BASE PROSPECTUS

UNICREDIT JELZÁLOGBANK ZRT.

(incorporated with limited liability in the Republic of Hungary)

EUR 2,000,000,000
Euro Mortgage Securities Programme for the issuance of Hungarian Mortgage Bonds and Mortgage Notes (*jelzáloglevelek*)

Under this EUR 2,000,000,000 Euro Mortgage Securities Programme (the **Programme**), UniCredit Jelzálogbank Zrt. (the **Issuer**) may from time to time issue Hungarian Mortgage Bonds (the **Mortgage Bonds**) and Mortgage Notes (the **Mortgage Notes**, being together with the Mortgage Bonds, the **Mortgage Securities**) (*jelzáloglevelek*) denominated in any currency agreed from time to time between the Issuer and the relevant Dealer (as defined below). The Mortgage Bonds will be issued in dematerialised registered form. The Mortgage Notes will be issued in bearer form.

The maximum aggregate nominal amount of all Mortgage Securities from time to time outstanding under the Programme will not exceed EUR 2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

An investment in the Mortgage Securities involves certain risks. For a discussion of these risks, see *"Risk Factors"* beginning on page 10 of this Base Prospectus.

The Mortgage Securities may be issued on a continuing basis to one or more of the Dealers specified under *"General Description of the Programme"* and to any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Mortgage Securities being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Mortgage Securities.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Mortgage Securities issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Mortgage Securities, interest (if any) payable in respect of Mortgage Securities, the issue price of Mortgage Securities and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under *"Terms and Conditions of the Mortgage Bonds"* or *"Terms and Conditions of the Mortgage Notes"*, respectively) of Mortgage Securities will be set out in final terms (the **Final Terms**) which, with respect to Mortgage Securities to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Programme provides that Mortgage Securities may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Mortgage Securities and/or Mortgage Securities not admitted to trading on any market. The Issuer may agree with any Dealer that Mortgage Securities may be issued in a form not contemplated by the Terms and Conditions of the Mortgage Bonds or the Terms and Conditions of the Mortgage Notes, respectively set out herein, in which event (in the case of Mortgage Securities intended to be listed or admitted to trading or publicly offered) a supplement to the Base Prospectus, if appropriate, may be made available which will describe the terms and conditions of, and the effect of the agreement reached in relation to, such Mortgage Securities.

Arranger

UniCredit (HVB)

Dealers

Barclays Capital	**BNP PARIBAS**
DZ BANK AG	**HSBC**
Landesbank Baden-Württemberg	**NATIXIS**
Société Générale Corporate & Investment Banking	**UniCredit (HVB)**

The date of this Base Prospectus is 21 November 2008.

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

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

Bayerische Hypo- und Vereinsbank AG in its capacity as Arranger and the other Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer 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 Mortgage Securities 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 Mortgage Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Mortgage Securities should purchase any Mortgage Securities. Each investor contemplating purchasing any Mortgage Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Mortgage Securities constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Mortgage Securities.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Mortgage Securities shall in any circumstances imply that the information contained herein concerning the Issuer 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 Mortgage Securities of any information coming to their attention. Investors should review, *inter alia,* the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Mortgage Securities.

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Mortgage Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer

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

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

As at 19 November 2008, the euro/HUF spot exchange rate published by the National Bank of Hungary was euro 1.00 = HUF 271.80.

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

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

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

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GENERAL DESCRIPTION OF THE PROGRAMME

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

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

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

Issuer:	UniCredit Jelzálogbank Zrt.
Description:	Euro Mortgage Securities Programme for the issuance of Mortgage Bonds and Mortgage Notes
Arranger:	Bayerische Hypo- und Vereinsbank AG
Dealers:	Barclays Bank plc BNP PARIBAS DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main HSBC Bank plc Landesbank Baden-Württemberg NATIXIS Société Générale and any other Dealers appointed in accordance with the Programme Agreement.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Mortgage Securities issued under the Programme. These are set out under *"Risk Factors"* below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Mortgage Securities issued under the Programme. These are set out under *"Risk Factors"* and include the fact that the Mortgage Securities may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Mortgage Securities and certain market risks.
Certain Restrictions:	Each issue of Mortgage Securities in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *"Subscription and Sale"*) including the following restrictions applicable at the date of this Base Prospectus. **Mortgage Securities having a maturity of less than one year** Mortgage Securities having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (**FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see *"Subscription and Sale"*.
Principal Paying Agent:	Citibank, N.A., London Branch
Programme Size:	Up to EUR 2,000,000,000 (or its equivalent in other currencies calculated as described under *"General Description of the Programme"*) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Mortgage Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. Any issue of Mortgage Securities under this Programme is purported to be made to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Mortgage Securities either at issue or subsequently on any regulated or other secondary market or through an over-the-counter transaction.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Mortgage Securities may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 3 of the Terms and Conditions of the Mortgage Bonds and in Condition 3 of the Terms and Conditions of the Mortgage Notes.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Mortgage Securities may be issued on a fully-paid or a partly-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount.
Type of Mortgage Securities:	For a description of certain aspects relevant to the Mortgage Securities, see *"Overview of Hungarian Mortgage Securities Regulation"*.
Form of Mortgage Bonds:	The Mortgage Bonds will be issued in dematerialised registered form as described in *"Form of the Mortgage Bonds"*. The Mortgage Bonds will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of the Tradeable Amount in excess thereof. If Mortgage Bonds are cleared through KELER, they will be tradeable only in principal amounts which are multiples of the Specified Denomination.
Form of Mortgage Notes:	The Mortgage Notes will be issued in bearer form as described in *"Form of the Mortgage Notes"*. The Mortgage Notes will be tradeable only in principal amounts of at least the Specified Denomination and (if so specified in the applicable Final Terms and to the extent permitted by the relevant clearing system(s)) integral multiples of the Tradeable Amount in excess thereof.
Fixed Rate Mortgage Securities:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Mortgage Securities:	Floating Rate Mortgage Securities will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Mortgage Securities of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

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

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

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

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

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

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

Partly Paid Mortgage Bonds: Subject to receipt of the prior written consent of KELER (as defined below), the Issuer shall not issue Partly Paid Mortgage Bonds.

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

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

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

Denomination of Mortgage Securities: Mortgage Securities will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Mortgage Security will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see *"Certain Restrictions"* above, and save that the minimum denomination of each Mortgage Security admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be EUR 50,000 (or, if the Mortgage Securities are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:	All payments in respect of the Mortgage Securities will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 7 of the Terms and Conditions of the Mortgage Bonds and Condition 7 of the Terms and Conditions of the Mortgage Notes unless such deduction is required by law. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 of the Terms and Conditions of the Mortgage Securities, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The Terms and Conditions of the Mortgage Securities will not contain a negative pledge provision.
Cross Default:	The Terms and Conditions of the Mortgage Securities will not contain a cross default provision.
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 jelzálog-hitelintézetről és a jelzáloglevélről*) and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Issuer under mortgage bonds (*jelzáloglevelek*).
Subordination:	Mortgage Securities may not be issued on a subordinated basis.
Listing and admission to trading:	Application has been made to the Luxembourg Stock Exchange for Mortgage Securities issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Mortgage Securities may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Mortgage Securities and/or Mortgage Securities not admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the Mortgage Securities are to be listed and, if so, on which stock exchange(s).
Clearing:	Mortgage Bonds will clear through Központi Elszámolóház és Értéktár (Budapest) Zrt. or its legal successor (**KELER**), Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**), as more fully described under *"Form of the Mortgage Bonds"* and *"Settlement Procedures"* below. Mortgage Notes will clear through Clearstream, Luxembourg and Euroclear, as more fully described in *"Form of the Mortgage Notes"* below. See also *"Risk Factors – Trading in clearing systems"*.
Governing Law:	The Mortgage Securities and any non-contractual obligations arising out of or in connection with their issue or purchase will be governed by, and construed in accordance with, Hungarian law. In relation to the Mortgage Securities, any Dispute (including a Dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Securities) may be settled by the Hungarian Money and Capital Markets Arbitration Court, in accordance with its own rules of procedure, as more fully described in the Terms and Conditions of the Mortgage Securities.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Mortgage Securities in the United States, Japan, the European Economic Area (including the United Kingdom, Hungary and Italy) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Mortgage Securities (see *"Subscription and Sale"*).
United States Selling Restrictions:	Mortgage Bonds – Regulation S, Category 1. TEFRA C. Mortgage Notes – Regulation S, Category 1. TEFRA D.

Representation of the holders of the Mortgage Securities: There is no provision for the representation of holders of the Mortgage Securities.

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

(a) the euro equivalent of Mortgage Securities denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Mortgage Bonds, described under *"Form of the Mortgage Bonds"* and, in relation to Mortgage Notes, described under *"Form of the Mortgage Notes"*) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Mortgage Securities or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the euro equivalent of Dual Currency Mortgage Securities, Index-Linked Mortgage Securities and Partly Paid Mortgage Securities (each as specified in the applicable Final Terms, in relation to the Mortgage Bonds, described under *"Form of the Mortgage Bonds"* and, in relation to Mortgage Notes, described under *"Form of the Mortgage Notes"*) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Mortgage Securities (in the case of Partly Paid Mortgage Securities regardless of the subscription price paid); and

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

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Mortgage Securities 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 Mortgage Securities issued under the Programme are also described below.

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

Factors that may affect the Issuer's ability to fulfil its obligations under Mortgage Securities 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 Mortgage Securities issued under the Programme*", the Issuer does not consider there to be any other risk factors relevant to its business.

Risk factors specific to the Issuer:

- Due to statutory restrictions the Issuer cannot hold client accounts in the same way as a retail bank can. Consequently, direct client-related information, which would automatically be available for account holding banks, has 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 delays in client payments. In the event of any failure of the above information system, the Issuer bears the operational risk deriving from the temporary unavailablility of any required information for its credit approval.
- Credit risk: The repayment of 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.
- Liquidity risk: Although the structure of the Issuer's assets and liabilities can be co-ordinated with the maturity structure of bonds to be issued, there is no guarantee that maturity matching 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 10 years, and of liabilities, 1 to 15 years. In certain periods of time larger volumes of issues of Mortgage Bonds may be necessary in order to raise funds. The Issuer has developed techniques to manage the risk of such future issues.

- Interest rate risk: As a result of the Issuer's activities as a mortgage bank and the relevant specific legal regulations, the Issuer has a special assets-liabilities structure within the Hungarian banking system. Loans to clients are typically mid- to long-term and mostly annuity based with 1 to 5 year interest brackets, and assumes a price adjustment clause in the case of most of the subsidised loans. Liabilities (typically arising from Mortgage Bonds), on the other hand, are largely mid- and long-term with fixed rates.

- Prepayment risk: Pursuant to the provisions of the Mortgage Credit Institutions Act in force as at 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.

- Regulatory risk: A significant risk relating to the legislative environment may stem from the amendment of the decree on housing subsidies. 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 Mortgage Securities.

- 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.

- Own lending is supplemented by refinancing. The risk in this field stems primarily from retaining refinancing customers and mounting competition in the refinancing 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.

- 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.

- 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 macro-economic situation will, on one hand, determine the magnitude of disbursable 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.
- 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 Mortgage Securities to be issued under the Programme may extend beyond the date of the introduction of the euro in Hungary meaning that payments in respect of HUF denominated Mortgage Bonds Securities 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 market risks associated with Mortgage Securities issued under the Programme

The Mortgage Securities may not be a suitable investment for all investors

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

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

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

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

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

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

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

Risks related to the structure of a particular issue of Mortgage Securities

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

Mortgage Securities subject to optional redemption by the Issuer

An optional redemption feature of Mortgage Securities is likely to limit their market value. During any period when the Issuer may elect to redeem Mortgage Securities, the market value of those Mortgage Securities 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 Mortgage Securities when its cost of borrowing is lower than the interest rate on the Mortgage Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Mortgage Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Mortgage Securities and Dual Currency Mortgage Securities

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

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

(ii) they may receive no interest;

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

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

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

(vi) if a Relevant Factor is applied to Mortgage Securities 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 Mortgage Securities

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

Variable rate Mortgage Securities with a multiplier or other leverage factor

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

Fixed/Floating Rate Mortgage Securities

Fixed/Floating Rate Mortgage Securities may bear interest at a rate that the Issuer may elect to convert from a fixed to a floating rate, or from a floating to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Mortgage Securities since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed to a floating rate, the spread on the Fixed/Floating Rate Mortgage Securities may be less favourable than then prevailing spreads on comparable Floating Rate Mortgage Securities tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Mortgage Securities. If the Issuer converts from a floating to a fixed rate, the fixed rate may be lower than then prevailing rates on its Mortgage Securities.

Mortgage Securities issued at a substantial discount or premium

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

Risks related to Mortgage Securities generally

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

Modification

The conditions of the Mortgage Securities 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 Mortgage Security 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.

Integral multiples of less than EUR 50,000

It is possible that certain Mortgage Securities 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 Mortgage Securities be required to be issued, Mortgage Security holders who hold Mortgage Securities 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 Mortgage Securities 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.

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 Mortgage Securities on the Luxembourg Stock Exchange, Mortgage Securities 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 Mortgage Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

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 disorders, 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) Mortgage Securities are legal investments for it, (2) Mortgage Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Mortgage Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Mortgage Securities under any applicable risk-based capital, or similar, rule.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the audited annual financial statements for each of the financial years ended 31 December 2006 and 31 December 2007 and the audit reports thereon; and

(b) the Deed of Foundation of the Issuer.

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

Copies of this Base Prospectus and documents incorporated by reference in this Base Prospectus can be obtained from the website of the Luxembourg Stock Exchange, www.bourse.lu. In addition, such documents will be available free of charge from the principal office in Luxembourg of Dexia Banque Internationale à Luxembourg, société anonyme at 69 route d'Esch, L-2953 Luxembourg for Mortgage Securities listed on the Luxembourg Stock Exchange.

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

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

Document	**Section incorporated**
Financial Statements for the financial year ended 31 December 2006	Pages 1-30
– Independent Auditors' Report	Page 1
– Financial Statements:	
– – Balance Sheet	Page 2
– – Income Statement	Page 3
Statements of Changes in Shareholders' Equity	Page 4
– – Statements of Cash Flows	Page 5
– – Notes to the Financial Statements	Pages 6-30
Financial Statements for the financial year ended 31 December 2007	Pages 2-46
– Independent Auditors' Report	Pages 2-3
– Financial Statements:	
– – Balance Sheet	Page 4
– – Income Statement	Page 5
– – Statements of Changes in Shareholders' Equity	Page 6
– – Statements of Cash Flows	Page 7
– Notes to the Financial Statements	Pages 8-46

The Deed of Foundation of the Issuer and any other documents incorporated by reference but not set out in the table above are incorporated by reference for information purposes only. Financial information incorporated by reference and also set out in this Base Prospectus shall be deemed to be incorporated by reference for information purposes only.

FORM OF THE MORTGAGE BONDS

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

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

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

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

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

The Mortgage Bonds will be cleared through KELER, which has its registered office at Asbóth u. 9-11., 1075 Budapest, Hungary; through Clearstream, Luxembourg, which has its registered office at 67, Boulevard Grand-Duchesse Charlotte, L-1331 Luxembourg and through Euroclear, which has its registered office at 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium. See *"Settlement Procedures"*.

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

SETTLEMENT PROCEDURES FOR THE MORTGAGE BONDS

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

Issue of HUF denominated Mortgage Bonds

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

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

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

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

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

Version 2 (Clearstream Delivery against Payment)
Upon the issue of a Tranche of Mortgage Bonds, KELER, as the Hungarian national central securities depositary, will first credit the nominal amount of such Tranche to the Issuer's securities (creation) sub-account. KELER will then, pursuant to an instruction from the Issuer, debit the securities (creation) sub-account with the nominal amount of such Tranche and will credit that Tranche to another securities (settlement) sub-account of the Issuer with KELER.

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

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

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

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

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

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

Issue of non-HUF denominated Mortgage Bonds

Version I (Euroclear Free of Payment)
Upon the issue of a Tranche of Mortgage Bonds, KELER as the Hungarian national central securities depositary will first credit the nominal amount of such Tranche to the Issuer's securities (creation) 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 CCB, in the relevant currency, to transfer the purchase price with value date being the settlement date, to the Issuer's CCB, which in turn will credit the purchase price on the Issuer's cash account.

Version 2 (Clearstream Delivery against Payment)
Upon issue of a Tranche of Mortgage Bonds, the Issuer transfers such Tranche of Mortgage Bonds to the central securities account of Clearstream, Luxembourg with KELER indicating that the beneficiary's account number is 80781. The Issuer informs KELER by fax of the transfer.

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

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

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

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

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

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

Payments

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

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

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

FORM OF THE MORTGAGE NOTES

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

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

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

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 (the **Deed of Covenant**) dated 21 November 2008 and executed by the Issuer.

FORM OF FINAL TERMS

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

[Date]

UNICREDIT JELZÁLOGBANK ZRT.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Mortgage Bonds/Mortgage Notes] under the EUR 2,000,000,000 Euro Mortgage Securities Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 21 November 2008, 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 UniCredit Jelzálogbank Zrt. Szabadság Tér 5-6, 1054 Budapest, Hungary and the office of Dexia Banque Internationale à Luxembourg, société anonyme (in its capacity as the Luxembourg Paying Agent) at 69 route d'Esch, L-2953 Luxembourg.

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

[*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:		UniCredit Jelzálogbank Zrt
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
			(If fungible with an existing Series, details of that Series, including the date on which the Mortgage Bonds/Mortgage Notes become fungible)
3.	Specified Currency:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	[(a)]	Issue Price (per Mortgage [Bond/Note]):	[ ] per cent. of the Specified Denomination [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	[(b)	Net Proceeds:	[ ]]
		(*Required only for listed issues*)	

6.	(a)	Specified Denominations:	[ ]
			[*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 traded in KELER, they will be tradable only in principal amounts of at least the Specified Denomination.*]
			(*NB. 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:	[*specify*/Issue Date/Not Applicable]
			(*N.B. An Interest Commencement Date will not be relevant for certain Mortgage Bonds/Mortgage Notes, for example Zero Coupon Mortgage Bonds/Mortgage Notes.*)
8.	Maturity Date:		[*Fixed rate – specify date*/
			Floating rate – Interest Payment Date falling in or nearest to [*specify month*]]
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][1] [*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 [if the Redemption/ Payment Basis:	[*Specify details of any provision for change of Mortgage Bonds/Mortgage Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	[Date [Board] approval for issuance of Mortgage [Bonds/Notes] obtained:	[ ] [and [ ], respectively]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Bonds/Mortgage Notes*)
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

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

	(f)	Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon.* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
	(g)	Party responsible for calculating amounts payable:	[Agent/*if not the Agent, insert details of Calculation Agent*]
	(h)	Other terms relating to the method of calculating interest for Fixed Rate Mortgage [Bonds/Notes]:	[None/*Give details*]
16.	**Floating Rate Mortgage [Bond/Note] Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount:	[Agent/*if not Agent, insert details of Calculation Agent*]
	(f)	Screen Rate Determination:	
		– Reference Rate:	[ ] (*Either BUBOR, LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement*)
		– Interest Determination Date(s):	[ ] (*Second Budapest business day prior to the start of each Interest Period if BUBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
		– Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	(g)	ISDA Determination:	

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

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

PROVISIONS RELATING TO REDEMPTION

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

21.	Investor Put:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption Amount of each Mortgage [Bond/Note] and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount/*specify other*/ see Appendix
	(c) Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22.	Final Redemption Amount of each Mortgage [Bond/Note]:	[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. In relation to any issue of Mortgage [Bonds/ Notes which are expressed at item 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it, the following wording should be added: "For the avoidance of doubt, in the case of a holding of Mortgage [Bonds/Notes] in an integral multiple of [ ] in excess of [ ] as envisaged in item 6 above, such holding will be redeemed at its nominal amount."*) (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Mortgage Bonds/Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
23.	Early Redemption Amount of each Mortgage [Bond/Note] payable on event of default and/ or the method of calculating the same (if required or if different from that set out in Condition 6(e)):	[[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE BONDS/MORTGAGE NOTES

24.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates, to which items 16(c) and 18(f) relate*)
25.	Details relating to Partly Paid Mortgage [Bonds/Notes]: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Mortgage [Bonds/Notes] and interest due on late payment:	[Not Applicable/*give details*][2]

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

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

DISTRIBUTION

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

[**MISCELLANEOUS**

[32.	Form of Mortgage Notes:	
	(a) Form:	[Temporary Global Mortgage Note exchangeable for a Permanent Global Mortgage Note which is exchangeable for Definitive Mortgage Notes only upon an Exchange Event] [Temporary Global Mortgage Note exchangeable for Definitive Mortgage Notes on and after the Exchange Date] [Permanent Global Mortgage Note exchangeable for Definitive Mortgage Notes [o+nly upon an Exchange Event/at any time at the request of the Issuer]] (*N.B. If the Specified Denominations of the Mortgage Notes in item 6 include language substantially to the following effect: "EUR 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*]

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

34.	Details relating to Instalment Mortgage Notes:	
	(a) Instalment Amount(s):	[Not Applicable/*give details*]
	(b) Instalment Date(s):	[Not Applicable/*give details*]
		(*Consider including a term providing for tax certification if required to enable interest to be paid gross by insurers*)]][4]
[32.	Form of Mortgage Bonds:	Dematerialised][5]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Bourse de Luxembourg of Mortgage [Bonds/Notes] described herein pursuant to the EUR 2,000,000,000 Euro Mortgage Securities Programme of UniCredit jelzálogbank Zrt.]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:	By:
Duly authorised	*Duly authorised*

UNICREDIT JELZÁLOGBANK ZRT.

4 Only relevant for Mortgage Notes.

5 Only relevant for Mortgage Bonds.

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/Mortgage Notes only*)

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

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

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

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

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

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

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

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

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

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

9. **OPERATIONAL INFORMATION**

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Alphabetical code of Series:	[ ]
(iv)	Any clearing system(s) other than Clearstream Banking, société anonyme [,/and], Euroclear Bank S.A./N.V. [and KELER] and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*] (*If the Series of Mortgage Bonds/Mortgage Notes is listed on the Luxembourg Stock Exchange, then clearing will occur through Clearstream, Luxembourg and/or Euroclear and KELER*)
(v)	Delivery:	Delivery [free of/against] payment

(vi)	Names and addresses of additional Paying Agent(s) (if any):		[ ]
(vii)	List of such documents available for inspection or collection (free of charge):		[*Insert list and place where such documents are so available*]
(viii)	Place of issue:		Outside Hungary
[(ix)	Place of creation of Mortgage Bonds:		Hungary][6]
(x)	Number of Mortgage Bonds:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
(xi)	Intended to be held in a manner which would allow Eurosystem eligibility:		[Yes/No] [Note that the designation "yes" simply means that the Mortgage Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Mortgage Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*Include this text if "yes" selected in which case the Mortgage Notes must be issued in NGN form*]
[(xii)	Serial number of the Mortgage Notes:		[ ]][7]

10. TRADEABLE AMOUNT [[ ]/Not Applicable. [*Not applicable in the case of Mortgage Bonds tradeable in KELER.*]

Certificate of the Hungarian Asset Controller (vagyonellenőr) to be attached to and form part of the Final Terms for each Series of Mortgage Bonds pursuant to section 11(3)(n) of Act XXX of 1997 on Mortgage Loan Credit Institutions and on Mortgage Bonds (1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről).

6 Only required for issues of Mortgage Bonds.

7 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, UniCredit Jelzálogbank Zrt. (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 21 November 2008 and made between the Issuer, Citibank, N.A., London Branch as principal paying agent and agent bank (the **Agent,** which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents,** which expression shall include any additional or successor paying agents).

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

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

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

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

1. TYPE, FORM, KIND AND TITLE

(a) *Type*
The Mortgage Bonds are registered securities.

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

Mortgage Bonds are cancelled in accordance with Condition 6(h), the Document will be cancelled and a new Document (the **new Document**) amended in accordance with the particulars of the further Mortgage Bonds or, as the case may be, the outstanding part of this Series of Mortgage Bonds will be issued.

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

So long as the relevant clearing systems so permit, the Mortgage Bonds may be tradeable only in principal amounts of at least the Specified Denomination (or equivalent) and integral multiples of such other Tradeable Amount(s) as shown in the Final Terms.

(c) *Kind*

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

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

(d) *Title*

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

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

(e) *Closure of KELER*

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

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

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

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

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

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

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

(c) be represented by printed certificates.

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

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

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

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

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

"(a) *Form and Denomination*

The Mortgage Bonds are in bearer form (where the certificate indicates the name of the owner - *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, 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 Mortgage Bonds or Index Linked Mortgage Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons).

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

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

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

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

(i) deleting "; and

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

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

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

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

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

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

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

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

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

(J) Condition 11 shall be amended by:

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

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

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

(f) *Records of KELER*

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

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

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

shall be evidence of the records of KELER.

2. STATUS OF THE MORTGAGE BONDS

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

3. REDENOMINATION

(a) *Redenomination*

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

Redenomination Date specified in the notice, the Mortgage Bonds shall be redenominated in euro.

The election will have effect as follows:

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

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

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

(iv) if the Mortgage Bonds are Fixed Rate Mortgage Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Mortgage Bond comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding; and

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

(b) *Definitions*

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

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

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

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

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

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

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

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

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

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

In the Terms and Conditions of the Mortgage Bonds:

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

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

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

(i) *Interest Payment Dates*

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

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

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

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

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

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

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

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

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

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

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

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (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 (TARGET2) System (the **TARGET2 System**) is open; and

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

(ii) *Rate of Interest*

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

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

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

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

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

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

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

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

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

(1) the offered quotation; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

(vi) *Certificates to be final*

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

(c) Interest on Dual Currency Interest Mortgage Bonds

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

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

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

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

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

5. PAYMENTS

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

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

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Budapest, London 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, 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 179 of Act CXIX of 2005 on Amendments to Acts on Taxes, Contributions and Other Budgetary Payments and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 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.

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

(e) *Early Redemption Amounts*

For the purpose of Condition 6(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.

(h) *Cancellation*

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

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

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

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

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

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

7. TAXATION

All payments of principal and interest in respect of the Mortgage Bonds by the Issuer 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

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

(a) the Issuer 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

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

(c) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, which in each case is not discharged or stayed within 90 days, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

(d) any order is made or an effective resolution is passed for the winding-up of the Issuer and any resulting winding-up process remains undismissed for 90 days (save for the purposes of reorganisation, reconstruction, amalgamation, merger, consolidation or similar),

then any Holder may, by written notice to the Issuer 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 the Mortgage Bank Act, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Bonds, together with the relevant asset cover, to another mortgage loan credit institution. This transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer, the Mortgage Bonds will be cancelled and the transferee mortgage loan credit institution will issue mortgage bonds (the **New Mortgage Bonds**) to the Holders of the Mortgage Bonds so cancelled on the same terms and conditions as those of the Mortgage Bonds so cancelled. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Bond held by it to be due and payable pursuant to this Condition 9, although this will not prejudice any rights a Holder may have under the New Mortgage Bonds.

In the event of such transformation, restructuring or liquidation of the Issuer pursuant to the Mortgage Bank Act, the Issuer will immediately seek the approval of the Hungarian Financial Supervisory Authority for the transfer of its obligations arising from the Mortgage Bonds, together with the relevant asset cover, to another mortgage loan credit institution and the Issuer shall use its best endeavours to effect such transfer at the earliest opportunity.

10. PAYING AGENTS

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

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

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, 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 daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the Luxemburger in Luxembourg. So long as the Mortgage Bonds are listed on the Luxembourg Stock Exchange, the Issuer will also request that notices to holders of the Mortgage Bonds be published on the website of the Luxembourg Stock Exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any the relevant stock exchange or other relevant regulatory authority. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and, in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication.

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

12. FURTHER ISSUES

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

13. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

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

(b) *Submission to jurisdiction*

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

14. MEETING OF MORTGAGE BONDHOLDERS 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 the Mortgage Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Mortgage Notes.

This Mortgage Note is one of a Series (as defined below) of Mortgage Notes issued by UniCredit Jelzálogbank Zrt. (the **Issuer**) pursuant to the Agency Agreement (as defined below).

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

(a) in relation to any Mortgage Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(b) any Global Note; and

(c) any definitive Mortgage Notes issued in exchange for a Global Note.

The Mortgage Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 21 November 2008 and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

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

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

The Mortgage Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 21 November 2008 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices 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 Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

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

Mortgage Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. STATUS OF THE MORTGAGE NOTES

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

3. REDENOMINATION

(a) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the 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 Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Mortgage Notes represented by such Global Note; and

(B) in the case of definitive Mortgage Notes, by applying the Rate of Interest to the Calculation Amount,

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

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

(b) Definitions

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

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European 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) 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 Note, the aggregate outstanding nominal amount of the Fixed Rate Mortgage Notes represented by such Global Note (or, if they are Partly Paid Mortgage Notes, the aggregate amount paid up); or

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

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

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

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

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

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

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

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

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

(iii) in the Conditions:

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

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

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

(i) Interest Payment Dates

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

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

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

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

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

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

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

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

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

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

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, 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 Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer 2 (TARGET2) System (the **TARGET2 System**) is open; and

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

(ii) Rate of Interest

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

(A) ISDA Determination for Floating Rate Mortgage Notes

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

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

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

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

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

(B) Screen Rate Determination for Floating Rate Mortgage Notes

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

(1) the offered quotation; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Mortgage Notes or Index Linked Interest Mortgage Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(vi), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Mortgage Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the 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 Holders in accordance with Condition 13.

5. PAYMENTS

(a) Method of payment

Subject as provided below:

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

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

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

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

Payments of principal in respect of definitive Mortgage Notes will (subject as provided below) be made in the manner provided in Condition 5(a) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Mortgage Notes, and payments of interest in respect of definitive Mortgage Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, 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) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Mortgage Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Mortgage Note to which it appertains. Receipts presented without the definitive Mortgage Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Mortgage Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

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

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

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

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

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Mortgage Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Mortgage Notes and otherwise in the manner specified in the relevant Global Note 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.

(d) General provisions applicable to payments

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

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

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

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

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, 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 and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

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

(f) Interpretation of principal and interest

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

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

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

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

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

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

(vi) in relation to Zero Coupon Mortgage Notes, the Amortised Face Amount (as defined in Condition 6(e)(iii)); and

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

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

6. REDEMPTION AND PURCHASE

(a) Redemption at maturity

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

(b) Redemption for tax reasons

The Mortgage Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Note is neither a Floating Rate Mortgage Note, an Index Linked Interest Mortgage Note nor a Dual Currency Interest 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 179 of Act CXIX of 2005 on Amendments to Acts on Taxes, Contributions and Other Budgetary Payments and as may be amended or implemented by subsequent legislation, on the occasion of the next payment due under the Mortgage Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 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 Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Mortgage Notes represented by definitive Mortgage Notes, a list of the serial numbers of such Redeemed Mortgage Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(c) and notice to that effect shall be given by the Issuer to the Mortgage Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

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

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

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

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Mortgage Note pursuant to this Condition 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:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

(f) *Partly Paid Mortgage Notes*

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

(g) *Purchases*

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

(h) *Cancellation*

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

(i) Late payment on Zero Coupon Mortgage Notes

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

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

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

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

7. TAXATION

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

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

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

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

As used herein:

(i) **Tax Jurisdiction** means 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

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

(a) the Issuer 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

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

(c) any order is made by a competent court in respect of the commencement of bankruptcy or insolvency proceedings against the Issuer, which in each case is not discharged or stayed within 90 days, or the Issuer makes a general arrangement for the benefit of some or all of its creditors; or

(d) any order is made or an effective resolution is passed for the winding-up of the Issuer and any resulting winding-up process remains undismissed for 90 days (save for the purposes of reorganisation, reconstruction, amalgamation, merger, consolidation or similar),

then any Holder may, by written notice to the Issuer 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 the Mortgage Bank Act, in the event of the transformation, restructuring or liquidation of the Issuer, the Issuer may transfer its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution. This transfer is subject to the prior approval of the Hungarian Financial Supervisory Authority and the agreement of the transferee mortgage loan credit institution but is not subject to the consent of the Holders. As part of the transfer, the Mortgage Notes will be cancelled and the transferee mortgage loan credit institution will issue mortgage notes (the **New Mortgage Notes**) to the Holders of the Mortgage Notes so cancelled on the same terms and conditions as those of the Mortgage Notes so cancelled. In the case of such transfer by the Issuer, a Holder will not be able to declare a Mortgage Note held by it to be due and payable pursuant to this Condition 9, although this will not prejudice any rights a Holder may have under the New Mortgage Notes.

In the event of such transformation, restructuring or liquidation of the Issuer pursuant to the Mortgage Bank Act, the Issuer will immediately seek the approval of the Hungarian Financial Supervisory Authority for the transfer of its obligations arising from the Mortgage Notes, together with the relevant asset cover, to another mortgage loan credit institution and the Issuer shall use its best endeavours to effect such transfer at the earliest opportunity.

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

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

11. PAYING AGENTS

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

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

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

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, 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 daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the Luxenburger in Luxembourg. So long as the Mortgage Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the Luxemburger in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Mortgage Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

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

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

14. FURTHER ISSUES

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

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing law

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

(b) Submission to jurisdiction

The Issuer and the Holders agree to subject any disputes which may arise out of or in connection with the Mortgage Notes, the issue thereof or any document created in connection with such issue (the **Disputes**) (including a Dispute relating to any non-contractual obligations arising out of or in connection with the Mortgage Notes), 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 AND MODIFICATION

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 ten per cent. in nominal amount of the Mortgage Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 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, in the sole opinion of the Issuer, is not prejudicial to the interests of the Mortgage Noteholders; or

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

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

DESCRIPTION OF THE ISSUER

History and development of the Issuer

UniCredit Jelzálogbank Ltd. (*UniCredit Jelzálogbank Zrt.)* (the **Issuer**, the **Bank** or **UniCredit**) was established on 8 June 1998 by Bayerische Vereinsbank AG with a share capital of HUF 3,000,000,000 comprising 3,000 registered shares of HUF 1,000,000 each. The Issuer was registered in Hungary with the Court of Registration of the Budapest Metropolitan Court under registration number Cg 01-10-043900 on 3 August 1998 under the name of HVB Bank Hungary Rt. Its current registered address is 1054 Budapest, Szabadság tér 5-6, telephone: + 36 1 301 5500. The Issuer carries out its activity as a specialised credit institution under Hungarian law.

The Hungarian Financial Services Authority (the **HFSA**, *Pénzügyi Szervezetek Állami Felügyelete*) issued the operating licence for the Issuer to operate as a mortgage bank. The licence number is 1608/1999 and is dated 11 June 1999.

As at the date hereof, the share capital of the Issuer is HUF 3,000,000,000.

To the best knowledge of the Issuer no arrangement is existing or contemplated which may result in a change of control of the Issuer.

UniCredit Group

UniCredit Group (the **Group**) is one of the largest banking and financial services groups in Europe. In terms of market value, it ranked second in the Eurozone and ninth in the world in 2007. Total assets amounted to EUR 1,021,758 million as at 31 December 2007.

Through its banking subsidiaries or banks, the Group has affiliates in 23 European countries with over 40 million clients, 9,714 branches and some 170,000 employees (as at 31 December 2007), but it operates through its own branches, representative offices, or investment funds in another 27 markets. The Group operates an extensive banking network in Central and Eastern Europe with over 3,400 branches and outlets, where more than 70,000 employees serve approximately 27 million customers.

UniCredit Bank Hungary Zrt.

UniCredit Bank Hungary Zrt. is the sole shareholder of the Issuer. Since UniCredit Bank Hungary Zrt. holds 100% of the shares in the Issuer the control exercised by the sole shareholder is considered by Hungarian laws as a qualified control. UniCredit Bank Hungary Zrt. has powers to elect or remove the members of the Issuer's decision-making and supervisory bodies and exercises significant influence over the management. Hungarian legislation provides for additional protection of creditors of companies which have a single shareholder or are controlled substantially by another company against unfavourable business decisions in the controlled company.

As a universal bank, it offers a full range of banking products and relating services both to corporate and retail clients through its network units (branches and mortgage centres) nationwide. As at 21 October 2008, UniCredit Bank Hungary Zrt. Had 104 branches. Its legal predecessor HVB Bank Hungary Rt. was founded in 1990, and after the merger in 2005 which saw the formation of the UniCredit Group, the bank in Hungary remained a wholly-owned subsidiary of Bank Austria Creditanstalt AG, with the ultimate parent company being UniCredito Italiano S.p.A (owning 99.995 per cent. of Bank Austria Creditanstalt AG).

As at 31 December 2007 the consolidated balance sheet total of UniCredit Bank Hungary Zrt. (calculated in accordance with IFRS) was HUF 1,554,912 million. The bank retained its market share of 6.3% as at 31 December 2007, placing it amongst the ten largest commercial banks in Hungary.

UniCredit Bank Hungary Zrt. operates in three business segments: Corporate, the Retail and International Markets Divisions and has five wholly-owned subsidiaries, among them UniCredit Jelzálogbank Zrt. and UniCredit Factoring Pénzügyi Szolgáltató Zrt.

Following the strategic retail expansion approved by the shareholders in 2007, UniCredit Bank Hungary Zrt. plans to expand its branch network with up to altogether 115 units by the end of 2008. An increase in the number of the employees is also expected.

The Issuer's Business

Under Act XXX of 1997 on Mortgage Credit Institutions and Mortgage Bonds (the **Mortgage Credit Institution Act**), the Issuer's business is restricted to (i) granting mortgage loans, (ii) appraising collateral and market value of real estates and management of real estates securing mortgage loans, (iii) undertaking suretyships and/or guarantees and (iv) providing custody and administrative services in connection with its own securities issues and other ancillary activities.

It may not take deposits and its investment in real estate may not exceed 5 per cent. of its total funds, except for real estate which has an operational function for the Issuer's business. The Issuer itself is the entity which directly holds all of the loan assets or independent liens and which issues the mortgage bonds.

The scope of the business activity of the Issuer pursuant to its Deed of Foundation is as follows:

(i) accepting repayment funds from the public, not including the collection of deposits;

(ii) lending money secured by mortgages established on real estate located in the territory of Hungary;

(iii) granting loans without requiring a registered mortgage in case of loans guaranteed by the Hungarian State;

(iv) assuming suretyships and bank guarantees and other bankers' commitments.

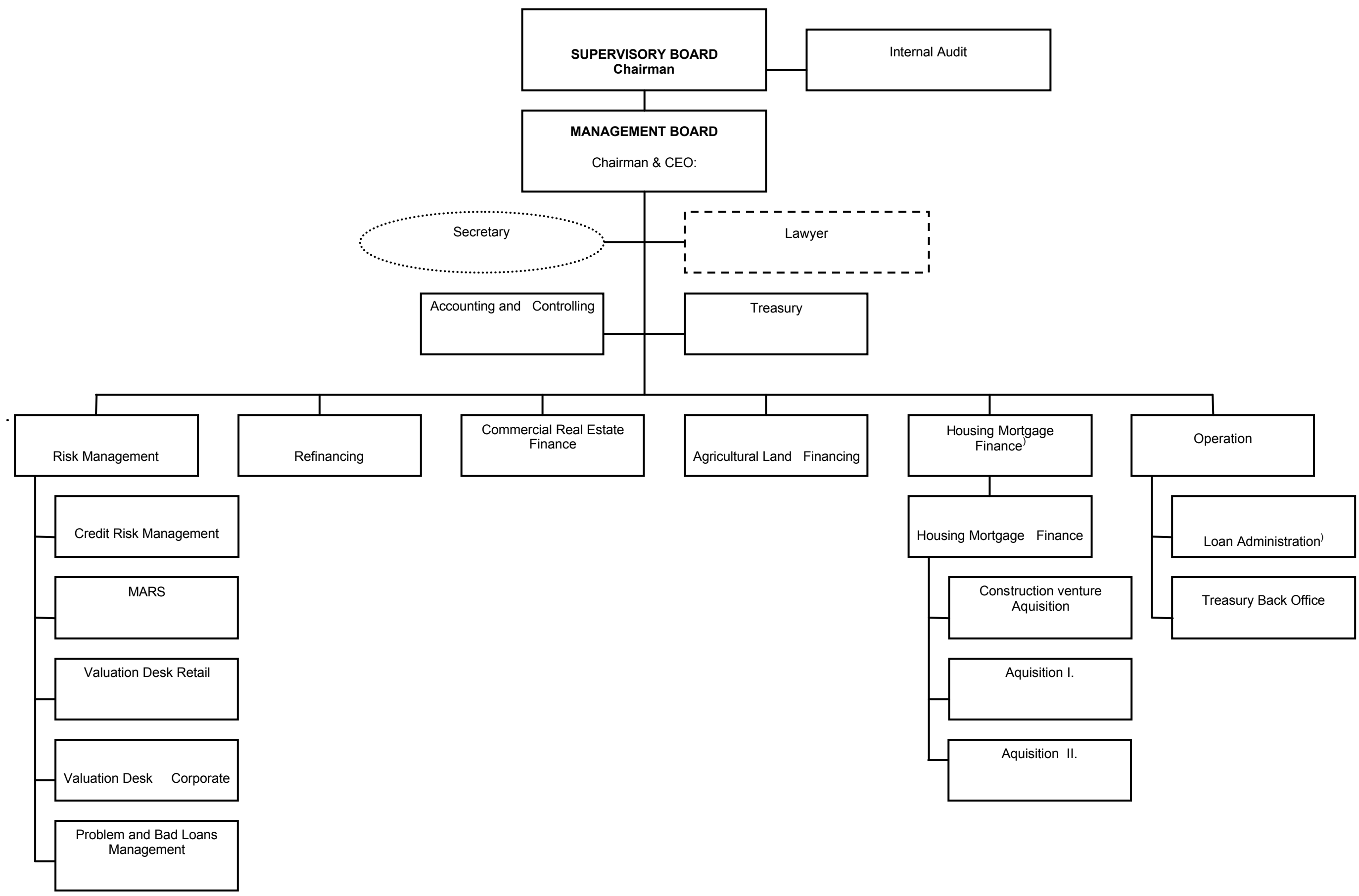
In order to be able to focus more on its core activities, the Issuer enters into service level agreements with UniCredit Bank Hungary Zrt. for the outsourcing of certain activities ancillary to its core business, including human resource support, financial controlling, and IT services.

On the basis of the above, the Issuer also outsourced its Organisation Department, IT department and collection function to UniCredit Bank Hungary Zrt. while it "in-sourced" the real estate appraisal and valuation desk from UniCredit Bank Hungary Zrt.

The Issuer does not have any subsidiaries.

Organisation

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



In early 2008 the Issuer implemented a new two tier management system which entitled the Supervisory Board of the Issuer to decide on certain matters set out in the Deed of Foundation.

Management

Corporate bodies of the Issuer

The introduction of the two-tier governance system is based on Section 37 of act IV of 2006 on business associations (the **Companies Act**).

In addition to supervision of the Management Board, the Supervisory Board, pursuant to the new governance model, has powers to decide on the election and dismissal of the members of the Management Board and a number of the Management Board decisions are subject to the approval of the Supervisory Board (such as the rules of procedure of the Management Board, the organisational rules of the Issuer, the rules of the internal control and internal audit unit, and the annual and long-term business, financial and strategic plans of the Issuer).

Supervisory Board

Bernadett Tátrai

Ms. Tátrai gained her business experience first at Fundamenta Lakástakarékpénztár (Fundamenta Building Society Savings Bank), then at Erste Bank. From 1998 she was the sales manager of Retail Sales Department at Erste Bank, afterwards she was promoted to Head of Retail Product Development in 2000. She was the Head of Retail Business Development from 2004, and in the past two years has been a Member of the Board of Directors responsible for Retail Business at the Erste Bank. Since 16 April 2007, Ms. Tátrai has been head of the Retail Business Division and deputy CEO and member of the Management Board at the UniCredit Bank Hungary Zrt.. She was appointed as the chairman of the Supervisory Board of the Issuer in 2008.

Elena Goitini

Mrs. Goitini earned a university decree in Economics and Business Administration. She has been working in UniCredit Group since 1994. From 2000 to 2004 she was in charge of the organisational start up of UniCredit Private Banking division. Since the end of 2004 until 2006, she has been working in the New Europe Division. In 2006, after the acquisition of HVB she moved to Vienna to become Head of CEE & PM Retail and Private Banking. Since 1 March 2008 she has headed up the Business Development and Network Distribution Management in the Issuer. She was appointed as member of the Supervisory Board of the Issuer in 2008.

Mag. Markus Winkler

Markus-Stephan Winkler graduated from the University of Economics and Business Administration in Vienna, then participated in the trainee manager programme of Creditanstalt-Bankverein AG, Vienna. From 1991 he worked for the Treasury Division of Creditanstalt-Bankverein and was later appointed as treasurer of Creditanstalt a.s. in Prague. Between 1998 and 2000 he worked as Head of the Treasury Division at Bank Austria Creditanstalt Czech Republic a.s., he was Board Member of Bank Austria Wien Company (BAWCO) in Prague, as well as the Project Manager of the CEE Project “Treasury 2000”. Since 2000 he has been a Deputy CEO of UniCredit Bank Hungary Zrt. He was appointed as a member of the Supervisory Board of the Issuer in 2008.

Mag. Reinhard Madlencnik

Mr. Madlencnik graduated from Vienna University for Economics and Business Administration in 1985 when he joined Bank Austria Creditanstalt. In 1992 he was promoted to deputy head of Investment and Project Finance. From 1995 until 1998 he was the head of unit. In 1998. he became the head of Real Estate. As of 2001 he was head of the Real Estate Consulting and Investment. Since 2003 until September 2006 Mr. Madlencnik was the deputy head of Department Real Estate, and then became the head of the department. He was appointed as a member of the Supervisory Board of the Issuer in 2008.

Mag. Karin Schmidt, **MSc**

Ms. Schmidt obtained a diploma from the University of Vienna in 1994 and from the Technical University of Vienna in 2004. She has been working with Bank Austria Creditanstalt since 1994. In 2003, Ms. Schmidt became Deputy Head of the unit Real Estate Consulting and Investment in July 2005 and since October 2006, has been head of this unit. She was appointed as a member of the Supervisory Board of the Issuer in 2007.

Andras Kaliszky

Mr. Kaliszky graduated from the Technical University of Budapest in 1991. He received his MBA degree from the University of Wisconsin in 1996. As an honour of his outstanding academic achievements he was inducted into the Beta Gamma Sigma Society. Between 1997 and 2002 he was senior consultant, manager and competence line leader at Price Waterhouse, PricewaterhouseCoopers and PwC Consulting. As a result of the acquisition of PwC Consulting by IBM, he worked for IBM between 2002 and 2004 as a competence line leader. He joined HVB Hungary in 2004 and led the Retail Strategic Expansion program. Between 2006 and 2008 he headed the Organisation Department of the Bank. As of 1 November 2008 he is the COO and a Member of the Board of Unicredit Bank Hungary Zrt. and the Supervisory Board of UniCredit Jelzálogbank Zrt., subject to the HFSA approval. Mr. Kaliszky replaced Mr. Cymanek.

Dr. Judit Pettkó-Szandtner

Dr. Judit Pettkó-Szandtner graduated from the Law Faculty of József Attila University, Szeged in 1993. She earned her Master of Laws degree from the Law Faculty of the University of Basle (Switzerland). She joined Bank Austria Creditanstalt in 1996 and as of 1998 she has been the chief legal counsel. She was appointed as a member of the Supervisory Board of the Issuer in 2007.

Mag. Franz Wolfger

Mr. Wolfger graduated from the University of Economics Graz, Austria. From 1977 until 1981 he worked in Raiffeisen Trofaiach as deputy head of branch. Between 1981 and 1984 he was the internal auditor of Raiffeisen Landesbank Steiermark. Between 1990 and 1991 he was an assistant in the University Graz. Mr. Wolfger has been working for UniCredit Bank Hungary Zrt. since 1991. His current function is CFO. He was appointed as a member of the Supervisory Board of the Issuer in 2002.

József Sípos

Mr. Sipos graduated from the Faculty of Arts, Eötvös Loránd University in 1976. Between 1990 and 1995. Mr. Sipos was the managing director of ÁB AEGON General Insurance Company. He then worked as strategic communications manager in MOL Nyrt. He was the managing director of ALLIANZ Hungaria Insurance Company from 1999 until 2006. In 2006 he worked as a senior consultant in Real Group Consultancy before assuming his current position as managing director in charge of marketing and communications in UniCredit Bank Hungary Zrt. He was appointed as a member of the Supervisory Board of the Issuer in 2008.

Management Board

Dávid Baranyai

Mr. Baranyai graduated from the Budapest University of Economic Sciences in 1999. Mr. Baranyai joined UniCredit Group in 2002, and until 2005 was the Head of the Private Banking and Retail Securities Team in UniCredit Bank Hungary Zrt. From 2005 until September 2007 he was managing director in charge of retail sales**.** Since 2007 October Mr. Baranyai has served as CEO and member of the Management Board of the Issuer. In June 2008 he was elected as the Chairman of the Management Board of the Issuer.

Gabriella Tölli

Ms. Tölli graduated from the ELTE University of Art Studies in 1993 and received her MBA from the University of Economics and London Business School's joint course in 1998. She started her carrier in a joint venture bank of Bank Austria AG and Cariplo Milan Spa. in Hungary in 1995, where she assumed several junior and senior positions in retail, corporate and treasury business units. Following the acquisition of the bank by Citibank Hungary Zrt. she joined Bank Austria Creditanstalt in late 1999 as a senior market risk manager. With HVB AG's acquisition of her employer she became the head of the Asset-liability Management Unit. In 2006 she became responsible for UniCredit Jelzálogbank's treasury function. She was appointed as member of the Management Board of the Issuer in 2008.

Sándor Komócsi

Mr. Komócsi graduated from the Budapest University of Economic Sciences in 1997**.** From 1996 until 2001 he worked in several retail banking positions of ING Bank Hungary Rt, Budapest Bank Hungary Rt. and Raiffeisen Bank Hungary Rt. From 2001 to 2002 Mr. Komócsi was the member of the Board of Directors and as well as the director of IT and business development in Banco Santander CC

Credit. Mr. Komócsi has been working in the retail division of UniCredit Bank Hungary Zrt. in several managerial positions since 2002. Currently he is a managing director in charge of retail products. He was appointed as an external member of the Management Board of the Issuer in 2008.

Balázs Tóth

Mr. Tóth earned his degree from the College of Finance and Accountancy in Budapest in 1990. From 1990 until 1994 he worked in Magyar Külkereskedelmi Bank Rt. Mr. Tóth was a deputy branch office manager between 1995 and 1999 in Bank Austria Creditanstalt. From 2000 until 2006 he worked in the International Credit Department of Bank Austria Creditanstalt AG . From 2006. Mr. Tóth is the Chief Risk Officer at UniCredit Bank Hungary Zrt. He was appointed as an external member of the Management Board of the Issuer in 2008.

Gianluca Totaro

Mr. Totaro earned his degree in Economics and Banking from Universitá degli Studi in Siena. He joined UniCredito Italiano Grup in 1996. After gaining experience in the commercial network of the Bank, from March 2001 he worked in the Human Resources Division. From January 2003 he was seconded c/o Pekao Bank Warsaw as a consultant for Human Resources. From November 2006 he has been working in UniCredit Bank Hungary Zrt. and is presently the leader of the Human Resources Division. He was appointed an external member of the Management Board of the Issuer in 2007.

The business address for the members of the Management board and the Supervisory Board is Szabadság tér 5-6., 1054 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 Management Board and the Supervisory Board of the Issuer, and their private interests and other duties.

Business overview

Description of the Issuer's Principal Activities

The financial information in this Base Prospectus has been extracted from the audited annual financial statements of the Issuer for the financial year ended 31 December 2007 and the non-audited, non-reviewed, semi-annual financial statements of the Issuer for the first half of financial year 2008

The main activities of the Issuer, as a specialised credit institution, include its financing and refinancing activities in respect of the development and purchase of real estate. In order to reach the broadest possible range of clients, the Issuer has established a strong business link with its sole shareholder, UniCredit Bank Hungary Zrt. in order to maximise the reach of its business.

Refinancing

Commercial banks have the opportunity to acquire funds by selling independent mortgages to a mortgage bank. When a partner credit institution of the Issuer grants a residential mortgage in the retail market, the partner credit institution offers to sell the independent mortgage to the Issuer. At the same time, the partner credit institution undertakes to repurchase the lien, in accordance with the underlying mortgage repayment terms. The commercial banks 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.

In the framework of such co-operation, the Issuer offers HUF and foreign currency refinancing for residential purposes as well as for financing commercial properties to its commercial bank partners.

The refinancing business of the Issuer is based on refinancing state subsidised housing loans denominated in HUF to meet the requirements of government’s decree 2001/12. as amended from time to time and the Act on Mortgage Credit Institutions.

As at 31 December 2007 the Issuer's refinancing business was operating with five commercial bank partners.

Shrinking demand for subsidised housing loans denominated in HUF and increasing demand for loans denominated in foreign currency contributed to the significant decrease in the refinancing demand for subsidised housing loans denominated in HUF.

Co-operation agreements were signed with ING Bank Zrt., UniCredit Bank Hungary Zrt., Volksbank Zrt. and Budapest Bank Nyrt. in 2002, MKB Bank Zrt. in 2004 and ELLA Bank Zrt. in 2007.

The proportion of the refinancing portfolio represented by foreign currency denominated loans has maintained a stable contribution to the outstanding amount of refinanced loans in 2006 and in 2007. Newly refinanced mortgage loans are denominated in Swiss Francs and in Euro. The number of partner commercial banks taking part in foreign currency refinancing is relatively low, so to date that part of the Issuer's refinancing portfolio represented by foreign currency business remains comparatively small.

The below table shows the change in the amount of refinancing over the last five calendar years:

Refinancing (in HUF billion)

	2004	2005	2006	2007	1 January - 30 June 2008
Refinancing portfolio	56.7	58.6	54.9	50.3	46.7
HUF refinancing	52.9	54.7	51.5	46.0	42.8
Foreign currency refinancing	3.8	3.9	3.3	4.3	3.9

The Issuer started refinancing loans for third party banks denominated in foreign currency in 2007. On 31 December 2007 the total amount of foreign currency loans contributed 8.75 per cent. to the total refinancing portfolio.

As at 30 June 2008, 9,343 loans denominated in HUF and 152 foreign currency denominated loans were refinanced.

The below table shows the refinancing structure of the Issuer's portfolio by currency in per cent.:

	2004	2005	2006	2007	As at 30 June 2008
HUF refinancing	93.30	93.34	93.81	91.45	91.64
Foreign currency refinancing	6.70	6.66	6.19	8.55	8.36

Commercial real estate financing

Activity and Experience

As part of its commercial real estate financing activities the Issuer grants loans to finance commercial properties in co-operation with the real estate financing division of UniCredit Bank Hungary Zrt. Within this framework, the Issuer offers project financing to its corporate customers in respect of their real estate investments based on cash-flow.

As real estate financing has been one of the substantial activities of UniCredit Bank Hungary Zrt. for many years, the co-operation in the real estate financing sector between the Issuer and UniCredit Bank Hungary Zrt. has resulted in the establishment of an operative organisational working on real estate projects in UniCredit Bank Hungary Zrt.

Products

The commercial real estate finance business of the Issuer provides financing for the development (construction) or purchase of non-residential properties (offices, properties used for logistics purposes, hotels and retail properties).

The product line offered by the Issuer in respect of real estate financing is supported by UniCredit Bank Hungary Zrt. which offers related services, such as VAT financing, bank guarantees, account keeping and treasury products.

As the income of the Issuer's real estate clients is generated or based in foreign currency, the whole of the commercial real estate loan portfolio is denominated in Euro.

As lending is the Issuer's core business, its income derives mainly from interest and related fees.

Financing structure

According to the Issuer's lending policy, the loan-to-value ratio (**LTV**) cannot exceed 80 per cent. in respect of each loan. The LTV is calculated on the basis of the market value of the relevant real estate calculated by the Bank's internal valuation department. In some exceptional cases, such as in the case of a well known and experienced developer or investor and/or in the case of a prominent project, the above limit may be overruled by Bank Austria Creditanstalt AG.

The main security in respect of real estate projects is mortgages on the financed property and the assignment, by way of security, of the cash-flow generated by the financed property.

The preferred locations for the projects financed or to be financed by the Issuer are Budapest and its environs or, outside of Budapest, the well-developed regions and cities of Hungary.

Distribution network

The Issuer uses the existing branch network of UniCredit Bank Hungary Zrt. in the distribution of its commercial real estate loans – see "*Distribution Network*" below. Hungarian and international developers and investors have approached the Issuer as a result of its track record on the market.

Market

The current global financial credit crisis has had an indirect effect on the Issuer's lending activity through the considerably higher funding costs prevailing on the market.

Due to the decrease in the availability of cheap funding sources, the competition among the credit institutions has intensified for the more desirable projects, while more difficult or risky projects are often postponed.

Portfolio

The Issuer's consolidated commercial real estate finance portfolio is stable and has shown a steady increase in previous years. The following table shows the development of the commercial real estate loans portfolio of the Issuer:

DEVELOPMENT OF COMMERCIAL REAL ESTATE LOAN PORTFOLIO					
	As at 31 December				As at 30 June
	2004	**2005**	**2006**	**2007**	**2008**
	(in HUF million)				
UniCredit Jelzálogbank Zrt.	9,082	13,747	12,638	17,691	16,505

The table below shows the actual distribution of the real estate loan volume by property type as at 30 June 2008:

DISTRIBUTION OF COMMERCIAL REAL ESTATE PORTFOLIO BY PROPERTY TYPE		
	(in HUF million)	(per cent.)
Office	7,028	43
Industrial	4,952	30
Retail	3,152	19
Hotel	830	5
Land / commercial	543	3
Total	**16,505**	**100**

Retail

The Issuer offers, *inter alia,* financing for private individuals who meet the Bank's credit requirements and intend to purchase new residential properties built by contractors who have concluded a co-operation agreement with the Issuer. Real estate financed using this structure is located primarily in Budapest or its environs, in popular residential areas or districts. The purchase price of such real estate is often above the average market price, consequently, the size of loan requested for these properties is above average. Therefore, the average loan amount in the Issuer's portfolio is higher than the corresponding figures published by the Issuer's competitors.

In accordance with the domestic market trend the Issuer provides its clients with foreign currency credit for constructions satisfying a diversity of customer demands. The proportion of such loans within the portfolio shows an increasing tendency to the overall portfolio. In respect of newly-built real estate, the size of the state subsidy a Hungarian resident can obtain, is still significant. Therefore, the demand for the foreign exchange credit products arises mainly in the demographic sector above the eligibility threshold for state subsidies.

The fact, however, that the Issuer has a large number of applicants non-resident in Hungary wishing to purchase residential property in Hungary, principally in Budapest, as an investment explains the rise of foreign exchange credit products, since in the case of such a borrower the income is generated outside Hungary. The non-Hungarian resident borrowers are not eligible for a state subsidy. They also typically purchase higher value real estate. Consequently, such borrowers require larger amount of financing.

Agricultural land financing

At the end of 2006 the management of the Issuer decided to start a new business line focused on the growing demand for agricultural land. The new agricultural land financing business line has been boosted by the following conditions:

- the statutory regulations of the Ministry of Agriculture and Rural Development provide the possibility of taking state subsidised loans from mortgage banks; and
- agricultural land prices in Hungary and in the European Union are expected to converge over the next ten years.

The Issuer developed three loan products for private individuals to purchase agricultural land. These are:

- state subsidised loan for the purchase of agricultural land;
- other, non-subsidised ancillary loans for purchasing agricultural land where the purchase price exceeds the limit set for state-subsidised purchases; and
- loans for purchasing agricultural land based on the market interest rate.

The number of such disbursed loans has increased significantly in the last two years. At the end of 2006 they amounted to HUF 0.1 billion, while it reached HUF 2.27 billion at the end of December 2007. In the first half of 2008 the portfolio of agricultural loans reached HUF 1.51 billion.

As at the date hereof, the Issuer plans to undertake minor organisational changes in its business structure. These changes are due to be implemented in the second quarter 2009. Some activities will be transferred to UniCredit Bank Hungary Zrt. and some tasks will be outsourced. The proposed re-organisation will not impact on the balance sheet of the Issuer, nor will it affect the Issuer's issuance activity and capacity.

Description of any significant new products and/or activities

Due to increased demand for foreign exchange retail mortgage loans, the Issuer has started the provision of foreign exchange refinancing to third party banks in the form of independent lien purchases. The first major portfolio to be refinanced, is the eligible loans as defined in the Mortgage Credit Institution Act concluded or to be concluded by Issuer's parent bank, UniCredit Bank Hungary Zrt.

Distribution network

The Issuer primarily uses the branch network of UniCredit Bank Hungary in order to make its financial products available to the greatest extent possible among its potential clients.

One of the Issuer's most successful business areas is the Investors, Acquisitions and Relations Unit, which is responsible for communicating and maintaining contact with foreign and domestic real estate investors. The unit is in charge of establishing partnerships with investors, converting market demand into innovative products and operating and expanding the network of agents of the Issuer. The agents are selling the Issuer's home financing products, and are providing other services for the benefit of the Group in Hungary including the direction of customers' needs into the appropriate sales channels.

The agent network operated by the Issuer was established and developed taking into account the Issuer's portfolio development strategy, i.e. the main requirements in respect of an agent are its ability to acquire key accounts, sell both internationally and domestically and the agent's proven professionalism. The Issuer controls the agents' activities in accordance with the requirements set out by law and remunerates them in proportion to their business performance and the services they provide.

Due to the special characteristics of the Hungarian real estate market, the Issuer continues to focus on the real estate projects in Budapest, but it is also present in other main development zones in Hungary. The Issuer's standing has also been improved by the strategic cooperation agreement concluded with UniCredit Bank Hungary, the main point of which was to enable the Issuer to reach even more potential investors through the parent bank's expanding network of branches.

Collateral valuation

The Issuer also undertakes the valuation of collateral. In the 2007 financial year the number of valuations amounted to 15,524 of which 1,295 were in conjunction with the Issuer's own lending, whilst valuations by partner banks amounted to 14,229.

Portfolio Analysis

As at 31 December 2007 the Issuer's client loan portfolio amounted to HUF 95.5 billion; it had no pending commitments and its future commitments amounted to HUF 2.1 billion.

As at 31 December 2007 the Issuer's receivables from customers amounted to HUF 45.0 billion (47.2 per cent. of the portfolio) and the Issuer's disbursement commitment amounted to HUF 2.1 billion.

As at 31 December 2007 the refinancing loan portfolio of the Issuer amounted to HUF 50.3 billion (52.7 per cent. of the entire portfolio) from four commercial banks all of which were classified as problem-free. As at 31 December 2007, the government bond portfolio of the Issuer amounted to HUF 13 billion.

The Bank had term or sight deposits with one commercial bank amounting to HUF 2.2 billion (2.3 per cent. of the entire portfolio).

As at 31 December 2007, 97.43 per cent. of the portfolio was classified problem-free. The aggregate rate of substandard, doubtful and bad debts was 0.74 per cent. and 1.83 per cent were on the watch list.

As at 31 August 2008, there were three foreclosures ongoing: One was completed through an auction in 2007, another has been closed without auction in 2008 and one foreclosure is still ongoing as at the date of this Base Prospectus. Additionally, two further loans were terminated and the foreclosures are expected to commence during the course of 2008.

Breakdown of portfolio by classification, loss in value and provision

(in HUF millions)

CLASSIFICATION	**31 December 2007**			**31 December 2006**		
	Total accounts receivable	**Loss in value and provisions**	**Ratio (per cent.)**	**Total accounts receivable**	**Loss in value and provisions**	**Ratio (per cent.)**
Problem-free	93,065	0	0	83,815	0	0
Watch	1747	17.35	0.99	483	1.61	0.33
Below average	508	99.88	19.67	561	110.31	19.65
Doubtful	152	47.13	31.00	7	2.17	31.00
Bad	51	36.13	71.00	64	45.33	71.00
TOTAL	95,523*	200.49	0.21	84,930*	159.42	0.19

* The figures for the total accounts receivable adjusted to include the interbank deposits were HUF 89,307 million as at 31 December 2006 and HUF 97,527 million as at 31 December 2007

The Issuer monitors its loan portfolio on a quarterly basis and categorises each loan according to its internal and relevant legal regulations. The main categories are:

1. Problem free;
2. To be handled;
3. To be monitored;
4. Below average; and
5. Doubtful.
6. Bad.

Problem free

An outstanding loan is categorised as "problem free" if repayment of the loan is very likely and the bank does not expect any loss or any delay in payment will not exceed 30 days for corporate loans and 15 days for private loans and, additionally, the loss due to the delay is fully covered by the collateral.

(Provision 0 per cent.)

To be handled

An outstanding loan is categorised as "to be handled" if it can not be categorised as problem free, however, there is reasonable no likelihood of loss and, therefore, provisioning is not necessary or the Issuer is aware of such information which gives no reason for special treatment.

(Provision 0 per cent.)

To be monitored

An outstanding loan is categorised as "to be monitored" if, on the basis of available information, a minimal loss is expected and the specific loan needs special treatment, assuming that the collateral does not cover the loss.

(Provision 1-10 per cent.)

Below average

An outstanding loan is categorised as below average if, on the basis of available information, the risk attributable to that loan is higher than the regular risk and a loss of more than 10 per cent. is expected, however, delay in payment does not exceed 90 days.

(Provision 11-30 per cent.)

Doubtful

A loan is categorised as doubtful when the delay in payment is long-lasting (more than 90 days) or regular, or the expected loss is more than 70 per cent, or the bank's claim is legally enforced. In case of legal enforcement if the expected loss is below 70 per cent, a given exposure can be classified into a higher category. Written and explanatory documentation of the qualification is a must.

(Provision 31-70 per cent.)

Bad

An outstanding loan is categorised as bad if the loss is expected to be higher than 70 per cent. (Provision 71-100 per cent.)

Funding, Liquidity and Capital Resources

The Issuer funds its operations with both long-term and short-term funding. The main funding source of the Issuer is the issuance of mortgage bonds.

The majority of mortgage bonds are issued to the public and are listed on the Budapest Stock Exchange.

In the year ended 31 December 2007, the Issuer issued mortgage bonds with an aggregate nominal value of HUF 7.98 billion. As at 31 December 2007, the total nominal value of outstanding mortgage bonds was HUF 69.41 billion.

As at 31 December 2007 the Issuer had issued EUR 15 million privately-placed mortgage bonds outside of Hungary.

Short Term Funding

In the frame of its short term funding, the Issuer issues mortgage bonds both to the public and in the framework of private placements and, additionally, borrows short term inter-bank loans from its mother company.

Long Term Funding

Within the frame of its long-term funding, the outstanding amounts of the Issuer's long term facilities as of 30 June 2008 were: EUR 6.3 million maturing in September 2013, EUR 6.4 million, maturing in September 2013, EUR 42 million maturing in September 2010 and EUR 10.4 million maturing in September 2010.

Mortgage bond coverage

In accordance with the provisions of the Mortgage Credit Institutions Act and in keeping with the Issuer's rules on collateral registration, the Issuer monitors the collateral situation and compliance with the requirement of proportionality, as further set out in "*The Collateral System of Mortgage Bonds*". 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.

As at 31 December 2007, the ordinary collateral portfolio included 10,981 items with 13,270 real estate properties involved as coverage.

In the refinancing sector, a total of 1,030 independent lien contracts were repurchased in the course of the 2007 financial year involving 11,176 real estate properties covering 9,747 loan contracts.

As at 31 December 2007, the net value of ordinary collateral was HUF 92,084 million.

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

Outstanding mortgage bonds in circulation	**HUF**
face value:	69,417,480,000
Interest*:	18,903,065,051
total:	88,320,545,051

Ordinary collateral value	**HUF**
principal:	70,214,119,168
interest:	21,870,519,373
total:	92,084,638,541

Value of assets involved as supplementary collateral	**HUF**
principal:	13,425,370,100
interest:	0
total:	13,425,370,100

* Interest payable on outstanding mortgage bonds

Position of the Issuer on the Hungarian Mortgage Banking Market

As at 31 December 2007, three domestic mortgage banks are operating on the Hungarian market: the Issuer, FHB Land Credit and Mortgage Bank and OTP Mortgage Bank Plc. The aggregate of the balance sheet assets of these mortgage banks amounts to HUF 1,982.69 billion.

The Hungarian mortgage banks follow different strategies.

OTP Mortgage Bank (**OTP MB**). has in the past dedicated its efforts to exclusively serve its parent company OTP Bank Nyrt., providing all the features and benefits of a mortgage bank to its commercial bank parent. OTP MB has rarely conducted business outside the OTP Group. The substantial size and relative strength of OTP Group in Hungary and the mortgage lending success of OTP Bank Nyrt.'s retail division has, however, provided OTP MB with ample business opportunities.

FHB Mortgage Bank's (**FHB**) history of state-ownership and the fact that FHB for a long time did not compete with commercial banks made it a natural partner for most commercial banks. The commercial banks needed a refinancing partner in the early nineties when state subsidies caused a massive increase in mortgage loans. As OTP MB only served the OTP Group, most commercial banks had to choose between FHB and the Issuer. Most of them chose FHB as the FHB Group at that time was not a direct competitor in commercial banking, as opposed to the UniCredit Group.

The Issuer was established in 1998 as the first privately-owned mortgage bank in Hungary. The company was one of the driving forces behind the mortgage legislation in Hungary. The Issuer established long-lasting business relations in refinancing with several large banks in the Hungarian market, including the local subsidiaries of ING Group, Bayerische Landesbank, GE Money and Volksbank.

The table below sets out the respective shares of the mortgage bond market of the three Hungarian mortgage banks.

Mortgage bond market shares

	31.12.2003 (per cent.)	**31.12.2004 (per cent.)**	**31.12.2005 (per cent.)**	**30.09.2006 (per cent.)**	**31.12.2006 (per cent.)**	**31.12.2007 (per cent.)**
OTP MB	64.97	64.70	62.91	62.91	65.88	62.06
FHB	30.14	30.00	31.51	31.51	29.38	33.51
Issuer	4.89	5.30	5.58	4.74	4.74	4.43

Source: HFSA

As of 31 December 2007 the aggregate mortgage bond portfolio of the three Hungarian mortgage banks amounted to HUF 1,566 billion.

Major indicators of the Hungarian mortgage banks

	Issuer			**FHB***			**OTP MB**		
	(HUF billions)								
	2005	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
Balance sheet total	106.75	102.64	112.2	481.33	537.30	616.95	956.07	1,074.84	1,239.02
Subscribed capital	3.00	3.00	3.00	6.60	6.60	6.60	20.00	20.00	27.00
Own equity	8.13	9.87	11.6	23.74	29.49	32.06	36.94	39.27	47.24
Interest received	10.23	9.87	10.22	53.07	55.85	60.54	118.65	121.64	117.36
Interest paid	6.96	6.32	6.76	36.51	38.74	43.94	71.16	78.64	74.91
Net interest	3.27	3.37	3.46	16.55	17.11	16.60	47.49	43.00	42.45
Earnings before tax	2.30	2.36	2.42	10.70	9.84	6.54	6.80	10.03	6.45

Source: banks' IFRS reports

* Consolidated IFRS reports

Between 2002 and 2005 the mortgage lending market showed considerable growth. In 2005 and 2006 growth slowed and that trend continued in 2007.

Strategy

The Issuer's current strategy was approved by the Board of Directors in 29 August 2006 and subsequently amended in February 2008 (the **Strategy**).

The Strategy is aimed at reaching a 10 per cent. market share of the Hungarian mortgage bond market by 2010, to be achieved in combination with better than market-average return on equity and cost/income ratios.

When the Strategy was approved in 2006, the main assumptions of the Issuer for the period 2006 to -2010 were that margins were to decrease significantly, that state subsidies would decline and that foreign currency lending would outperform local currency lending by a great extent. To illustrate this fact, today 95 per cent. of the total retail lending is composed of foreign currency loans.

The Issuer also expected banks to depend less on deposits and hence the growing importance of securitisation. The Strategy calculated with growing costs of long term funding, among others through, inter alia, liquidity costs and country spreads and aimed at introducing the "Basel II: international convergence of capital measurement and capital standards: a revised framework" advanced method to reach a more advantageous capital structure.

Improved databases and data pools for example through loss-given-default (the "**LGD**") methods, appeared in the Strategy's assumptions.

The Issuer believes that there is a growth potential in the Hungarian mortgage lending market, due, inter alia, to low total mortgage loan volumes per GDP as compared with this ratio for the same period in case of the EU-15 countries (i.e. those EU Member States that were Member States before the Treaty of Accession in 2004).

Pursuant to the Strategy, the Issuer aims at reaching an even more exact measure of risk (for example, through LGD), while also preparing for the period when the relatively high state subsidies are being decreased.

When approving the Strategy in 2006, the Issuer aimed at adopting new refinancing schemes and portfolio purchases, as well as providing liquidity to, among others, investment undertakings involved in retail mortgage lending. Nevertheless, due to the higher level of risk involved and other business and legal considerations, the Issuer later amended the Strategy in early 2008 to exclude refinancing of such investment undertakings.

The Issuer is relying on a number of legal advantages, *inter alia*:

- in Hungary, only mortgage banks are allowed to issue covered mortgage bonds;
- prepayment of mortgage loans disbursed can be limited or compensated for through fees;
- the mortgage bank can register the prohibition of alienation and encumbrance; and
- short registration period for mortgage banks at the Land Registry Office.

The Strategy builds on the pillars below:

1. New Flat Financing

   The Issuer applies an efficient sales model involving co-operation with real estate developers.

   The Issuer focuses on co-operation synergies with UniCredit Bank Hungary's commercial real estate finance department (project finance and structured finance) and UniCredit Bank Hungary's retail division.

2. Refinancing

   Refinancing is the Issuer's main business and largest sub-portfolio. The Issuer utilises its ability to gain long term and cheap funding for UniCredit Group through covered bond issues. In the past, the Issuer focused on HUF issues; in the future this priority will change to issuing foreign currency mortgage bonds and thereby providing foreign currency funding to the UniCredit Group and possibly to some other partners of the Issuer.

3. New Business: Small business and agricultural land financing

In 2007, the Issuer introduced a new business line, whereby the Issuer is focusing on the mortgage needs of small business owners. In the beginning, the Issuer focused on agricultural land financing and from 2009, the Issuer aims to enhance such financing with providing financing for flat, office and shop purchases.

Trend Information

The prospects of the Issuer, as well as those of other financial institutions, for the current financial year may generally be affected by the unsettled global financial markets, and events, trends and uncertainties relating thereto. There are, however, no specific negative trends, uncertainties, commitments or events known by the Issuer that are reasonably likely to have a material effect specifically on the Issuer's prospects for at least the current financial year.

Material Contracts

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

Use of Proceeds

Proceeds from the issue of Mortgage Securities will be applied by the Issuer for general corporate purposes.

RISK MANAGEMENT

Risk management is undertaken on the basis of the same guidelines in each entity within the Group.

The Issuer has its own risk management reporting system to the Chief Risk Officer of UniCredit Bank Hungary Zrt.

The co-operation between the Issuer and its parent extends to the harmonisation of internal regulations, product development, decision making processes, operational risk, consolidated 'credit and market' risk reports and the handling of qualified loans.

Lending risk

Mortgage banks operate as specialised credit institutions in Hungary performing strictly limited business activities pursuant to the Mortgage Credit Institution Act.

Collateral

A mortgage bank grants loans which are secured by a mortgage, which may be in the form of an independent mortgage over real estate or in the form of a non-independent mortgage over real estate. The real estate may be located in the territory of the Republic of Hungary or in an EEA Member State.

A mortgage bank may, in the event of court–sanctioned foreclosure, liquidation or other insolvency procedure, seek satisfaction of its claims from the mortgaged property on the basis of the registered mortgage in priority to other unsecured claims and secured claims ranking subsequent to the registered mortgage. The Issuer accepts only first ranking mortgages as security for its loans. The Issuer accepts mortgages with lower priority only if the prior ranking mortgagee is the Issuer itself or if the loans secured by mortgages ranking ahead of the Issuer's mortgage will immediately be refinanced out of the loan granted by the Issuer to the borrower.

Mortgage banks may only grant bankers' commitments against real estate collateral and solely to customers to whom they have already extended a mortgage loan.

By law, the total amount of mortgage loans and bankers' commitments secured by the same property may not exceed the collateral value of the real estate.

In the case of mortgage banks, the prohibition on alienation and encumbrance is automatically recorded in the property register on behalf of the mortgage bank when a mortgage is registered. Accordingly, the Issuer's approval is required for the sale and/or encumbrance of the property.

Management believes that the loan portfolio of the Issuer is low risk. It is mostly constituted of annuity type mortgage loans with long maturities.

Customer Rating

Before undertaking any risks, the Issuer conducts a risk evaluation process, primarily consisting of an assessment of each loan applicant's capabilities and readiness to repay the loan, and determines a loan limit in respect of each loan applicant.

The loan applicant evaluation system differs depending on the status of the applicant:

- *corporate clients* - the Issuer examines the owners and activities of the applicant, and the cash-flow and profitability of the project to be financed;
- *refinancing commercial banks* - the credit risk assessment is effected at the group level on the basis of the group-rating of a certain bank; and
- *retail* - a separate credit-scoring system was introduced based on the private individual's income and capital situation, as well as on subjective elements such as age, workplace, job position and qualification.

Valuation of collateral

The Issuer considers the realistic valuation of real estate to be of key importance. The evaluation is in line with the provisions of Decree No. 25/1997 (VIII.1.) of the Ministry of Finance, on the principles and methodology applicable to the establishment of the collateral value of real estate not qualifying as agricultural land, and Decree No. 54/1997 No. (VIII.1.) of the Ministry of Agriculture, on the principles and methodology applicable to the establishment of the collateral value of agricultural land. The

Issuer signed agreements with independent valuation agencies to involve them in the valuation of prospective real estate collateral. The applied valuation methods are in line with the Group's valuation methods and the international valuation standards.

The Mortgage Credit Institution Act, as well as other regulations, only permits the Issuer to purchase independent liens pledged on real estate which has been valued by the Issuer.

To meet this requirement, the Issuer provides valuation services for all of its partner credit institutions before refinancing takes place. This ensures that by the time a partner credit institution makes a decision on granting a loan, the eligible value of the loan accepted by the Issuer is known, allowing the Issuer to comply with regulatory limits.

Coverage supervisor

In addition to performing its duties prescribed by the relevant statutory provisions, the Issuer's Coverage Supervisor (PricewaterhouseCoopers) reviews the work of the Issuer's valuation experts and performs spot checks of valuations.

Market Risk

The market risk that the Issuer faces derives from the different structure of assets and liabilities in terms of interest rates, interest periods, maturities and currency denomination. The asset side is made up of mortgage loans and refinanced mortgage loan packages, containing mostly annuity type loans with long term maturities and generally 1 or 5 years re-pricing periods, while most of the liability side consists of bullet mortgage bonds with up to 7 year maturities. In order to manage market risk the Issuer regularly tracks and measures the exposure deriving from the key risk factors including interest rates, liquidity and foreign exchange risk.

Interest Rate Risk

The Issuer's interest risk derives from the following factors:

- Differing maturity of assets and liabilities, in particular the difference between the adjusted average duration of the mortgage loans with state subsidy and the average duration of the issued mortgage bonds;
- Changes in money market and capital market yields during the period subsequent to the disbursement of the loans and the issuance of mortgage bonds;
- Different repayment dates of the annuity-based loans or loans to be repaid in instalments and issued bullet mortgage bonds; and
- Reinvestment risk, i.e. the difference between the yield achievable by the reinvestment of funds received by prepayments and the original loan's adjusted interest (adjustment refers to the inclusion of the subsidy income linked to mortgage loans).

The Issuer manages interest rate risk primarily by "neutral hedging" techniques including the approximation of the maturity structures of liabilities and assets, harmonisation of re-pricing periods and the limitation of potential differences between variable and fixed rate assets and liabilities.

Decision making regarding the re-structuring of the balance sheet items (immunisation) is the competence of the issuer's Asset Liability Committee (ALCO). Monitoring interest rate risk and supplementing the ALCO with an assessment of the effect of the planned immunisation steps is the responsibility of the Issuer's Treasury and Market Risk departments. Measuring of risk is done by interest rate Gap (mismatch), BPV (Basis Point Value) and VaR (Value at Risk) reports, all in line with the Group standards and the applicable local regulations.

Besides the neutral hedging techniques, interest rate risk can be decreased or eliminated by entering into derivative transactions (i.e. interest rate swaps, cross currency interest rate swaps). Pursuant to the Mortgage Credit Institution Act such derivative transactions may be concluded solely for hedging purposes and, additionally, must be accounted for as cash-flow hedge transactions according the Group's standards.

Liquidity Risk

The Issuer maintains liquidity through the matching of maturity of receivables and obligations. For profitability reasons, however, the Issuer applies maturity transformation, which means that it accepts or creates liquidity gaps (mismatches) in some maturity buckets up to an extent that does not violate limits set out by the Group and does not endanger solvency.

The liquidity management of the Issuer is primarily carried out at Group level, the trigger points (ratios applied for cumulated values of cash in-flows and out-flows at certain maturity ranges) are set at a time frame of 15 months and 6 years for cumulated gaps between maturing liabilities and the cash-flows of their asset coverage.

The main tool for monitoring the ratios and the overall liquidity situation is the structural liquidity report produced by a Group monitoring system (ALVIS). In addition, short term liquidity reports are compiled daily on a consolidated basis.

The controlled ratios are not based on contractual maturities but on a "going concern" concept, meaning that the instruments are categorised according to their expected expiration. Besides this "going concern" report, crisis models are also prepared and the Group has a contingency plan to be used in case of a market crisis. Finally, the Issuer regularly analyses the potential changes in liquidity ratios by using stress tests.

The Issuer generates funds by the issuance of mortgage bonds. Liquidity shortages, by the time they arise, can be covered by money market transactions concluded with its parent company. Additionally, the Issuer holds government bonds (as primary liquid assets) in its portfolio. Part of these bonds, however, forms part of the supplementary coverage of the issued mortgage bonds, thereby the marketability of such government bonds is restricted.

Foreign Exchange Risk

In order to minimise the risk deriving from the fact that receivables and obligations arise in different currencies at a low level, the Issuer principally intends to finance each asset from liabilities denominated in the same currency. Over a given period, however, foreign currency in-flows could exceed the out-flows (or vice versa), thereby accumulating open foreign currency positions that are closed from time to time by the Issuer's Treasury Department with the use of foreign exchange spot transactions. Open foreign currency positions are constrained by position limits and monitored daily by the Market Risk Department.

Foreign exchange risk may also be mitigated with the use of derivative instruments (foreign exchange swaps, cross currency swaps), provided that such transactions are initiated for hedging purposes and registered accordingly.

Prepayment Risk

Besides the above described typical risk factors, prepayment risk must also be taken into account in the case of mortgage banks. In order to manage prepayment risk the Issuer sets out conditions for, and also charges a fee on, prepayments. Furthermore, the Issuer analyses the prepayment ratios on the portfolio basis, estimates the volume of the prepayment and takes this information into consideration in the course of planning new issuances.

Prepayment risk is not independent from other risk factors as its level correlates with the yield regime, and the incoming flows from the early redemptions can cause liquidity surplus and reinvestment risk.

Derivatives and Treasury policy

Being a specialised credit institution the Issuer's Treasury Department is only involved in a small range of basic financial market transactions. As a result, the treasury activities of the Issuer comprises mostly liquidity and interest rate risk management-related trades. The treasury transactions are carried out through the Treasury department of UniCredit Bank Hungary Zrt., thereby benefiting from the close partnership with the counterparties.

As set out above, the Issuer may engage in swap transactions to hedge its interest rate risk deriving mainly from market volatility and the different interest rate structures of assets and liabilities. The issuer must account all its derivatives transactions according to a hedge portfolio defined by IAS 39. Besides hedging-related transactions, the Treasury Department's main activities cover the management tasks of the available for sale portfolio of the coverage registry book.

The Issuer's existing mortgage bond issuance is mainly carried out within the framework of the Issuer's domestic mortgage bond programme (established in accordance with Act CXX of 2001 on the capital markets (the **Capital Markets Act**) and the Mortgage Credit Institution Act as well as the applicable internal regulations of the Issuer on liquidity and issuance). Apart from the Issuer's liquidity (influenced primarily by the timing and extent of principal and coupon payments, and prepayments) and market risk situation, the Issuer's mortgage bond financing strategy puts weight on exploiting the state’s interest subsidy system in order to provide cheap funding for clients.

THE COLLATERAL SYSTEM OF MORTGAGE BONDS

Coverage requirement

Article 14 of the Mortgage Credit Institution Act provides for the coverage of covered mortgage bonds. Article 14(1) provides that mortgage credit institutions must, at all times, hold available a coverage (*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 coverage minus the loss in value, must exceed 100 per cent. of the nominal value of the outstanding mortgage bonds in circulation; and

(b) the interest due on the combined value of principal receivable, considered as coverage minus the loss in value, must exceed 100 per cent. of the nominal value of interest due on the outstanding mortgage bonds in circulation.

Article 14(4) of the Mortgage Credit Institution Act provides 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 mortgage bonds and the registration of the mortgages and other liens that serve as collateral for the ordinary coverage of mortgage bonds, and the data registered in the Land Registry 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 HFSA. The Coverage Supervisor of the Issuer is PricewaterhouseCoopers.

Checking of the satisfaction of the requirements of proportionality

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 ordinary coverage for the covered mortgage bonds and the ordinary 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 ordinary 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 Act CXII of 1996 on credit institutions (the **Credit Institutions 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 collateral 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 collateral 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, banks 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; and
- establishment of its lending value.

Registration of coverage items

Pursuant to the applicable legal requirements, the Issuer maintains a cover register 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 HFSA by its Resolution No. E-I-1151/2006, 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 items underlying the covered mortgage bonds. The aim of the portfolio level statements is to check compliance with the proportionality requirements and that of the maturity matching between the covered mortgage bonds and the credit receivables.

Secured position of the holder of the 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 (*fedezeti gondnok)* (the **Coverage Administrator**), 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 of 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 with respect to the right of satisfaction.

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

(a) ordinary and supplementary coverage registered in the cover register on the date of the commencement of the liquidation; and

(b) the portion of the ordinary coverage which could not be taken into account as ordinary coverage for the reason that it exceeds 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 (a) and (b) 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.

Special status of the mortgage bonds

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, the EEA and the OECD; (d) securities issued by the European Investment Bank, International Bank for Reconstruction and Development, Council of Europe Development Bank and 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, supplementary coverage may only account for a maximum of 20 per cent. after the third year of the operation of the mortgage bank. While in case of ordinary coverage, if the demand for principal under mortgage loans or the refinancing purchase price of a loan exceeds 60 per cent. of the lending value of the mortgaged property, these may only account for ordinary coverage up to 60 per cent. or 70 per cent. of the lending value of the mortgaged property depending on the type of the real estate.

Independent Coverage Supervisor

The registration and current portfolio of the coverage 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 of the ordinary and the supplementary coverage of the mortgage credit institution and other receivables deriving from mortgage loans disbursed, together with other liquid assets will serve as the exclusive collateral of the claims deriving from mortgage bonds and the above-mentioned derivative agreements. Only the costs related to the enforcement and registration of the mortgage credit institution's receivables, the fee of the Coverage Supervisor and some costs generated by the Coverage Administrator 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(6) of the Mortgage Credit Institutions Act, in the event the assets in the coverage do not grant the satisfaction in full of the claims of the holders of the mortgage bonds vis-á-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 coverage with assets of the Issuer originally not belonging to the coverage.

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 public in each quarter, regarding the aggregate amount of the outstanding principal and interest of the covered mortgage bonds and the value of coverage items, the availability of which are 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 a case the amendment of the Mortgage Credit Institution Act provides that certain provisions of Hungarian law shall not be automatically 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.

FINANCIAL INFORMATION

Balance sheet

The following table shows the audited Balance Sheet of the Issuer prepared in accordance with the International Financial Reporting Standards as at 31 December 2006, and 31 December 2007 and the semi-annual non-audited balance sheet of the Issuer prepared in accordance with the International Financial Reporting Standards as at 30 June 2008.

	31 December 2006 (audited)	31 December 2007 (audited)	30 June 2008 (unaudited)
Assets		**(HUF million)**	
Nostros with banks	374	10	37
Available for sale financial assets	7,823	13,130	12,205
Held to maturity investments	3,376	0	0
Placements with, and loans and advances to other banks	59,476	52,503	46,870
Loans and advances to customers	29,831	45,024	47,696
Property, plant and equipment	56	55	7
Intangible assets	238	92	74
Tax assets	39	61	445
Other assets	1,427	1,362	1,201
Total assets	**102,640**	**112,237**	**108,535**
Liabilities			
Deposits and loans from other banks	17,251	26,050	27,965
Issued mortgage bonds	70,851	69,417	64,853
Tax liabilities	0	16	
Other liabilities	4,672	5,109	3,920
Other provisions	0	46	0
Total liabilities	**92,774**	**100,638**	**96,738**
Shareholder's Funds			
Share capital	3,000	3,000	3,000
Capital reserve	783	783	783
Other reserves	4,352	6,166	8,010
Valuation reserves	(83)	-194	-961
Net profit	1,814	1,844	965
Total Shareholder's Funds	9,866	11,599	11,797
Total Liabilities and Shareholder's Funds	**102,640**	**112,237**	**108,535**

Income statement

The following table shows the audited Statement of Income of the Issuer prepared in accordance with the International Financial Reporting Standards for the financial years ended 31 December 2006 and 31 December 2007 and the semi-annual non-audited Statement of Income of the Issuer prepared in accordance with the International Financial Reporting Standards as at 30 June 2008.

	31 December 2006 (audited)	31 December 2007 (audited)	30 June 2008 (unaudited)
		(HUF million)	
Interest and similar income	9,699	10,224	5,267
Interest expense and similar charges	(6,328)	(6,762)	(3,474)
Net interest income	**3,371**	**3 462**	**1,793**
Fee and commission income	105	288	32
Fee and commission expense	(37)	(30)	0
Net fee and commission income	**68**	**258**	**32**
Dividend income			
Net trading income	6	1	3
Net gain and loss on other financial intruments disposals	0	(36)	0
Operating income	**3,445**	**3,685**	**1,828**
Impairment and losses on credit products	(84)	(54)	(79)
Net financial activity result	**3,361**	**3,631**	**1,749**
Personnel expenses	(471)	(561)	(280)
General operating expenses	(367)	(424)	(190)
Other provision	0	(46)	
Amortization and impairment on Property, plant and equipments	(5)	(4)	(25)
Amortization and impairment on Intangible assets	(146)	(165)	(42)
Other income /(expenses)	(8)	(14)	41
Operating costs	**(997)**	**(1,214)**	**(496)**
Profit before tax	**2,364**	**2,417**	**1,253**
Income tax expense	(550)	(573)	(288)
Net profit for the year	**1,814**	**1,844**	**965**

Statement of cash flows

The following table shows the audited Cash Flow Statement of the Issuer prepared in accordance with the International Financial Reporting Standards for the financial years ended 31 December 2006 and 31 December 2007:

	31 December 2006	31 December 2007
	(HUF million)	
Cash flows from operating activities:		
Net profit for the year	**1,814**	**1,844**
thereof interest received	9,699	10,224
thereof interest paid	6,328	6,762
Adjustment to determine net cash provided by operating activities		
Depreciation	150	169
Net change in other assets and tax assets and other liabilities	(366)	761
Income taxes paid	(568)	(582)
(Increase)/Decrease in current account and deposits with banks	8,511	2,332
Increase in loans and advances to customer, net	(2,923)	(15,193)
Increase in individual mortgage rights purchased	3,680	4,642
Increase in deposits, net of withdrawals	(4,658)	8,799
Cash flow from/(used in) operating activities	3,826	928
Investing Activities		
Proceed on sale of property, plant and equipment	0	1
Purchases of intangibles and equipment	(197)	(27)
Disposal of intangibles and equipment	10	13
Increase in securities purchased	(4,733)	(1,689)
Cash flow from/(used in) investing activities	(4,920)	(1,702)
Financing activities		
Increase in mortgage bonds issued, net	(677)	(1,434)
Cash flow from/(used in) financing activities	(677)	(1,434)
Net increase/(decrease) in cash and cash equivalents	43	(364)
Cash and cash equivalents at beginning of year	331	374
Cash and cash equivalents at year end	374	10

Statement of changes in shareholder’s equity

The following table shows the statement of audited Shareholders' Equity of the Issuer prepared in accordance with the International Financial Reporting Standards for the financial years ended 31 December 2006 and 31 December 2007:

	Ordinary Shares	**Capital Reserve**	**Other reserves**			**Valuation reserves**	**Net profit**	**Total**
			Retained Earnings	General Reserve	General Risk Reserve			
				(HUF million)				
Balance as at 1 January 2006	3,000	783	1,854	381	322		1,795	8,135
Gains and losses recognised directly in equity in accordance with IAS 39	-	-	-	-	-	(83)		(83)
Net profit for the previous year			1,795				(1,795)	0
Net profit for the current year	-	-		-	-	-	1,814	1,814
Dividend to equity holder	-	-		-	-	-	-	
Appropriations								
Transfer from retained earnings	-	-	(176)	182	(6)	-	-	0
Balance as at 31 December 2006	3,000	783	3,473	563	316	(83)	1,814	9,866
Gains and losses recognised directly in equity in accordance with IAS 39	-	-	-	-	-	(111)		(111)
Net profit for the previous year			1 814				(1,814)	0
Net profit for the current year	-	-		-	-	-	1,844	1,844
Dividend to equity holder	-	-		-	-	-	-	
Appropriations								
Transfer from retained earnings	-	-	(211)	180	31		-	
Balance as at 31 December 2007	3,000	783	5,076	743	347	(194)	1,844	11,599

OVERVIEW OF HUNGARIAN MORTGAGE BONDS REGULATION

The Coverage System of Mortgage Bonds

Coverage Requirements

Article 14 of the Mortgage Credit Institution Act provides for the coverage of covered mortgage bonds. Article 14(1) provides that mortgage credit institutions at all times must hold security or coverage ("*fedezet*") available at a value higher than the amount of nominal value and interest of 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 the principal receivables considered as coverage minus the loss in value must exceed 100 per cent. of the nominal value of the outstanding mortgage bonds in circulation, and

(b) the interest due on combined value of the principal receivables considered as coverage minus the loss in value must exceed 100 per cent. of the nominal value of interest due on the outstanding mortgage bonds in circulation.

Article 14 (4) of the Mortgage Credit Institution Act states that mortgage credit institutions must ensure the above coverage is also available as calculated on a present value basis.

According to the Decree No. 40/2005 of the Finance Ministry, mortgage credit institutions must continuously monitor the fulfilment of the following requirements:

(a) mortgage credit institutions have to calculate the net present value of their outstanding mortgage bonds and the coverage for those bonds on a daily basis. Further, mortgage credit institutions have to monitor the fulfilment of the criteria that mortgage credit institutions must at all times have a coverage portfolio present value which exceeds the present value of the obligations arising out of the mortgage bonds issued at all times; and

(b) as a further guarantee established by law, mortgage credit institutions have to monitor the fulfilment of the above coverage requirements by a stress test at least quarterly, in order to assure that the coverage level is sufficient in case of any changes in the applicable interest or exchange rates.

The Role of the Coverage Supervisor

Controlling the existence of coverage items

Articles 16 and 17 of the Mortgage Credit Institution Act provide for the commissioning of the Coverage Supervisor and its activities. 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 of the covered mortgage bonds and approves the registration of mortgage loans that form part of the ordinary coverage of covered mortgage bonds into the coverage register. The commissioning of the Coverage Supervisor is valid with the authorisation granted by the HFSA. The Coverage Supervisor of the Issuer is Pricewaterhouse Coopers Tanácsádo Kft..

Controlling the satisfaction of the requirements of proportionality

The aggregate coverage register contains the up-to-date data, aggregated at the portfolio level, of the outstanding covered mortgage bonds in the market of the items and ordinary and supplementary coverage and of the value of each coverage.

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 ordinary and supplementary coverage, in a monthly breakdown.

Among the mandatory formal requirements applicable to mortgage bonds, the Coverage Supervisor has to certify the existence of the prescribed coverage on the covered mortgage bond. The lack of such a certificate would result in the bond to be issued not qualifying as a covered mortgage bond.

Evaluation of the Lending Value of a Real Estate

The Mortgage Credit Institution Act and the Credit Institution Act provide for the valuation of the lending value of mortgaged properties pledged for coverage items. The principles and methods of the establishment of the lending value are regulated by law: by Decree No. 25/1997 (VIII.1.) of the Ministry of Finance on the principles of the methodology applicable to the determination of the coverage value of real estate not qualifying as agricultural land and by Decree No. 54/1997. (VIII.1.) of the Ministry of Agriculture on the principles of the methodology of the determination of the coverage value of agricultural land. Accordingly, the key tasks of the valuation are as follows:

(a) preliminary evaluation of the acceptability of the real estate from legal aspects (as a general rule, the Bank accepts only unencumbered real estates);

(b) assessment of the long-term permanent nature of the value of the real estate;

(c) marketability of the real estate in terms of time requirements; and

(d) determination of the coverage value of any real estate.

Registration of Coverage Items

Pursuant to the applicable legal requirements, the Issuer is keeping a coverage register of the value of the ordinary and supplementary coverage and the mortgaged real estate items pledged for the loans that constitute the ordinary coverage of the covered mortgage bonds. The coverage registration rules of the Issuer have been approved by HFSA and reviewed by the Coverage Supervisor. The statements in the coverage register of the Issuer record, 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 proportionality requirements and match the maturity match between the covered mortgage bonds and the credit receivables.

Secured Position of a Holder of Covered Mortgage Bonds in the Ranking of Creditors

The Mortgage Credit Institution Act sets forth the rules of insolvency of a mortgage credit institution, as follows.

In 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 curator (*fedezeti gondnok*) who will satisfy the claims of the holders of the mortgage bonds and the contracting parties of those derivative transactions which were registered in the registry of coverage as being part of the ordinary coverage. The claims of these contracting parties will rank *pari passu,* with the claims of the holders of mortgage bonds in right of satisfaction.

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

(a) ordinary and supplementary coverage registered in the coverage registry on the date of the commencement of the liquidation; and

(b) the portion of the ordinary coverage which could not be taken into account as ordinary coverage for the reason that it exceeds the 60 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 (a) and (b) above do not constitute part of the liquidation assets (for further details see "*Detailed Rules of the Coverage System Relating to the Mortgage Bonds*"). The coverage curator will satisfy the claims arising from the mortgage bonds on the dates of interest payment and redemption indicated on the mortgage bond.

Special Status of the Covered Mortgage Bonds

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

(1) ***Coverage system***

The ordinary cover 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 EEA and the 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 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.

(2) ***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 operations of the bank.

(3) ***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.

(4) ***Special status of the holders of mortgage bonds***

Pursuant to the amendment of the Mortgage Credit Institution Act effective from 1 January 2007, the claims arising from the mortgage bonds and those derivative agreements that were registered in the coverage registry will be settled, by a coverage curator appointed by the court, separately from the liquidation proceeding. All the ordinary and the supplementary coverage of the mortgage credit institution and other receivables deriving from mortgage loans disbursed, together with other liquid assets, will serve as the exclusive collateral of the claims deriving from mortgage bonds and the above-mentioned derivative agreements. Only the costs related to the enforcement and registration of the mortgage credit institution's receivables, the fee of the coverage curator and some costs generated by the Coverage Supervisor shall be settled from these assets in priority to the settlement of the claims of the holders of the mortgage bonds and the contracting parties of derivative agreements which accounted for ordinary coverage.

If all 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.

(5) ***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.

(6) ***Increased publicity***

A mortgage credit institution is obliged to provide information to the public in each quarter regarding the aggregate amount of the outstanding principal and interest of the covered mortgage bonds and the value of the coverage items, the availability of which are certified by the Coverage Supervisor.

(7) ***Specialised credit institution***

Mortgage bonds can only be issued by mortgage credit institutions with certain content requirements set out by the Act on Mortgage Credit Institutions and Mortgage Bonds. 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 *S*tate other than Hungary

Pursuant to the amendment of the Mortgage Credit Institution Act which entered into force on 1 December 2007, a mortgage bank 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.

DETAILED RULES OF THE COVERAGE SYSTEM RELATING TO THE MORTGAGE BONDS

Mortgage bonds ("*jelzáloglevél*") are transferable debt securities issued exclusively by mortgage credit institutions pursuant to Act XXX of 1997 on Mortgage Credit Institutions and on Mortgage Bonds (*1997. évi XXX. törvény a jelzálog-hitelintézetről és a jelzáloglevélről*).

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 EEA and the European Union, 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 EEA or the European Union, subject to further prudential requirements. The repurchase price of the individual liens may also serve as ordinary coverage. The supplementary coverage, which may be up to 20 per cent. of the total coverage, may consist of the following instruments: (a) money held on a separate blocked account at the National Bank of Hungary; (b) securities issued by the European Central Bank or the national banks of the member states of the European Union, the EEA and the OECD; (c) securities issued by the member states or full members of the European Union, EEA and 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 kezességvállalás*") provided by the Hungarian government; (f) securities the principal and interest payment of which are guaranteed by any of the issuers listed in (c) and (d) above; or (g) certain loans extended with first demand suretyship provided by the Hungarian government. The total amount of claims towards any of the obligors listed in (c), (d) and (f) above may not exceed at any time two per cent. of the total amount of supplementary coverage.

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

In the event of the transformation or liquidation of a mortgage credit institution it may transfer wholly or partially to another mortgage credit institution its obligations arising from mortgage bonds and those derivative transactions which are included in the coverage. This transfer is subject to the permission of the 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 curator. In the event of the liquidation of a mortgage credit institution, claims arising from mortgage bonds and derivative transactions included in the coverage will not become due and payable at the time of the commencement of the liquidation. The coverage curator acts outside the ordinary liquidation proceedings. It satisfies the claims arising from the mortgage bonds using the designated assets of the mortgage credit institution when the interest and principal payments become due. The contracting parties in those derivative transactions which are registered in the coverage are in the same position as the holders of the mortgage bonds with respect to their claims from such derivative transactions. The rules on satisfying claims arising from the mortgage bonds must be applied duly to satisfying claims arising from such derivative transactions.

Following the settlement of the fees of the coverage curator, the fees relating to the administration and enforcement of certain claims in relation to the liquidation and the costs relating to the activities of the coverage supervisor, the following (the **Restricted Assets**) may only be used for the satisfaction of obligations owed to holders of mortgage bonds and contracting parties of derivative transactions included in the coverage: (a) the ordinary and supplementary coverage registered in the coverage registry at the commencement of the liquidation, (b) (i) that part of the ordinary coverage which cannot be included in the coverage because it exceeds the statutory limits; and (ii) those liquid assets of the mortgage credit institution which (A) exist at the time of the commencement of the liquidation, (B) are not included in the coverage and (C) meet the criteria for supplementary coverage. The Restricted Assets only become part of the liquidation assets of the mortgage credit institution, if all the claims of the holders of mortgage bonds and contracting parties of derivative transactions included in the coverage are satisfied or transferred to another mortgage credit institution.

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

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

Within two years following the commencement of the liquidation the coverage curator or any holder of mortgage bonds may request the court to supplement the Restricted Assets from the liquidation assets of the mortgage credit institution. This is subject to proving that the Restricted Assets are not sufficient to cover the claims of the holders of the mortgage bonds. After two years this right is forfeited. Only the coverage curator may act with respect to the assets so supplemented.

The court may only resolve on the conclusion of the liquidation proceedings and the dissolution of the mortgage credit institution, if (i) all the claims arising from the mortgage bonds and the derivative transactions included in the coverage have been satisfied or transferred to another mortgage credit institution, or (ii) all the assets serving as coverage for such claims have been distributed.

Effective from 1 January 2007, only the holders of the mortgage bonds and the contracting parties in the derivative transactions included in the coverage (to the extent of their claims arising 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.

THE HUNGARIAN BANKING SYSTEM

LEGAL OVERVIEW

The legal framework of the present banking system is based on Act CXII of 1996 on Credit Institutions and Financial Enterprises (the **Credit Institutions Act**), Act CXXXVIII of 2007 on Investment Firms and Commodity Service Providers and on the rules of their activity (the **Investment Firm Act**) and 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.

EU Membership

The Republic of Hungary became a member of the European Union on 1 May 2004. Membership of the EU has resulted in the Republic of 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.

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, which implements 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.

In order to harmonise the financial regulatory system with the EU directives, the Credit Institutions Act was amended to include new rules with regard to the Hungarian central credit information system. These rules aim to broaden the rights of individuals to receive information regarding their registered data from the database and to seek legal redress in case of incorrectly or unlawfully registered personal data. Furthermore, the amendments have enlarged the scope of persons subject to registration therewith, thereby enhancing the safety of investment credit, securities lending activities and financial stability.

Hungary has also 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.

Other EU directives implemented by Hungary include (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 of 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 terrorist financing. As a result of the implementation of the above-mentioned directives, the Hungarian Parliament passed the Investment Firm Act, which entered into force on 1 December 2007. TheCredit Institutions Act and the Capital Markets Act were also amended in various respects.

Domestic Background

Role of the National Bank of Hungary

The National Bank of Hungary and its current position in the system of European Central Banks is regulated by Act LVIII of 2001 on the National Bank of Hungary.

Although the National Bank of Hungary has no legal obligation to support Hungary's credit institutions, it may serve as a lender of last resort to a credit institution if the credit institution faces temporary liquidity difficulties which jeopardise the stability of the financial system. However, the National Bank of Hungary is not permitted to grant any financial aid to the Government. Any loans granted by the National Bank of Hungary in its capacity as lender of last resort to Hungary's credit institutions qualify as general unsecured obligations of the credit institutions.

The National Bank of Hungary 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 Republic itself. The National Bank of Hungary also monitors the compliance of credit institutions with those provisions of the Credit Institutions Act that belong to its licensing powerand the decrees issued by the Governor of the National Bank of Hungary.

The European Central Bank and the National Bank of Hungary

There is no official target date indicated by the Hungarian government for Hungary to become a member of the Economic and Monetary Union (the **EMU**). 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 National Bank of Hungary 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 Hungarian Financial Supervisory Authority (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 Hungarian Government and has national jurisdiction. It is headed by a Council consisting of 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 Hungarian Prime Minister. The other members of the Council are appointed by the President of Hungary on the proposal of the Hungarian Prime Minister. The Chairman of the Council reports to the Hungarian 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 Hungarian Prime Minister 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 increased 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.

Banking Regulations

The Features of Regulation

The Credit Institutions Act, the Investment Firm 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

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 8 million). Mortgage credit institutions are specialised credit institutions with a registered capital requirement of at least HUF 3 billion (circa EUR 12 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 pursuant to detailed rules its own funds may not in any event be less than the minimum amount of its registered capital.

Trading Book and Activity

In order to ascertain a credit institution's capital requirements on trading and certain other open positions, a trading book must be kept to record the financial instruments in the trading portfolio that are exposed to the market risks fundamentally connected with specified investment and financial services and the risks undertaken in connection with these.

As of 1 December 2007 a new regulation entered into force with respect to the Trading activities with the implementation of the MiFID. The new rules on the Trading activities set out in the Investment Firm Act contain further criteria for the credit institutions to elaborate new by-laws in respect of the Trading activities and also set out the principles that will have to be followed in the by-laws. The currently operating credit institutions may remain compliant with the "old regulations" as before the implementation of the MiFID until 31 December 2008. Therefore, the above-mentioned regulation by the Act CIIIVIII of 2007 on investment firms and services (the "Investment Firms Act") may not be followed 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 the Credit Institutions Act and if it has no negative profit reserves.)

A credit institution may pay dividends or shares only if it has created the general reserves described as set out above in the calendar year, or if the HFSA has granted exemption from the obligation to create general reserves. A credit institution may use general reserves only to offset the losses incurred during its activities. A credit institution may re-allocate its available profit reserves in whole or in part into general 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. The 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 an 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 may apply the Standardised Method.

Pursuant to the Standardised Method, each exposure must be categorized 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.

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).

In 2001, the Republic of Hungary harmonised its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU Directive 93/6.

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.

The Hungarian money and capital markets

The market of the Hungarian Forint was fully liberalised in 2001. Until the end of February 2008, the Hungarian Forint was set to the official intervention band of 240.01 – 324.71 HUF/EUR, and as of February 2008 the HUF is a freefloating currency.

Both the Budapest Stock Exchange and the government securities market are integrated into the global capital markets. The extent of corporate bonds (including banks' commercial papers and mortgage bonds) has been relatively limited as a result of the abundant liquidity and cheap funding opportunities of the commercial banking system. Unfavourable funding environment resulting from the 2007 sub-prime financial crisis has increased the costs of the securities-based funding of both the banking and the corporate sectors.

Development of the banking system

The Hungarian banking system has been converging rapidly to the banking systems of the more developed European countries. This process is reflected in the scale and quality of its products and services offered by Hungarian banks, operational reliability, prudential regulations and profitability, as well as management schemes. One of the reasons of such quick improvement is that most of the State-owned Hungarian commercial banks have come under the control of foreign strategic investors during the bank consolidation and privatisation in the nineties. In addition, some foreign financial institutions expanded successfully their green-field investments during the early nineties on the rapidly enlarging banking market. Consequently, all of the leading Hungarian players have been operating as a local subsidiary of top Italian, Austrian, Belgian, German and American banks, thus there are several different corporate culture competing for the dominant role of the Hungarian market. The local subsidiaries of the foreign European financial institutions are operating based on their major home principles and philosophy, while the regulations of the HFSA also developed to the level of western countries and became EU conform by the date of accession to the EU.

After abolishing the former separation of the commercial and investment banking activity, the laws have allowed the existence of universal commercial banks, hence the major commercial banks have integrated their investment service provider companies in the past few years.

The operational efficiency of the banks is adequate, while the higher cost levels in the ratio of balance sheet totals are due to the still lower level of the banking penetration in Hungary. The balance sheet total of the banking sector somewhat exceeded 100 per cent. of the annual GDP in 2007, that is higher than the average 74 per cent. of the CEE countries, however, significantly lags behind the Euro zone average of 330 per cent. On the other hand the same index of the credit institutions has increased dynamically from the 2002 level of 67.6 per cent. in the past few years, and concerning the further growth potential, Hungary has better prospects than the former EU members have long-term, which also favourably influence the outlook of the Hungarian banking sector. Nevertheless, the Hungarian economic growth lags behind other regional countries because of the recent fiscal austerity and consolidation programme under way, which creates somewhat adverse business environment for the banks, as well. Commercial banks have been shifting the focus of their expansion to the retail market and small and medium-sized companies in order to offset the decreasing margin on the higher end of the multinational corporate clients. Competition in pricing and in product innovation is backed by rapidly enlarging nation-wide branch networks of the top 7-8 universal financial institutions. The main driving force of the past few years' growth and profitability was the retail side lending activity.

Effects of the recent economic trends

The international capital market crisis that began in the US sub-prime mortgage and securitised products market did not cause direct losses in the Hungarian finance sector due to the lack of these types of investments in Hungary. The worldwide turbulence has not critically weakened the parent institutions, key business partners or customers of Hungarian financial service providers. However there are significant and unfavourable indirect effects such as the overall economic slowdown, decrease in capital market prices, the higher volatility, the increase of risk premiums on portfolio investments and interbank funding and the slowdown of emerging markets.

In the near future the Hungarian economy will continue to face difficult and unstable macroeconomic and market circumstances due to the adverse global economic environment, the low economic growth and significant inflationary pressure caused by rising international commodity and energy prices. As a consequence of the intensified competition of service providers, the Hungarian financial sector should in general face increasing credit risk, market risk and liquidity risks in 2008.

Structure of the market

The domestic private or state owned equity of banks is barely more than 10 per cent. in Hungary, the foreign direct ownership proportion exceeds 80 per cent., while the indirect interest is around 95 per cent. In 2008 the number of credit institutions of the banking sector is 36 based on the data of HFSA, of which:

- the number of commercial banks 31,

- specialized credit institutions 5,

- and there are two specialised banks with public functions.

There was a significant change in the institutional structure of the market in 2007, as the merger of the Hungarian subsidiaries of Banca Intesa and Sanpaolo IMI took place in this year, resulting in the integration of Inter-Európa Bank into CIB Bank before 1 January 2008. Based on its assets, the new, merged financial institution which emerged after the transaction is the second biggest particpant in the domestic banking sector.

Concerning the changes of market shares, the domestic banking business continued to be strongly concentrated in the area of corporate lending and customer deposits. Looking at the level of concentration, the share of the largest banks was 55 per cent of the sector balance sheet in 2007, while the ten largest participants have 76.9 per cent. of total.

In terms of household loans and household deposits of the ten largest banks, the decrease of concentration was much smaller than in case of the five largest, due to the fact that the market share lost by the first five institutions was added to that of the second five. In general, the market share of the second five largest banks increased, and smaller banks also gained some ground in the household segment, especially in lending.

Market share of the largest banks* (%)

	2005	1H 2006	2006	1H 2007	2007	1H 2008
Balance sheet total	70.2	69.4	72.0	71.3	72.9	76.5
Loans	71.8	72.6	73.9	73.8	73.5	78.4
Corporate loans	85.3	85.0	85.7	84.5	84.3	90.5

Retail loans	50.2	52.5	54.2	55.2	53.5	59.8
Deposits	81.1	80.0	80.9	79.2	81.6	87.6
Corporate deposits	73.8	72.5	75.6	74.3	76.4	84.6
Retail deposits	84.0	83.5	83.0	82.5	82.5	87.5

*The category of 'largest banks' is determined by HFSA

Source: HFSA

Asset expansion

Continuing the trend of recent years and despite the decelerating national economy, the banking sector displayed dynamic growth in 2007, as the balance sheet total grew by nearly 17 per cent., a figure which is larger than the approximate 7 per cent. increase in nominal GDP. The growth of value decelerated in the first half of 2007, but increased in the second half of 2007 as a consequence of forint exchange rate fluctuations during the year (the impact of currency exchange rate changes was insignificant concerning the whole year). For the first half of 2008, balance sheet growth is expected to be around 17 per cent. on a year-on-year basis.

The relatively fast-paced dynamics of balance sheet totals was driven by the expansion of loans (which grew by 13.5 per cent. in 2007 and 13.4 per cent. in the first half of 2008, based on the data of NBH), and included a development both in corporate and household lending however, the increase of the latter was much faster compared to the trends of previous years.

Banking Volumes (HUF bn, eop and yoy change)

	2004	**2005**	**2006**	**2007**	**1H 2008**
Total Loans	**9,639**	**11,507**	**13,667**	**15,511**	**15,949**
yoy change	**18.6%**	**19.4%**	**18.8%**	**13.5%**	**14.7%**
- Retail	3,011	3,806	4,777	5,940	6,384
yoy change	27.2%	26.4%	25.5%	24.3%	22.9%
- Corporate	5,005	5,714	6,496	7,285	7,358
yoy change	13.3%	14.2%	13.7%	12.1%	11.6%
-Other	1,623	1,987	2,395	2,286	2,207
yoy change	20.7%	22.4%	20.5%	-4.5%	4.3%
Total Deposits	**8,409**	**9,449**	**10,749**	**11,751**	**11,907**
yoy change	**10.8%**	**12.4%**	**13.8%**	**9.3%**	**8.1%**
- Retail	5,261	5,820	6,104	6,542	6,565

yoy change	11.3%	10.6%	4.9%	7.2%	6.0%
- Corporate	2,492	2,809	3,576	3,845	3,909
yoy change	5.1%	12.7%	27.3%	7.5%	10.5%
-Other	656	820	1,069	1,365	1,434
yoy change	32.3%	25.1%	30.3%	27.6%	11.6%

Source: National Bank of Hungary

As customer deposits grew at a much lower pace than in 2006, with a view to the real income reducing impact of consolidation and stabilisation package of the public finances, this trend definitely leads to the quick decrease of the income coverage of loans. The growth of customer loans seems favourable concerning the business performance of the commercial banks, but certainly unfavourable in terms of credit risk expectations.

Within household lending, the expansion of consumer loans has beennotable in the past few years, while it is also noticeable that this expansion is essentially due to the increase in the volume of FX loans since 2003. In terms of housing loans housing loans, in line with the recent trends of consumer loans, significant development can be observed in the period of 2001 to 2007.

Household loan portfolio

HUF bn	**2004**	**2005**	**2006**	**2007**	**Jun-08**
Housing loans, HUF	1,765	1,811	1,788	1,684	1,602
Consumer loans, HUF	589	655	724	772	794
Other loans, HUF	264	220	214	205	218
Housing loans, FX	145	472	911	1,462	1,689
Consumer loans, FX	137	549	1,009	1,671	1,930
Other loans, FX	96	81	108	121	124

Source: NBH

Households housing loans

bn HUF	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Jun-08**
Housing loans	**323.5**	**781.2**	**1,508.3**	**1,910.1**	**2,283.2**	**2,699.5**	**3,145.5**	**3,291.2**
yoy change	71.4%	141.4%	93.1%	26.6%	19.5%	18.2%	16.5%	15.6%

Source: NBH

In 2007 and 2008, the fastest growth rate within consumer loans was again delivered by general-purpose mortgage loans, mainly due to the fact that agent sales gained ground, and the less favourable forint housing loans were increasingly replaced by general-purpose mortgage loans denominated in foreign currencies, the majority of which were CHF loans. It is also apparent that the growth of general-purpose mortgage loans was accompanied by a notable reduction of loans for goods purchased, due to intensified competition among financial enterprises offering such products and the re-arrangement of household loan portfolios. It can be also stated that the continued expansion of short-term consumer loans have a high contribution to the increase of the debt service rate of households. In 2007, personal loans grew at a pace that exceeded the growth rate in previous years, which reflects attempts by households that cannot offer coverage for mortgages to reduce consumption in an effort to offset the decrease of their real income.

RETAIL LOANS

bn HUF	**2004**	**2005**	**2006**	**2007**	**Jun-08**
Retail loans total	**3,011**	**3,806**	**4,777**	**5,940**	**6,384**
yoy change	27.2%	26.4%	25.5%	24.3%	22.9%
Housing loans	**1,910.1**	**2,283.2**	**2,699.5**	**3,145.5**	**3,291.2**
yoy change	26.6%	19.5%	18.2%	16.5%	15.6%
General purpose mortgage loans		**388.2**	**746.8**	**1.226**	**1,481.3**
yoy change			92.4%	64.2%	63.0%
Consumer loans	**726.2**	**1,203.9**	**1,733.0**	**2,443.0**	**2,723.3**
yoy change	30.9%	65.8%	44.0%	41.0%	37.0%
Personal loans	**463.3**	**431.3**	**460.6**	**544.2**	**569.4**
yoy change		-6.9%	6.8%	18.2%	14.7%
Carfinancing loans	**83.2**	**145.2**	**211.8**	**254.3**	**258.6**
yoy change		74.5%	45.9%	20.1%	13.8%

Source: NBH

Although the dynamics of corporate lending was lower than the growth of household borrowings, it still exceeded nominal GDP growth which was principally a result of the fast increase of lending to small- and medium-sized enterprises. With regard to loans to small- and medium-sized enterprises, this is one of the least saturated segments in corporate lending and therefore this is where competition among banks is the toughest. Besides the dynamic growth of SME loans, project financing also went up by 25 per cent. in 2007 based on the HSFA's information.

Within bank loans, growth of the ratio of foreign exchange credit accelerated in 2007 and 2008, especially in case of CHF loans that bear attractive pricing compared to HUF denominated loans. At the end of the first half of 2008, 56 per cent. of total bank loans were held in foreign currency, and the growing ratio of foreign exchange loans is likely to be related to the significant revaluation of the HUF after temporary instabilities in 2006. The value of non-HUF mortgage backed loans is increasing, while the value of HUF portfolio is continuously decreasing, in line with the recent trend of domestic mortgage loans.

Funding

In terms of liabilities, customer deposits grew at a lower rate than loans in 2007 and 2008 again, further augmenting the exposure of banks to financial and capital markets and parent bank resources. The deposits held at banks grew by 10.1 per cent. year-on-year in the first half of 2008, which is lower than the increase of loans or the deposit expansion rate in 2006. (corporate deposits increased 10.5 per cent., retail deposits increased 6 per cent. year-on-year). The loss of momentum in deposit expansion in 2007 derived in a smaller part from the decrease of financial savings and in a greater part from the loss of market share of bank deposits against other forms of saving. Naturally, this was related to the fiscal restrictions launched in the middle of 2006 and especially tax on interest and securities price gains, thus most of the surplus of domestic financial savings landed in fund-managed investments instead of the banking system.

LOANS AND DEPOSITS IN THE BANKING SECTOR

bn HUF	**2004**	**2005**	**2006**	**2007**	**Jun-08**
LOANS	**12,036.7**	**14,671.2**	**16,844.6**	**18,612.2**	**18,632.4**
DEPOSITS	**9,854.8**	**11,143.2**	**12,757.8**	**14,553.2**	**14,481.5**
Cover ratio (%)	81.8%	75.9%	75.7%	78.2%	77.7%

Source: NBH

In order to fill the funding gap mentioned above, banks could not only rely on borrowing from foreign banks and other institutions, but typically on deposits and loans placed and made by their own parent banks. As these less stable resources are supposed to be more expensive and they typically depend on business performance, within foreign liabilities the growth of interbank deposits was decisive, while long-term loans lost significance. Due to increasingly expensive liquidity and growing uncertainty, parent banks can only undertake short term lending, which definitely leads to increased maturity profiles.

70 per cent. of securities in domestic trading issued by commercial banks are composed of mortgage bonds put on sale by mortgage banks.

Domestic securities funding of the banking sector Stock (billion HUF)

	31/12/2004	**31/12/2005**	**31/12/2006**	**31/12/2007**	**30/6/2008**
Debt securities issued (held by residents)	1,142.3	1,187.8	1,176.7	1,214.4	1,236.5
of which Mortgage bonds	964.2	1,007.9	901.7	853.7	856.6

Source: NBH

Until the appearance of mortgage bonds, debt securities of any relevance in the Hungarian market did not exist. Corporate bonds were issued rarely by corporates and banks and account for barely 1 per cent. of the total Hungarian market of securities. Only a few of years after their appearance, mortgage bonds already comprised 11 per cent. of the securities market in 2007.

Portfolio quality

The portfolio quality of Hungarian banking system has been improving steadily for a number of years. Within the balance sheet the proportion of standard loans is increasing, suggesting the shrinking presence of substandard and watched loans. The advance of standard loans from 2002 onwards is a consequence of more prudential and cautious loan granting practices followed in case of new deals. As a result, the share of non performing loans remained at only 2.5 per cent. of their outstanding assets in 2007.

Credit quality	**2004**	**2005**	**2006**	**2007**	**1H 2008**
NPLs ratio (over gross loans)	**2.9%**	**2.7%**	**2.5%**	**2.5%**	**2.5%**
Non performing loans (total balance sheet items), HUFbn	339	374	397	480	504
Substandard	152	155	127	138	156
Doubtful	80	76	101	131	166
Loss	107	143	169	211	182

Source:HFSA

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Source:HFSA

Profitability

In 2007 there was a significant decrease in the profitability within the Hungarian banking sector. The main underlying reasons include intensified price competition (this is a cause and also a consequence of decreasing profitability), the cost implications of market expansion, the increasing cost of liquidity, and also the reduction of subsidies to housing loans. The impact of these factors however, was further aggravated by changes that made the taxation of the banking sector unfavourable, including the effect of interest tax on liabilities, plus the weakening deposit potential of the Hungarian economy.

Changes in profit after taxation, annualised ROE an ROA plus cost-to-income indicators

	2003	**2004**	**2005**	**2006**	**2007**
Profit after tax (HUF Bn)	174.363	275.074	314.246	356.795	326.141
ROA	**1.5%**	**1.95%**	**1.96%**	**1.86%**	**1.49%**
ROE	**17.1%**	**23.4%**	**22.29%**	**22.97%**	**17.45%**
Cost-to-income ratio	**58.03%**	**50.94%**	**49.22%**	**50.13%**	**49.69%**

Source: HFSA (Flash report 2nd half of 2007)

Profitability components in the bank sector (HUF million)

Profitability components in the bank sector (HUF million)

	2003	2004	2005	2006	2007
Interest income	1,049,679	1,438,905	1,387,854	1,514,894	1,848,435
Interest expense	597,052	889,324	765,067	817,100	1,130,384
1. Net intereset income (interest margin)	**452,627**	**549,581**	**622,787**	**697,794**	**718,051**
2. Non-interest income	**180,550**	**242,635**	**260,847**	**300,628**	**361,003**
of which: fee income	168,845	181,015	207,168	229,933	245,904
dividends	21,745	19,140	22,182	28,098	37,178
profit/loss on financial transactions	50,186	89,826	122,864	115,957	182,709
net impairment loss and provisions	-83,701	-81,278	-77,508	-150,069	-129,714
3. General administrative costs	**389,732**	**417,949**	**468,997**	**525,547**	**588,305**
4. Extraordinary profit	**3,724**	**0.196**	**1,321**	**29,694**	**4,624**
5. Profit before tax	**212,152**	**321,968**	**380,935**	**425,870**	**394,962**
Profit after tax	**174,363**	**275,074**	**314,246**	**356,795**	**326,141**

Source: HFSA (Flash report 2nd half of 2007)

For the first time after the growth of previous years, the after-tax profit of the sector dropped by nearly 9 per cent. in 2007, while the actual setback was 8.6 per cent. for large banks, 19.6 per cent. for medium-sized banks and 121.7 per cent. for small banks. Despite decreasing profitability, the cost-to-income indicator showed a slight improvement in 2007, which can be the result of the increase of profits on financial transactions and partly of the fact that the increase of operating costs was below that of the balance sheet total.

The average profitability of the banking sector shows shrinking trend in terms of return on assets (ROA) and return on equity (ROE), since both total assets and equity increased significantly in 2007. However, the 18 per cent. ROE of the banking system and the 19 per cent. average ROE of the entire Hungarian financial sector is still remarkably high both in comparison to the European average and to the business growth of the sector. Except for the extraordinarily high values of the past three years, these figures fit favourably in their own historic trend. Regarding the distribution of profits within the sector, the profitability indicators of large banks were above the average in both measures (1.65 per cent. and 19.6 per cent.), whereas the figures of medium-sized banks and specialiced credit institutions were below the average.

The capital position of banks and the entire domestic financial sector continued to be solid and stable.

THE HUNGARIAN RESIDENTIAL PROPERTY MARKET

The Hungarian real estate market is highly concentrated; it is characterised by the strong concentration in the capital. One fifth of the residential property portfolio, one-fourth of the retail space, around four-fifths of the office floor-space and more than two-third of the logistics-related estate are located in the environs of Budapest. The development speed of the Budapest real estate market is higher than that of the countryside.

Characteristics of housing stock and the market

In late 2007 somewhat more than 10 million Hungarians lived in 4.27 million dwellings, which implies that 2,357 people (1,945 in the capital) shared 1,000 dwellings, 5.9 per cent. less than in 2000. The ratio of flats per thousands of inhabitants is higher in Budapest at 514 (and even higher than the EU average). The standard of the housing stock has gradually been improving since the mid 90’s. Almost all homes have electricity and 89 per cent. are connected to the water supply, although only 56.9 per cent. are hooked up to the public sewerage network. Detached family houses still represent 58.5 per cent. of the total housing stock, more or less the same percentage as in 2000, with the density of detached houses being much higher outside of Budapest than in the capital. With a penetration rate of 0.9 per cent. (1.6 per cent. in the capital), rented flats owned by municipalities have only limited relevance. Given that around 87 per cent. of dwellings are owner-occupied, the property market is rather inflexible. In addition, as there has been a shortage of housing up for rent (though the situation is slowly easing), rentals have exceeded an affordable level until the recent fall. 95 per cent. of those who borrow from the Issuer occupy the mortgaged property.

Supply, demand & prices

Recent developments in the market have been affected by specific characteristics, with strong geographical concentration in demand and limited availability of building plots in specific locations. This links in to the uneven geographical distribution of labour market and other living standard parameters. Budapest is by far the most important centre of business life in Hungary and its residential property market outrivals any other location in terms of demand, prices and volume of real estate transactions.

Property developers thus concentrated their activities on the capital and its surrounding settlements, leading to a sharp upturn in the volume of per capita dwelling construction and property prices between 2000 and 2005. Between 1995 and 2006 flat prices rose faster than building costs, which inspired property developers to increase supply. In 2006, signs of oversupply brought a decline in the volume of new flats and in prices. Less favourable macroeconomic conditions and decreasing real wages in 2007, especially for the lower income classes, resulted in a decrease in housing demand. In response, by the end of 2007 the share of unsold flats in the total new supply jumped to 21.5 per cent. from 17.5 per cent. in 2006. Even with stagnating demand, the HUF prices of used housing in 2007 rose by an average 4.3 per cent. year-on-year while the same indicator for new flats was 9.2 per cent.. In euros, the average flat prices year-on-year (new and used) were up by 10.6 per cent. outside Budapest and by 10.2 per cent. in the capital. The prices of building plots compared to 2006 went up by 5 per cent. across the country and 7.7 per cent. in Budapest. In 2007 the average dwelling price per square metre was around EUR 1,009 in the countryside (an increase of 200 per cent. compared to 2000), and EUR 1,416 in the capital.

In terms of the distribution of new supply by contractors, private construction works still represent significant weight in overall countrywide home building performances with deep geographical divergences. In 200,7 out of all the new homes built in the country, only 45 per cent. were constructed for sale, by property developers, whereas in the capital the same indicator was 86 per cent. Privately built homes essentially accounted for the rest of the new supply as the state and municipalities have marginal relevance in commissioning home construction. The average square metre per dwelling figure peaked in 1999 at 100, and since then it has declined to 87 on the back of the rising share of new flats commissioned by developers who are interested in building smaller-sized, and therefore more easily marketable, flats. In terms of quality standards, except for the premium category, flats constructed by developers are generally smaller and are in multi-storey buildings, while private constructions are large detached/semi-detached houses, most of which stand on their own lot.

Transaction financing

State-subsidised home creation loan schemes implemented in 2000 substantially affected the development of the residential real estate market in Hungary. The peak in both the value of approved subsidised loans and in their share in the overall private investment in residential housing was reached in 2003, when 85 per cent. of the amount granted as housing loans was subsidized, and 87 per cent. of housing-related expenditure was financed by subsidised loans. As the targeted potential customer base started to narrow and later on the new government even imposed restrictions on conditions of availability, subsidised home loans gradually lost their popularity. Financial institutions then started to focus on FX lending. Within four years, the value of outstanding FX housing loans grew ten-fold and by the end of 2007 they accounted for 46.3 per cent. of the total amount of housing loans. The share of subsidized loans has in the meantime declined to 49 per cent. from the peak of 84 per cent. in 2003. Despite the impressive growth over the past seven years, outstanding mortgage loans still totalled only 12.4 per cent. at the end of 2007, well below the EU average of 39 per cent..

Households housing loans

bn HUF	2001	2002	2003	2004	2005	2006	2007
Housing loans in % of GDP	**2.1%**	**4.6%**	**8.0%**	**9.3%**	**10.4%**	**11.4%**	**12.4%**
FX share in total housing credits	2.0%	1.5%	1.2%	7.6%	20.7%	33.8%	46.5%

Source: NBH, Statistical office, UniCredit Bank - Economic Department

Age and wealth

Age, wealth and income conditions are the decisive factors influencing demand. Besides improving living standards and the abundance of FX housing loans, the baby-boom population from the mid-

1970s are now starting families and they also contributed to the demand increase. Indeed, according to our representative poll), 16 per cent. of households intend to buy a house in the next years. 90 per cent. are interested in buying a house to occupy, while 10 per cent. are interested in the second house or in an investment. Over 50 per cent. of the respondents willing to buy either new or used flats in the next 10 years or later are aged below 30, and another 25 per cent. is from the group aged between 30 and 39. The proportion of those not planning to buy a flat is 96 per cent. among individuals aged over 50, while the same indicator for younger individuals (less than 29 years old) is only 60 per cent. The outcome of the mentioned survey indicates that the propensity to buy among individuals with income over EUR 566 (top 20 per cent.) is twice that in the group earning EUR 453 or less. Nonetheless, those from the lowest income category (less than EUR 340) contemplating buying a flat represents 31 per cent. of potential future clients on the residential property market.

As to the problem of financing, only 3 per cent. of respondents intend to purchase housing using just savings, while 6 per cent. would raise the funds either by selling a used property or merely with a bank loan. The rest of the potential buyers (85 per cent.) would use combinations of these three solutions. The older the questioned age group one belongs to, the less relevant bank loans become (53 per cent.) in financing a property transaction compared to using own savings (32 per cent.) or selling existing property (37 per cent.). Not surprisingly, the youngest age group counts more on bank loans (84 per cent.), while mobilising savings represents the second most significant financing solution (46 per cent.). All in all, the outcome of the poll suggests that in the future the potential clients on the residential property market will be younger than 40 years old, belong to the group of either the well-off (EUR 566 or higher) or earning the lowest income (EUR 340 or less) and will raise around 48 per cent. of the funds for the transaction in the form of bank loans.

External influences

Foreigners have played a key role on the demand side, contributing to the prosperity of the property market in the past ten years. Many were private individuals, who began to discover the Hungarian property market in the late 1990s. The interest of foreign investors was driven by the notion that residential dwelling prices would rise many-fold after EU entry in 2004. Even if the price increase did materialize, it was far less than originally expected. In 2007 foreigners had a share of around 4 per cent. in the total number of transactions in the residential property market, and in the capital the share was close to 5 per cent.. In terms of value these figures are probably higher, as foreign investors prefer housing with premium quality and corresponding prices. As to foreign property developers, many of them acquired key positions on the supply side of the market.

TAXATION

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Mortgage Securities. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Mortgage Securities, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It is based on laws currently in force in Hungary and applicable on the date of this Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Mortgage Securities by non-Hungarian Holders, or the payment of interest under the Mortgage Securities may trigger additional tax payments in the country of residence of the Holder, which is not covered by this summary, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration. Prospective purchasers of Mortgage Securities are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Mortgage Securities, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.

Withholding tax (foreign resident individual Holders)

The payments of interest on and capital gains realised upon the redemption or sale of publicly offered and traded Mortgage Securities (**Interest Income**) is taxed at 20 per cent. Mortgage Securities listed on a regulated market of an EU member state are considered publicly offered and traded Mortgage Securities.

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EU member state is considered as other income (**Other Income**) which is taxable progressively (the highest tax rate is 36 per cent) and may be subject to health care contribution of 11 per cent. as well. The capital gains realised on the sale or redemption of such Mortgage Securities is considered, as a general rule, capital gains income (**Capital Gains Income**). The tax rate applicable to Capital Gains Income is 25 per cent. While the rate of health care contribution payable on the basis of Capital Gains Income is 14 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 intentional treaty or reciprocity so requires. Interest Income should be treated as having a Hungarian source where:

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

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

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

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

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

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

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

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

Withholding tax (foreign resident corporate Holders)

Interest on Mortgage Securities paid to foreign resident corporate Holders, who do not have a permanent establishment in Hungary, by resident legal entities or other persons and any capital gains realised by such foreign resident Holders on the sale of the Mortgage Securities is not subject to tax in Hungary.

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

Taxation of Hungarian resident individual Holders

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.

Mortgage Securities listed on a regulated market of an EU member state are considered publicly offered and traded Mortgage Securities. The withholding tax on Interest Income is currently 20 per cent.

The proceeds paid on privately placed Mortgage Securities which are not listed on a regulated market of an EU member state are considered as Other Income which is taxable progressively (the highest tax rate is 36 per cent) and is subject to health care contribution of 11 per cent. as well. The capital gains realised on the sale or redemption of such Mortgage Securities is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 25 per cent. While the rate of health care contribution payable on the basis of the Capital Gains Income is 14 per cent. (capped at HUF 450,000).

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

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

Taxation of Hungarian resident corporate Holders

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

In general, interest and capital gains realised by Hungarian resident corporate Holders on the Mortgage Securities will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 16 per cent, 50 per cent. tax deduction may be obtained under certain conditions, in respect of capital gains realised on a regulated market.

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.

Financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax and innovation tax on the basis of the proceeds realised on the Mortgage Securities.

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 Mortgage Bonds 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.Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*impôt de solidarité*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding Tax

(i) *Non-resident holders of Mortgage Bonds*

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of the Mortgage Bonds, nor on accrued but unpaid interest in respect of the Mortgage Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Mortgage Bonds held by non-resident holders of Mortgage Bonds.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident in, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 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 Mortgage Bonds coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) *Resident holders of Mortgage Bonds*

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Mortgage Bonds, nor on accrued but unpaid interest in respect of Mortgage Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Mortgage Bonds held by Luxembourg resident holders of Mortgage Bonds.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Mortgage Bonds coming within the scope of the Law would be subject to withholding tax of 10 per cent.

EU Savings Directive

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

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 21 November 2008, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Mortgage Securities. Any such agreement will extend to those matters stated under *"Form of the Mortgage Securities", "Form of the Mortgage Bonds", "Terms and Conditions of the Mortgage Notes"* and *"Terms and Conditions of the Mortgage Bonds".* In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any future update of the Programme and the issue of Mortgage Securities under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Mortgage Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

The Mortgage Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. 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.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Mortgage Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Mortgage Securities on a syndicated basis, the relevant lead manager, of all Mortgage Securities of the Tranche of which such Mortgage Securities are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Mortgage Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Mortgage Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Mortgage Securities, an offer or sale of such Mortgage Securities within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index-Linked Mortgage Securities or Dual Currency Interest Mortgage Securities shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Mortgage Securities, which additional selling restrictions shall be set out in the applicable Final Terms.

Japan

The Mortgage Securities have not been and will not be registered under the Financial Instruments and Exchange 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 Mortgage Securities, 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 Mortgage Securities to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Mortgage Securities 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; or

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospective 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 Mortgage Securities 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 Mortgage Securities to the public" in relation to any Mortgage Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Securities to be offered so as to enable an investor to decide to purchase or subscribe the Mortgage Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State 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 Mortgage Securities having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Mortgage Securities other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Mortgage Securities would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Mortgage Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Mortgage Securities in, from or otherwise involving the United Kingdom.

Hungary

In addition to the rules applicable to the European Economic Area as described above, in connection with any private placement in Hungary, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement, (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial or legal situation and its expected development, including that which was discussed in any personal consultation with an investor; and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY."

Italy

The offering of the Mortgage Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Mortgage Securities may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Mortgage Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of 4 November 2003; or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**).

Any offer, sale or delivery of the Mortgage Securities or distribution of copies of the Base Prospectus or any other document relating to the Mortgage Securities in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended, (the **Banking Act**); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or other Italian authority.

France

Each Dealer has agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Mortgage Securities to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Mortgage Securities, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Mortgage Securities or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Mortgage Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Mortgage Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

Any issue of Mortgage Securities under this Programme is purported to be made to institutional investors or, as the case may be, other legal entities only and it is not anticipated that private individuals will purchase the Mortgage Securities either at issue or subsequently on any regulated or other secondary market or through an over-the-counter transaction.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Mortgage Securities have been duly authorised by resolution No. 12/2008 of the Management Board of the Issuer dated 15 August 2008.

Listing and admission to trading of Mortgage Securities

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Mortgage Securities issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The Base Prospectus has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

Documents Available

For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available (in the case of (d) below, for inspection only) from the registered office of the Issuer 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 annual audited financial statements of the Issuer in respect of the financial years ended 31 December 2006 and 31 December 2007 (with English translations thereof), together with the audit reports prepared in connection therewith. The Issuer currently prepares audited non-consolidated accounts on an annual basis;

(c) the Programme Agreement, the Agency Agreement and the KELER Agreement (as defined in the Agency Agreement);

(d) a copy of this Base Prospectus;

(e) any future base prospectuses, offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that the Final Terms relating to a Mortgage Security which is neither admitted for trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Holder of such Mortgage Security and such Holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Mortgage Securities and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(f) in the case of each issue of Mortgage Securities listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

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

Clearing Systems

The Mortgage Bonds have been accepted for clearance through KELER and, through a bridge with this clearing system, Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). Unless waived under the rules of the Luxembourg Stock Exchange for an individual Tranche of Mortgage Bonds, KELER is required to provide, for each issue of Mortgage Bonds to be listed on the Luxembourg Stock Exchange, certification as to, *inter alia,* the existence of a bridge with Clearstream, Luxembourg for each Tranche of Mortgage Bonds. Upon receipt of such certification, Clearstream, Luxembourg will issue a confirmation to the Luxembourg Stock Exchange that such Tranche has been accepted for clearing. The Mortgage Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and ISIN for each Tranche of Mortgage Securities allocated by Clearstream, Luxembourg and/or Euroclear or KELER, as the case may be, will be specified in the applicable Final Terms. If the Mortgage Securities are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of KELER is Asbóth u. 9-11., 1075 Budapest, Hungary, the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg and the address of Euroclear is Euroclear Bank S.A./N.V. 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium.

Conditions for determining price

The price and amount of Mortgage Securities to be issued under the Programme will be determined by the Issuer and 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 or trading position of the Issuer and no material adverse change in the prospects of the Issuer since 31 December 2007.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Mortgage Securities (including any such proceedings which are pending or threatened of which the Issuer 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 KPMG Hungária kft. of Váci ùt 99., 1139 Budapest, Hungary, who have audited the Issuer's accounts, without qualification, in accordance with International Financial Reporting Standards for each of the two financial years ended on 31 December 2006 and 31 December 2007. The auditors of the Issuer have no material interest in the Issuer. KPMG Hungária Kft. are members of the Chamber of Hungarian Auditors.

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 any post-issuance information, except as required by any 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

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LUXEMBOURG PAYING AGENT

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LISTING AGENT

Dexia Banque Internationale à Luxembourg, société anonyme

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L-2953 Luxembourg