	6,288,603	3,954,087
Investments	0	644	673
Property for investment	0	1,507,287	5,980,066
Property and equipment	6,516,614	9,645,369	10,837,441
Deferred tax	691,846	344,381	0
Other assets	4,376,349	4,877,163	4,902,671
<b>Total Assets</b>	<b>537,302,104</b>	<b>616,766,737</b>	<b>689,512,165</b>
<b>Liabilities</b>			
Deposits from banks	44,748,830	31,345,977	14,232,707
Mortgage bond liabilities	455,657,457	493,879,144	506,021,752
Bonds	0	47,416,562	62,429,220
Fair value of derivatives	3,264,552	3,877,636	27,134,286
Deposit	655,657	3,599,089	33,766,465
Reserve for annuity payments	0	359,867	1,105,713
Other liabilities	3,488,420	4,393,299	3,413,794
<b>Total Liabilities</b>	<b>507,814,916</b>	<b>584,871,574</b>	<b>649,325,262</b>
<b>Subordinated debt</b>	<b>-</b>		
<b>Shareholders' Equity</b>			
Share capital	6,600,001	6,600,001	6,600,001
Treasury Shares	(11,988)	(18,871)	(1,154,718)
Share premium	1,209,562	1,709,014	1,709,014
General reserve	2,603,494	3,059,537	3,815,078
Cash flow hedge reserve	(1,883,929)	(1,970,360)	1,114,355
Stock option reserve	182,171	182,110	85,790
Changes in fair value of available for sale financial assets	(6,003)	(10,604)	(22,794)
Retained earnings/(deficit)	20,793,880	22,344,336	28,040,177
Total Shareholders' Equity	29,487,188	31,895,163	40,186,903
<b>Total Liabilities and Shareholders' Equity</b>	<b>537,302,104</b>	<b>616,766,737</b>	<b>689,512,165</b>

## 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 2006, 31 December 2007, and 31 December 2008, respectively:

	Year ended 31 December 2006 (audited)	Year ended 31 December 2007 (audited)	Year ended 31 December 2008 (audited)
<i>(all amounts expressed to be in HUF thousands)</i>			
Cash flows from operating activities			
Net profit	7,639,570	5,131,930	6,682,779
Non cash adjustments to net income (loss) to net cash from operating activities:			
Depreciation	642,489	1,251,868	1,839,734
Revaluation		(665,757)	(1,899,165)
Provision for losses	274,271	188,220	879,595
(Profit) / loss on sale of fixed assets	2,494	76,278	35,397
Share option reserve	182,171	(61)	(96,320)
Share granted		4,734	36,179
Cash flow hedge reserve			
Derivatives	(1,678,148)	(3,221,684)	28,675,881
Real value of annuity		359,867	745,847
Operating profit / (loss) before changes in operating assets	7,062,848	3,125,395	36,899,898
Refinancing of mortgage loans	(9,277,729)	(25,529,798)	8,107,466
Loans	(40,689,891)	(53,600,665)	(62,880,618)
Accrued interest receivable		0	
Other assets	(887,027)	(153,348)	318,873
Increase (decrease) in operating liabilities:			
Deposits		3,599,089	30,167,376
Due to other banks	1,438,771	10,093,148	(12,389,170)
Accrued interest payable		0	
Other liabilities	1,741,135	104,402	210,786
Net cash from operating activities	(40,611,893)	(62,361,777)	434,611
Cash flows from investing activities			
Increase in available for sale investments	560,421	(18,859,857)	3,304,529
Proceeds from sale of property and equipment	1,925	9,218	11,119
Purchase of property and equipment	(5,370,952)	(4,466,764)	(3,078,322)
Purchase of property for investment		(841,530)	(2,573,614)

Net cash used in investing activities	(4,808,606)	(24,158,933)	(2,336,289)
Cash flows from financing activities			
Capital increase			
Share premium received			
Repayment of subordinated debt			
(Purchase)/sale of own shares	(245,624)	(525,595)	(1,403,424)
Cash flow hedge reserve			
Long term bank loans	11,814,000	(23,496,000)	(4,724,100)
Dividends paid	(1,776,933)	(2,112,000)	0
Instalment from mortgage bonds	(30,228,476)	(25,558,430)	(111,120,215)
Proceeds from issue of mortgage bonds	64,776,505	111,333,684	138,275,481
Net cash from financing activities	44,339,472	59,641,659	21,027,742
Net increase / (decrease) in cash and cash equivalents	(1,081,027)	(26,879,052)	19,126,064
Cash and cash equivalents at beginning of year	40,531,391	39,450,364	12,571,313
Cash and cash equivalents at end of period	39,450,365	12,571,312	31,697,377
Cash and cash equivalents comprises of:			
Cash	37,128	487,887	554,755
Due from Central Bank	19,350,720	191,428	4,794,234
Placements with other banks, with a maturity of less than 90 days	20,062,517	11,891,998	26,348,388
Cash and cash equivalents at end of period	39,450,365	12,571,313	31,697,377
Supplemental information:			
Interest received	55,214,899	58,266,119	68,420,272
Interest paid	(38,484,880)	(41,850,315)	(53,978,745)
Tax paid	(2,409,054)	(1,298,678)	(1,236,146)

## 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 2006, 31 December 2007, and 31 December 2008:

*(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	Shareholder s' Equity
<b>31 December 2006</b>	<b>6,600,001</b>	<b>(11,988)</b>	<b>1,209,562</b>	<b>2,603,494</b>	<b>(1,883,929)</b>	<b>182,171</b>	<b>(6,003)</b>	<b>20,793,880</b>	<b>29,487,188</b>
Transfer to general reserve	-	-	-	456,043	-	-		(456,043)	0
Change of cash- flow hedge reserve	-	-	-	-	(86,431)	-			(86,431)
Owned share repurchased		(525,595)							(525,595)
Shares granted	-	518,712	499,452	-	-	(145,667)		(1,013,430)	(140,933)
Creation of stock option reserve	-	-	-	-	-	145,606			145,606
Dividends for 2006	-	-	-	-	-	-		(2,112,000)	(2,112,000)
Changes in fair value of available for sale financial assets							(4,601)		(4,601)
Profit for the period								5,131,930	5,131,930
<b>31 December 2007 (audited)</b>	<b>6,600,001</b>	<b>(18,871)</b>	<b>1,709,014</b>	<b>3,059,537</b>	<b>(1,970,360)</b>	<b>182,110</b>	<b>(10,604)</b>	<b>22,344,337</b>	<b>31,895,164</b>
Transfer to general reserve				755,541				(755,541)	0
Change of cash- flow hedge reserve					3,084,715				3,084,715
Owned share repurchased		(1,403,425)							(1,403,425)
Shares granted		267,577				(182,110)		(231,398)	145,931
Creation of stock option reserve						85,790			85,790
Dividends									
Changes in fair value of available for sale financial assets							(12,190)		(12,190)
Profit for the period								6,682,779	6,682,779

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<b>31 December 2008</b>	<b>6,600,001</b>	<b>(1,154,718)</b>	<b>1,709,014</b>	<b>3,815,078</b>	<b>1,114,355</b>	<b>85,790</b>	<b>(22,794)</b>	<b>28,040,177</b>	<b>40,186,903</b>
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The error of overstating deferred tax assets and the reserve for life annuity payments in 2007 was corrected, thus the deferred taxes receivable as at 31 December 2007 in the balance sheet decreased by HUF 182,472 thousand, the reserve for life annuity payments as at 31 December 2007 in the balance sheet decreased by HUF 25,308 thousand and accordingly, retained earnings decreased by HUF 157,163 thousand.

In 2004, the Issuer's General Meeting approved a two-year (2004-2005) free of charge share allocation scheme for the members of the Issuer's Board of Directors, and for its executive and senior managers. The first shares were allocated under this scheme in May 2005. In April 2005, the General Meeting extended the share allocation scheme for two more years. In 2008, the General Meeting accepted the renewal of the share allocation scheme for another two years (2008-2010).

Pursuant to IFRS 2 rules, the Issuer 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.



## BUSINESS OVERVIEW

The financial information in this Base Prospectus has been extracted from the audited consolidated annual financial statements of the Issuer in respect of the financial years ended 31 December 2006, 2007 and 2008.

The main activities of the Issuer, as a specialised financial institution and the parent company of the Group, varies from the home lending to the more elaborated structures of retail and corporate mortgage products.

### *Scope of Activities*

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

Other lending operations (TEÁOR No. 6492'08)

Within the category of lending operations, the Issuer is licensed to perform only the following activities from among the operations specified in subsection (2) of Paragraph 3 of the Mortgage Credit Institution Act, specifically:

- acceptance of repayable funds from the public, except for the collection of deposits;
- extension of money loans secured by mortgages established on real estate located in the territory of Hungary or any EEA state;
- 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. 6499'08)

- interest rate swap transactions and foreign exchange swap transactions to hedge interest rate risks of foreign exchange liabilities (funding sources), and other options and hedging transactions;

Other supplementary financial operations not listed elsewhere (TEÁOR No. 6619'08)

- mortgage brokerage;
- currency conversion.

### *Products, services*

The retail housing mortgage loans constitute a great majority of the outstanding loan portfolio. Within the housing loans, most of the loans have been extended for the financing of home purchases and home buildings. Since 2006, due to the decrease of the state subsidies on interest and the spread of the FX lending, the leading product among the newly granted loans within the Group is the general purpose mortgage loan (home equity loan).

Besides the Issuer's traditional home loan products (with or without state subsidised interest), the Issuer offers a wide range of retail mortgage products.

### **Products of the Issuer**

*Retail home lending products offered by the Issuer:*

- home building mortgage loan;
- home purchase mortgage loan;

- home extension mortgage loan;
- home modernisation mortgage loan;
- remodelling loan,
- “nest-building” loan;
- public sector loan;
- "Fundamenta favourite" loan;
- credit combined with life insurance;
- reverse mortgage for elderly people; and
- (agricultural) farm development credit.

### Products of the Commercial Bank:

*Retail home lending products offered by the Commercial Bank:*

- real estate purchase loan;
- general purpose mortgage loan;
- credit extended on savings in housing saving funds;
- "Fundamenta favourite" loan;
- unit-linked life insurance related mortgage loan;
- current account credit line (overdraft limit);
- credit cards.

*Corporate credit products offered by the Commercial Bank:*

- project and structural corporate real estate financing;
- VAT financing credit,
- micro project loan;
- general purpose mortgage loan;
- current account credit line (overdraft limit);
- loans with mortgage collateral;
- loans with deposit collateral.

### Breakdown of loans disbursed on a yearly basis (per cent.)

	31.12.2006	31.12.2007	31.12.2008
<b>Retail loans</b>	<b>92.8</b>	<b>85.8</b>	<b>89.3</b>
Home building	13.8	9.4	5.9
Home purchase	31.5	25.6	23.7
Extension	1.7	1.1	0.6
Renewal	3.7	1.2	0.2
General purpose mortgage loans	39.9	45.4	55.9
Reverse mortgage loan	0	0.9	1.6
Farm development loan	2.2	2.2	1.2
<b>Corporate loans</b>	<b>7.2</b>	<b>14.2</b>	<b>10.7</b>
Project loans	2.1	2.7	2.3
Commercial real estate financing	5.1	11.4	8.1
SME lending	0	0	0.3

#### *Retail liabilities products*

- Account packages
- Bankcards
- Long term deposit
- Mobile – phone payment services

#### *Corporate liabilities products*

- Account packages
- Bankcards

### **Distribution network**

Through the intermediation of the Commercial Bank, the Issuer uses four channels of distribution for its retail products. These channels are: (1) its own network, (2) its agency network, (3) its refinancing activity, and (4) its syndicated partners.

#### **Breakdown of loans disbursed through the different channels**

<b>Distribution channels (per cent.)</b>	<b>31.12.2006</b>	<b>31.12.2007</b>	<b>31.12.2008</b>
Network of agents	35.8	29.5	43.5
Syndicated partners	1.1	1.3	0.5
Direct FHB distribution network	19.4	18.9	31.8
Refinancing	43.7	50.3	24.2

In 2006, the ratio of the *refinanced loans* has diminished to 43.7 per cent. compared to 46.8 per cent. in 2005, nevertheless, this trend stopped in 2007. As of 31 December 2007, due to increased business activity of refinancing partners, the ratio of refinanced loans increased again to over 50 per cent. The increase of the relatively low interest FX lending and the parallel decrease in the demand for the state subsidised loans were the main driving forces behind the rising number of refinanced loans.

In 2008, the tendency has again changed. The ratio of the refinanced loans in 2008 has diminished again to 24.2 per cent., representing the lowest level since 2002.

#### ***Own network***

Pursuant to the development of the network, the Issuer serves its clients through 20 branch offices, which are in addition to the Budapest head office

The performance of the various channels of own lending compared to the same period of 2007 shows important changes. In 2007, the year-on-year lending through the Issuer's network increased by 55.2 per cent., or by HUF 9.2 billion. Such increase was primarily due to the expansion of the own network system. The contribution of the network of branches to the Issuer's own lending was 38.1 per cent. in 2007, significantly higher than in 2006 (29.3 per cent.)

The network of branch offices contributed 34.5 per cent. to the total disbursements to retail customers in 2008.

### ***Network of agents***

The Issuer's distribution strategy was reviewed and amended in 2004. As a result of the review, the Issuer's distribution system became largely based on sales through the network of independent agents rather than through the branch offices of the Issuer. As part of this strategy, a new agent co-ordination and organisation system was introduced, new agents were hired and the system of serving agents was also introduced. By 2008, the substantial expansion of the agent network resulted in an increased importance of this sales channel within the Issuer's own lending: sales through this channel increased from 23.7 per cent. in 2003 to 64.7 per cent. in 2008.

At the end of 2007, the Issuer had more than 3,700 individual agents while the Commercial Bank had about 2,600 agents.

### ***Refinancing***

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 independent 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 situated in the territory of Hungary, 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.

In the course of 2007, the Issuer had effective cooperation agreements with nine partners in the refinancing business (MKB Ltd., Kereskedelmi és Hitelbank Ltd. (Commercial and Credit Bank Ltd.), CIB Közép-Európai Nemzetközi Bank Ltd. (CIB Central European Bank Ltd.), Erste Bank Hungary Ltd., Raiffeisen Bank Ltd., ELLA (First Housing Loan Bank) and Hanwa Bank ).

### **Refinancing (Billion Hungarian forints IFRS)**

	<b>31.12.2006</b>	<b>31.12.2007</b>	<b>31.12.2008</b>
Refinanced portfolio	269,190	294,720	<b>286,613</b>
New loans/year	47,794	69,050	<b>23,245</b>

In 2006, refinancing amounted to HUF 47.8 billion . The contribution of FX-based refinancing has grown year by year within refinancing disbursements: in the year 2006 FX-based refinancing accounted for 79.3 per cent. of refinancing activity.

As at 31 December 2006, refinanced FX loans amounted to HUF 55.8 billion, contributing 20.8 per cent to the total refinanced loans portfolio.

As at 31 December 2007, the portfolio of refinanced loans showed a 9.5 per cent., or HUF 25.4 billion year-on-year increase, and amounted to HUF 294.7 billion. Newly refinanced mortgage loans amounted to HUF 69.0 billion in 2007.

In accordance with the co-operation agreement with the Commercial Bank, the Issuer has transacted refinancing deals within the Group on a continuous basis. The independent liens purchased in 2007 amounted to HUF 14.1 billion, which figure is not represented in the consolidated portfolio.

FX loan disbursements further increased in 2007 to reach 91.5 per cent. The bulk of new disbursements were predominantly denominated in Swiss francs, amounting to HUF 63.1 billion. In the same year, the contribution of refinancing to total disbursements was 50.3 per cent.

As at 31 December 2008, the portfolio of refinanced loans dropped by 2.8 per cent., or HUF 8.3 billion year-on-year and amounted to HUF 286.6 billion. In the Q4 of 2008, the value of the portfolio was HUF 7.7 billion, or 2.8 per cent.

#### **Contractual term of refinanced loans**

<b>Term</b>	<b>31.12.2006 (per cent.)</b>	<b>31.12.2007 (per cent.)</b>	<b>31.12.2008 (per cent.)</b>
0-5 yrs	0.04	0.10	0.01
5-10 yrs	3.3	2.66	2.14
10-15 yrs	16.32	12.93	10.85
15-20 yrs	23.92	20.62	18.97
20-25 yrs	53.36	59.26	62.34
Above 25 yrs	3.06	4.43	5.69

The terms of refinanced loans from purchase to maturity has tended to shift towards the longer term: while at the end of 2006 the share of loans with terms exceeding 15 years was 80.34 per cent., in 2007 such figure was over 84 per cent., while by the end of 2008 the portion of such long term loans was 87 per cent.

#### ***Syndicated (consortial) loans and partners***

Pursuant to the cooperation with the consortium partners, such partners may accept mortgage loan applications on the basis of the Issuer's rules of business, debtor-rating programme, its decision concerning credit collateral value and its own rules. The consortium partner and the Issuer equally make a decision on credit requests, and the amount of the credit to be disbursed. The consortium partner verifies whether the conditions required for credit disbursement are met, and performs the administration related to meeting the conditions. Valuing the property serving as collateral for the credit is the responsibility of Issuer also under this arrangement.

The consortium partner maintains contact with the client throughout the period of the credit and shares any eventual business losses with the Issuer. The Issuer is responsible for performing back-up operations, the risk analysis of the credit portfolio and, if needed, charging impairment. The mortgage right on the property serving as collateral for the credit and the registration of the restraint on alienation and encumbrance to secure it, are in favour of the Issuer.

The average risks split between the Issuer and its partners is 50-50 per cent. depending on the condition of the bilateral agreements.

### Syndicated loan portfolio (Billion Hungarian forints IFRS)

	31.12.2006	31.12.2007	31.12.2008
Syndicated portfolio	7,539	8,137	7,791
New loans/year	1,394	1,739	502

In 2007, the total amount of syndicated loans outstanding and not yet due was HUF 8.1 billion (compared to the HUF 7.53 billion as at 31 December 2006) out of which HUF 5.5 billion (as opposed to the HUF 4.2 billion in 2006 ) or 67,9 per cent. (versus 57.6 per cent. in 2006) was contributed by savings coops and financial enterprises as partners.

The total amount of syndicated disbursed or purchased HUF and FX loans was over HUF 1.7 billion in 2007.

As of 31 December 2007, the Issuer had valid framework agreements with 116 financial institutions based on joint risk sharing; four of them are commercial banks, 111 are savings cooperations and one is a financial enterprise. Among the syndicate partners, five savings cooperations and one financial enterprise can be considered as active in 2007.

In 2008, the outstanding portfolio of the syndicated loans decreased by HUF 346 billion.

#### *Own lending*

##### Breakdown of own loans disbursed through the different channels

Distribution channels (per cent.)	31. 12.2006	31. 12.2007	31.12.2008
Network of agents	63.3	59,4	64.7
Syndicated partners	2.3	2.5	0.8
Direct FHB distribution network	34.4	38.1	34.5
Total	<b>100.0</b>	100.0	100.0

#### *Own loan disbursements in 2006*

Over the year 2006, the Issuer's own loan disbursement to clients amounted to a total of HUF 61.6 billion. The breakdown of loans extended by the Issuer changed: the leading products were the general purpose mortgage loans, contributing 40 per cent. to the own loans portfolio. The disbursement in currencies other than Hungarian forints continued to grow, amounted to 62.0 per cent. by 31 December 2006.

In 2006, project financing loans contributed 2.1 per cent. to own loan disbursements, the total amount of project finance loans disbursed reached HUF 1.3 billion. Within own loans disbursed for project finance purposes, almost half of the disbursements, HUF 672.1 million, were denominated in foreign currency.

As of 31 December 2006, the actual portfolio amounted to HUF 4.8 billion. Financing of housing development projects contributed 37.4 per cent. within the total own loan disbursements, and 62.6 per cent. within the total own loan disbursements was obtained for commercial development projects.

The commercial real estate financing product was launched in June 2006 and by the end of the year disbursements in this category exceeded HUF 3.1 billion. Similarly to all of the other products of the Issuer disbursements are predominantly FX-based, representing 93.7 per cent. within the real estate financing products.

Land development loans were first disbursed in February 2006. Disbursements under this scheme amounted to HUF 1.4 billion, or more than 2 per cent. within the own lending portfolio.

#### *Own loan disbursements in 2007*

In 2007, the gross amount of mortgage loans sold by the Issuer grew by HUF 52.5 billion, or 24.7 per cent. Disbursements amounted to HUF 79.4 billion in 2007, with a 29.0 per cent. year-on-year increase over the HUF 61.6 billion achieved in 2006. In keeping with the general trend in the mortgage loans market, FX-based loans gained ground, and contributed 81.3 per cent. to disbursements in 2007 compared to the 62.0 per cent. in 2006.

General purpose mortgage loans continued to be the most popular product of the Issuer, with a 45.4 per cent. contribution to total disbursements in 2007. Virtually the entire amount of 36.1 billion forints was disbursed in foreign currency; the contribution of HUF-denominated general purpose mortgage loans was only 0.7 per cent within the relevant loan portfolio. At the same time, the demand for housing loans seemed to be declining: as opposed to the 50.6 per cent. ratio in 2006, the contribution of this product was only 37.3 per cent. within the own loans disbursed in 2007 and the amount disbursed was HUF 29.6 billion as opposed to the amount of HUF 31.2 billion in 2006.

Corporate lending significantly surpassed the previous year's achievement: in 2007, the amount of corporate loans disbursed was 151.8 per cent. higher than the 2006 figure.

Land development loans disbursement achieved HUF 1.8 billion in 2007. This product contributed 2.2 per cent. to the total amount of the Group's 2007 disbursements. The land development portfolio amounted to HUF 3.0 billion at the end of 2007.

Launched in 2007, mortgage loans to senior/elderly citizens increased dynamically and achieved HUF 0.7 billion in the same year.

As of 31 December 2007, FHB Annuity signed annuity contracts amounting to 1.5 billion forints with approximately the same total real estate value. Contracts amounting to 727 million forints were concluded in the fourth quarter. This indicates the gradual ascent of this new product and an increasing interest on the part of customers. Since the foundation of FHB Annuity aggregate annuity disbursements including lump sum payments have amounted to 484 million forints.

#### *Own loan disbursements in 2008*

At the end of December 2008, the portfolio of own lending was HUF 326.6 billion. The year-on-year increase was 23.4 per cent.

In 2008, the Group's loan disbursements amounted to HUF 72.7 billion. In line with the general trend in the mortgage loans market, foreign exchange-denominated lending continues to dominate the lending business contributing 87.9 per cent. to the own loan disbursements in 2008.

General-purpose mortgage loans continued to be the Group's most popular loan product. Disbursements in this category contributed 55.6 per cent. to overall disbursements. In 2008, disbursements of this category amounted to HUF 40.6 billion forints almost denominated entirely in foreign currency. The year-on-year increase in general purpose mortgage loan disbursements in 2008 was 13.3 per cent higher than the HUF 36.1 billion achieved in 2007. As at 31 December, the portfolio amounted to HUF 112.2 billion.

There has been a steady decline in the demand for housing loans and the contribution of this product to total disbursements has been decreasing. The contribution of loans granted for the purchase of existing homes to overall housing loans was 61.1 per cent. in the course of 2008. Loans granted for the purchase of new homes amounted to HUF 3.4 billion in 2008 and the total value of home building loans was HUF 4.3 billion. The value of the housing loans portfolio was HUF 186.9 billion as at 31 December 2008.

The value of the corporate loans' portfolio increased from the HUF 13.5 billion as at 31 December 2007 to HUF 20.3 billion as at 31 December 2008.

SME lending was launched in the fourth quarter of 2008. The new products achieved HUF 0.3 billion disbursements in.

The value of the land development loans portfolio was HUF 3.0 billion as at 31 December 2007, which the Issuer managed to increase by 23.0 per cent. to HUF 3.7 billion by the end of 2008.

Launched in 2007, the reverse mortgage loan product extended to senior citizens achieved HUF 0.7 billion by the end of 2007 and it grew to HUF 1.84 billion by the end of 2008.

#### **Breakdown of loans disbursed (IFRS) (HUF million)**

<b>Type of loan</b>	<b>31.12.2006</b>	<b>31.12.2007</b>	<b>31.12.2008</b>
Home Building Mortgage Loans	45,142	48,550	49,295
Home Purchase Mortgage Loans	104,222	112,725	120,716
Home Extension Mortgage Loans	12,576	14,099	11,185
Home Modernisation Mortgage Loans	4,386	2,584	4,721
Employees' Loans	1,202	1,654	2,243
General purpose mortgage loans	39,214	68,354	113,064
Reverse Mortgage Loans	0	699	1,847
Farm Development Credit	1,330	2,981	3,712
Project Financing	1,798	2,463	2,926
Structural Corporate Real Estate Financing	3,009	10,901	17,093
Current Account credit line	0	91	83
SME lending	0	0	247
<b>Total</b>	<b>211,682</b>	<b>265,102</b>	<b>327,134</b>
Out of which retail	206,875	251,646	306,854
Other	4,807	13,456	20,280

The reverse mortgage launched in 2007 has increased by 2.6 times between December 2007 and 2008. In 2008, the general purpose mortgage loans have increased dynamically.



### Contractual term of FHB's own loans

Term	31.12.2006 (per cent.)	31.12.2007 (per cent.)	31.12.2008 (per cent.)
0-5 yrs	1.16	1.691	2.04
5-10 yrs	2.61	2.14	2.18
10-15 yrs	17.89	15.00	13.83
15-20 yrs	30.99	27.89	25.72
20-25 yrs	42.56	43.5	41.83
Above 25 yrs	4.80	9.78	14.39

In 2008, the ratio of loans with maturity over 15 years increased to 81,94 per cent. compared to the ratio of 81.17 per cent. in 2007. The ratio of the loans with maturity over 25 years has showed a continuous growth of 14.39 per cent. in 2008.

### Distribution of own loan portfolio by interest period

Interest period	31.12.2006 (per cent.)	31.12.2007 (per cent.)	31.12.2008 (per cent.)
Within year	27.27	37.84	56.6
1 year	10.86	14.72	6.12
5 years	58.10	44.05	34.47
10 years	3.76	3.36	2.85

In 2006, the ratio of loans with interest periods of under one year grew dynamically compared to the previous years, reflecting the increase in CHF-denominated loans with floating interest. This trend continued in 2007: the ratio of loans having an interest period of up to one year increased to 37.84 per cent. by the end of 2007, and to 56.6 per cent by December 2008.

### Prepayments

The number of prepayments in 2007 amounted to HUF 38.2 billion (compared to the HUF 26,7 billion in 2006), The prepayments in 2008 amounted to a total of HUF 57.1 billion.

### The quality of the assets

The quality of the portfolio continued to be good in 2007 and 2008. The portfolio value determined according to IFRS amounted to HUF 650.2 billion as at 31 December 2008 as opposed to the HUF 608.3 billion as at 30 September 2008 and the HUF 624.5 billion as at 31 December 2007.

In 2007, the receivables from customers amounted to HUF 286.0 billion (45.8 per cent. of the total portfolio). Out of these items, HUF 16.5 billion were classified in the categories watch to bad. The refinancing loans portfolio amounted to HUF 294.4 billion (47.1 per cent. of the total portfolio) classified as problem-free.

The portion of the non-performing loan portfolio constituting the basis for impairment reported according to IFRS rules was 1.46 per cent. as of 31 December 2008, 1.37 per cent. as of 30 September 2008, and 1.03 per cent. as of 31 December 2007. Impairment to the entire portfolio was 0.29 per cent. as of 31 December 2008, 0.23 per cent. as of 30 September 2008, and 0.16 per cent. as of 31 December 2007.

At the end of 2008, the impairment portfolio was amounted to HUF 1.8 billion, exceeding the outstanding amount as of 31 December 2007 with HUF 1.029 billion. The portfolio and its breakdown is shown in the table below.

*Data in thousand HUF*

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Impairment as at 1st January</b>	<b>999,701</b>	<b>819,296</b>
Charge for the period	4,566,372	2,496,845
FX change of impairment	221,067	(744)
Release during the period	(3,938,878)	(2,317,307)
<b>Impairment at period end</b>	<b>1,848,262</b>	<b>999,701</b>
<b>Net effect of charge and release</b>	<b>628,462</b>	<b>181,149</b>
Loans written off	0	0
Loss on loans sold	115,202	142,367
Loss on terminated loans	31,072	18,363
Charge/(release) for commitments	30,308	7,935
<b>Losses on loan and advances</b>	<b>805,043</b>	<b>814</b>

### **Collateral valuation**

In 2006, the number of valuations increased along with the expansion of own lending, the number of collaterals valued was 36 thousand. The number of valuations in conjunction with the Issuer's own lending was 20.8 thousand and the number of valuations made for partner banks was 15.3 thousand.

The Issuer generated HUF 601.1 million income from valuation fees 2006.

In 2007, the number of valuations was 37.5 thousand, somewhat above the 36 thousand valuations made in 2006. The number of valuations in conjunction with the Issuer's own lending was 18.8 thousand and the number of valuations for the lending made by partner banks was 15.4 thousand. In 2007, FHB Real Estate Ltd. also participated in the valuations and has also extended its services to non-Group member companies. The number of valuations on a Group level was over three thousand, out of which almost 1.5 thousand were done for Group members.

In 2007, the Group recorded HUF 55.3 million net expenditure as the balance of income from valuation fees and valuation fees paid to external service providers. In 2008, net expenditure amounted to HUF 43.9 million.

### **Funding, Liquidity and Capital Resources**

The main source of funding for the Issuer, as a specialised credit institution, derives from the issue of mortgage bonds and senior unsecured bonds to the domestic and the international capital markets in the framework of its updated domestic and euro mortgage securities programmes. The majority of securities issued by the Issuer are listed on the Budapest Stock Exchange as well as on the Luxembourg Stock Exchange. Besides the public offerings, it has also made private placements, nevertheless, their number and

volume is relatively small compared to the public offerings. On a Group level, there are many other types of funding possibilities such as liability-side products developed for retail and SME sector. The total deposits portfolio reached the HUF 33.7 billion by the end of 2008.

The investors' confidence in mortgage bonds of the Issuer is demonstrated by the fact that in 2008, the Issuer was awarded the Budapest Stock Exchange's title of "loan securities issuer of the year" for the sixth time.

In 2006, the Issuer generated long-term funds amounting to HUF 79.5 billion (at issue price), partly in the form of new mortgage bond issues, and partly by drawing a Schuldschein loan of EUR 50 million.

As at the end of December 2007, the Issuer had 47 series in circulation with a total nominal value of HUF 475,6 billion. (Series denominated in euro are calculated at the National Bank of Hungary's foreign exchange rate as at the issue date). The number of fixed interest mortgage bonds series in circulation was 33; their total nominal value was HUF 321 billion. The number of floating interest rate mortgage bonds series in circulation was 14; their total nominal value was HUF 154, billion.

Fund raising transactions concluded in 2007 resulted in an income of HUF 62.7 billion deriving from HUF and EUR denominated mortgage bonds and HUF 47.0 billion from HUF denominated senior unsecured bonds issued, HUF 22.5 billion from repayments and HUF 3.5 billion from repurchases.

In the first quarter of 2008, long term funding was exclusively done through mortgage bond issues in the domestic market. The Issuer achieved HUF 31.1 billion gross income, almost HUF five billion more than in the same period of the preceding year.

Long term funding included issues of mortgage bonds and unsecured bonds in the domestic market in the second quarter of 2008. The gross amount of new funds issued by the Mortgage Bank was HUF 33.8 billion (from which HUF 13.7 billion were unsecured bonds).

The Mortgage Bank has generated HUF 75.6 billion of gross funds in Q3 of 2008 (including HUF 1.7 billion unsecured bond issues). Funds raised in Q1-Q3 of 2008 amounted to nearly HUF 140 billion.

In the fourth quarter of 2008 funding was ensured primarily through mortgage bond issues in the domestic market. The Issuer has raised HUF 16.8 billion gross funds in Q4 of 2008.,

In the course of 2008 funding was done primarily through mortgage bond and senior unsecured bond issues and amounted to approximately HUF 157 billion.

The two-year Schuldschein loan of EUR 50 million nominal value taken out by the Bank in August of 2006 expired on 4 August 2008. The Bank renewed the facility for another two years as at 6 August 2008 in the value of EUR 30 million.

### **Mortgage bond coverage**

In accordance with the provisions of the Mortgage Credit Institutions Act and in keeping with its Rules on Collateral Registration, the Issuer monitors the collateral situation and the compliance with the requirement of proportionality. In order to ensure appropriate mortgage bond coverage, the Issuer verifies, before the extension of a loan, whether the conditions for ordinary collateral are met. For further information on the over-collateralisation commitment of the Issuer, please see the section "*History of the Issuer*" above.

The value of assets involved as collateral as at 31 December 2006 was as follows:

<b>Outstanding mortgage bonds in circulation</b>	<b>Hungarian forints</b>
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face value:	439,159,150,000
interest:	159,229,645,279
total:	598,388,795,279

<b>Ordinary collateral value</b>	<b>Hungarian forints</b>
principal:	472,778,776,320
interest:	323,331,782,216
total:	796,110,558,536

<b>Value of assets involved as supplementary collateral</b>	<b>Hungarian forints</b>
principal:	0
interest:	0
total:	0

The value of assets involved as collateral as at 31 December 2007 was as follows:

<b>Outstanding mortgage bonds in circulation</b>	<b>Hungarian forints</b>
face value:	477,775,220,000
interest:	148,066,206,604
total:	625,841,426,604

<b>Ordinary collateral value</b>	<b>Hungarian forints</b>
principal:	527,905,585,983
interest:	383,248,544,995
total:	911,154,130,978

<b>Value of assets involved as supplementary collateral</b>	<b>Hungarian forints</b>
principal:	0
interest:	0
total:	0

The value of assets involved as collateral as at 31 December 2008 was as follows:

<b>Outstanding mortgage bonds in circulation</b>	<b>Hungarian forints</b>
face value:	506,077,505,000
interest:	138,978,392,238
total:	645,055,897,238

<b>Ordinary collateral value</b>	<b>Hungarian forints</b>
principal:	568,197,432,729
interest:	405,369,532,235
total:	973,566,964,964

<b>Value of assets involved as supplementary collateral</b>	<b>Hungarian forints</b>
Separated, blocked account with NBH	3,536,700,000

Bonds issued by NBH	10,000,000,000
Government securities	1,695,840,000
Total	15,232,540,000

Assets involved as supplementary collateral are loans with a state guarantee.

As at 31 December 2006, the net value of ordinary collateral was HUF 796.1 billion.

### The position of the Issuer in the Hungarian Banking System/Market

#### Mortgage bond market shares

		31.12.2006 (per cent.)	31.12.2007 (per cent.)	31.12.2008 (per cent.)
<b>OTPMB</b>		65.87	64.01	69.60
<b>FHB</b>		29.38	31.50	26.85
<b>HVBJ</b>		4.75	4.49	3.55

Source: the Issuer's flash reports

The aggregate mortgage bond portfolio of the three Hungarian mortgage banks amounted to HUF 1,515.3 billion as at 31 December 2007 and HUF 1,884.9 at the end of 2008. The Issuer's share of the mortgage bond market was 26.85 per cent. at the end of the fourth quarter of 2008, slightly lower than the previous years' figure.

#### Competition in mortgage banking

#### Major indicators of the Hungarian mortgage banks (in billions of Hungarian forints)

Item	Unicredit Mortgage Bank			FHB			OTP Mortgage Bank		
	2006	2007	Q2 2008	2006	2007	Q2 2008	2006	2007	Q2 2008
Balance sheet total	102.72	112.42	109.65	537.30	616.95	630.73	1,078.72	1,244.01	1,406.53
Subscribed capital	3.00	3.00	3.00	6.60	6.60	6.60	20.00	27.00	27.00
Interests received	9.74	10.23	5.29	55.85	60.53	34.49	122.39	146.16	82.23
Interests paid	6.67	7.15	3.69	38.74	43.93	26.26	79.50	104.49	62.80
Net interest	3.07	3.08	1.59	17.11	16.60	8.23	42.89	41.66	19.42
Earnings before taxes	2.19	2.27	1.17	9.84	6.54	4.954	4.55	6.54	5.156

Source: the Issuer's flash reports for the years ended 31 December 2006 and 2007 and for the six months ended 31 June 2008.

OTP Mortgage Bank Ltd.'s 2006 earnings before taxes was more than two times the 2005 figure, and its balance sheet total increased by 12 per cent.; we can see the same trend in case of the Issuer.

On the liabilities side, in the last quarter of 2008, OTP Mortgage Bank Ltd. had a 69.6 per cent., the Issuer had a 26.85 per cent. and Unicredit Bank Ltd. (predecessor of HVBJ) had a 3.55 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 HUF 187.98 billion in 2006, HUF 216.92 billion in 2007 and HUF 122 billion in the first half of 2008. Their combined earnings before taxes reached HUF 16.6 billion in the end of 2006, HUF 15.4 billion in the end of 2007 and was close to HUF 11,3 billion in June 2008.

## RECENT DEVELOPMENTS

### Steps on the increase of the share capital

Pursuant to its extraordinary disclosure obligation based on Sections 55 and 201/C. of Act CXX of 2007 on the Capital Markets, the Issuer recently informed the public in an extraordinary announcement published on 31 March 2009<sup>1</sup>, of the following developments:

Pursuant to the possibility as provided by Act CIV of 2008 on Enhancing the Stability of the Financial Intermediary System (the **Financial Stabilisation Act**), the Issuer and the Hungarian State have concluded an agreement on the increase of the share capital by the Hungarian State of the Issuer.

Pursuant to the agreement, the Hungarian State will receive *a voting preference share with special veto right* as set out in the Financial Stabilisation Act<sup>2</sup>, together with 46,153,999 *special dividend preference shares* each issued with a nominal value of HUF 100 and an issue value of HUF 650 by the Issuer representing an overall rounded up amount of HUF 30,000,100,000. From this overall amount, HUF 4,615.4 million would be in the form of share capital increase and HUF 25,384.7 million will be placed into capital reserve.

Pursuant to the terms of the agreement, the special dividend preference shares would entitle their owner, subsequent to their issue, to priority dividend rights from the after-tax profit of the Issuer in the relevant financial year in an amount of 10.5 per cent. calculated on the issue price of such shares.

The voting preference share with special veto right would provide the Hungarian State with a veto right in respect of the decisions of the shareholders' meeting on the payment of dividends, on decisions subject to the approval by the simple majority of the holders of the existing voting preference shares and decisions subject to the approval by the 75 per cent. majority of the shareholders meeting.

The above-mentioned shares will represent, upon their issue, an ownership stake of 41.15 per cent. in the Issuer, which, together with the present ownership of 4.11 per cent. of the Hungarian State, will result in an overall ownership stake of 43.57 per cent. by the Hungarian State. Since there are no voting rights attached to the dividend preference shares, the increase of the share capital will not result in a dilution of the existing voting rights. The shares to be newly issued cannot be transformed into ordinary shares and will be withdrawn after the end of the fifth year of their issue.

The above-described increase of the share capital is subject to the approval of the shareholders' meeting of the Issuer, which will convene on 28 April 2009. On such basis, upon the approval of the shareholders meeting of the increase of the share capital, the management believes that such increase may be effected in May 2009.

### Loan from the Hungarian State

In an extraordinary announcement dated 25 March 2009 the Issuer announced that it has concluded a loan agreement with the Hungarian State, in the framework of which the Issuer will receive an EUR 400 million loan from the Hungarian State through the Government Debt Management Agency Private Company Limited by Shares (*in Hungarian: Állami Adósságkezelő Központ ZRt.*), the funding of which will be obtained by the Hungarian State from the credit facility provided by the International Monetary Fund (the **IMF**) to Hungary.

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<sup>1</sup> Source: website of the Issuer; [www.fhb.hu](http://www.fhb.hu)

<sup>2</sup> For further information on the rights attaching to the voting preference share with special veto right and details of the provisions of the Financial Stabilisation Act, please see part II. of subsection "Legislative and Financial Measures Intended to Stabilise the Markets as a Response to the Global Financial Crisis" of the Section entitled "*The Hungarian Banking System and Capital Market*".

The loan will be provided in two instalments and will be provided on market pricing terms (EURIBOR+spread, or EUREPO+spread+spread adjustment rate, whichever will be the higher). On the date of this Base Prospectus, the first instalment has already been disbursed.

The loan shall be repaid by the Issuer in eight equal instalments with the first repayment date in November 2010 and the final repayment date falling on 11 November 2012.

The loan will be primarily used by the Issuer for the financing of new residential loans and loans for small and medium-sized enterprises, as well as the maintenance of the level of its own consolidated loan portfolio.

### **Moody's rating actions**

For recent developments, please see "*Description of the Issuer.*"

### **Agreement on the future cooperation between the Issuer and the Allianz Group**

On 8 April 2009, the Issuer, Allianz Hungaria Insurance Co. Ltd. and Allianz Bank Ltd. signed a letter of intent in respect of their future strategic cooperation.

The co-operation of FHB Group, Allianz Hungaria Insurance Co. Ltd. and Allianz Bank Ltd. will also cover in the future banking and insurance services, as well as distribution of joint products.

In the framework of such co-operation, the Issuer provides refinancing and short-term funding interbank credit facilities, as well as a credit facility (credit line) with a maturity over one year to Allianz Bank Ltd., which will be used by Allianz Bank Ltd. to offer euro - denominated mortgage loans to its retail clients.

In the framework of the insurance co-operation, members of Allianz Group in Hungary undertook to cooperate with the Issuer in respect of extending the average maturity of their FHB mortgage bonds and FHB senior bond portfolio by one year, furthermore, they intend to increase the volume of such securities in their investment portfolio.

The Issuer and its subsidiary, FHB Commercial Bank Ltd., in their capacity as contracted agents of the insurance company, will sell the products of Allianz Hungaria Insurance Co. Ltd. in the framework of their own lending activity and through FHB's branch network.

As a part of the strategic cooperation, Allianz Hungaria Insurance Co. Ltd. declared, that it is committed to keep its significant shareholder position in the Issuer over a medium term period.

As a part of the strategic cooperation, Allianz Hungaria Insurance Co. Ltd. declared, that the Company wants to keep its significant shareholder position in the Issuer in the medium term.



## **RISK MANAGEMENT**

### ***Management of lending risk***

#### *(a) Customer rating*

Before undertaking risks and obligations, the Issuer 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 Issuer 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.

The adequacy of the scoring system applied to qualify the costumers and the partners is permanently monitored and the Issuer.

#### *(b) Rating of lendings*

The Issuer is qualifying its lendings in accordance with its internal rules and the relevant legal regulations. To determine the losses and the provisions the Issuer implements the previous empirical experiences relating to the performance rates and the expected losses deriving from the non performing loans ; taking into consideration the delays in repayment of principal and interest, the changes in the economic situation of the clients, other risk factors, and the changes of value of collaterals pledged in security. The loss on the lendings shall be calculated at such level, on which it generates enough coverage for expected losses both uniquely recognised and portfolio level.

#### *(c) Rating of collaterals*

The Issuer accepts as collateral for the loans a mortgage or independent lien established on the property. The Issuer 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 Issuer's approval is required for the sale or encumbrance of the property. The Issuer is entitled to decides on the sale of the real estate regarded as collateral based on its own discretion or may agree with its cutomers on the joint sale of the real estate.

The Issuer considers the realistic valuation of real estate to be of key importance in maintaining the security of mortgage lending on an ongoing basis. The Issuer 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 Issuer signed agreements with 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 Issuer's expert staff.

(d) *Coverage Supervisor*

In addition to performing its duties prescribed by the relevant statutory provisions, the Issuer's Coverage Supervisor (PricewaterhouseCoopers Kft.) reviews the work of the Issuer's valuation experts in cases identified by the Coverage 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 HFSA.

***Interest rate risk management***

*The Issuer's interest risk derives 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 the Issuer signed ISDA agreements with several reputable international financial institutions.

***Liquidity risk management***

Maintaining liquidity is a fundamental element of banking. The Issuer maintains liquidity through the matching of maturity of receivables and obligations. At the same time, in order to maintain profitability, the Issuer applies maturity transformation controlled by limits while maintaining solvency at all times.

The Issuer 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 Issuer finances liquidity shortages, by the time they arise, from funds generated by the issuance of new mortgage bond series or other capital market instruments. 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 Issuer sets conditions for, and charges a fee on, prepayments. Imposing charges alleviates the risk of prepayment. The Issuer analyses the prepayment ratio on portfolio basis using stress tests, it estimates the volume of the prepayment and takes it into consideration in the course of planning the new issuances.

### ***Exchange rate risk management***

In accordance with its business policy, the Issuer 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 Issuer 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.

### ***Operational risk management***

The Issuer manages the losses deriving from operational risk by regulating of the operational procedures and process, and by controlling the execution.

### ***Capital requirement calculation under Basel II***

The Issuer received permission from the HFSA for the application of the Internal Rating Based approach for the calculation of the capital requirement related to credit risk from 1 July 2008, and was further licensed to determine the capital need for operational risk under the Standard Method from January 1, 2008.

## **The collateral system of covered mortgage bonds**

### ***Coverage requirement***

Article 14 of the Act XXX of 1997 on Mortgage Credit Institutions and Mortgage Bonds (the “**Mortgage Credit Institution Act**”) provides for the coverage of 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 the 100 per cent. of the nominal value of the outstanding mortgage bonds in circulation, and
- (b) the combined value of the aggregate interest due on the principal receivables considered as collateral minus the loss in value must exceed the 100 per cent. of the nominal value of interest due on the outstanding mortgage bonds in circulation.

Article 14(4) of the Mortgage Credit Institution Act provides 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 the Issuer 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 Issuer 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, the Issuer 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 the Issuer were approved by the Board of Directors (resolution number is 39/2007 (25<sup>th</sup> May 2007), and by the HFSA by its Resolution No. E-I-648/2007, (27<sup>th</sup> June 2007) and have been reviewed by the Coverage Supervisor. The statements of the coverage register of the Issuer 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 applicable to the liquidation of credit institutions must be applied with the following differences:

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

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

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

- (c) ordinary and supplementary coverage registered in the coverage registry on the date of the commencement of the liquidation; and
- (d) 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 exist at the time of the commencement of the liquidation and that did not account for coverage but satisfy the requirements set out by the Mortgage Credit Institution Act for supplementary coverage.

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

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

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

- Coverage 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 not exceeding 60 per cent. of the lending value. If the mortgaged real estate is residential real estate, the mortgage loan may only be taken into account as coverage for up to 70 per cent. of the lending value. Where there is no sufficient ordinary coverage, supplementary coverage must be used on a mandatory basis, which may only comprise (a) money held on a separate

blocked account at the National Bank of Hungary; (b) securities issued by the European Central Bank or the national banks of the member states of the European Union, the European Economic Area (EEA) and the Organisation for Economic Co-operation and Development (OECD); (c) securities issued by the member states or full members of the European Union, and the EEA and the OECD; (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank, European Bank for Reconstruction and Development, provided that the issuer is the obligor; (e) securities issued with first demand suretyship ("állami készfizető kezesség") 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.

- Strictly defined coverage proportions

From among the coverage items, the supplementary coverage may only account for a maximum of 20 per cent. from the third year of the operation of the bank, while 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 covered mortgage bond issues are supervised and controlled by the independent Coverage Supervisor appointed to provide for the protection of the 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 the Coverage Administrator appointed by the court, separately from the liquidation proceeding. All (i) the ordinary and (ii) the supplementary coverage of the mortgage credit institution and (iii) other receivables deriving from mortgage loans disbursed already referred to above, together with (iv) the portion of other liquid assets already referred to above 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 Administrator 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.

Further, pursuant to Clause 20/A (7) of the Mortgage Credit Institution Act, in the event the assets in the cover pool do not grant the satisfaction in full of the claims of the holders of the mortgage bonds vis-a-vis the Issuer, the Coverage Administrator or any holder of the mortgage bonds may, within two years from the start of the liquidation procedure, request the court to order the extension of the cover pool with assets of the Issuer originally not belonging to the cover pool.

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

- Special supervision by the HFSA

Pursuant to the Mortgage Credit Institution Act the HFSA 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 HFSA and to the public periodically in each quarter, regarding the aggregate amount of the nominal value and interest outstanding but not due of the outstanding mortgage bonds in circulation and the value of the available coverage items certified by the coverage supervisor.

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

- Specialised credit institution

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

### **Mortgage Securities created in an EEA Member State other than Hungary**

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

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

- (a) section 6(3) of the Capital Markets Act, stating that publicly issued securities must be in a dematerialised and registered form, shall not be applicable;
- (b) a mortgage bond need not specify the name of its owner. In such case, a mortgage bond qualifies as a registered security provided that the name of the owner of the account on which it is registered can be clearly identified; and
- (c) section 12 (2) of the Mortgage Credit Institution Act, stating that coupons shall be issued in respect of interest and principal instalment payments to be made in connection with mortgage bonds created in a physical form, shall not be applicable.

## CERTAIN INFORMATION RELATING TO THE MORTGAGE SECURITIES

Mortgage bonds ("*jelzáloglevél*") are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetéről 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 (independent) liens may also serve as ordinary coverage, in addition, the value of derivative transactions may account for the ordinary coverage, provided that certain conditions are met and the balance of the receivables and liabilities arising from the derivative transactions on a present value basis shall not exceed the 12% of the present value of the liabilities arising from the outstanding mortgage bonds in circulation. Further, the capital and the interest claims as well as management fees arising from the so called "connected loan" (part of the credit facility which is granted by a state guarantee and not encumbered by the mortgage) may also serve as ordinary coverage.

The supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) money held on a separate blocked account at the National Bank of Hungary; (b) securities issued by the 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 2 per cent. of the total amount of supplementary coverage.

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

In the event of the transformation or liquidation of a mortgage credit institution it may transfer wholly or partially to another mortgage credit institution its obligations arising from mortgage bonds and those derivative transactions which are included in the coverage. This transfer is subject to the permission of the



HFSA, but does not require the prior consent of the holders of the mortgage bonds or the contracting parties in the relevant derivative transactions. The obligations arising from mortgage bonds may only be transferred together with the related ordinary and supplementary coverage. The mortgage credit institution accepting the portfolio must offer new mortgage bonds on the original terms and conditions.

Effective from 1 January 2007, the following rules apply to the liquidation of mortgage credit institutions. Upon ordering the liquidation, the competent court also appoints a coverage administrator. In the event of the liquidation of a mortgage credit institution, claims arising from mortgage bonds and derivative transactions included in the coverage will not become due and payable at the time of the commencement of the liquidation. The coverage administrator acts outside the ordinary liquidation proceedings. It satisfies the claims arising from the mortgage bonds using the designated assets of the mortgage credit institution when the interest and principal payments become due. The contracting parties in those derivative transactions which are registered in the coverage are in the same position as the holders of the mortgage bonds with respect to their claims from such derivative transactions. The rules on satisfying claims arising from the mortgage bonds must be applied duly to satisfying claims arising from such derivative transactions.

Following the settlement of the fees of the coverage administrator, the fees relating to the administration and enforcement of certain claims in relation to the liquidation and the costs relating to the activities of the coverage supervisor, the following (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 administrator may act with respect to the Restricted Assets on behalf of the mortgage credit institution. The coverage administrator may initiate the transfer of obligations arising from mortgage bonds and the repurchase of outstanding mortgage bonds. The coverage administrator may also conclude derivative transactions for hedging purposes and it must enforce claims serving as coverage on behalf of the mortgage credit institution. From the commencement of the liquidation, the rate of the ordinary coverage in the total coverage may be less than 80 per cent. If the coverage administrator sells Restricted Assets, the purchase price may only be used for satisfying obligations owed to the holders of the mortgage bonds. The coverage administrator must take all actions in order to maintain the continuous solvency of the mortgage credit institution (i.e. that all claims are fully satisfied from the Restricted Assets at the time when they fall due). If continuous solvency is not fully achievable, then the coverage administrator must satisfy the claims, irrespective of their maturity, pro rata to their principal claims.

Within two years following the commencement of the liquidation the coverage administrator or any holder of mortgage bonds may request the court to supplement the Restricted Assets from the liquidation assets of the

mortgage credit institution. This is subject to proving that the Restricted Assets are not sufficient to cover the claims of the holders of the mortgage bonds. After two years this right is forfeited. Only the coverage administrator may act with respect to the assets so supplemented.

The court may only resolve on the conclusion of the liquidation proceedings and the dissolution of the mortgage credit institution, if (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 from the mortgage bonds and such derivative transactions) may commence enforcement proceedings with respect to the Restricted Assets. Payment to these persons in the enforcement proceedings is subsequent to the payment of the statutory enforcement costs.

## HUNGARIAN HOUSING AND MORTGAGE MARKET

### *Government Housing Policy and Subsidised Loan Scheme*

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.) 244/2005 (X.31.), 165/2008 (VI.27.) and 244/2008 (X.8). (the **Decree**). Through the interest subsidy scheme, the Hungarian government aims to cap mortgage loan interest rates at a level acceptable to the majority of potential customers. The aim of the interest subsidy regime is to encourage mortgage banks to grant mortgage loans with a rate of interest which does not exceed a certain cap as set out in the Decree. As at the date of this Base Prospectus, in addition to the maximum interest rate of the mortgage loan, 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 has to be a "subsidised person", or a foreign citizen having received permission from the competent minister to receive direct subsidy from the state. For the purposes of this criterion, subsidised persons are: Hungarian citizens or citizens of EU Member States that fall within the definition of persons set out in Council Regulation 1612/68/EC on the free movement of citizens within the EU, who are employed in Hungary and have a valid residency permit.

The criteria set out in the Decree in this paragraph (c) will be amended as of 1 February 2008, as follows: at least one of the debtors has to be a subsidised person. For the purpose of this criterion, subsidised persons are: (i) Hungarian citizens, or persons who are vested by law with the rights of Hungarian citizens, (ii) persons with the right of free movement and residence within which category, those persons (A) who exercise their right of free movement and residence in the territory of Hungary at least for a three months period in accordance with the provisions of the Act I of 2007 on the Admission and Residence of Persons with the Right of Free Movement and Residence, and further (B) who are registered residents in accordance with the provisions of the Act LXVI of 1992 on the Registration of the Citizens' Personal Data and Address, (iii) third-country nationals, provided that they are immigrants or have permanent resident status in accordance with the terms of the Act II of 2007 on the Admission and Right of Residence of Third-Country Nationals (hereinafter referred to as the Third-Country Nationals Act) and (iv) stateless persons or persons who are considered to be stateless persons pursuant to the Third-Country Nationals Act;

- (a) 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; and
- (b) family members in a household can only obtain one state subsidised loan with a favourable interest rate. If one of the family members has already obtained a state subsidised loan, this "old" loan has to be repaid within 360 days after the execution of a new subsidised loan agreement. In the case of a family failing to repay the old loan amount within 360 days, the interest rate payable on the outstanding loan amount will cease to be favourable and will become market based.

The method of interest subsidy calculation is fixed for a mortgage bond of any maturity.

An interest subsidy can be obtained for the whole period of maturity of a mortgage bond, which in terms of the life of the underlying loan agreement, is a maximum period of 20 years. Interest subsidy payments are made according to an agreement between a mortgage bank and the Ministry for Housing Policy with consent of the Ministry of Finance, and monies are transferred from the Hungarian State Treasury (*Magyar Államkincstár*).

Interest subsidies granted on the basis of the Decree can be obtained only in respect of those mortgage bonds which serve to finance (i) mortgage loans granted by the mortgage bank (ii) the repurchase price of the individual (independent) liens, or (iii) the purchase of receivables granted by other banks or insurance companies as set out by the Decree.

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

Within the current regime, there are two types of subsidies. Liability side subsidies are claimed by mortgage banks on eligible mortgage bonds which are covered by residential mortgage loans meeting the criteria set out in the Decree. Asset side subsidies are also claimed by mortgage banks. However, the latter type of subsidy does not require the bank to finance the subsidised loans through mortgage bonds.

There are no guarantees that the Government will maintain the interest subsidy scheme in its current form. Should the interest subsidy scheme be terminated, mortgage banks will preserve their right to continued interest subsidies on mortgage bonds that relate to loans extended before the termination.

Accordingly, termination need not have any effect on existing mortgage loan borrowers.

#### *The State of the Hungarian Interest Subsidy Scheme within the EU*

Hungary is a member of the European Union, and is subject to European law and legislation including the state aid rules of the Treaty of Rome establishing the European Communities, as amended from time to time (the **Treaty**). The Subsidy Supervision Office of the Hungarian Ministry of Finance reviewed the Decree on state subsidies for housing purposes, and in September 2003, in relation to this investigation, stated that the Decree in effect did not contain elements that would be incompatible with either Hungarian or European Union legal provisions governing state subsidies.

While the need for and, if any, the scope of amendments to the current Hungarian regime are unclear, potential amendments may occur. The Decree has been amended a number of times with regard to the amount of the interest subsidy and its method of calculation. Mortgage bonds issued at a particular point in time benefit from the interest subsidy regime applicable at the time that the underlying mortgage loans were granted. Changes to the interest subsidy regime do not have a retroactive effect.

## **HOUSING POLICY BETWEEN 2000 AND 2008**

### *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 customer 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 five year loan maturity. Please note that Government Decree No 1041/2000 is no longer in effect.

### ***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.)(the “Decree”)). Based on the general interest subsidy the three mortgage banks offered 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 were 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. Today, the Decree is no longer in effect.

### ***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 became 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 Act XXX. of 1997 on mortgage credit institutions and mortgage bonds (the **Mortgage Credit Institutions 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 the Issuer 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 Issuer'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"***

According to a rule effective from February 2005, which has undergone many amendments since 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 meant 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 instalments 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 are eligible to obtain state surety for their housing loans if they satisfied some other requirements set out in the above decree.

#### ***2006-2008: growing number of restrictions***

Based on the latest amendment of the Decree, in case of the instalment payments already started by 1 January of 2007, the tax relief granted by the Decree relates to a five year period.

Decrees No. 391 of 2007 (23 December) and No. 165 of 2008 (27 June) of the Government amended Decree No. 12 of 2001 (31 January) on "Housing Support of the Government on state housing subsidy". These amendments were mainly in relation to the so-called advance loans (*in Hungarian: "megelőlegező kölcsön"*). In addition, Decree No. 244 of 2008 of the Government on the Amendment of Decree No. 12 of 2001 (31 January) on "Housing Support of the Government on state housing subsidy", mainly amends subsidy programs related to properties owned by municipalities and the church.

#### **The Hungarian real estate market between 2006 and 2008**

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.

#### ***Office buildings***

By the end of Q4 2007, new office building stock exceeded 1,800,000 million m<sup>2</sup>. Developments initially began in the centre of the city, before expanding outside of the downtown area along the motorway routes out of the city. A record number of new buildings offering some 200,000 m<sup>2</sup> of new capacity were completed in 2007. In 2008, 30 new office buildings were completed, adding a further 260,000 m<sup>2</sup>. In 2009, 180,00 m<sup>2</sup> are expected to be completed. The latest office developments are mainly being constructed along the route of Budapest's fourth metro line.

#### ***Industrial and warehouse properties***

The Hungarian industrial property market continues to remain focused on the Budapest and agglomeration area of Budapest (30 km radius around central Budapest). By the end of 2007, the total amount of modern industrial space amounted to 1,03 million m<sup>2</sup>, of which 100,000 m<sup>2</sup> was newly developed. In 2008, the industrial property portfolio reached the 1.4 milion m<sup>2</sup>.

#### ***Commercial properties***

As at 31 December 2008, Hungary had around 2.3 million m<sup>2</sup> of shopping mall capacity, of which 1.5 million m<sup>2</sup> was located in and around Budapest. The largest shopping and entertaining malls are Arena Plaza, Árkád, West End City Center, Duna Pláza, Campona, Mammut I/II and Polus Center. Major European hypermarket chains, such as Cora, Auchan, Tesco, and Interspar have already established a strong presence on the Hungarian market. Monthly rental per m<sup>2</sup> depends on the location of the mall and the size of the outlet. New developments are largely focused on shopping malls in the countryside, outlet chains around Budapest and innovation parks throughout the country.

## ***Housing market between 2006 and 2008***

### **Residential building permits**

				<b>2006</b>	<b>2007</b>	<b>Q3 2008</b>
<b>Total</b>				<b>44,826</b>	<b>44,276</b>	<b>31,063</b>

Source: Central Statistics Office of the Republic of Hungary

### **Occupancy permits**

				<b>2006</b>	<b>2007</b>	<b>Q3 2008</b>
<b>Total</b>				<b>33,864</b>	<b>36,159</b>	<b>20,365</b>

Source: Central Statistics Office of the Republic of Hungary

### **Residential loan portfolio**

				<b>2006</b>	<b>2007</b>	<b>Q3 2008</b>
<b>Total</b>				<b>2,700</b>	<b>3,138</b>	<b>3,504</b>

Source: Central Statistics Office of the Republic of Hungary

By the end of the year 2007 mortgage loans increased by 26.7per cent., or by HUF 918.5 billion, as opposed to 29.0per cent. in 2006, and amounted to an aggregate HUF 4,364.0 billion according to data published by the National Bank of Hungary. As at 31 December 2007, retail home lending increased by HUF 438.3 billion to reach HUF 3,137.8 billion . . Excluding the impact of changes in exchange rates, retail mortgage loans (calculated at the 31 December 2007 rate) increased by HUF 962.1 billion, or 28.3 per cent. in 2007.

FX-denominated disbursements of retail mortgage loans in 2007 were HUF 1,033.4 billion higher than in the previous year. Conversely, HUF-denominated loans decreased by HUF 114.9 billion in 2007. At year-end of 2007, the aggregate amount of FX-denominated mortgage loans amounted to HUF 2,644.7 billion, which represented 60.6 per cent. of the aggregate mortgage loans portfolio. The aggregate amount of HUF-denominated loans were at HUF 1,719.7 billion in 2007.

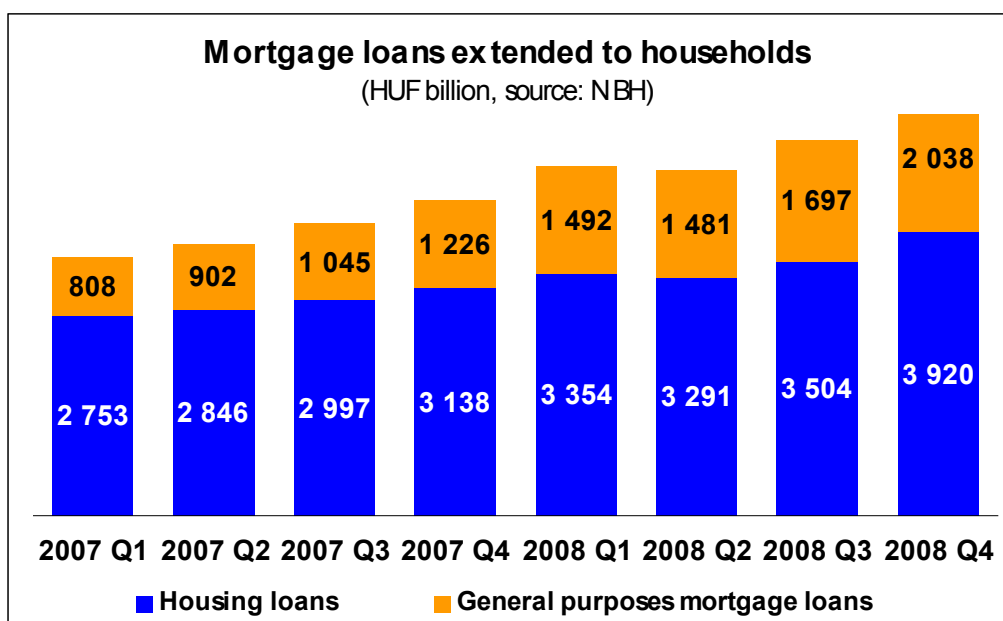
### **The latest events in 2008**

The international financial turmoil had the greatest impact on the loan portfolio of the banking sector. Due to the problems of the money and capital markets, banks have tightened their lending standards and discontinued and ceased some of their loan product schemes (CHF denominated lending was phased out at a large number of banks, which resulted in a significant decline in mortgage lending in the fourth quarter of 2008.

According to statistics published by the National Bank of Hungary, the aggregate retail loans portfolio of Hungarian banks amounted to HUF 5,958.6 billion as at 31 December 2008, achieving a HUF 757.6 billion (or 14.6 per cent.) increase over the previous quarter's figure with the year-on-year figure being HUF 1,594.6 billion forints (or 36.5per cent.) higher as a result of exchange rate movements.

Annual growth in the aggregate mortgage loan portfolio continues to be generated by the increasing number of foreign currency-denominated loans: the annual growth of the foreign currency loan portfolio was HUF 1,735.6 billion (as compared to the HUF 2,644.3 billion fas at 31 December 2007). At the end of Q4 of 2008, the total amount of retail mortgage loans was HUF 4,380 billion, 73.5per cent. of which was disbursed in foreign currencies as opposed to HUF denominated loans which amounted to HUF 1,578.7.





Year-on-year growth in housing loans extended to households was 24.9 per cent. or HUF 782 billion in 2008.

The increase in foreign currency-based loans in 2008 was greatly contributed by the growing demand for general-purpose mortgage loans.

In 2008, the average monthly growth of the general purpose mortgage loans was HUF 67.7 billion. Of the total amount of general-purpose loans 98.4 per cent. was disbursed in foreign currency; the total portfolio value was HUF 2,006 billion as at 31 December 2008.

## THE HUNGARIAN BANKING SYSTEM AND CAPITAL MARKET

### Development of the Hungarian banking system

#### *The history of the Hungarian banking system*

The first phase of the modernisation of the banking sector commenced in the early 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 bank account deposits. Pursuant to an amendment of the Credit Institutions Act, the guarantee provided by the Országos Betétbiztosítási Alap on bank account deposits has been extended from HUF 6 million to a total amount of HUF 13 million per person since 15 October 2008. 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. The provision of investment services is regulated by Act CXXXVIII of 2007 on Investment Firms and Commodity Service Providers and on the rules of their activity (the **Investment Firms Act**). From the three types of credit institutions (banks, specialised credit institutions or co-operative credit institutions), only banks are entitled to provide the full range of banking and investment services. Since 1998, foreign lending institutions have been permitted, in line with the EU standards, to establish branch offices in Hungary pursuant to European procedures. The new regulation on sovereign risks establishing the mandatory level of reserves to be generated was also introduced in 1998.

In the mid-1990s a drastic reduction began in the number of lending institutions. In the first half of 2000, the co-operative sector was primarily affected by this trend. Despite the mergers observed in the domestic banking sector in recent years, the concentration of the banking market diminished somewhat – while in 1989 the asset portfolio of the five largest lending institutions accounted for 80 per cent. of the market, in late 2000 the corresponding figure was only 50 per cent. In the period between 2002 and 2004, in the wake of some of the latest mergers (BACA-Hypobank, KHB-ABN-Amro, Erste-Postabank) concentration has increased again. With its 12 per cent. market share, the new K&H has become the second, and HVB Bank Hungary the fifth, largest 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 Republic of Hungary became a member of the European Union on 1 May 2004. Membership of the EU has resulted in Hungary adopting and implementing various EU directives. Changes have therefore been made to Hungarian banking law and accounting rules in order to harmonise them with EU directives. EU accession has greatly enhanced the international integration of the domestic money market and has strengthened the close relationship between credit institutions and their foreign parent banks, the majority of Hungarian banks being owned by foreign credit institutions.

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.

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

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

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

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

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

### ***Supervision and regulation of the banking system***

The legal framework of the present banking system is based on the Credit Institutions Act, the Investment Firm Act and the Act CXX of 2001 on the capital markets (the **Capital Markets Act**) and decrees of the Finance Minister and the Government. Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

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

### ***National Bank of Hungary***

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

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

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

### ***The European Central Bank and the National Bank of Hungary***

There is no official date indicated by the Hungarian government for Hungary to become a member of the Economic and Monetary Union (EMU). The financial experts' analysis is controversial in respect of Hungary's financial situation. Prior to joining the EMU, the Republic of Hungary will accede to the ERM-II system.

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

### ***Hungarian Financial Supervisory Authority***

Since 1 April 2000, supervision of the banking sector has been carried out by the HFSA, which is the successor of the Hungarian Banking and Capital Market Supervisory Authority, the State Insurance Supervisory Authority and the State Pension Fund Supervisory Authority. The HFSA's establishment, status and activity are regulated by Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority (the **HFSA Act**).

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

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

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

As of 1 January 2006, the supervisory role of the HFSA has been harmonised with the relevant EU Directives with regard to insider dealing and market manipulation.

The HFSA is entitled to launch site audits, to take actions in the interest of ensuring compliance with the Credit Institution Act, and to initiate proceedings. The HFSA and the NBH co-operate in performing the supervisory tasks. The licensing by the HFSA of certain financial services is requires a preliminary opinion or approval from the NBH.

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

## **Banking Regulations**

### *The Features of Regulation*

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

### *Capital Adequacy*

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

According to the Credit Institutions Act and in line with European regulations, banks must have a registered capital of at least HUF 2 billion (circa EUR 6.67 million). Mortgage credit institutions are specialised credit institutions with a registered capital requirement of at least HUF 3 billion (circa EUR 10 million), which must be in the form of cash contribution. The amount of a credit institution's equity may not be less than the minimum amount of its registered capital. If the amount of a credit institution's equity falls below the registered capital, the HFSA will give the credit institution a maximum of 18 months to bring its equity to the required level.

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

### *Trading Book*

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

As of 1 December 2007, a new regulation entered into force with respect to the Trading Book with the implementation of the MiFID. The new rules on the Trading Book set out in the Investment Firm Act contain further criteria for the credit institutions to elaborate new by-laws on the maintenance of the Trading Book and set out the principles that will have to be followed in the by-laws. Among the new rules, credit institutions are required to have an information, registration and valuation system ensuring the up-to-date

assessment of the risks and capital requirements involved in trading. The currently operating credit institutions were permitted to remain compliant with the "old regulations" as before the implementation of the MiFID until 31 December 2008.

### *General Reserves*

A credit institution must create general reserves from its after-tax profits to offset the losses incurred during its activities prior to paying dividends and shares. A credit institution must place 10 per cent. of its annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves if the amount of the credit institution's solvency capital is at least equal to 150 per cent. of the minimal amount of solvency capital as set out by paragraph 76 sections (1) and (2) of the Credit Institutions Act and if it has no negative profit reserves.)

### *Solvency Capital and Risk Provisions*

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

The Capital Adequacy Directive is in line with the framework agreement of the Basel Committee on Banking Supervision on the international convergence of capital measurement and capital requirements (the **Basel II**). The minimal amount of the solvency capital of credit institutions is determined by the Credit Institutions Act. The solvency capital must be enough to secure, at all times, the risk of a bank's business activity to provide continuous solvency and to assure that the bank's obligations are fulfilled.

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

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

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

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

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

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

## **Regulation on Transactions**

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

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

### **I. Financial Measures**

In response to the global financial crisis, the NBH has accepted the following main measures to enhance the stability of the Hungarian banking and financial system:

#### *Close link exemption*

Pursuant to the amendment of the General Terms of Business of the NBH in respect of HUF and FX markets transactions, the NBH will accept as collateral mortgage bonds issued by any entity having a close link with the respective counterparty of the NBH in a respective transaction. On that basis, the NBH has harmonised its approach as to the close link rule, with the European Central Bank (the **ECB**).

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

On 16 October 2008, the NBH and the ECB jointly announced their agreement which aims to support the NBH's instruments of providing euro liquidity. Pursuant to such agreement on repurchase transactions, the ECB provides a credit facility of up to EUR 5 billion to the NBH in order to provide additional support to the NBH's operations.<sup>3</sup>

Based on the above-mentioned agreement, the NBH has introduced an overnight FX swap facility providing euro liquidity from 16 October 2008 until withdrawal. Under such overnight FX-swap facility, the counterparties of the NBH may place, on each business day, forint amounts at a pre-determined price with the NBH, in exchange for euro amounts, in the framework of FX swap transactions. The facility is available for those domestic credit institutions falling under the Hungarian National Bank's reserve requirement that are members of VIBER or BKR.<sup>4</sup>

#### *Measures adopted to enhance liquidity of the government debt securities market*

The NBH and the "Primary Dealers" of government securities reached an agreement on 16 October 2008 about their respective roles in the market for forint-denominated government securities. In the framework of

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<sup>3</sup> source: [www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=ecb\\_mnb\\_repo\\_press\\_release\\_magyarfinal](http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=ecb_mnb_repo_press_release_magyarfinal)

<sup>4</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)



the agreement, the Primary Dealers undertook to provide continuous market making of the government securities in order to reduce yield volatility and improve market transparency.<sup>5</sup>

#### *The introduction of two credit facility tenders by the NBH*

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

The first type of tender provides a two-week, collateralised credit facility, with a fixed interest rate of 25 basis points above the NBH base rate and is available once a week for all credit institutions meeting the technical requirements set out by the NBH. The second type of tender is a six-month, floating rate collateralised credit facility for counterparty credit institutions. This six month credit facility may also be available once a week.

#### *Enhanced Deposit Insurance*

Pursuant to the amendment of the Credit Institutions Act adopted on 13 October 2008 by the Hungarian Parliament, the guarantee provided by the National Deposit Insurance Fund (*in Hungarian: "Országos Betétbiztosítási Alap"*) (the **Fund**) on the so called "individual" (*in Hungarian: "névre szóló"*) bank account deposits (as defined in the Credit Institutions Act) placed with the domestic credit institutions (being members of the Fund) was extended to an aggregate amount of thirteen million forints (HUF 13 million) per person.

#### *Stand-By Arrangement with the IMF*

On 28 October 2008, the European Union (EU) and the World Bank announced a joint financing package for Hungary subject to agreement of the International Monetary Fund's (IMF) Management and Executive Board. The package totalling USD 25.1 billion under a 17 month Stand-By Arrangement is aimed at bolstering Hungary's economy. The package was approved on 6 November 2008 to avert a deepening of financial market pressures. The approval makes SDR 4.2 billion (about EUR 4.9 billion or USD 6.3 billion) immediately available and the remainder will be available in five instalments subject to quarterly reviews. The Stand-By Arrangement entails exceptional access to IMF resources, amounting to 1,015 percent of Hungary's quota, and was approved under the Fund's fast-track Emergency Financing Mechanism procedures.<sup>6</sup>

#### *Extension of the eligible counterparties*

From 2 February 2009, the NBH extended the range of counterparties eligible to participate in its six-month, floating rate collateralised credit facility tenders to include identical range of counterparties for this tender as for the O/N collateralised credit facility. Eligible counterparties shall be direct members of VIBER or BKR and shall also have a securities account maintained with KELER ("Central Clearing House and Depository").<sup>7</sup>

#### *NBH Arrangement with the SNB for the Provision of CHF Liquidity*

Starting on 2 February 2009, the NBH joined the weekly EUR/CHF foreign exchange swap operations conducted under the umbrella of the (Swiss National Bank) SNB. Under this arrangement, the SNB will

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

<sup>6</sup> Source: official website of IMF: [<http://www.imf.org/external/np/sec/pr/2008/pr08275.htm>]

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

provide the NBH with Swiss francs against Euro. The EUR/CHF swap operations will be conducted with a term of 7 days at a fixed price. This measure will be in place at least until the end of April 2009.<sup>8</sup>

This facility, like the ones existing between the SNB, the European Central Bank and Narodowy Bank Polski, will allow the NBH to provide Swiss franc funding to banks in its jurisdiction in the form of foreign exchange swaps.<sup>9</sup>

### *NBH Measures in Support of the Banking System*

As from 5 February 2009, the NBH introduced a new longer-term instrument designed to assist Hungarian banks to access euro liquidity with six-month maturity in an amount up to EUR 5 billion. In addition, as from 20 February 2009, the NBH also accepts as collateral municipality bonds.<sup>10</sup>

### *Enhanced Liquidity through EUR/HUF Swap Tenders*

From 2 March 2009, the NBH introduced six-month EUR/HUF swap tenders providing euro liquidity. Those domestic credit institutions will be eligible to participate in the weekly FX swap tenders that fulfil the specific participation criteria published by the NHB. One of the conditions precedent set by the NBH is that participating commercial banks shall undertake to maintain their domestic corporate loans portfolio throughout 2009 at least at end-2008 levels.<sup>11</sup>

A further criteria is that counterparty credit institutions shall undertake (i) to draw in foreign funds (liabilities) in the course of 2009 with a maturity over one year up the amount of the euro credit facility to be obtained by them and/or (ii) decrease the aggregate value of their foreign receivables calculated net of changes in foreign exchange rate.<sup>12</sup>

## **II. Legislative Measures**

### **Financial Stabilisation Act<sup>13</sup>**

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

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

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

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

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

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

<sup>10</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

<sup>11</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>)

<sup>12</sup> Source: official website of the Hungarian National Bank (<http://www.mnb.hu>; [http://www.mnb.hu/engine.aspx?page=fx-swap\\_tenderek\\_gyorstenderek](http://www.mnb.hu/engine.aspx?page=fx-swap_tenderek_gyorstenderek))

<sup>13</sup> Source: Act 104 of 2008 on Enforcement of the Stability of the Financial Intermediation System

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

- a **recapitalisation measure** to inject new capital in the credit institution (i) upon the request or with the approval of the credit institution or (ii) *ex officio*, without the approval of the credit institution. If the recapitalisation is carried out at the request or with the approval of the credit institution, then it shall (i) issue "dividend preference share(s)" and "voting preference share(s) with special veto right" (for details see description below) to the State and (ii) conclude an agreement with the State which must provide for, amongst other things, the nominal value and the issue value of the two classes of preferential shares, the right of the State to delegate board members, limitations on the remuneration of the senior officers of the credit institution until the ownership of the State ceases, the detailed rules on exercising the put option and the call option by the respective parties (as indicated below). The dividend preference share(s): (i) entitle the State to a priority payment of dividend *vis-à-vis* other shareholders and in higher amount, (ii) are non-voting, (iii) the credit institution has a call option on these shares and (iv) the State has a put option towards the credit institution on these shares after 5 years from their issue date. The State cannot otherwise sell these shares. The voting preference share with special veto right may only be issued to the State. It does not entitle the holder to dividend, but it provides for a veto right at the shareholders' meeting with respect to resolutions: (i) on the payment of dividends, (ii) which are subject to the approval of the majority of holders' of the voting preference share class(es) and (iii) which may only be passed with 75 per cent. majority vote. Veto rights may not be exercised against certain types of resolutions detailed in the Financial Stabilisation Act.
- a **guarantee measure** to guarantee obligations of the credit institution (i) arising from a debt security or a credit facility agreement between 23 December 2008 and 31 December 2009, (ii) denominated in HUF, EUR or CHF and to be performed in the same currency, (iii) with a maturity between three months and five years. The guarantee may be provided (i) upon the request of the credit institution, (ii) provided that the credit institution's solvency capital complies with the statutory requirements, (iii) further provided that the credit institution would undertake to comply with the terms of the agreement to be entered into between the State and the relevant credit institution and (iv) the credit institution shall issue a "voting preference share with special veto right" to the State (if no recapitalisation has been initiated until the provision of the guarantee). The special rights attached to the voting preference share with special veto right cease to exist by law on the 31st day following the end of the guarantee period if (i) there were no disbursements by the State under the guarantee or the credit institution repaid any such disbursement (including default interest) to the State and (ii) until such date there was no capital injection provided by the State to the credit institution. The agreement to be concluded with the State must provide for, at least, (i) the fee for the guarantee (which shall be in line with the relevant recommendations and communications of the EU Commission), (ii) the nominal value and issue value of the voting preference share with special veto right to be issued, (iii) the rights attached to such special preference shares of the State and (iv) limitations on the remuneration of the senior officers of the credit institution during the term of the guarantee.

## **Management Right**

The Financial Stabilisation Act also provides for a third measure which may be used by the State in the event that a credit institution would fail to meet certain financial requirements specified by the Financial Stabilisation Act. In such case the government may pass a decree stating that the relevant credit institution has met one or more of the criteria for the application of this special measure (if the criteria are not met any more, then the government must repeal such decree. The credit institution has the right to challenge such decree before the courts). During the effective period of such government decree, the State is solely entitled to pass resolutions regarding matters normally pertaining to the competence of the shareholders' meeting of the credit institution. Within 120 days from the effective date of the relevant government decree the shareholders of the credit institution have a put option towards the State on their shares in the credit institution.

The Financial Stabilisation Act shall remain in force until 31 December 2009.

The Issuer does not currently intend to issue listed Mortgage Securities or Notes or make public offers of Mortgage Securities or Notes which benefit from the Hungarian government guarantee scheme. Should the Issuer wish to take advantage of such scheme, it may issue a supplement to this Base Prospectus, if so required, before any issue of listed or publicly offered Mortgage Securities or Notes.

## TAXATION

### Hungarian Taxation

*The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Instruments. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Instruments, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It is based on laws currently in force in Hungary and applicable on the date of this Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Instruments by non-Hungarian Holders, or the payment of interest under the Instruments may trigger additional tax payments in the country of residence of the Holder, which is not covered by this summary, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration. Prospective purchasers of Instruments are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Instruments, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.*

*Withholding tax (foreign resident individual Holders)*

The payments of interest on and capital gains realised upon the redemption or sale of publicly offered and traded Instruments (**Interest Income**) is taxed at 20 per cent. Instruments listed on a regulated market of an EU member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EU member state is considered as other income (**Other Income**) which is taxable progressively (the highest tax rate is 36 per cent). The capital gains realised on the sale of such Instruments is considered, as a general rule, capital gains income (**Capital Gains Income**). The tax rate applicable to Capital Gains Income is 25 per cent.

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

- (a) the Issuer is resident in Hungary for tax purposes;
- (b) the Issuer has a permanent establishment in Hungary and Interest Income realised on the basis of the Instruments is paid by the Hungarian permanent establishment of the Issuer;
- (c) the foreign resident individual Holder has a permanent establishment in Hungary to which the Interest Income is attributable.

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

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

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

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

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

#### *Withholding tax (foreign resident corporate Holders)*

Interest on Instruments paid to foreign resident corporate Holders, who do not have a permanent establishment in Hungary, by resident legal entities or other persons and any capital gains realised by such foreign resident Holders on the sale of the Instruments is not subject to tax in Hungary.

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

#### *Taxation of Hungarian resident individual Holders*

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

According to the provisions of the Personal Income Tax Act, in the case of individual Holders, Interest Income is the income paid as interest and the capital gains realised upon the redemption or the sale of publicly offered and publicly traded debt securities. The withholding tax on Interest Income is currently 20 per cent. Instruments listed on a regulated market of an EU member state are considered publicly offered and traded Instruments.

The proceeds paid on privately placed Instruments which are not listed on a regulated market of an EU member state is considered as Other Income which is taxable progressively (the highest tax rate is 36 per cent). The capital gains realised on the sale or redemption of such Instruments is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 25 per cent. Under Act LXVI of 1998 on Healthcare Contributions (the **Healthcare Contribution Act**), Capital Gains Income realised by Hungarian resident individuals – subject to further conditions – is generally subject to a 14 per cent. healthcare contribution.

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

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

person, organization, or private entrepreneur) having tax residency in Hungary, except in cases where the role of a financial institution is limited to performing the bank transfer or payment.

#### *Taxation of Hungarian resident corporate Holders*

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

In general, interest and capital gains realised by Hungarian resident corporate Holders on the Instruments will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 16 per cent.

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

Pursuant to Act C of 1990 on Local Taxes (the **Local Taxes Act**), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Instruments.

#### **Luxembourg Taxation**

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

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. 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. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Instruments coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) *Resident holders of Instruments*

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended, (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Instruments, nor on accrued but unpaid interest in respect of Instruments, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Instruments held by Luxembourg resident holders of Instruments.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Instruments coming within the scope of the Law would be subject to withholding tax of 10 per cent.

**EU Savings Directive**

Under EC Council Directive 2003/48 on the taxation of savings income, Member States are required, 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.

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



## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 24 April 2009, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Instruments. Any such agreement will extend to those matters stated under "*Form of the Mortgage Bonds*", "*Terms and Conditions of the Mortgage Bonds*", "*Form of the Mortgage Notes*", "*Terms and Conditions of the Mortgage Notes*", "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Instruments under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### ***United States***

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under 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 Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended; the **FIEL**) 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, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Public Offer Selling Restriction under the Prospectus Directive***

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

Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000; and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State 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 and each further Dealer appointed under the Programme Agreement will be required to represent and agree that (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial and legal situation and its expected development, including that which was discussed in any personal consultation with an investor, and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY."

## ***Italy***

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

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of 4 November 2003; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**).

Any offer, sale or delivery of the Instruments or distribution of copies of the Base Prospectus or any other document relating to the Instruments in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

## ***France***

Each of the Dealers and the Issuer has represented and agreed that it has only made and will only make an offer of Instruments to the public (*appel public à l'épargne*) in France in the period beginning (i) when a prospectus in relation to those Instruments has been approved by the *Autorité des marchés financiers* (**AMF**), on the date of such publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the

latest on the date which is 12 months after the date of approval of the base prospectus all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF.

**General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Instruments or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Instruments under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

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. The update of the Programme completed on 4 March 2008 was authorised by resolution No 2/2008 of the Board of Directors of the Issuer dated 18 February 2008 and resolution No 21/2008 of the Asset and Liability Committee of the Issuer dated 15 February 2008. The update of the Programme completed on 24 April 2009 was authorised by resolution No 5/2009 of the Board of Directors of the Issuer dated 4 February 2009 and the resolution No 12/2009 of the Asset and Liability Committee of the Issuer dated 29 January 2009.

### Approval, listing and trading of Instruments

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Instruments issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available (in the case of (d) below, for inspection only) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with English translations thereof) of the Issuer;
- (b) the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2007 and 2008 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published unaudited interim (quarterly) financial statements of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;
- (d) the Programme Agreement, the Agency Agreement, the KELER Agreement (as defined in the Agency Agreement), the Mortgage Note Deed of Covenant, the Note Deed of Covenant, the forms of the Global Mortgage Notes, the Global Notes, the Mortgage Notes in definitive form, the Notes in definitive form, the receipts, the coupons and the talons;

- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, offering circulars, prospectuses, information memoranda 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 Instruments will be available on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).

## **Clearing Systems**

### *Mortgage Bonds*

The Mortgage Bonds have been accepted for clearance through KELER and, through a bridge with this clearing system, Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). Unless waived under the rules of the Luxembourg Stock Exchange for an individual Tranche of Mortgage Bonds, KELER is required to provide, for each issue of Mortgage Bonds to be listed on the Luxembourg Stock Exchange, certification as to, *inter alia*, the existence of a bridge with Clearstream, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The appropriate Common Code and ISIN for each Tranche of Mortgage Bonds allocated by Clearstream, Luxembourg and/or Euroclear or KELER, as the case may be, will be specified in the applicable Final Terms. 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 Brussels.

### *Mortgage Notes and Notes*

The Mortgage Notes and Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Mortgage Notes and Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

## **Conditions for determining price**

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial position of the Issuer or its group which has occurred since 31 December 2008 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2008.

### **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (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 2007, and 31 December 2008. 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 2007 and 31 December 2008. 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)**

Váci út 20.  
1132 Budapest  
Hungary

**PRINCIPAL PAYING AGENT**

**Deutsche Bank AG, London Branch**

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1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**OTHER PAYING AGENT AND LUXEMBOURG LISTING AGENT**

**Deutsche Bank Luxembourg S.A.**

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1115 Luxembourg  
Luxembourg

**LEGAL ADVISERS**

*To the Issuer as to Hungarian law*

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*To the Dealers as to English law*

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*To the Dealers as to Hungarian law*

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Hungary



## **AUDITORS TO THE ISSUER**

### **Ernst & Young Audit Ltd.**

Váci út 20.  
1132 Budapest  
Hungary

## **ARRANGER**

### **BNP PARIBAS**

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London NW1 6AA  
United Kingdom

## **DEALERS**

### **Bayerische Landesbank**

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### **BNP PARIBAS**

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France

### **Deutsche Bank Aktiengesellschaft**

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### **DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt am Main**

Platz der Republik  
60265 Frankfurt am Main  
Germany

### **Raiffeisen Zentralbank Österreich Aktiengesellschaft**

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Austria