

**HUNGARIAN EXPORT-IMPORT BANK  
PRIVATE LIMITED COMPANY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 2011**

**prepared under International Financial Reporting Standards as  
adopted by the EU**

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## Independent Auditors' Report

To the shareholders of Hungarian Export-Import Bank Limited Private Company

### Report on the Financial Statements

We have audited the accompanying financial statements of Hungarian Export-Import Bank Limited Private Company ("the Bank"), which comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Opinion*

In our opinion, the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Budapest, 13 April 2012

KPMG Hungária Kft.

A handwritten signature in black ink, appearing to be 'Agócs Gábor', written in a cursive style.

Agócs Gábor  
Partner



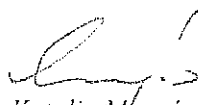
HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2011**  
*(All amounts stated in HUF million unless otherwise noted)*

	Note	2011	2010
Cash, due from banks and balances with the National Bank of Hungary	4	162	67
Loans and advances to other banks, net of impairment losses	5	128,893	107,469
Loans and advances to customers, net of impairment losses	6	54,589	66,912
Financial assets at fair value through profit or loss	7	47	618
Available-for-sale financial assets, net of impairment loss	8	11,088	17,621
Intangibles, property and equipment, net	9	176	188
Other assets, net	10	826	904
<b>Total Assets</b>		<b>195,781</b>	<b>193,779</b>
Loans and deposits from other banks	12	175,696	173,884
Financial liabilities at fair value through profit or loss	7	1,407	1,074
Provision for guarantees and contingencies	11	21	1,121
Other liabilities	13	992	614
<b>Total Liabilities</b>		<b>178,116</b>	<b>176,693</b>
Share capital	14	10,100	10,100
Reserves	14	7,565	6,986
<b>Total Shareholder's Equity</b>		<b>17,665</b>	<b>17,086</b>
<b>Total Liabilities and Equity</b>		<b>195,781</b>	<b>193,779</b>

13 April 2012

Authorised for issue by

  
 Katalin Morgós  
 Chief Executive Officer

The accompanying notes to the financial statements on pages 7-68 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
*(All amounts stated in HUF million unless otherwise noted)*

	Note	2011	2010
Interest income	17	10,849	10,348
Interest expense	17	(6,230)	(4,523)
<b>Net interest income</b>		<b>4,619</b>	<b>5,825</b>
Net income from fees and commissions	18	186	767
Provisions and impairment (losses)/reversal	11	(452)	(1,855)
Gains and losses from trading and investment activities, net	19.1	(756)	30
Operating expenses	19.2	(3,027)	(3,322)
<b>Profit/(loss) before income tax</b>		<b>570</b>	<b>1,445</b>
Income taxes	16	(36)	(235)
<b>Profit /(loss) for the period</b>		<b>534</b>	<b>1,210</b>
<b>Other comprehensive income</b>			
Fair value adjustment of available-for-sale securities, net of tax	20	45	(279)
<b>Other comprehensive income for the period, net of income tax</b>		<b>45</b>	<b>(279)</b>
<b>Total comprehensive income for the period</b>		<b>579</b>	<b>931</b>

13 April 2012

Authorised for issue by



Katalin Morgós  
 Chief Executive Officer

The accompanying notes to the financial statements on pages 7-68 form an integral part of these financial statements.

**HUNGARIAN EXPORT-IMPORT BANK PTE LTD.**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
*(All amounts stated in HUF million unless otherwise noted)*

	Note	2011	2010
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) before income taxes		570	1,445
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation and amortisation	19.2	99	197
Provision charged /(released) for impairment losses	11	1,552	853
(Profit)/loss from revaluation to fair value	7	315	2,276
Difference between impairment loss of a loan and the fair value of the collateral received in exchange for it	11	-	(1,800)
Net interest income		(4,619)	(5,825)
Interest received		11,632	10,418
Interest paid		(6,994)	(5,109)
Income taxes	16	(36)	(235)
Dividend paid		-	-
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in loans and advances to other banks, before impairment losses	5	(21,104)	16,076
Net (increase)/decrease in loans and advances to customers, before impairment losses	6	12,527	11,240
Net (increase)/decrease in financial assets at fair value through profit or loss	7	589	3,051
Net (increase)/decrease in available-for-sale financial assets	8	5,422	(9,116)
Net (increase)/decrease in other assets	10	(838)	304
Net increase/(decrease) other liabilities	13	(645)	675
<b>Net cash provided by/(used in) operating activities</b>		<b>(1,530)</b>	<b>24,450</b>
<b>INVESTING ACTIVITIES</b>			
Net (increase)/decrease in held-to-maturity securities		-	-
Purchases of intangibles, property and equipment	9	(87)	(61)
<b>Net cash used in investing activities</b>		<b>(87)</b>	<b>(61)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from due to banks and deposits from banks	12	414,378	307,882
Repayment of due to banks and deposits from banks	12	(412,666)	(332,241)
<b>Net cash provided by financing activities</b>		<b>1,712</b>	<b>(24,359)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>95</b>	<b>30</b>
<b>Cash and cash equivalents at the beginning of the year</b>	4	<b>67</b>	<b>37</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>162</b>	<b>67</b>

The accompanying notes to the financial statements on pages 7-68 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts stated in HUF million unless otherwise noted)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Retained Earnings</u>	<u>Statutory reserves</u>	<u>Fair value reserve</u>	<u>Total</u>
Balance as at 1 January 2010	10,100	400	633	4,822	200	16,155
<i>Total comprehensive income for the period</i>						
Profit or loss			1,210			1,210
<i>Other comprehensive income</i>						
Net change in fair value of available-for-sale financial assets, net of tax					(279)	(279)
<i>Total comprehensive income for the period</i>			<b>1,210</b>		<b>(279)</b>	<b>931</b>
<i>Other transactions, recorded directly in equity</i>						
Release of Statutory reserves			(34)	34		
Reclassification (Note 3.10)			(273)	273		
<i>Total other transactions</i>			<b>(307)</b>	<b>307</b>		
<b>Balance as at 31 December 2010</b>	<b>10,100</b>	<b>400</b>	<b>1,536</b>	<b>5,129</b>	<b>(79)</b>	<b>17,086</b>

The accompanying notes to the financial statements on pages 7-68 form an integral part of these financial statements.



HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts stated in HUF million unless otherwise noted)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Retained Earnings</u>	<u>Statutory reserves</u>	<u>Fair value reserve</u>	<u>Total</u>
Balance as at 1 January 2011	10,100	400	1,536	5,129	(79)	17,086
<i>Total comprehensive income for the period</i>						
Profit or loss			534			534
<i>Other comprehensive income</i>						
Net change in fair value of available-for-sale financial assets, net of tax					45	45
<i>Total comprehensive income for the period</i>			534		45	579
<i>Other transactions, recorded directly in equity</i>						
Release of Statutory reserves			(13)	13		
Reclassification (Note 3.10)			(1,005)	1,005		
<i>Total other transactions</i>			(1,018)	1,018		
<b>Balance as at 31 December 2011</b>	<b>10,100</b>	<b>400</b>	<b>1,052</b>	<b>6,147</b>	<b>(34)</b>	<b>17,665</b>

The accompanying notes to the financial statements on pages 7-68 form an integral part of these financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011** *(All amounts stated in HUF million unless otherwise noted)*

#### **NOTE 1. GENERAL INFORMATION**

Hungarian Export-Import Bank Private Limited Company ("Eximbank", the "Bank") was established on 26 May 1994 as the legal successor of the Export Guarantee Corporation. The legal status and the activities of the Bank are regulated by Act XLII of 1994 on the Hungarian Export-Import Bank Ltd. and the Hungarian Export Credit Insurance Ltd. ("Act on Eximbank"). Eximbank's primary business goal is to promote Hungarian exports by granting loans and guarantees.

The Bank's address is Nagymező St. 46-48., H-1065 Budapest, Hungary.

Eximbank – as a 100 % state owned company – was controlled by the Hungarian National Asset Management Company, the successor of the State Privatisation and Holding Company (ÁPV Rt.) between 1 January 1999 and 15 December 2004. On 15 December 2004, ÁPV Rt. sold 75 % less one share (and voting rights) of Eximbank to the Hungarian Development Bank Ltd. according to the rules of paragraph 138 (4) of Act XLVIII of 2004 on Financial Services and the respective Government Decree no. 2186/2004 (VII.22.).

Since 17 June 2010 Eximbank has been controlled solely by the Hungarian Development Bank Ltd. in accordance with the paragraph 12 (1) of Act LII on accountable management of state owned properties.

Therefore the Hungarian Development Bank Pte Ltd. – having its registered office at Nádor St. 31., H-1051 Budapest, Hungary – is the Bank's parent company. The Bank is included in the Consolidated Financial Statements of the Hungarian Development Bank Ltd. for the years ending 31 December 2011 and 31 December 2010. In both years the ultimate parent of the Bank is the Hungarian State.

#### **NOTE 2. BASIS OF PREPARATION**

##### **2.1 Statement of compliance**

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements were authorised for issue by the Chief Executive Officer on 13 April 2012. These financial statements are not intended to be used for statutory filing purposes.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011  
(All amounts stated in HUF million unless otherwise noted)*

**NOTE 2. BASIS OF PREPARATION (CONTINUED)**

**2.2 Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value,
- Financial instruments at fair value through profit or loss are measured at fair value,
- Available-for-sale financial assets are measured at fair value,
- Other financial instruments are measured at amortised cost.

The preparation of financial statements requires management to make certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 27.

**2.3 Functional and presentation currency**

These financial statements are presented in Hungarian Forints ('HUF'), which is the Bank's functional currency. Except as indicated, financial information presented in Hungarian Forints has been rounded to the nearest million (MHUF).

**2.4 Reclassifications**

Where necessary, certain amounts in prior periods have been reclassified to conform to the current presentation.

**HUNGARIAN EXPORT-IMPORT BANK PTE LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011  
(All amounts stated in HUF million unless otherwise noted)**

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Bank in preparing and presenting financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**3.1 Financial statement presentation**

These financial statements for years 2011 and 2010 include the accounts of Eximbank.

**3.2 Financial instruments**

Any contract that gives rise to a financial asset, a financial liability or equity is classified as a financial instrument. All financial instruments are initially recognised at their fair values in the Bank's statement of financial position when the Bank becomes a party to the contractual agreement (at trade date). Initial fair values represent given or received considerations and all transaction costs. In case of financial assets at fair value through profit or loss, transaction costs are charged to profit or loss. 'Regular way' purchases or sales of financial assets are recognised using trade date accounting.

Subsequent to initial recognition, financial instruments are measured by specific valuation principles disclosed at each relevant category of financial assets and financial liabilities below.

Financial assets are derecognised when the Bank loses the right to receive cash flow from the related asset, loses rewards and risks related to the asset or loses the control over the contractual rights of the financial assets (at trade date). Financial liabilities are removed from the Bank's statement of financial position when they are extinguished, repaid or expire.

**3.3 Determination of fair values**

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

**HUNGARIAN EXPORT-IMPORT BANK PTE LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts stated in HUF million unless otherwise noted)**

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets held and ask prices for liabilities issued. When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. Determination of fair values is more detailed in Note 28.

**3.4 Cash, due from banks and balances with the National Bank of Hungary**

Cash, due from banks and balances with the National Bank of Hungary include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturity of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

These items are carried at amortised cost in the statement of financial position.

For the purpose of reporting cash flows, cash and cash equivalents include cash, due from banks and short term balances with National Bank of Hungary with original maturities of three months or less.

**3.5 Financial assets and liabilities at fair value through profit or loss**

Trading debt and equity instruments, are generally held for the short term in anticipation of market gains and resale, and are measured initially at their fair values, with transaction costs taken to profit or loss. Subsequently, their fair values are remeasured and all gains and losses on these instruments are recognised in profit or loss under 'Gains and losses from trading and investment activities'.

Debt and equity instruments held for trading are reported as financial assets at fair value through profit or loss. Interest earned on debt securities is reported as interest income, and dividends earned on equity instruments are taken to 'Gains and losses from trading and investment activities' when declared. Interest payable on such securities is reported as interest expense.

The Bank uses foreign currency exchange contracts for economic hedging purposes, however, hedge accounting according to IAS 39 is not applied. These contracts include cross currency interest rate swaps contracted with the parent company. All derivative financial instruments are carried at fair value. All gains and losses on these instruments are recognised in 'Gains and losses from trading and investment activities'.

**HUNGARIAN EXPORT-IMPORT BANK PTE LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**  
*(All amounts stated in HUF million unless otherwise noted)*

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**3.6 Available-for-sale debt and equity instruments**

Investments (not at fair value through profit or loss) in debt securities are classified either as available-for-sale or held-to-maturity. Investments in securities are classified as available-for-sale when, in management's judgement, they may be sold in response to or in anticipation of changes in market conditions, unless they are considered to be part of trading-related activities. These securities are initially measured at their fair values plus direct and incremental transaction costs. Subsequently, their fair values are remeasured and changes therein are recognised in other comprehensive income and presented within equity in 'Fair value reserve' until the securities are sold or impaired. When these securities are sold, cumulative gains and losses previously recognised in other comprehensive income are taken to profit or loss as 'Gains and losses from trading and investment activities'.

Interest income on debt securities, including amortisation of premiums and accretion of discounts, are reported as interest income. Interest income is recognised using the effective interest rate method.

Equity investments (not at fair value through profit or loss) represent shares held in certain companies in order to benefit in terms of banking relationships. These equity investments are classified as available-for-sale. Equity investments for which no fair values are available are stated at cost. Dividend income on securities is taken to 'Gains and losses from trading and investment activities' when declared. The specific identification method disclosed below is used to determine realised gains and losses generated from sales of securities, which are reported in securities gains or losses on a net basis.

**3.7 Held-to-maturity debt instruments**

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortised cost on the statement of financial position. Premiums are amortised and discounts are accumulated against net profit using the effective interest rate method. On the basis of the management decision the held-to-maturity category is currently not applied.

**3.8 Loans and advances to banks and customers**

Loans and advances to banks and customers are classified as Loans and receivables. Loans are reported at the principal amount outstanding, net of impairment and unearned income. Interest income is recognised using the effective interest rate method for all loans other than impaired loans.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011  
(All amounts stated in HUF million unless otherwise noted)*

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**3.9 Impairment of financial assets**

**3.9.1 Impairment of loans and advances to banks and customers**

At each balance sheet date the Bank assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy.

Impairment allowances are calculated for all loans individually. Increases in loan impairment are charged to profit or loss for the period. The carrying amount of impaired loans on the reporting date is reduced through the use of impairment allowance accounts.

*Reversals of impairment*

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, loan impairment are reversed through profit or loss.

*Write-off of loans and advances*

Bad loans are not written off against the related provisions until the conclusion of the liquidation process or until considered to be legally uncollectible as set out under statutory regulations. Subsequent recoveries are credited to profit or loss if previously written off.

*Assets acquired in exchange for loans*

During 2010 several securities were acquired in exchange for loan and relating interest receivable to a foreign bank within a restructuring plan due to the financial difficulties of the client. The securities were issued by the client. More details of the loan and securities are presented in Note 5 on Loans and advances to other banks and Note 8 on Available for sale financial assets, respectively.

**3.9.2 Impairment of available-for-sale financial assets**

Investments in available-for-sale securities are considered to be impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganization of the issuer. Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment

**HUNGARIAN EXPORT-IMPORT BANK PTE LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognised in other comprehensive income.

**3.10 Statutory reserves**

**3.10.1 General risk reserve**

Hungarian legislation allows the Bank to set aside amounts for general banking risks, including future losses and other unforeseeable risks or contingencies, in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the credit portfolio. The Bank sets aside 1.00 % (2010: 1.00 %) of risk-weighted assets and off-balance sheet exposures as at the reporting date. Such amounts are separately disclosed as appropriation of retained earnings and are not included in the determination of net profit or loss for the period.

**3.10.2 General reserve**

The provisions of the Act CXII of 1996 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") prescribes that the Bank has to set a general reserve in the amount of 10 % of the current year profit after tax figure, which will be eliminated to cover the future losses. The Hungarian Banking Act also allows the Bank reclassify its retained earnings into the general reserve. In 2011 the Bank reclassified HUF 1,005 million retained earnings into the general reserve (2010: HUF 273 million).

The general reserve cannot be distributed as dividends.

**3.11 Foreign currency translation**

The Bank's functional currency is the Hungarian Forint. Income and expenditure arising in foreign currencies are translated at rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at rates quoted by the National Bank of Hungary ("NBH") ruling at the end of the year. Resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments.



HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

*NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts stated in HUF million unless otherwise noted)*

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**3.12 Intangibles, property and equipment**

Intangibles, property and equipment are measured cost, less accumulated depreciation and amortisation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. In case of property, plant and equipment cost of maintenance and repairs are recognised in profit or loss as incurred. Major improvements and the cost of replacing a part of an item of property, plant and equipment are recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

Depreciation and amortisation are computed on a straight-line basis over the estimated useful lives of the assets, based upon the following percentages:

Leasehold improvements	4.94 % to 48.69 %
Software	20 % to 50 %
Furniture, fixtures and office equipment	14.5 % to 50 %

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Items of intangibles, property, plant and equipment are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of an item of intangibles, property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "Other expenses" in profit or loss.

**3.13 Income taxes**

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the calculated tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date as well as any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and the general risk reserve (due to uncertainty of reversal).

## HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

### *NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (All amounts stated in HUF million unless otherwise noted)*

#### **NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The amount of deferred tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **3.14 Interest income and expense**

Interest income and expense for all financial instruments except for those classified as held for trading are recognised in 'Interest income' and 'Interest expense' in profit or loss using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition or at repricing of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but not future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income is recognised on available-for-sale securities using the effective interest rate method, calculated over the asset's expected life.

#### **3.15 Provisions**

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank. Such contingencies are guarantees and commitments to extend credit lines into which the Bank enters in the ordinary course of business. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

The provision for possible losses on such commitments is maintained at a level adequate to absorb probable future losses. Provision for possible losses is recognised only if the Bank

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**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

considers that it is more likely than not that a present obligation exists at the reporting date. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

**3.16 Segment reporting**

Based on its organisational and management structure the Bank uses business segments as its segment reports format, however the Bank also shows its assets, liabilities and revenues by geographical segments as additional information. Segment revenue, expense, assets and liabilities are allocated to the applicable segment on a consistent and reasonable basis, including factors such as the nature of items and the conducted activities throughout on inter-segment pricing process.

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**NOTE 4. CASH, DUE FROM BANKS AND BALANCES WITH NATIONAL BANK OF HUNGARY**

	2011	2010
Balances with NBH in HUF	6	1
Due from banks in HUF	1	2
Due from banks in foreign currency	155	64
<b>Total</b>	<b>162</b>	<b>67</b>

Based on the requirements for compulsory reserves set by the NBH, the amount of compulsory reserves maintained by the Bank and included in the balance above amounted to HUF 6 million and HUF 1 million as at 31 December 2011 and 2010, respectively. These reserves earn interest at below market rates.

**NOTE 5. LOANS AND ADVANCES TO OTHER BANKS**

	2011	2010
Short-term placements		
- in foreign currency	54,175	52,916
- in HUF	6,202	-
Sub-total	60,377	52,916
Long-term placements, in foreign currency	69,005	55,425
Sub-total	69,005	55,425
<b>Total</b>	<b>129,382</b>	<b>108,341</b>
Less: impairment losses (see Note 11)	(489)	(872)
<b>Total</b>	<b>128,893</b>	<b>107,469</b>

Loans and advances to other banks include refinancing loans disbursed.

A loan receivable from a foreign bank insured by Hungarian Export Credit Insurance Ltd (MEHIB) in amount of HUF 16,471 million (EUR 60,861,115.48) was assigned to MEHIB due to default in 2010. Based on the agreement, MEHIB repays the loan and interest in accordance with the same conditions as the original client. As of 31 December 2010 the balance of the claim (including relating accrued interest) against MEHIB was HUF 13,914 million (EUR 49,917,428), while as of 31 December 2011 it was HUF 12,944 million (EUR 41,604,224).

Within a restructuring plan due to financial difficulties, a loan – not insured by MEHIB – and the interest due in the total amount of HUF 3,923 million (EUR 13,906,352.88) against the same foreign bank was exchanged for debt securities and global depository receipts issued by this bank and cash in the amount of USD 1,948,111 in 2010. The details of the securities are presented in Note 8.

Information on the changes in the impairment losses relating to the above deals is presented in Note 11.

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**NOTE 5. LOANS AND ADVANCES TO OTHER BANKS (CONTINUED)**

Remaining maturity of Loans and advances to other banks as at 31 December 2011 are as follows.

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rates</u>	<u>Effective Interest Rate</u>
<u>Placements in foreign currency:</u>			
1 to 7 days	772	1.02 % - 9.42 %	2.98 %
8 to 30 days	22,918	0.9 % - 5.42 %	1.24 %
31 to 90 days	5,878	0.5 % - 6.42 %	2.56 %
91 to 180 days	7,284	0.5 % - 5.55 %	2.61 %
181 to 365 days	17,323	0.5 % - 9.42 %	2.36 %
1 to 2 years	27,229	0.5 % - 9.42 %	2.05 %
2 to 5 years	34,770	0.5 % - 9.42 %	2.66 %
Over 5 years	7,006	2.25 % - 5.42 %	2.29 %
Sub-total	<u>123,180</u>		
<u>Placements in HUF</u>			
1 to 7 days	6,202	6.0 % - 6.15 %	6.12 %
Sub-total	<u>6,202</u>		
<b>Total</b>	<b><u>129,382</u></b>		

Remaining maturity of Loans and advances to other banks as at 31 December 2010 are as follows.

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rates</u>	<u>Effective Interest Rate</u>
<u>Placements in foreign currency:</u>			
1 to 7 days	2,934	2.58 % - 9.30 %	4.97 %
8 to 30 days	18,836	0.8 % - 5.30 %	1.08 %
31 to 90 days	6,775	0.75 % - 6.60 %	3.51 %
91 to 180 days	8,136	2.76 % - 5.55 %	5.07 %
181 to 365 days	16,235	2.61 % - 9.30 %	5.10 %
1 to 2 years	24,142	3.55 % - 9.30 %	5.10 %
2 to 5 years	26,392	3.55 % - 9.30 %	5.27 %
Over 5 years	4,891	4.70 % - 5.55 %	5.38 %
Sub-total	<u>108,341</u>		
<u>Placements in HUF</u>			
	-	-	-
Sub-total	<u>-</u>		
<b>Total</b>	<b><u>108,341</u></b>		

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NOTE 5. LOANS AND ADVANCES TO OTHER BANKS (CONTINUED)

The geographical breakdown of Loans and advances to other banks as at 31 December 2011 and 2010 are as follows.

<u>Country</u>	<u>2011</u>	<u>2010</u>
Hungary	127,393	103,830
Russia	1,183	2,744
Ukraine	411	515
Tajikistan	257	296
Belarus	79	118
Turkey	59	-
Austria	-	780
Iran	-	58
<b>Total</b>	<b>129,382</b>	<b>108,341</b>

As at 31 December 2011 and 2010, placement with other banks insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 827 million and 1,309 million, respectively.

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**NOTE 6. LOANS AND ADVANCES TO CUSTOMERS, NET OF IMPAIRMENT LOSSES**

	2011	2010
Short-term:		
- in foreign currency	19,703	35,877
- in HUF	4,077	3,179
Sub-total	<u>23,780</u>	<u>39,056</u>
Long-term:		
- in foreign currency	35,518	32,050
- in HUF	141	183
Sub-total	<u>35,659</u>	<u>32,233</u>
<b>Total</b>	<u>59,439</u>	<u>71,289</u>
Less: impairment losses (see Note 11)	(4,850)	(4,377)
<b>Total</b>	<u><u>54,589</u></u>	<u><u>66,912</u></u>

The remaining maturity of loans and advances to customers as at 31 December 2011 are as follows:

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rates</u>	<u>Effective Interest Rate</u>
<u>In HUF:</u>			
1 to 7 days	2,396	0.00 % - 10.26%	4.34 %
8 to 30 days	109	9.79 % - 9.79 %	9.79 %
31 to 90 days	1,049	0.00 % - 9.79 %	9.58 %
91 to 180 days	10	0.00 % - 7.46 %	5.97 %
181 to 365 days	513	0.00 % - 10.43 %	10.30 %
1 to 2 years	36	0.00 % - 7.46 %	5.57 %
2 to 5 years	86	0.00 % - 7.46 %	5.51 %
Over 5 years	19	0.00 % - 4.26 %	2.13 %
Sub-total	<u>4,218</u>		
<u>In foreign currency:</u>			
1 to 7 days	2,306	1.41 % - 9.42 %	4.40 %
8 to 30 days	484	3.08 % - 7.31 %	3.60 %
31 to 90 days	2,079	0.67% - 8.62 %	4.30 %
91 to 180 days	6,543	0.69 % - 9.42 %	4.59 %
181 to 365 days	8,291	0.67% - 9.42 %	4.32 %
1 to 2 years	11,739	0.67% - 9.42 %	4.45 %
2 to 5 years	14,758	0.67% - 9.42 %	4.04 %
Over 5 years	9,021	0.67% - 9.42 %	2.55 %
Sub-total	<u>55,221</u>		
<b>Total</b>	<u><u>59,439</u></u>		

Non-interest bearing loans and advances include balances with staff and balances with Hungarian State from interest compensation systems.

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**NOTE 6. LOANS AND ADVANCES TO CUSTOMERS NET OF IMPAIRMENT  
LOSSES (CONTINUED)**

The remaining maturity of loans and advances to customers as at 31 December 2010 are as follows:

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rates</u>	<u>Effective Interest Rate</u>
<u>In HUF:</u>			
1 to 7 days	1,399	0.00 % - 10.26%	7.10 %
8 to 30 days	62	9.35 % - 9.35 %	9.35 %
31 to 90 days	1,054	0.00 % - 9.35 %	9.23 %
91 to 180 days	5	0.00 % - 5.00 %	2.50 %
181 to 365 days	659	0.00 % - 9.35 %	8.88 %
1 to 2 years	30	0.00 % - 5.97 %	4.12 %
2 to 5 years	110	0.00 % - 5.97 %	4.74 %
Over 5 years	43	0.00 % - 5.96 %	3.02 %
Sub-total	<u>3,362</u>		
<u>In foreign currency:</u>			
1 to 7 days	9,412	1.41 % - 9.30 %	4.98 %
8 to 30 days	308	4.06 % - 6.59 %	5.04 %
31 to 90 days	8,419	0.67% - 9.30 %	3.42 %
91 to 180 days	5,185	1.59 % - 9.30 %	4.90 %
181 to 365 days	12,553	0.67% - 9.30 %	4.20 %
1 to 2 years	10,320	0.67% - 9.30 %	5.26 %
2 to 5 years	12,591	0.67% - 9.30 %	6.43 %
Over 5 years	9,139	0.67% - 9.30 %	4.37 %
Sub-total	<u>67,927</u>		
<b>Total</b>	<b><u>71,289</u></b>		

Non-interest bearing loans and advances include balances with staff and balances with Hungarian State from interest compensation systems.



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**NOTE 6. LOANS AND ADVANCES TO CUSTOMERS NET OF IMPAIRMENT  
LOSSES (CONTINUED)**

The geographical breakdown of loans and advances to customers as at 31 December 2011 and 2010 are as follows.

<u>Country</u>	<u>2011</u>	<u>2010</u>
Russia	25,723	40,012
Hungary	14,561	13,555
Montenegro	5,302	3,982
Poland	3,834	3,745
Laos	2,070	1,647
Egypt	1,557	618
Bosnia and Herzegovina	1,270	1,300
Ukraine	1,231	1,561
Turkey	1,120	1,836
Tajikistan	1,046	1,372
Romania	880	779
China	665	658
Serbia	111	104
Brazil	69	105
Italy	-	15
<b>Total</b>	<b>59,439</b>	<b>71,289</b>

As at 31 December 2011 and 2010, the loans insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 40,205 million and HUF 54,100 million respectively.

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**NOTE 7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial assets at fair value through profit or loss as at 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
Short-term derivative assets (trading):		
Foreign exchange swap	47	65
Sub-total	47	65
Long-term trading assets:		
Hungarian Government bonds in HUF	-	553
Sub-total	-	553
<b>Total</b>	<b>47</b>	<b>618</b>

Financial liabilities at fair value through profit or loss as at 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
Short-term derivative liabilities (trading):		
Cross currency interest rate swap	1,211	1,074
Foreign exchange swap	196	
<b>Total</b>	<b>1,407</b>	<b>1,074</b>

The details of the cross currency interest rate swap for the year ended 31 December 2011 – with Hungarian Development Bank Ltd - are shown below:

Contractual maturity	Receive notional	Receive notional in HUF million	Pay notional	Pay notional in HUF million
11.11.2012	55,227,109 EUR	17,183	76,600,000 USD	18,436

The interest rates are 3-month EURIBOR + 2.5% p.a. and 3-month USD LIBOR + 2.5% p.a. or the SDR interest rates in the given currency shown on the web-site of 'IMF SDR Interest rate calculation' + 2.45% p.a. + interest premium on the web-site of 'IMF SDR interest rate, Rate of Remuneration, Rate of Charge and Burden Sharing Adjustments' (2011: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The notional amounts are decreased quarterly by 8 equal instalments from 11 February 2011.

The fair value adjustments of Hungarian Government bonds and treasury bills as at 31 December 2011 and 2010 are as follows:

	2011	2010
Cost	-	589
Fair value adjustment	-	(36)
<b>Book value</b>	<b>-</b>	<b>553</b>

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**NOTE 7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)**

The remaining maturity of financial assets at fair value through profit or loss as at 31 December 2011 and 2010 are as follows.

<u>Remaining Maturity</u>	<b>2011</b>	<b>2010</b>
1-7 days	47	65
8-30 days	-	-
31-90 days	-	553
91 to 180 days	-	-
181 to 365 days	-	-
1 to 2 years	-	-
2 to 5 years	-	-
Over 5 years	-	-
<b>Total</b>	<b>47</b>	<b>618</b>

As at 31 December 2011 the Bank has no Hungarian Government Bonds presented as financial assets at fair value through profit or loss.

Remaining maturity of Hungarian Government bonds as at 31 December 2010 are detailed below:

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Interest Rates</u>	<u>Effective Interest Rate</u>
31-90 days	553	7.50%	7.50 %
<b>Total</b>	<b>553</b>		

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**NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<b>2011</b>	<b>2010</b>
Hungarian discounted treasury bills in HUF	-	16,182
Discounted bonds issued by National Bank of Hungary in HUF	9,973	-
Hungarian Government bonds in HUF	788	-
Fair value adjustment	(41)	(30)
	<u>10,720</u>	<u>16,152</u>
Senior Notes	1,151	1,151
Subordinated Notes	182	182
Recovery Units	131	131
Global Depository Receipts	59	59
Fair value adjustment	-	(66)
Impairment loss (Note 11)	(1,167)	-
Securities acquired in exchange for loan	<u>356</u>	<u>1,457</u>
HUF shares	12	12
Fair value adjustment	-	-
	<u>12</u>	<u>12</u>
<b>Total</b>	<b><u>11,088</u></b>	<b><u>17,621</u></b>

Details of the securities acquired in exchange for the loan mentioned in Note 5 are as follows:

All securities were issued by a bank in Kazakhstan.

Principal amount of the Senior Notes at inception date as well as at year end is USD 4,753,250. Senior Notes are interest bearing debt instruments at the rate of 10.75% p.a. from 1 July 2010 to 1 January 2013 and 12.50 % p.a. thereafter. Interest is payable on the outstanding principal amount in arrears on 1 January and 1 July in each year. Notes will be redeemed in 8 equal semi-annual instalments on 1 January and 1 July of each year, with the first such instalment being payable on 1 January 2015 and the last being payable on 1 July 2018.

Principal amount of the Subordinated Notes at inception date as well as at year end is USD 1,077,004. Subordinated Notes are interest bearing debt instruments at the rate of 7.20 % p.a. Interest is payable on the outstanding principal amount in arrears on 1 January and 1 July in each year. Notes will be redeemed in 10 equal semi-annual instalments on 1 January and 1 July of each year, with the first such instalment being payable on 1 January 2021 and the last being payable on 1 July 2025.

The first interest payments of the Senior Notes and Subordinated Notes were due on 1 January 2011.

Principal amount of the Recovery Units at inception date as well as at year end is USD 9,819,745. Initial settlement date is 30 June 2020 and the deferred settlement date is 30 June 2022. The issuer shall make recovery payments pro rata to unit holders on 30 September, 31 December, 31 March and 30 June of each year, commencing 31 December 2010 provided that certain conditions and circumstances set out in Trust Deed are fulfilled. During 2011 and 2010 no such payments were settled.

Global Depository Receipts (GDRs) were issued, for no consideration, to the Restructuring Creditors who are non-Kazakh residents. Each GDR represents 500 shares. GDR holders are entitled to receive an amount of equivalent to any dividends or other proceeds payable on

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**NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)**

and have voting rights, or with respect to, the deposited shares corresponding to its GDRs. Eximbank holds 23,002 units of GDRs. The price of each unit was USD 12.

The securities above are valued at their fair value based on the market price information provided by the custodian. The fair values of the securities at inception date and at year end of 2011 and 2010 are presented below:

	<u>2011</u>	<u>2010</u>	<u>At inception date</u>
Senior Notes	201	1,075	1,151
Subordinated Notes	19	162	182
Recovery Units	130	163	131
Global Depository Receipts	6	57	59
	<b>356</b>	<b>1,457</b>	<b>1,523</b>

The difference between the fair values at inception date and the current fair value in amount of HUF 1,167 million is reclassified from other comprehensive income to profit or loss as impairment loss on available-for-sale securities acquired in exchange for loan.

The GDRs and the notes mentioned above were listed on the official list of the Luxembourg Stock Exchange on 22 February 2011 and the trading is effective from 23 February 2011.

Remaining maturity of discounted bonds issued by National Bank of Hungary, Hungarian discounted treasury bills and Hungarian Government bonds as at 31 December 2011 are detailed below:

<u>Remaining Maturity</u>	<b>2011</b>	<b>2010</b>
1-7 days	9,970	-
8-30 days	-	5,090
31-90 days	-	-
91 to 180 days	-	3,601
181 to 365 days	-	7,461
1 to 2 years	-	-
2 to 5 years	750	-
Over 5 years	-	-
<b>Total</b>	<b>10,720</b>	<b>16,152</b>

Shares as at 31 December 2011 are detailed below.

	<u>Equity owned</u>	<u>Face Value</u>	<u>Cost</u>	<u>Unrealised gain/(loss)</u>	<u>Book Value</u>
Garantiqa Hitelgarancia Ltd.	0.3 %	12	12	-	12
<b>Total</b>		<b>12</b>	<b>12</b>		<b>12</b>

No reliable market information was available for these financial instruments, therefore they are stated at cost.

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**NOTE 9. INTANGIBLES, PROPERTY AND EQUIPMENT**

Movement table of intangible and tangible assets as at 31 December 2011 is as follows:

	<u>Leasehold improve- ments</u>	<u>Furniture, fixtures &amp; office equipment</u>	<u>Assets under construc- tion</u>	<u>Intangible assets</u>	<u>Intangible assets under construction</u>	<u>Total</u>
<b>Cost</b>						
31 December 2010	152	364	-	1,101	6	1,623
Additions	-	13	13	74	74	174
Disposals	-	(11)	(13)	-	(74)	(98)
31 December 2011	152	366	-	1,175	6	1,699
<b>Accumulated depreciation and amortisation</b>						
31 December 2010	144	299	-	992	-	1,435
Charge for year	4	25	-	70	-	99
Disposals	-	(11)	-	-	-	(11)
31 December 2011	148	313	-	1,062	-	1,523
<b>Net book value</b>						
31 December 2010	8	65	-	109	6	188
31 December 2011	4	53	-	113	6	176

Movement table of intangible and tangible assets as at 31 December 2010 is as follows:

	<u>Leasehold improve- ments</u>	<u>Furniture, fixtures &amp; office equipment</u>	<u>Assets under construc- tion</u>	<u>Intangible assets</u>	<u>Intangible assets under construction</u>	<u>Total</u>
<b>Cost</b>						
31 December 2009	149	421	3	1,029	18	1,620
Additions	3	21	21	78	66	189
Disposals	-	(78)	(24)	(6)	(78)	(186)
31 December 2010	152	364	-	1,101	6	1,623
<b>Accumulated depreciation and amortisation</b>						
31 December 2009	140	315	-	841	-	1,296
Charge for year	4	36	-	157	-	197
Disposals	-	(52)	-	(6)	-	(58)
31 December 2010	144	299	-	992	-	1,435
<b>Net book value</b>						
31 December 2009	9	106	3	188	18	324
31 December 2010	8	65	-	109	6	188

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**NOTE 10. OTHER ASSETS**

	<b>2011</b>	<b>2010</b>
Accrued interest receivable on debt securities	111	513
Accrued interest receivable re CCIR	124	213
Prepaid expenses	16	35
Taxation recoverable	537	135
Other	38	8
Sub-total	826	904
Less: impairment loss (see Note 11)	-	-
<b>Total</b>	<b>826</b>	<b>904</b>

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NOTE 11. PROVISIONS AND IMPAIRMENT LOSSES

	Loans and advances to other banks	Loans and advances to customers	Available- for-sale securities	Guarantees and contingencies	Total
As at 31 December 2009	4,757	2,333	-	119	7,209
Write-offs	(823)*	(71)**	-	-	(894)
Charge/ (release)	(1,262)	2,115	-	1,002	1,855
Derecognised due to defaulted loan exchanged for debt securities (Note 5)	(1,800)	-	-	-	(1,800)
As at 31 December 2010	872	4,377	-	1,121	6,370
Write-offs	-	(295)***	-	-	(295)
Charge/ (release)	(383)	768	1,167****	(1,100)	452
<b>As at 31 December 2011</b>	<b>489</b>	<b>4,850</b>	<b>1,167</b>	<b>21</b>	<b>6,527</b>

\* In 2010 Eximbank assigned one of its loans to bank to MEHIB (Note 5). The book value of the unsecured part of the loan, net of impairment losses was nil and the impairment loss was HUF 823 million was released.

\*\* Eximbank sold two of its loans to a third party. The sales price was HUF 38 million in total. The aggregate book value of the loans, net of impairment losses was HUF 18 million and the impairment loss of HUF 71 million was released.

\*\*\*In 2011 bad debts in the amount of HUF 295 million were written off.

\*\*\*\* In 2011 impairment loss was recognised on the available-for-sale securities in the amount of HUF 1,167 million (Note 8)



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**NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS**

	<b>2011</b>	<b>2010</b>
Short-term		
- in foreign currency	81,687	24,970
- in HUF	-	2,907
Sub-total	<u>81,687</u>	<u>27,877</u>
Long-term		
- in foreign currency	94,009	146,007
Sub-total	<u>94,009</u>	<u>146,007</u>
<b>Total</b>	<b><u>175,696</u></b>	<b><u>173,884</u></b>

The table above contains a loan granted by Hungarian Development Bank Ltd. in June 2009 in amount of EUR 142 million with the main conditions stated below:

The interest rate is 3-month EURIBOR + 2.5 p.a. or the SDR interest rate in the given currency shown on the web-site of 'IMF SDR Interest rate calculation' + 2.45% p.a. + interest premium on the web-site of 'IMF SDR interest rate, Rate of Remuneration, Rate of Charge and Burden Sharing Adjustments' (2011: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The loan is decreased quarterly by 8 equal instalments from 11 February 2011. The final maturity date of the loan agreement is 11 November 2012.

Remaining maturity of loans and deposits from other banks as at 31 December 2011 are as follows.

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rate</u>	<u>Effective Interest Rate</u>
<u>In foreign currency:</u>			
1 to 7 days	131	0.65 % - 3.80 %	1.92 %
8 to 30 days	708	0.65 % - 3.80 %	2.70 %
31 to 90 days	6,599	3.73 % - 4.09 %	4.05 %
91 to 180 days	5,735	3.66 % - 4.09 %	4.08 %
181 to 365 days	68,514	3.65 % - 4.33 %	4.28 %
1 to 2 years	16,389	3.29 % - 4.02 %	3.69 %
2 to 5 years	39,708	3.65 % - 4.10 %	4.04 %
Over 5 years	37,912	1.67% - 3.90 %	2.04 %
Sub-total	<u>175,696</u>		
<u>In HUF</u>			
	-	-	-
Sub-total	<u>-</u>		
<b>Total</b>	<b><u>176,696</u></b>		

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**NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS (CONTINUED)**

Remaining maturity of loans and deposits from other banks as at 31 December 2010 are as follows.

<u>Remaining Maturity</u>	<u>Amount</u>	<u>Minimum and Maximum Fixed Interest Rate</u>	<u>Effective Interest Rate</u>
<u>In foreign currency:</u>			
1 to 7 days	633	1.25 % - 3.15 %	1.39 %
8 to 30 days	938	1.25 % - 3.15 %	1.39 %
31 to 90 days	5,657	3.04 % - 3.55 %	3.50 %
91 to 180 days	6,193	3.15 % - 3.55 %	3.50 %
181 to 365 days	11,549	3.04 % - 3.55 %	3.51 %
1 to 2 years	72,520	3.15 % - 3.93 %	3.80 %
2 to 5 years	44,012	3.04 % - 3.63 %	3.36 %
Over 5 years	29,475	1.26 % - 3.49 %	1.38 %
Sub-total	<u>170,977</u>		
<u>In HUF</u>			
1 to 7 days	2,100	5.00 % - 5.25 %	5.24%
8 to 30 days	807	5.15 % - 5.15 %	5.15 %
Sub-total	<u>2,907</u>		
<b>Total</b>	<b><u>173,884</u></b>		

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**NOTE 13. OTHER LIABILITIES**

	<b>2011</b>	<b>2010</b>
Accrued interest payable re CCIR	112	191
Accrued interest payable re FX swap	4	-
Accrued expenses	13	21
Accrued revenue	420	248
Tax liability	367	63
Other	76	91
<b>Total</b>	<b>992</b>	<b>614</b>

**NOTE 14. SHAREHOLDER'S EQUITY**

	<b>2011</b>	<b>2010</b>
Share capital	10,100	10,100
Share premium	400	400
Retained earnings	1,052	1,536
Fair value reserve, net of tax	(34)	(79)
Statutory reserves	6,147	5,129
<b>Total</b>	<b>17,665</b>	<b>17,086</b>

As at 31 December 2010 the Bank's share capital is comprised of 2020 fully paid dematerialised shares, each with a nominal value of HUF 5 million. Reserves available for distribution as at 31 December 2011 under Hungarian Law amount to HUF 300 million (2010: HUF 1,0005 million).

As at 31 December 2011 and 31 December 2010, the shareholders' rights were the following:

<u>Shareholder</u>	<u>Number of shares</u>	<u>Face value of shares</u>	<u>Equity owned</u>	<u>Votes owned</u>
Hungarian Development Bank Ltd	1,514	7,570	74.95 %	75 % -1
Hungarian State*	506	2,530	25.05 %	25 % +1
<b>Total</b>	<b>2,020</b>	<b>10,100</b>	<b>100 %</b>	<b>100 %</b>

\* Rights of Hungarian State are represented by Hungarian Development Bank Ltd.

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**NOTE 15. COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of business, the Bank enters into off-balance sheet financial instruments such as guarantees and letters of credit. Commitments and contingent liabilities as at 31 December 2011 and 2010 are summarised as follows:

	<b>2011</b>	<b>2010</b>
Guarantees counter-guaranteed by the Republic of Hungary	34,795	34,576
Unutilised part of credit lines	78,019	21,445
Guarantees provided	2,111	3,489
<b>Total</b>	<b>114,925</b>	<b>59,510</b>

Guarantees issued by the Bank are mainly guarantees issued to Hungarian companies for receivables relating to exports.

There are no assets of the Bank that are pledged as collateral.

**NOTE 16. TAXATION**

	<b>2011</b>		<b>2010</b>	
Profit (loss) before income tax		570		1,445
Applicable tax rate up to MHUF 500 (up to MHUF 250 in 2010)	10 %	50	10 %	25
Applicable tax rate above MHUF500 (above MHUF 250 in 2010)	19 %	13	19 %	227
Average tax rate	11 %	63	17 %	252
<i>Adjustments:</i>				
(Charge)/Release of General risk reserve	1%	4	1%	15
Fair values not recognised by tax rules	3%	15	29%	416
Fair values in equity recognised by tax rules	(1%)	4	(31%)	(448)
Non deductible expenses	(9%)	(50)	0%	-
Total adjustments	( 5%)	(27)	( 1%)	(17)
<b>Effective tax</b>	<b>6 %</b>	<b>36</b>	<b>16 %</b>	<b>235</b>

As a result of the Bank's accounting policies, no material temporary differences existed between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Therefore, no deferred tax asset or liability was recognised.

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**NOTE 17. INTEREST INCOME AND INTEREST EXPENSE**

	2011	2010
<b>Interest income:</b>		
Loans and advances to customers	2,564	3,436
Loans and advances to other banks	2,663	3,375
Cross currency interest rate swap	214	64
Interest compensation*	3,171	2,591
Securities	2,237	882
<b>Total</b>	<b>10,849</b>	<b>10,348</b>
<b>Interest expense:</b>		
Loans and deposits from other banks	6,230	4,523
<b>Total</b>	<b>4,619</b>	<b>5,825</b>

\* In accordance with the rules and conditions of the Government Decree 85/1998 (V.6.) on the interest compensation system and of the Government Decree 232/2003 (XII.16.) on the tied aid-credits the Bank receives interest compensation from Hungarian State for special financing facilities.

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**NOTE 17. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)**

Interest income by country and activity for the year ended 2011 and 2010 are detailed below:

Country	2011				2010			
	Loans	Investment	Non-Allocated	Total	Loans	Investment	Non-Allocated	Total
Hungary	7,558	2,114	1	9,673	7,862	821	1	8,684
Austria	11	-	-	11	9	-	-	9
United Kingdom	-	-	-	-	1	-	-	1
Germany	-	-	-	-	1	-	-	1
Romania	63	-	-	63	43	-	-	43
Poland	173	-	-	173	165	-	-	165
Belarus	6	-	-	6	9	-	-	9
Bosnia and Herzegovina	17	-	-	17	19	-	-	19
Serbia	4	-	-	4	2	-	-	2
Montenegro	26	-	-	26	27	-	-	27
Russia	469	-	-	469	1,194	-	-	1,194
Turkey	66	-	-	66	30	-	-	30
Ukraine	63	-	-	63	81	-	-	81
Brazil	-	-	-	-	8	-	-	8
Kazakhstan	-	-	122	122	(44)	-	-	(44)
Egypt	42	-	-	42	3	-	-	3
China	48	-	-	48	49	-	-	49
Tajikistan	66	-	-	66	67	-	-	67
<b>Total</b>	<b>8,612</b>	<b>2,114</b>	<b>123</b>	<b>10,849</b>	<b>9,526</b>	<b>821</b>	<b>1</b>	<b>10,348</b>

**NOTE 18. NET INCOME FROM FEES AND COMMISSIONS**

	2011	2010
<b>Income from fees and commissions:</b>		
Guarantees covered by the state	222	1,048
Insurance fees devolved by MEHIB	12	51
Refund of MEHIB insurance fees	-	8
Guarantees	56	78
Other	2	5
	<b>292</b>	<b>1,190</b>
<b>Expenses from fees and commissions:</b>		
Insurance fees paid to MEHIB	58	4
Transfer of refunded MEHIB insurance fees	-	8
Guarantees	44	407
Other	4	4
	<b>106</b>	<b>423</b>
<b>Total</b>	<b>186</b>	<b>767</b>

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NOTE 18. NET INCOME FROM FEES AND COMMISSIONS (CONTINUED)

Income from fees and commissions by country and activity for the year ended 2011 and 2010 are detailed below:

Country	2011			2010				
	Loans	Investment	Non-Allocated	Total	Loans	Investment	Non-Allocated	Total
Hungary	2	-	222	224	14	-	1,082	1,096
Poland	-	-	-	-	2	-	-	2
Russia	12	-	-	12	49	-	-	49
USA	-	-	55	55	-	-	43	43
Macedonia	-	-	1	1	-	-	-	-
<b>Total</b>	<b>14</b>	<b>-</b>	<b>278</b>	<b>292</b>	<b>65</b>	<b>-</b>	<b>1,125</b>	<b>1,190</b>

NOTE 19.1 GAINS AND LOSSES FROM TRADING AND INVESTMENT ACTIVITIES, NET

	2011	2010
Trading securities gains and losses, net *	(7)	434
Gain and losses on foreign currency swap deals, net	3,561	(1,914)
Other foreign currency gains and losses, net	(4,310)	1,510
Foreign currency gains and losses, net *	(749)	(404)
<b>Total</b>	<b>(756)</b>	<b>30</b>

\* - Also includes the revaluation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, based on quoted market prices.

NOTE 19.2 OTHER OPERATING EXPENSES

	2011	2010
Personnel expenses	1,344	1,637
Material expenses	546	604
Depreciation and amortisation	99	197
Other administration expenses	48	51
Special tax of credit institution*	321	301
Local government taxes	197	150
Tax on financial institutions	207	433
Tax of credit institutions	247	-
Other expenses/ (income), net	18	(51)
<b>Total</b>	<b>3,027</b>	<b>3,322</b>

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**NOTE 19.2 OTHER OPERATING EXPENSES (CONTINUED)**

\*The Hungarian Parliament introduced a new type of tax effective from 1<sup>st</sup> January 2007 in the frame of Act LIX of 2006 on the particular tax of the credit institutions and financial enterprises. The credit institutions shall pay this type of tax at the rate of five per cent on their interest and similar income earned during the year from loans which are directly or indirectly affected by any interest subsidy or interest compensation system.

Since 2011, a new tax, the tax of credit institutions – 30 % of the adjusted pre-tax profit - is included in other expenses as well. The adjusted pre-tax profit is the pre-tax profit in accordance with the Hungarian accounting law increased by the tax on financial institutions. Tax of credit institutions cannot exceed the amount of tax on financial institutions which is based on the adjusted total assets for the year ended in 31 December 2009. The tax on financial institutions can be decreased by the amount of the tax of credit institutions and recognised as other expenses. The amount of tax of credit institutions is deductible from the corporate income tax base.

The average number of employees as at 2011 was 107 (2010: 114).

**NOTE 20.1 COMPONENTS OF OTHER COMPREHENSIVE INCOME**

	<b>2011</b>	<b>2010</b>
Available for sale financial assets		
Gains (losses) arising during the year	(41)	(97)
Less: Reclassification adjustments for gains included in P&L	97	(239)
Other comprehensive income	56	(336)
Income tax relating to components	(11)	57
Other comprehensive income for the year	45	(279)

All the components of other comprehensive income for the year ended 31 December 2011 and 31 December 2010 stated above are items that may be reclassified subsequently to profit or loss.

**NOTE 20.2 TAX EFFECTS RELATING TO EACH COMPONENT OF THE OTHER COMPREHENSIVE INCOME**

	<b>2011</b>			<b>2010</b>		
	Before-tax amount	Tax (expense) benefit	Net of tax amount	Before-tax amount	Tax (expense) benefit	Net of tax amount
Available for sale financial assets	56	(11)	45	(336)	57	(279)
Total comprehensive income	(1,112)	211	(901)	(336)	57	(279)



## HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

### NOTE 21. RELATED PARTY TRANSACTIONS

#### 21.1 Companies

All transactions with the Hungarian Development Bank Ltd. ("MFB") and MFB's subsidiaries, associates and jointly controlled entities and other state-owned companies are conducted at market rates. Balances as at 31 December 2011, representing 23.10 % of total assets (2010: 20.37 %), 80.05 % of total liabilities (2010: 83.55 %) and 0.15 % of total commitments and contingent liabilities (2010: 33.87 %), and are presented below:

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**NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)**

	<b>2011</b>	<b>2010</b>
Balances with NBH	6	1
Short-term placement to MFB incl. interest receivable	19,916	6,972
Loans to MFB's subsidiaries incl. interest receivable	12,944	13,914
Loans to MFB's associates incl. interest receivable	503	454
- less impairment losses	(5)	-
Advances to the State from interest compensation systems	946	768
Total loans and advances to related parties, net of impairment losses	<u>34,304</u>	<u>22,108</u>
Hungarian Government bonds	-	553
Total financial assets at fair value to related parties	<u>-</u>	<u>553</u>
Hungarian discounted treasury bills	-	16,152
Discounted bonds issued by NBH	9,970	-
Hungarian Government bonds	750	-
Total available for sale financial assets to related parties	<u>10,720</u>	<u>16,152</u>
Other assets to the State	41	452
Other assets to MFB	124	215
Total other assets to related parties	<u>165</u>	<u>667</u>
<b>Total Assets</b>	<b><u>45,195</u></b>	<b><u>39,481</u></b>
Loans and deposits from MFB incl. accrued int.payables	141,253	146,360
Cross currency interest rate swap with MFB	1,211	1,074
Total financial liabilities at fair value to related parties	<u>1,211</u>	<u>1,074</u>
Other liabilities to MFB	112	191
Other liabilities to MFB's subsidiaries	-	1
Total other liabilities to related parties	<u>112</u>	<u>192</u>
<b>Total Liabilities</b>	<b><u>142,576</u></b>	<b><u>147,626</u></b>
Guarantees provided on behalf of other state-owned company	169	153
Other commitments and contingent liabilities	-	20,000
<b>Total commitments and contingent liabilities</b>	<b><u>169</u></b>	<b><u>20,153</u></b>

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NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2011	2010
<b>Interest income:</b>		
Short-term placements to MFB	14	7
Loans to MFB's subsidiaries	763	977
Loans to MFB's associates	40	47
State interest compensation	3,171	2,591
Interest on cross currency interest rate swap	214	64
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	2,114	821
<b>Total</b>	<b>6,316</b>	<b>4,507</b>
<b>Interest expense:</b>		
Loans and deposits from MFB	5,057	3,548
<b>Total</b>	<b>5,057</b>	<b>3,548</b>
<b>Income from fees and commissions:</b>		
Refund of MEHIB insurance fees	-	8
<b>Total</b>	<b>-</b>	<b>8</b>
<b>Expenses from fees and commissions:</b>		
Insurance fees paid to MEHIB	58	4
<b>Total</b>	<b>58</b>	<b>4</b>
<b>Net interest income and net income from fees and commissions</b>	<b>1,201</b>	<b>963</b>
<b>Provision and impairment losses Charge/ (release):</b>		
Loans and credit lines to MFB's associates	5	(3)
<b>Total</b>	<b>5</b>	<b>(3)</b>
<b>Gains and losses from trading activities, net :</b>		
Hungarian discounted treasury bills and Hungarian Government bonds	(6)	218
<b>Total</b>	<b>(6)</b>	<b>218</b>
<b>Operating income/(expenses):</b>		
MFB	-	2
MFB's subsidiaries	19	12
Other state-owned companies	(10)	(12)
<b>Total</b>	<b>9</b>	<b>2</b>

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**NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)**

**21.2 Management and employees**

Loans to the management and employees of the Bank amounted to HUF 72 million and HUF 1051 million as at 31 December 2011 and 2010, respectively. Interest rates vary between 0 % and 5.00 %, and averages at 1.21 %. The remuneration of the management amounted to HUF 138 million and HUF 335 million in 2011 and 2010, respectively. The remuneration of the management mentioned above includes the termination benefits paid to the management, which amounted to HUF 19 million in 2011 (2010: 119).

The honorarium of the Board of Directors and the Supervisory Board added up HUF 8 million in 2010, while it was nil in 2011. The Board of Directors has been terminated in June 2010 by the modification of the Act on Eximbank and the rights of the former Board of Directors are exercised by the Chief Executive Officer. In January 2012 the General Meeting recalled the Chief Executive Officer from his position. The nomination of the new CEO is effective from 22 March 2012.

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NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 31 DECEMBER 2011

	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 months	1-3 months	3 months to 1 year	1-5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	162	162	162	-	-	-	-
Loans and advances to other banks, net of impairment losses	128,893	134,991	29,873	5,958	28,995	62,814	7,351
Loans and advances to customers, net of impairment losses	54,589	62,207	4,704	1,984	16,969	29,114	9,436
Financial assets at fair value through profit or loss	47	47	47	-	-	-	-
Available-for sale financial assets	11,088	13,306	10,071	-	124	2,052	1,059
<b>Financial assets</b>	<b>194,779</b>	<b>210,713</b>	<b>44,857</b>	<b>7,942</b>	<b>46,088</b>	<b>93,980</b>	<b>17,846</b>
Loans and deposits from other banks	175,696	187,525	870	7,412	78,055	62,320	38,868
<i>Derivative financial liabilities</i>							
Foreign exchange contracts	196	196	196	-	-	-	-
Cross currency interest rate swaps	1,211	1,211	-	296	915	-	-
<b>Financial liabilities</b>	<b>177,103</b>	<b>188,932</b>	<b>1,066</b>	<b>7,708</b>	<b>78,970</b>	<b>62,320</b>	<b>38,868</b>
<b>Liquidity (deficiency)/excess</b>	<b>17,676</b>	<b>21,781</b>	<b>43,791</b>	<b>234</b>	<b>(32,882)</b>	<b>31,660</b>	<b>(21,022)</b>
Unutilised loan commitments		78,019	78,019	-	-	-	-
Financial guarantee contracts		36,906	36,906	-	-	-	-

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NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 31 DECEMBER 2010

	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 months	1-3 months	3 months to 1 year	1-5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	67	67	-	-	-	-	-
Loans and advances to other banks, net of impairment losses	107,469	113,916	21,782	6,857	26,143	54,078	5,056
Loans and advances to customers, net of impairment losses	66,912	73,570	9,709	8,719	19,289	25,925	9,928
Financial assets at fair value through profit or loss	618	636	636	-	-	-	-
Available-for sale financial assets	17,621	18,348	5,153	-	11,274	652	1,269
<b>Financial assets</b>	<b>192,687</b>	<b>206,537</b>	<b>37,347</b>	<b>15,576</b>	<b>56,706</b>	<b>80,655</b>	<b>16,253</b>
Loans and deposits from other banks	173,884	186,450	4,021	6,773	20,366	125,139	30,151
<i>Derivative financial liabilities</i>							
Foreign exchange contracts	-	-	-	-	-	-	-
Cross currency interest rate swaps	1,074	1,074	-	125	392	557	-
<b>Financial liabilities</b>	<b>174,958</b>	<b>187,524</b>	<b>4,021</b>	<b>6,898</b>	<b>20,758</b>	<b>125,696</b>	<b>30,151</b>
<b>Liquidity (deficiency)/excess</b>	<b>17,729</b>	<b>19,013</b>	<b>33,326</b>	<b>8,678</b>	<b>35,948</b>	<b>(45,041)</b>	<b>(13,898)</b>
Unutilised loan commitments	21,445	21,445	-	-	-	-	-
Financial guarantee contracts	38,065	38,065	-	-	-	-	-

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#### **NOTE 23. FINANCIAL RISK MANAGEMENT**

Risk management activity of Eximbank is determined by its specific role and position in the Hungarian economy. The Bank's ultimate owner is the state with a 25 % direct and with a 75 % indirect shareholding stake via Hungarian Development Bank Ltd. The Bank is a credit institution and its primary task is to promote Hungarian exporters on external markets.

In order to diminish the risk of open bond positions the Bank holds bonds with no credit risk exclusively and does not deal with futures or options. Eximbank neither speculates on the stock exchange nor buys derivatives and does not issue bonds.

The Bank's policies for managing interest rate, credit, foreign currency exchange risk and liquidity risk are reviewed regularly by the Asset and Liability Committee (ALCO), Credit Committee and the Board of Operative Management. The policies are summarised as follows:

#### **Risk management policies**

The Bank is exposed to interest rate, liquidity and foreign currency exchange risk, while the most significant risk is the credit risk. Risk management is carried out by the Risk Management Department under policies approved by ALCO and the CEO. These principles are determined within the prescriptions established by the National Bank of Hungary, the Hungarian Financial Institutions Supervision and with the rules of MFB Group. The Asset and Liability Committee and the Board of Operative Management and Credit Committee are responsible for review of risk management and control environment. The risk profile is assessed before concluding a transaction, which is authorised by the appropriate level of seniority within the Bank. The service pattern reflects the entire process of exporting, and the risk is shared with commercial banks. The specific character of the credit risk can mostly be detected by differentiating by product and consumer categories. Eximbank has created its risk map, which enables further separation of risks in terms of products and risk types.

#### **Risk map and risk profile**

The Bank's risk strategy includes the exploration, identification and separation of risks, furthermore the calculation of the risk level and weight of them. The risk map gives a detailed specification of risk categories concerning the Bank's regular course of business and economic environment. The first dimension of the risks is the type (according to the ICAAP guide book) and the second one is the bank-specific aspect of the services and products. Certain risk factors were evaluated on a 1-5 scale by the Bank's different areas. Most of the rates in the table point to the fact that the majority of the risks are low or represent moderate risk level. The assessment of risk profile is based on the risk map, taking into consideration the extent of the exposure and the seriousness of the risk. This method gives us a general overview about the Bank's risk profile and an opportunity to perform continuous monitoring activity. The credit, country and concentration risk can be detected by the vertical aggregation of the rows of the risk map. The level of credit risk is moderate, since the credit portfolio consists of products with lower risk level: products carrying risk exposure to domestic banks, counter-guarantees of state. The aggregated country risk components seem to be at a very low risk level at first sight, which can be explained by the excess weight of domestic risk taking. Furthermore, the foreign positions tend to be oriented towards more reliable directions and they are also backed with insurance.

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.1. Credit risk**

*Management of credit risk, credit rating systems*

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for clients, counterparties and for country concentrations, and by monitoring exposures in relation to such limits. The exposure to any one borrower is further restricted by sub-limits for different maturity and transaction type. The credit risk management is based on a client rating system, which applies different essentials for financial institutions and for corporate clients. The scoring system takes into account the business activity, financial position, market position, management, organisation and its role in the given business sector. Both the on- and off-balance sheet items (loans, guarantees) are subject to quarterly classification requirements. The key factors of the rating are:

1. Consumer/counterparty rating
2. Country risk
3. Collateral
4. Number of past due days

The classified outstanding and off-balance sheet items have to be categorised, where the banding pattern is the following:

Low-fair risk	0%
Watch list	1 – 10%
Substandard	11 – 30%
Doubtful	31 – 70%
Loss	71 – 100%

There is also credit risk in off-balance sheet financial instruments, such as non-government backed guarantees. These risks are mitigated by the same control processes and policies as loans and the state-backed guarantees are also evaluated by the same method as the ones issued on our own risk.



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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.1. Credit risk (continued)**

**Exposure to credit risk**

The Bank's exposure to credit risk at the reporting date is shown below:

	Loans and advances to banks		Loans and advances to customers	
	2011	2010	2011	2010
Carrying amount	128,893	107,469	54,589	66,912
<b>Individually impaired:</b>				
1-10 %	-	2,031	12,806	22,267
11-30%	79	-	1,841	111
31-70 %	-	-	187	172
71-100 %	165	141	2,358	1,736
Gross amount	244	2,172	17,192	24,286
Allowance for impairment	(188)	(246)	(2,939)	(2,148)
Carrying amount	56	1,926	14,253	22,138
<b>Collectively impaired:</b>				
<b>Past due but not impaired:</b>	251	-	787	4,322
<b>Neither past due nor impaired:</b>	128,586	104,917	28,456	34,819
<b>Accounts with renegotiated terms:</b>				
Gross amount	301	1,252	13,004	7,862
Allowance for impairment	(301)	(626)	(1,911)	(2,229)
Carrying amount	-	626	11,093	5,633
<b>Total carrying amount</b>	<b>128,893</b>	<b>107,469</b>	<b>54,589</b>	<b>66,912</b>

In the year ended 2011 financial assets at fair value through profit or loss in amount of HUF 47 million (2010: 618 million) and available-for-sale financial assets in amount of HUF 10,732 million (2010: HUF 17,621 million) are neither past due nor impaired, however the securities acquired in exchange for loan in amount of HUF 356 million presented among available-for-sale financial assets are individually impaired in 2011 (Note 7).

*Impaired loans and securities*

The Bank does not apply the collective impairment, all loans are individually assessed.

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.1. Credit risk (continued)**

*Loans with renegotiated terms*

A loan is labelled to be renegotiated when restructuring activities, including extended payment agreements, modification and deferral of payments are applied.

*Write-off policy*

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

*Collaterals*

The Bank actively uses collateral and guarantee to reduce its credit risk. In order to minimise the credit loss, the Bank seeks additional collateral from the consumer, like for instance charges over accounts receivable. Most of the guarantees issued by the Eximbank are government-backed instruments. The Eximbank is bound up with the Hungarian Export Credit Insurance Ltd. (Mehib Ltd.). The majority of Eximbank's loans, which are carrying country risks are insured by Mehib Ltd., and these insurances are also state-backed.

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NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1. Credit risk (continued)

An estimate of fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and advances to banks		Loans and advances to customers	
	2011	2010	2011	2010
<b>Against individually impaired:</b>				
Insured by MEHIB	-	1,035	10,406	17,224
Cash Collateral	-	-	4	6
Bank guarantees	-	-	1,457	649
Property	-	-	522	1,573
Other	-	-	470	1,122
<b>Against past due but not impaired:</b>				
Insured by MEHIB	239	-	748	2,651
Cash Collateral	13	-	39	44
Property	-	-	-	744
Other	-	-	-	194
<b>Against neither past due nor impaired:</b>				
Insured by MEHIB	588	274	22,252	30,026
Cash Collateral	-	14	581	662
Bank guarantees	-	-	175	944
Property	-	-	450	1,127
Other	-	-	8,732	9,403
<b>Against accounts with renegotiated terms:</b>				
Insured by MEHIB	-	-	6,798	4,199
Cash Collateral	-	-	-	221
Bank guarantees	-	-	290	-
Property	-	-	920	332
Other	-	-	891	939
<b>Total</b>	<b>840</b>	<b>1,323</b>	<b>54,735</b>	<b>72,060</b>

23.3. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The liquidity management process is carried out and monitored by the Treasury Department, and it is also responsible for calculating the liquidity reserve. The Treasury monitors balance sheet liquidity ratios against internal and regulatory requirements and reports unmatched items in the maturity structure to the Asset and Liability Committee (ALCO). The ALCO sets limits on the maximum amount of liquidity gap in the percentage of the balance-sheet footing, which are controlled by the Risk Management and Controlling Department.

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The maturity analysis table set out in Note 22 shows the undiscounted, gross nominal cash in- and outflows on the Bank's non-derivative financial liabilities, the related total expected undiscounted interest cash flows up to the date of maturity when they are due and the issued financial guarantee contracts on the basis of their earliest possible maturity. The table also shows a maturity analysis for derivative financial liabilities including the remaining contractual maturities for those derivatives for which contractual maturities are essential for an understanding of the timing of the cash flows. The gross nominal inflow / (outflow) disclosed in the table is the remaining contractual, undiscounted cash flow on the non-derivative financial liability and the issued financial guarantees. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives (e.g., forward exchange contracts and currency interest rate swaps).

The maturity analysis table shows gross nominal in- and out-cash flows of both the financial assets and the financial liabilities.

The Bank considers maturity gap significant if the cash outflow becomes due 180 days earlier than it is defined in the given loan agreement irrespectively of the extent of the amount. During the year 2011 there were no any significant maturity gaps.

It is important from Bank's liquidity risk point of view that its liabilities are solely from credit institutions. As a specialized governmental credit institution Eximbank has no right to collect deposits either from corporate clients or from individuals. Loans borrowed from domestic and foreign banks are secured by the general guarantee of the Government of Hungary as it is defined in the Act on the Budget of Hungary with respect to the maximum amount of guarantee. The Bank finances its operation mainly from funds given by its main shareholder. Some loan agreements define maturity extension option in favor of the Bank. Eximbank occasionally turns to interbank market for medium term funding. Except for the termination notices of the standard agreement forms used by the 'Loan Market Association' and for the negative changes regarding the State Guarantee there is no option for the lenders to terminate the loan agreements. Termination of short term money market deals is not possible due to its market characteristic. Based on the legal background of the Bank, the high proportion of the borrowings from the parent company and its experiences, Eximbank reckons the probability of the premature termination of funds as extremely low. There is a minimal liquidity risk regarding the state backed bank guarantees issued by the Bank, which are 90 % of the total guarantee portfolio of the Bank, as state backed bank guarantees can be paid after the total amount received from the State Budget. It is possible to terminate the unutilized loan commitments based on the 'Material Adverse Changes Clause' defined in all loan agreements, which can mitigate the liquidity risk if necessary.

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.3. Market risk**

Eximbank does not undertake speculative positions. The Bank has not kept positions in the trading book since 1 January 2008.

The Bank's open foreign currency position was less than 2 % of solvency margin, thus - in accordance with Sections 39-41 of the Government Decree 244/2000 - it posed no capital requirement.

The following table shows the capital requirement covering risks from the trading book as at 31 December 2011 and 2010:

	2011	2010
Capital requirement of the trading book	-	-
Solvency margin	33,606	44,351
Capital requirement of the trading book as a percentage of solvency margin	-	-

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.3.1. Interest rate risk**

Interest rate risk is the current or prospective risk to both the Bank's earnings and capital from adverse movements in interest rates. The Bank measures the interest rate risk in the banking book under re-pricing of the loans, furthermore using gap analysis shows the assets and liabilities at different re-pricing dates. Besides the re-pricing risk and shifts in the yield curve the Bank also faces with basis risk and inherent risk in banking products. Interest rate risk is largely reduced by a compensation system, which covers the risk arising from fixed interest-bearing assets compared to floating rate funds with a certain amount approved by the Parliament for a one year period in the budgetary law.

At the reporting date the interest rate profile of the Bank's interest-bearing financial instruments was as follows:

	2011	2010
<b>Fixed rate financial instruments</b>		
Financial assets	58,473	63,646
Financial liabilities	12,719	14,635
<b>Total fixed rate instruments</b>	<b>71,192</b>	<b>78,281</b>
<b>Variable rate financial instruments</b>		
Financial assets	8,769	25,314
Financial liabilities	163,338	159,376
<b>Total variable rate instruments</b>	<b>172,107</b>	<b>184,690</b>
<b>Financial assets under interest compensation system</b>	<b>119,056</b>	<b>96,412</b>
<b>Tied-aid credits</b>	<b>7,399</b>	<b>6,852</b>

Financial assets under interest compensation system and tied-aid credits are fixed rate or zero interest-bearing financial instruments in case of some tied-aid credits in the clients' point of view, however the Bank receives interest compensation on these assets from Hungarian State. The interest compensation is quarterly calculated and due, based on the weighted average of the daily balances.

Net interest rate risk is assessed using a static gap model regarding parallel shift for the entire statement of financial position calculated by VAR (i.e. value at risk) based estimation of changes in interest rates of different currencies. The estimated decrease in the market interest rates would affect negatively the net interest income for the next twelve months by HUF 224 million (2010: HUF 119 million). (VAR parameters: 99% probability and 3 month time horizon, based on 5 years' historical data of LIBOR6m rates for EUR and USD and BUBOR6m rates for HUF) The calculation assumes that other conditions (including foreign exchange rates) are unchanged during the period. Adverse change in interest rate would make the same profit effect, but positively. Needs of capital requirement in respect of interest rate risk are calculated with duration gap methodology based on a basis point value model regarding VAR of changes in interest rates. Stress test is used for monitoring interest rate risks monthly.

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NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3.2. Foreign currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO also sets limits to the level of exposure by currency and in aggregate both for overnight and intra-day positions, which are monitored and reported daily. Furthermore, calculating foreign currency exchange risk conforms to the norms of the standard method. The Bank's overall open foreign currency position cannot exceed HUF 1,100 million. Eximbank does not speculate on the FX market and opens FX positions within the frameworks of highly restricted rules. Foreign currency positions are subject to stress test to ensure that the Bank would withstand an extreme market event.

23.3.2. Foreign currency risk (Continued)

Foreign currency exposure and foreign currency risk (including HUF exposures) as at 31 December 2011 are as follows:

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	104,641	18,050	-	6,202	128,893
Loans and advances to customers, net of impairment losses	44,393	8,149	-	2,047	54,589
Other	204	529	3	11,563	12,299
Total foreign currency Assets	149,238	26,728	3	19,812	195,781
Foreign currency liabilities	175,737	498	-	1,881	178,116
<b>Foreign currency assets and liabilities, net</b>	<b>(26,499)</b>	<b>26,230</b>	<b>3</b>	<b>17,931</b>	<b>17,665</b>
Effect of derivatives	26,735	(26,224)	-	(1,913)	(1,402)
<b>Net exposure</b>	<b>236</b>	<b>6</b>	<b>3</b>	<b>16,018</b>	<b>16,263</b>
Foreign currency off-balance sheet assets	4,775	1,520	-	34,795	41,090
Foreign currency off-balance sheet liabilities	99,409	14,930	-	586	114,925

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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.3.2. Foreign currency risk (Continued)**

Foreign currency exposure and foreign currency risk (including HUF exposures) as at 31 December 2010 are as follows:

	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>HUF</b>	<b>Total</b>
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	80,767	26,702	-	-	107,469
Loans and advances to customers, net of impairment losses	56,409	8,874	-	1,629	66,912
Other	262	1,532	2	17,602	19,398
Total foreign currency Assets	137,438	37,108	2	19,231	193,779
Foreign currency liabilities	172,126	405	-	4,162	176,693
<b>Foreign currency assets and liabilities, net</b>	<b>(34,688)</b>	<b>36,703</b>	<b>2</b>	<b>15,069</b>	<b>17,086</b>
Effect of derivatives	35,138	(36,248)	-	-	(1,110)
<b>Net exposure</b>	<b>450</b>	<b>455</b>	<b>2</b>	<b>15,069</b>	<b>15,976</b>
Foreign currency off-balance sheet assets	3,304	2,332	-	34,593	40,229
Foreign currency off-balance sheet liabilities	47,438	12,036	-	36	59,510



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**NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**23.3.2. Foreign currency risk (Continued)**

The Bank's net currency exposure was subject to a stress test examining how it would react to extreme exchange rates. The following tables show the change in the Bank's net foreign currency exposure at the extreme currency situations explained above compared with the actual exposure as at 31 December 2011 and as at 31 December 2010 resulting in profit or loss. In equity there is no foreign currency position, therefore the effect of an extreme change in exchange rates on equity cannot be examined. The calculation assumes that other conditions are unchanged during the period.

Extreme foreign currency risk calculation as at 31 December 2011

	<b>EUR</b>	<b>USD</b>	<b>Total</b>
Foreign currency exchange rate as at 31 December 2011	311.13	240.68	
Exchange rates at strong HUF (minimum of historical rates in 2011)	262.70	177.69	
Effect on profit or (loss)	37	2	39
Exchange rates at weak HUF (maximum of historical rates in 2011)	316.24	240.68	
Effect on profit or (loss)	(4)	-	(4)

Extreme foreign currency risk calculation as at 31 December 2010

	<b>EUR</b>	<b>USD</b>	<b>Total</b>
Foreign currency exchange rate as at 31 December 2010	278.75	208.65	
Exchange rates at strong HUF (minimum of historical rates in 2010)	261.6	184	
Effect on profit or (loss)	117	(118)	(1)
Exchange rates at weak HUF (maximum of historical rates in 2010)	290.03	240.57	
Effect on profit or (loss)	(77)	153	76

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#### NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 23.4. Capital management

Concerning the policy and the methods for capital handling the Bank follows the provisions of Hungarian Banking Act, of the Act on the Eximbank as well as of the Government Decree No. 196/2007 on the calculation of capital requirement.

According to the provisions of the Act CXII of 1996 on Credit Institutions and Financial Enterprises the financial institutions should dispose of a solvency margin ensuring the cover of the actual risks of its activity in order to maintain the actual financial solvency and to fulfil its liabilities, and the Bank should permanently maintain a minimum capital adequacy ratio of 8 percent.

The solvency margin is defined according to the Schedule No. 5 of the Act CXII of 1996 on Credit Institutions and Financial Enterprises, the capital adequacy ratio is defined according to the Decree.

The provision of capital handling is controlled by the Hungarian Financial Supervisory Authority.

In 2007 according to provisions of Article 20 of Act on Eximbank (Solvency margin and capital adequacy) and Schedule No 5 of Act CXII of 1996 on Credit Institutions and Financial Enterprises, MFB has provided to the Bank a subordinated loan capital in the amount of EUR 100 million. The maturity of this particular loan is 12<sup>th</sup> of September 2017.

In line with the referred provisions, the amount of the subordinated loan capital is to be considered as a positive component of the guarantee capital of Eximbank. On the 31<sup>st</sup> of December 2011 and 2010 the amount of the long-term liability arising from the loan agreement is HUF 31,113 million and HUF 27,875 million, respectively. At the end of the year 2009 the Act on Hungarian Export-Import Bank Corporation has been modified: the amount of the subordinated loan capital is to be the component of the guarantee capital of the Bank in the year ended 31 December 2010 at the latest occasion. At the end of the year 2010 the Act on Hungarian Export-Import Bank Corporation (Article 20. of Act on Eximbank) has been modified again: the amount of the subordinated loan capital is to be the component of the guarantee capital of the Bank until its exposure. According to this modification the Solvency ratio will be satisfying till 2017.

The Bank fulfilled the legal and prudential requirements in the year of 2011 and 2010, permanently complied with the limits of the Act CXII of 1996 on Credit Institutions and Financial Enterprises, the capital adequacy ratio has always significantly exceed the 8 percent required by the law as stated above.

	2011	2010
Core capital	16,803	16,476
Supplementary capital	16,803	27,875
Solvency margin	33,606	44,351
Total risk-weighted exposure to credit risk	145,098	108,639
Solvency ratio	21.65 %	37.31 %

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**NOTE 24. CONCENTRATION OF ASSETS AND LIABILITIES BY BUSINESS SEGMENTS**

**Banks**

Eximbank refinances domestic banks that provide export finance to Hungarian companies. The Bank also provides credits to foreign banks. This business segment includes the funds that finance the placements to banks as well as nostro accounts and interbank placements to and credits from domestic and foreign banks.

**Corporate**

This segment involves export-financing loans to domestic and foreign companies, forfeit, letter of credit and other credit products. The funds financing loans to companies are also presented here.

**Guarantees**

Eximbank provides guarantees for its own risk as well as those counter-guaranteed by the state.

**Treasury**

Management of shareholders' equity is presented here; money market assets and the money market liabilities funding them are involved in this segment.

**Other**

This segment contains activities not directly attributable to any of the above segment.

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NOTE 24. FINANCIAL POSITION SEGMENTED BY BUSINESSES AS AT 31 DECEMBER 2011

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	156	-	-	6	-	162
Loans and advances to other banks, net of impairment losses	102,781	-	-	26,112	-	128,893
Loans and advances to customers, net of impairment losses	814	52,746	956	-	73	54,589
Financial assets at fair value through profit or loss	-	-	-	47	-	47
Available-for-sale financial assets	356	-	-	10,720	12	11,088
Intangibles, property and equipment	-	-	-	-	176	176
Other assets	93	7	-	165	561	826
<b>Total Assets</b>	<b>104,200</b>	<b>52,753</b>	<b>956</b>	<b>37,050</b>	<b>822</b>	<b>195,781</b>
Loans and deposits from other banks	104,200	52,732	-	18,764	-	175,696
Financial liabilities at fair value through profit or loss	-	-	-	1,407	-	1,407
Other liabilities incl. provision	-	21	420	116	456	1,013
<b>Total Liabilities</b>	<b>104,200</b>	<b>52,753</b>	<b>420</b>	<b>20,287</b>	<b>456</b>	<b>178,116</b>
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	7,565	-	7,565
<b>Total Shareholder's Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,665</b>	<b>-</b>	<b>17,665</b>
<b>Total Liabilities and Equity</b>	<b>104,200</b>	<b>52,753</b>	<b>420</b>	<b>37,952</b>	<b>456</b>	<b>195,781</b>

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NOTE 24. FINANCIAL POSITION SEGMENTED BY BUSINESSES AS AT 31 DECEMBER 2010

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	66	-	-	1	-	67
Loans and advances to other banks, net of impairment losses	88,066	-	2	19,401	-	107,469
Loans and advances to customers, net of impairment losses	635	66,109	63	-	105	66,912
Financial assets at fair value through profit or loss	-	-	-	618	-	618
Available-for-sale financial assets	1,457	-	-	16,152	12	17,621
Intangibles, property and equipment	-	-	-	-	188	188
Other assets	80	6	-	665	153	904
<b>Total Assets</b>	<b>90,304</b>	<b>66,115</b>	<b>65</b>	<b>36,837</b>	<b>458</b>	<b>193,779</b>
Loans and deposits from other banks	90,286	65,013	-	18,585	-	173,884
Financial liabilities at fair value through profit or loss	-	-	-	1,074	-	1,074
Other liabilities incl. provision	19	1,102	248	191	175	1,735
<b>Total Liabilities</b>	<b>90,305</b>	<b>66,115</b>	<b>248</b>	<b>19,850</b>	<b>175</b>	<b>176,693</b>
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,986	-	6,986
<b>Total Shareholder's Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,086</b>	<b>-</b>	<b>17,086</b>
<b>Total Liabilities and Equity</b>	<b>90,305</b>	<b>66,115</b>	<b>248</b>	<b>36,936</b>	<b>175</b>	<b>193,779</b>

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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE YEAR ENDED 31 DECEMBER 2011

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	5,111	3,598	-	2,139	1	10,849
Interest expense	(3,494)	(2,677)	-	(59)	-	(6,230)
<b>Net interest income</b>	<b>1,617</b>	<b>921</b>	<b>-</b>	<b>2,080</b>	<b>1</b>	<b>4,619</b>
Net income from fees and commissions	-	(45)	234	(4)	1	186
Provisions and impairment (losses)/reversal	(784)	(768)	1,100	-	-	(452)
Gains and losses from trading and investment activities, net	-	-	-	(756)	-	(756)
Operating expenses, net	(1,052)	(1,258)	(309)	(407)	(1)	(3,027)
<b>Profit/(loss) before income tax</b>	<b>(219)</b>	<b>(1,150)</b>	<b>1,025</b>	<b>913</b>	<b>1</b>	<b>570</b>
Income taxes	14	73	(65)	(58)	-	(36)
<b>Net profit/(loss)</b>	<b>(205)</b>	<b>(1,077)</b>	<b>960</b>	<b>855</b>	<b>1</b>	<b>534</b>
<b>Additional information</b>						
Depreciation and amortisation	35	41	10	13	-	99
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	30	36	9	12	-	87

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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE YEAR ENDED 31 DECEMBER 2010

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	5,307	4,203	-	837	1	10,348
Interest expense	(2,668)	(1,740)	-	(115)	-	(4,523)
<b>Net interest income</b>	<b>2,639</b>	<b>2,463</b>	<b>-</b>	<b>722</b>	<b>1</b>	<b>5,825</b>
Net income from fees and commissions	3	41	720	(4)	7	767
Provisions and impairment losses	1,262	(2,115)	(1,002)	-	-	(1,855)
Gains and losses from trading and investment activities, net	-	-	-	30	-	30
Operating expenses, net	(1,123)	(1,379)	(344)	(456)	(20)	(3,322)
<b>Profit/(loss) before income tax</b>	<b>2,781</b>	<b>(990)</b>	<b>(626)</b>	<b>292</b>	<b>(12)</b>	<b>1,445</b>
Income taxes	(453)	161	102	(47)	2	(235)
<b>Net profit/(loss)</b>	<b>2,328</b>	<b>(829)</b>	<b>(524)</b>	<b>245</b>	<b>(10)</b>	<b>1,210</b>
<b>Additional information</b>						
Depreciation and amortisation	69	82	20	26	-	197
Non cash expenses	-	-	-	-	-	-
Cost to acquire intangible, property and equipment	22	25	6	8	-	61

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**NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	15	32	16	99	162
Loans and advances to other banks net of impairment losses	127,392	-	1,244	257	128,893
Loans and advances to customers, net of impairment losses	11,332	3,827	34,688	4,742	54,589
Financial assets at fair value through profit or loss	47	-	-	-	47
Available-for-sale financial assets	10,732	-	-	356	11,088
Intangibles, property and equipment, net	176	-	-	-	176
Other assets, net	714	2	39	71	826
<b>Total Assets</b>	<b>150,408</b>	<b>3,861</b>	<b>35,987</b>	<b>5,525</b>	<b>195,781</b>
Loans and deposits from other banks	163,238	12,458	-	-	175,696
Financial liabilities at fair value through profit or loss	1,211	196	-	-	1,407
Other liabilities incl. provision	626	3	14	370	1,013
<b>Total liabilities</b>	<b>165,075</b>	<b>12,657</b>	<b>14</b>	<b>370</b>	<b>178,116</b>
Share capital	10,100	-	-	-	10,100
Reserves	7,565	-	-	-	7,565
<b>Total Shareholder's Equity</b>	<b>17,665</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,665</b>
<b>Total Liabilities and Equity</b>	<b>182,639</b>	<b>12,657</b>	<b>14</b>	<b>370</b>	<b>195,680</b>
<b>Off-balance sheet financial instruments</b>					
Guarantees insured by the state	25,917	787	8,091	-	34,795
Unutilised part of credit lines	66,245	-	11,774	-	78,019
Letter of Credit	-	-	-	-	-
Guarantees	1,844	41	226	-	2,111
<b>Total</b>	<b>94,006</b>	<b>828</b>	<b>20,091</b>	<b>-</b>	<b>114,925</b>



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NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY  
GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31  
DECEMBER 2010

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	10	47	-	10	67
Loans and advances to other banks net of impairment losses	103,830	781	2,636	222	107,469
Loans and advances to customers, net of impairment losses	10,869	3,760	48,637	3,646	66,912
Financial assets at fair value through profit or loss	553	65	-	-	618
Available-for-sale financial assets	16,164	-	-	1,457	17,621
Intangibles, property and equipment, net	188	-	-	-	188
Other assets, net	842	-	-	62	904
<b>Total Assets</b>	<b>132,456</b>	<b>4,653</b>	<b>51,273</b>	<b>5,397</b>	<b>193,779</b>
Loans and deposits from other banks	162,679	11,205	-	-	173,884
Financial liabilities at fair value through profit or loss	1,074	-	-	-	1,074
Other liabilities incl. provision	1,367	-	63	305	1,735
<b>Total liabilities</b>	<b>165,120</b>	<b>11,205</b>	<b>63</b>	<b>305</b>	<b>176,693</b>
Share capital	10,100	-	-	-	10,100
Reserves	6,986	-	-	-	6,986
<b>Total Shareholder's Equity</b>	<b>17,086</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,086</b>
<b>Total Liabilities and Equity</b>	<b>182,206</b>	<b>11,205</b>	<b>63</b>	<b>305</b>	<b>193,779</b>
<b>Off-balance sheet financial instruments</b>					
Guarantees insured by the state	27,913	682	5,981	-	34,576
Unutilised part of credit lines	3,225	213	16,798	1,209	21,445
Letter of Credit	-	-	-	-	-
Guarantees	3,282	36	171	-	3,489
<b>Total</b>	<b>34,420</b>	<b>931</b>	<b>22,950</b>	<b>1,209</b>	<b>59,510</b>

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NOTE 25. SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
<b>Interest income:</b>					
Loans	1,618	236	568	142	2,564
Loans and advances to other banks	2,555	11	83	14	2,663
Other interest income	5,500	-	-	122	5,622
<b>Total interest income</b>	<b>9,673</b>	<b>247</b>	<b>651</b>	<b>278</b>	<b>10,849</b>
<b>Income from fees and commissions:</b>					
Guarantees covered by the state	169	-	-	53	222
Insurance fees devolved by MEHIB	-	-	12	-	12
Refund of MEHIB insurance fee	-	-	-	-	-
Guarantees	53	-	1	2	56
Other	2	-	-	-	2
<b>Total income from fees and commissions</b>	<b>224</b>	<b>-</b>	<b>13</b>	<b>55</b>	<b>292</b>
<b>Total Income</b>	<b>9,897</b>	<b>247</b>	<b>664</b>	<b>333</b>	<b>11,141</b>

SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
<b>Interest income:</b>					
Loans	1,937	208	1,178	113	3,436
Loans and advances to other banks	3,272	11	183	(91)	3,375
Other interest income	3,476	-	-	61	3,537
<b>Total interest income</b>	<b>8,685</b>	<b>219</b>	<b>1,361</b>	<b>83</b>	<b>10,348</b>
<b>Income from fees and commissions:</b>					
Guarantees covered by the state	1,007	-	-	41	1,048
Insurance fees devolved by MEHIB	-	2	49	-	51
Refund of MEHIB insurance fee	8	-	-	-	8
Guarantees	76	-	-	2	78
Other	5	-	-	-	5
<b>Total income from fees and commissions</b>	<b>1,096</b>	<b>2</b>	<b>49</b>	<b>43</b>	<b>1,190</b>
<b>Total Income</b>	<b>9,781</b>	<b>221</b>	<b>1,410</b>	<b>126</b>	<b>11,538</b>

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### *NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (All amounts stated in HUF million unless otherwise noted)*

#### **NOTE 26. EVENTS AFTER THE BALANCE SHEET DATE**

On 12 April 2012 the Hungarian Government announced that Hungarian State acquires the shares in Eximbank owned by Hungarian Development Bank Ltd. and all the shareholders' rights are exercised by Ministry of National Economy. The Government asked the relevant Ministries to make the necessary steps immediately including preparing modification of relevant laws and agreements.

There were no events after the balance sheet date, which have any significant effect on figures in financial statements for the year 2011.

#### **NOTE 27. USE OF ESTIMATES AND JUDGEMENTS**

Management discusses with the Supervisory Board the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 22.).

##### Key sources of estimation uncertainty

##### ***Allowances for credit losses***

Assets measured at amortised cost are tested for impairment on a basis described in accounting policy described in accounting policy (see Note 3.9.1).

The specific counterparty component of the total allowances for impairment applies to financial assets tested individually for impairment and is based upon management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

##### ***Determining fair values***

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

##### **Critical accounting judgements in applying the Bank's accounting policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

##### ***Valuation of financial instruments, fair value hierarchy***

The Bank's accounting policy on fair value measurements is discussed in Note 3.3.

The Bank measures fair value using the following hierarchy of methods:

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NOTE 27. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

- Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Bank has no such financial instruments of which fair value is determined using significant unobservable inputs (Level 3).

The table below analyses financial instruments carried at fair value, by valuation method:

<b>31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>			
Debt and equity instruments	-	-	-
Derivative instruments	-	47	47
	-	47	47
<i>Available-for-sale financial assets</i>	11,088	-	11,088
	11,088	-	11,088
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative instruments	-	1,407	1,407
	-	1,407	1,407
<b>31 December 2010</b>			
<i>Financial assets at fair value through profit or loss</i>			
Debt and equity instruments	553	-	553
Derivative instruments	-	65	65
	553	65	618
<i>Available-for-sale financial assets</i>	17,621	-	17,621
	17,621	-	17,621
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative instruments	-	1,074	1,074
	-	1,074	1,074

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

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**NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES**

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction between willing parties. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of the estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgement and uncertainties, the aggregate fair value amounts should not be interpreted as being realisable in an immediate settlement of the instruments.

As at 31 December 2011, the fair values of the Eximbank's financial assets and liabilities were as follows:

	Trading	Loans and receivables	Available -for-sale	Other amortised cost	Carrying amount	Fair value
Cash due from banks and balances with National Bank of Hungary	-	162	-	-	162	162
Loans and advances to other banks	-	128,893	-	-	128,893	128,893
Loans and advances to customers	-	54,588	-	-	54,588	54,588
Financial assets at fair value through profit or loss	47	-	-	-	47	47
Available-for-sale financial assets	-	-	11,088	-	11,088	11,088
<b>Total</b>	<b>47</b>	<b>183,643</b>	<b>11,088</b>	<b>-</b>	<b>194,778</b>	<b>194,778</b>
Loans and deposits from other banks	-	-	-	175,696	175,696	175,696
Financial liabilities at fair value through profit or loss	1,407	-	-	-	1,407	1,407
<b>Total</b>	<b>1,407</b>	<b>-</b>	<b>-</b>	<b>175,696</b>	<b>177,103</b>	<b>177,103</b>

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NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES  
(CONTINUED)

As at 31 December 2010, the fair values of the Eximbank's financial assets and liabilities were as follows:

	Trading	Loans and receivables	Available -for-sale	Other amortised cost	Carrying amount	Fair value
Cash due from banks and balances with National Bank of Hungary	-	67	-	-	67	67
Loans and advances to other banks	-	107,469	-	-	107,469	107,469
Loans and advances to customers	-	66,912	-	-	66,912	66,912
Financial assets at fair value through profit or loss	618	-	-	-	618	618
Available-for-sale financial assets	-	-	17,621	-	17,621	17,621
<b>Total</b>	<b>618</b>	<b>174,448</b>	<b>17,621</b>	<b>-</b>	<b>192,687</b>	<b>192,687</b>
Loans and deposits from other banks	-	-	-	173,884	173,884	173,884
Financial liabilities at fair value through profit or loss	1,074	-	-	-	1,074	1,074
<b>Total</b>	<b>1,074</b>	<b>-</b>	<b>-</b>	<b>173,884</b>	<b>174,958</b>	<b>174,958</b>

**Cash, due from banks and balances with National Bank of Hungary** Due to their short term nature, the fair value of cash, amounts due from banks and balances with the National Bank of Hungary is assumed to approximate the historical cost carrying amount.

**Financial assets at fair value through profit or loss** Financial assets at fair value through profit or loss are carried at their fair values in the statement of financial position.

**Available-for-sale financial assets** The carrying values of equity investments and other available-for-sale financial assets are provided in Note 8 to the financial statements. These are based on quoted market prices, when available. In that case when equity instruments do not have quoted market price in an active market and the variability in the range of the reasonable fair value estimates is so great and the probabilities of the various outcomes are so difficult to assess that the usefulness of a single estimate of fair value is negated, financial instruments are stated at cost.

**Loans and advances to other banks and Loans and advances to customers** The carrying values of Loans and advances to other banks and Loans and advances to customers are assumed to approximate the amortised cost using the effective rate method. Under the interest compensation system long term loans are re-priced every quarter according to market conditions (such as costs of acquiring funds, operating spread, risk premium) thus their carrying values approximate the fair value.

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**NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES  
(CONTINUED)**

**Other assets/liabilities** The carrying amounts of other financial assets and other financial liabilities approximate their fair values.

**Financial liabilities valued at amortised cost** The fair value of amounts Loans and deposits from other banks is assumed to approximate their carrying amount.

**Derivative financial instruments** Derivative financial instruments are carried at their fair values in the statement of financial position. The fair value of derivative financial instruments is calculated using discounted cash flow techniques, which take into consideration assumptions based on market data.

**NOTE 28. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements:

**Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets:** (effective for annual periods on or after 1 January 2012) In general a the measurement of deferred tax assets and liabilities is based on the excepted manner of recovery or settlement of the underlying asset or liability. The 2010 amendment provides an exception to this measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. Under the exception, the measurement of deferred tax assets and liabilities is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. Therefore, the presumption cannot be rebutted in respect of the land component of investment property as it is a non-depreciable asset. Amendments to IAS 12 are not relevant to the Bank's financial statements as the Bank does not have any investment properties.