OFFERING CIRCULAR

Magyar Export-Import Bank

Zártkörűen Működő Részvénytársaság

(incorporated with limited liability in Hungary)

EUR 2,000,000,000

Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság (in English: Hungarian Export-Import Bank Private Limited Company) ("**Eximbank**" or the "**Issuer**") may from time to time, and subject to compliance with all relevant laws, regulations and directives, issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). Notes will be issued in Series, as further set out in "*Overview of the Programme*" below. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 2,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Issuer's obligations under the Notes have the benefit of a statutory guarantee from the Hungarian state relating to the Issuer's funding activities (the "**Funding Guarantee**") in accordance with Paragraph (2) of Article 274 of the Civil Code of Hungary ("*készfizető kezességvállalás*") (the "**Civil Code**") and pursuant to Paragraph (1)(a) of Article 6 of Act XLII of 1994 on the Hungarian Export-Import Bank Private Limited Company and the Hungarian Export Credit Insurance Private Limited Company, as amended, (the "**Eximbank Act**").

PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS (THE "**CAPITAL MARKETS ACT**"), TO THE EXTENT THIS OFFERING CIRCULAR IS USED IN HUNGARY IT MAY ONLY BE SO USED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY IN ACCORDANCE WITH THE CAPITAL MARKETS ACT. THIS OFFERING CIRCULAR IS NOT A PROSPECTUS ("*TÁJÉKOZTATÓ*") AS DEFINED IN SECTION 21(1) OF THE CAPITAL MARKETS ACT.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

This Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**"), a prospectus for the purposes of Directive 2003/71/EC, as amended, (the "**Prospectus Directive**") nor listing particulars given in compliance with the listing rules under Part VI of the FSMA by the Financial Services Authority in its capacity as competent authority under the FSMA (the "**UKLA**"). The Prospectus Directive does not apply to this Offering Circular pursuant to Article 1(2)(d) thereof.

Application may be made to the UKLA for one or more Series of Notes to be issued under the Programme to be listed on its official list and admitted to the official list of the UKLA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Offering Circular to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purpose of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). The Issuer may also issue unlisted Notes under the Programme.

The Programme has been rated BB by Standard & Poor's Credit Market Services Europe Ltd ("**S&P**") and BB+ by Fitch Ratings Limited ("**Fitch**"). As at the date of this Offering Circular, Hungary's foreign currency long-term debt was rated BB by S&P (with stable outlook), Ba1 (with negative outlook) by Moody's Investors Service, Inc. ("**Moody's**") and BB+ by Fitch (with negative outlook). Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to Notes already issued under the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to any Notes may adversely affect the market price of such Notes.

Notes may be issued in bearer form ("**Bearer Notes**") or registered form ("**Registered Notes**"). Each Series (as defined in "*Overview of the Programme – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**"). If the Global Notes are stated in the applicable Pricing Supplement to be issued in new global note ("**NGN**") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a Global Note in registered form (a "**Regulation S Global Note**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Note will bear a legend regarding such restrictions on transfer. The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to "qualified institutional buyers" ("**QIBs**") within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended, (the "**U.S. Securities Act**"). The Registered Notes of each Tranche sold to QIBs will initially be represented by a global note in registered form (a "**Rule 144A Global Note**" and, together with a Regulation S Global Note, the "**Registered Global Notes**").

Arranger

Jefferies

Dealers

Jefferies	Deutsche Bank

Offering Circular dated 4 December 2012

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IMPORTANT INFORMATION

In this Offering Circular, "**Eximbank**" or the "**Issuer**" refers to Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság (in English: Hungarian Export-Import Bank Private Limited Company).

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

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Jefferies International Limited (the "**Arranger**") and Deutsche Bank AG, London Branch (in its capacity as a Dealer (as defined below)) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the issue and sale of the Notes. The Arranger and the Dealers accept no liability in relation to the information contained in this Offering Circular or any other information provided by the Issuer in connection with the issue and sale of the Notes.

In connection with the issue and sale of Notes, no person is or has been authorised by the Issuer, the Arranger or the Dealers to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the issue and sale of Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger or the Dealers.

The Notes will be issued on a continuing basis to one or more of the Dealers specified on page 2 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an on-going basis (each a "**Dealer**" and together, the "**Dealers**"). References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or Hungary since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or Hungary since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the relevant Pricing Supplement (as defined below), no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside the European Economic Area or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. The distribution of this Offering

Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Hungary, Japan, the Republic of Singapore and Hong Kong (see "*Subscription and Sale*" and "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" below).

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of the financial markets in which they participate; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic conditions, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of any Tranche (as defined in "*Overview of the Programme*") of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or any person acting on behalf of any Stabilising Manager(s)) may purchase and sell Notes in the open market, over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. Over-allotment involves the sale of Notes in excess of the principal amount of Notes to be purchased by the Dealers in this offering, which creates a short position for the Dealers. Covering transactions involve the purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Dealers may conduct these transactions in the over-the-counter market or otherwise. If the Dealers commence any of these transactions, they may discontinue them at any time. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Notes have not been and will not be registered under the U.S. Securities Act or any other applicable U.S. state securities laws, and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale — United States of America*" and "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" below). Any offer or sale of any Notes (including re-sales thereof) in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the U.S. Securities Act or pursuant to an exemption therefrom.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein are forward-looking statements including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives, based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. The Issuer may also make forward-looking statements in its audited annual financial statements, in its interim financial statements, in its prospectuses, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Forward-looking statements are typically identified by words or phrases such as, without limitation, "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as, without limitation, "will", "should", "would" and "could."

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements and so undue reliance should not be placed on such statements.

The Issuer has identified some of the risks inherent in forward-looking statements under "*Risk Factors*" in this Offering Circular. Important factors that could cause actual results to differ materially from those in forward-looking statements include, among others:

- changes in the Hungarian economy, in particular changes to the demand for Hungarian exports;
- changes in the banking and financial markets in Hungary;
- changes in the Issuer’s ownership by the government of Hungary or other changes in policy or regulation by the Hungarian government, including the status of the Funding Guarantee provided by Hungary;
- change to Hungary’s willingness to contribute capital or other financial support;
- the Issuer’s credit exposure to financial institutions in Hungary;
- changes in applicable laws and regulations, including taxes, or accounting standards or practices;
- the monetary, interest rate and other policies of central banks in Hungary, the European Union, the United States and elsewhere;
- changes or volatility in interest rates, foreign exchange rates, asset prices, equity markets, commodity prices, inflation or deflation;
- the Issuer’s exposure to the credit risk of its borrowers and counterparties;
- the Issuer’s ability to hedge certain risks economically;
- the Issuer’s ability to manage any mismatches between the Issuer’s interest-earning assets and the Issuer’s interest-bearing liabilities;
- the Issuer’s ability to manage operational risks and prevent security breaches;
- the Issuer’s ability to maintain reliable and secure information technology systems;
- the Issuer’s ability to attract and retain key management and qualified personnel;
- the Issuer’s ability to grow its loan portfolio;
- the Issuer’s ability to control expenses;
- the Issuer’s ability to manage liquidity risks and to access credit and capital markets;
- the Issuer’s success in managing the risks involved in the foregoing, which depends, among other things, on the Issuer’s ability to anticipate events that cannot be captured by the statistical models the Issuer uses; and
- force majeure and other events beyond the Issuer’s control.

There may be other risks, including some risks of which the Issuer is unaware, that could adversely affect the Issuer’s results or the accuracy of forward-looking statements in this Offering Circular. Therefore, you should not consider the factors discussed here or under "*Risk Factors*" to be a complete set of all potential risks or uncertainties.

The Issuer does not have any intention or obligation to update the forward-looking statements in this Offering Circular or in other disclosure to reflect new information, future events or risks that may cause the forward-looking events the Issuer presents in this Offering Circular not to occur or to occur in a manner different from what the Issuer expects.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Issuer

The financial information for the Issuer for the nine-month periods ended 30 September 2012 and 30 September 2011 has been extracted from the Issuer's unaudited interim financial statements for the nine months ended 30 September 2012 and the related notes and auditor's interim review report (the "**Interim Financial Statements**"). The financial information for the Issuer as at and for the year ended 31 December 2011 has been extracted from the Issuer's audited financial statements for the year ended 31 December 2011 and the related notes therein (the "**2011 Financial Statements**"). The financial information for the Issuer as at and for the year ended 31 December 2010 has been extracted from the Issuer's audited financial statements for the year ended 31 December 2010 and the related notes therein (the "**2010 Financial Statements**"). The financial information for the Issuer as at and for the year ended 31 December 2009 has been extracted from the Issuer's audited financial statements for the year ended 31 December 2009 and the related notes therein (the "**2009 Financial Statements**"). Together, the 2011 Financial Statements, the 2010 Financial Statements and the 2009 Financial Statements are hereinafter, the "**Audited Financial Statements**". The Audited Financial Statements and the Interim Financial Statements, together, are hereinafter the "**Financial Statements**". The Financial Statements were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IFRS**"), as adopted by the European Union. Neither the Financial Statements nor the other financial information presented in this document has been prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**"), or audited in accordance with auditing standards generally accepted in the United States ("**U.S. GAAS**"). Accordingly, no opinion or any other assurance with regard to any financial information has been expressed under U.S. GAAP or U.S. GAAS. The Hungarian Forint is the measurement currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this Offering Circular have, unless otherwise noted, been presented in Forints.

Certain financial and other information presented in various tables in this Offering Circular, including certain tables in "*Description of the Issuer*", have been prepared on the basis of the Issuer's own internal accounts, which are prepared under Hungarian Accounting Standards ("**HAS**"). Unless otherwise indicated specifically as IFRS data, the sources for statements and data concerning the Issuer and its business are based on the best estimates and assumptions of the Issuer's management, which believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Issuer included herein, whether based on external sources or prepared using HAS as the basis for the internal estimates and assumptions of the Issuer's management, constitute the best current estimates of the information provided.

Hungary

Unless otherwise indicated, all data relating to Hungary in this Offering Circular is presented for comparison purposes in accordance with the methodology of the International Monetary Fund (the "**IMF**") (as set forth in the Manual on Governance Finance Statistics, IMF 1986) ("**GFS**"). In order to comply with its EU accession obligations, Hungary produces certain data on the basis of the European System of Accounts 95 ("**ESA**"). ESA methodology monitors revenues and expenditures on an accrual basis, whereas GFS methodology monitors revenues and expenditures on a cash basis. Under ESA, certain issued state guarantees are reclassified as government debt and increase the deficit. The definition of the general government sector is extended to include certain quasi-governmental institutions.

In June 2008, there was a methodological change in the calculation of the balance of payment statistics related to compensation of employees in order to bring the methodology in line with international standards. The procedure of monitoring employee income payments was replaced by estimates made on the basis of the Hungarian Central Statistical Office ("**CSO**") administrative resources for the purposes of balance of payments statistics. This covers the gross earnings of employees in its entirety. Taxes and contributions paid and received in connection with wages are also shown under current transfers.

On 30 September 2008, the Hungarian National Bank (the "**NBH**") modified the calculation methodology of the balance of payments. According to the NBH, the revision of goods data is the most significant of the areas affected by the revision. In the past, trade accredit assets in the balance of payments were determined basically by the difference between cash-based trade data reported to the NBH and accruals-based statistical data as measured by the CSO. After the change in methodology, the NBH recorded a large part of calculated turnover in trade credit as statistical error (under errors and omissions) and started to examine the causes of deviations together with the CSO. During the examination, enterprises not registered in the territory of Hungary, only obliged to declare VAT but playing an increasingly greater role in the country's foreign trade, became the centre of attention. Such enterprises provide data for Hungary's foreign trade statistics, in accordance with the practice of the EU. While the data must be treated as part of Hungarian foreign trade, consistent with international standards on foreign trade statistics, there are no clearly defined recommendations for their treatment in the national accounts and the balance of payments. In the view of domestic experts, in terms of the national accounts and the balance of payments, such enterprises do not constitute part of the Hungarian economy and, therefore, they should be recorded differently from the standards on foreign trade statistics. This means that trade margins on foreign trade transactions should be ignored when assessing the performance of the Hungarian economy. The NBH have revised the values of goods exports and imports recorded in the balance of payments in a way that the balance of goods has been adjusted by the amounts above. The revision has not affected the CSO's official foreign trade statistics. As a result of this methodological change, the NBH revised the balance of payments data for the years 2006 and 2007. All balance of payments data in this report have been calculated based on the revised methodology.

Currency

In this Offering Circular, the following currency terms are used:

- "**HUF**", "**Hungarian Forints**" or "**Forints**" means the lawful currency of Hungary;
- "**U.S. dollars**", **U.S.$** or "**USD**" means the lawful currency of the United States;
- "**EUR**", "**euro**" "**Euro**" or "**€**" means the lawful currency of the Member States of the European Union that have adopted the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended;
- "**GBP**", "**£**" or "**pound sterling**" means the lawful currency of the United Kingdom of Great Britain; and
- "**JPY**", "**¥**" or "**Japanese Yen**" means the lawful currency of Japan.

The Issuer's Auditors

As at the date of this Offering Circular, the Issuer's auditors are KPMG Hungária Kft ("**KPMG**"), a member of KPMG International. KPMG's address is Váci út 99, Budapest, Hungary and KPMG's company registration number is 01-09-063183. KPMG are certified public accountants operating under authorised auditors' licence number 000202 and have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Hungary for the financial periods ending 31 December, 2011, 31 December 2010 and 31 December 2009.

Exchange Rates

Except as otherwise specified, all amounts in this Offering Circular are expressed in Forints, in Euro, and in U.S. dollars. All currency conversions in this Offering Circular are at the NBH's official middle rate of exchange on a particular date or calculated at the average of the middle rates of exchange for a particular period. For convenience, certain amounts have been converted from Forint into USD and/or Euro at the average exchange rate for each relevant period or the exchange rate in effect on a given date.

The following table sets forth the Forint/Euro exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated:

	12 months ended 31 December			9 months ended 30 September
	2009	2010	2011	2012
	(HUF per EUR)			
Year period	270.84	278.75	311.13	283.71
Average for period	280.58	275.41	279.21	291.38

Source: NBH

The following table sets forth the Forint/USD exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated:

	12 months ended 31 December			9 months ended 30 September
	2009	2010	2011	2012
	(HUF per USD)			
Year period	188.07	208.65	240.68	219.17
Average for period	202.26	208.15	200.94	227.30

Source: NBH

As at 22 November 2012, the official middle exchange rates were HUF 217.51 = USD 1.00 and HUF 279.81 = EUR 1.00. For information on the convertibility of the Forint, see "*Description of Hungary - Monetary and Financial System – Exchange Rate Policy – Foreign Exchange and Convertibility of the Forint*."

Totals in certain tables in this Offering Circular may differ from the sum of the individual items in such tables due to rounding. In addition, certain figures contained in this Offering Circular are estimates prepared in accordance with procedures customarily used in Hungary for the reporting of data. Certain other figures are preliminary in nature. In each case, the actual figures may vary from the estimated or preliminary figures set forth in this Offering Circular.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one tenth of one per cent.

SERVICE OF PROCESS AND ENFORCEABILITY OF JUDGEMENTS

The Issuer is a private limited company incorporated under the laws of Hungary. All directors and executive officers of the Issuer are resident in Hungary and a substantial portion of their assets are located in Hungary. Although the Issuer has agreed, in accordance with the terms of the fiscal and paying agency agreement governing the Notes (the "**Agency Agreement**"), to accept service of process in the United Kingdom by agents designated for such purpose, it may not be possible for Noteholders to:

- effect service of process within the United Kingdom or the United States upon the Issuer or its directors or executive officers named in this Offering Circular; or
- enforce against the Issuer or any such persons judgments obtained in English or U.S. courts.

Notwithstanding the above, judgments obtained in English courts are, subject to the limitations set out in the regulation mentioned below, recognised and enforceable in Hungary under Council Regulation (EC) No 44/2001 of 22 December 2000 on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

OVERVIEW OF THE ISSUER

Purpose and Authority

Eximbank is a specialised credit institution wholly owned by the Hungarian state. It was established by Act XLII of 1994 on the Hungarian Export-Import Bank and the Hungarian Export Credit Insurance Company in order to facilitate the sale of Hungarian goods and services in foreign markets and commenced operation on 10 August 1994.

As Eximbank is a specialised credit institution wholly owned by the Hungarian state and maintained for the purpose of financing the export of Hungarian goods and services, the primary aim of its operations is not to achieve the highest possible profit, but to make efficient and effective use of Hungarian state central budgetary resources in support of its mandate. As such, the Hungarian state is responsible for ensuring the long-term and stable operation of Eximbank in accordance with Eximbank's legislative charter. In addition, Eximbank also benefits from various forms of support from the Hungarian state, including the Funding Guarantee, a statutory back-to-back guarantee relating to certain of Eximbank's guarantees, interest equalisation and support payments under the majority of loans which Eximbank provides, credit insurance with respect to a portion of Eximbank's loan portfolio and funding and liquidity support.

Business Overview and Strategy

Eximbank provides five main export finance-related products: (1) refinancing facilities to domestic and foreign commercial banks providing financing for Hungarian export transactions, (2) buyer's credit facilities (including "tied aid" loans) to foreign purchasers or partners of Hungarian exporters, (3) discounting facilities to Hungarian exporters, (4) direct pre-export financing credit to Hungarian exporters and (5) export-credit and export-related guarantees. In addition, in the past Eximbank has provided, to a limited extent, loans with respect to Hungarian investments abroad.

Historically, Eximbank financed a substantial portion of its operations from loans and advances provided by the Hungarian Development Bank, which is wholly owned by the Hungarian state and was Eximbank's majority shareholder until 23 May 2012, when the Hungarian state took a direct 100% ownership in Eximbank. Going forward, Eximbank intends to meet its medium- and long-term funding needs primarily through issuing in the international capital markets and money markets, including through the issuance of Notes under the Programme, rather than loans from the Hungarian state or state-owned entities.

In support of its mandate to finance the export of Hungarian goods and services, Eximbank's historical strategy has been to focus on those market segments or export destinations which, in the view of the Hungarian state, are in need of official support or are under-penetrated by Hungarian exports. Going forward, Eximbank expects to expand this strategy to encompass a wider range of borrowers and export-related transactions as it seeks to grow its loan portfolio.

OVERVIEW OF THE PROGRAMME

This overview must be read as an introduction to this Offering Circular and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole and the relevant Pricing Supplement.

Issuer:	Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság.
Guarantor:	Hungary (in accordance with the terms of the Funding Guarantee, as defined and described under "*Overview of the Programme - Guarantee*" below).
Description:	Global Medium Term Note Programme.
Arranger:	Jefferies International Limited.
Dealers:	Jefferies International Limited; Deutsche Bank AG, London Branch; and any other Dealers appointed in accordance with the Programme Agreement.
Fiscal Agent, Paying and Transfer Agent and Exchange Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Risk Factors:	An investment in the Notes involves certain risks relating to the Issuer, the Guarantor and the Notes. While all of these risk factors are contingencies which may or may not occur, potential investors should be aware that the risks involved with investing in any Notes may (i) affect the ability of the Issuer to fulfil its obligations under Notes issued under the Programme and/or (ii) affect the ability of the Guarantor to fulfil its obligations under the Funding Guarantee and/or (iii) lead to a volatility and/or decrease in the market value of the relevant Notes whereby the market value falls short of the expectations (financial or otherwise) of an investor upon making an investment in such Notes. There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. These are set out under the heading "*Risk Factors*". Investors should carefully consider these risk factors and all of the information in this Offering Circular before deciding to buy Notes.
Programme Size:	Up to EUR 2,000,000,000 (or its equivalent in other currencies). The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement, in connection with which a new offering circular will be published (see "*General Description of the Programme*" below for further detail).
Method of Issue:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Euro and U.S. dollars, and, subject to any applicable legal or regulatory restrictions and any applicable reporting requirements, any other currency agreed between the Issuer and the relevant Dealer.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time.

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

Maturities: The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Except as provided above, the Notes are not subject to any maximum maturity.

Issue Price: Notes may be issued at an issue price which is at par or at a discount to, or premium over, par.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Form of Notes: The Notes may be issued in bearer form or registered form, as specified in the relevant Pricing Supplement, and in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s).

In respect of Notes issued in bearer form, the Notes will on issue be represented by either a temporary Global Note or a permanent Global Note as specified in the applicable Pricing Supplement. Temporary Global Notes will be exchangeable either for (i) interests in a permanent Global Note or (ii) definitive Notes as indicated in the applicable Pricing Supplement.

Bearer Notes may either be issued as classic global notes ("**Classic Global Notes**" or "**CGNs**") or through Euroclear and Clearstream, Luxembourg in NGN form. Bearer Notes are only eligible as collateral for Eurosystem monetary policy and intra-day credit operations if they are issued in NGN form.

Notes may also be issued in the form of registered Notes in restricted or unrestricted form. Registered Notes in global form may be held under the New Safekeeping Structure ("**NSS**").

Notes in registered form will not be exchangeable for Notes in bearer form and *vice versa*. Permanent Global Notes will be exchangeable for definitive Notes only upon the occurrence of an Exchange Event.

Clearing Systems: Notes in CGN form will normally be initially deposited with a common depositary for Euroclear and Clearstream Luxembourg (the "**Common Depositary**"). Notes may also be deposited with a custodian for any other clearing system agreed by the Issuer, the relevant Dealer and the Fiscal Agent.

Notes issued in NGN form will be deposited and safekept by a Common Safekeeper and serviced by a common service provider.

Notes in NGN form that the Issuer wishes to make potentially eligible as collateral for Eurosystem monetary policy or intra-day credit operations will be deposited and safekept throughout their lives by Euroclear or

	Clearstream, Luxembourg as Common Safekeeper. Registered Notes will either (i) be deposited with a custodian for, and registered in the name of Cede & Co as nominee of The Depository Trust Company ("**DTC**") or (ii) be deposited with, and registered in the name of a nominee of a common depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the relevant Pricing Supplement) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer and indicated in the relevant Pricing Supplement.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined either: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer, as indicated in the relevant Pricing Supplement. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Other Provisions in relation to Floating Rate Notes:	Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the relevant Pricing Supplement). Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the relevant Pricing Supplement).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount or at par and will not bear interest.
Redemption:	The Pricing Supplement relating to each Tranche of Notes will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the relevant Pricing Supplement) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the relevant Pricing Supplement.
Events of Default:	The Notes will be redeemable prior to their stated maturity upon the acceleration of the Notes following any Event of Default in the circumstances specified in Condition 10. The Events of Default include, without limitation, the following events:

(a) failure to pay by the Issuer;

(b) breach of other obligations under the Programme by the Issuer;

(c) insolvency and other analogous events under the laws of Hungary relating to the Issuer;

(d) default by Hungary or the NBH;

(e) cross-acceleration and cross default by the Issuer under other indebtedness (subject to certain minimum thresholds);

(f) it becomes unlawful for the Issuer to perform its obligations under the Notes or the Agency Agreement;

(g) the Funding Guarantee no longer being in existence or otherwise ceasing to constitute a guarantee of all of the Issuer's obligations under the Notes;

(h) the Issuer ceasing to be owned, directly or indirectly, by Hungary; and

(i) Hungary ceasing to be a member in good standing of the IMF.

A full list of the Events of Default and the circumstances in which the Notes will be accelerated following an Event of Default are set out in Condition 10 of the Notes.

Denomination of Notes: Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the relevant Pricing Supplement except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Overview of the Programme – Certain Restrictions*" above.

Taxation: All payments in respect of the Notes will be made without deduction for or on account of withholding taxes levied in Hungary as provided in Condition 7 of the Notes. In the event that any such deduction is made, the Issuer will, except in certain circumstances, be required to pay additional amounts to cover the amounts so deducted, as described under the Conditions of the Notes below.

Status of the Notes: Unless otherwise specified in the relevant Pricing Supplement, the Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 9.1) unsecured obligations of the Issuer and will rank *pari passu* and without preference among themselves and (except for certain debts required to be preferred by law) equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

Negative Pledge: So long as any Note remains outstanding, the Issuer shall not create or permit to subsist any Security Interest (as defined in Condition 9.2) upon the whole or any part of its present or future undertaking, assets or revenues to secure either any Relevant Indebtedness (as defined in Condition 9.2) or any guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing any such Security Interest for the Notes as may be approved by the Noteholders in accordance with the provisions of the Agency Agreement.

Further Issues:	The Notes will be issued in series ("**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable and fungible with all other Notes of that Series. Each Series of Notes may be issued in tranches (each a "**Tranche**") on the same date. The Issuer may from time to time issue further Notes of any Series of the type and on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series.
Guarantee:	The Notes have the benefit of a statutory guarantee from the Hungarian state relating to the Issuer's funding activities in accordance with Paragraph (2) of Article 274 of the Civil Code ("*készfizető kezességvállalás*") and pursuant to Paragraph (1)(a) of Article 6 of the Eximbank Act (the "**Funding Guarantee**").
Other Credit Support	Notes may be issued with the benefit of additional guarantees other than the Funding Guarantee or other forms of credit enhancement, in each case as specified in the relevant Pricing Supplement.
Listing:	Application may be made to the UKLA for the Notes to be issued under the Programme to be listed on the official list of the UKLA, and to the London Stock Exchange for the Notes to be admitted to trading on, the London Stock Exchange's regulated market. Unlisted Notes may also be issued. The relevant Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Credit Ratings:	The Programme has been rated BB by S&P and BB+ by Fitch. Each of S&P and Fitch is established in the EU and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**"). Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Governing Law:	The Notes and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes and the Agency Agreement will be governed by, and construed in accordance with, English law. The Funding Guarantee is provided for under Hungarian law.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area, the United Kingdom, Hungary, Japan, Republic of Singapore and Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*" below).

Transfer Restrictions	Notes issued under the Programme will not be registered under the U.S. Securities Act and so will be subject to significant restrictions on re-sale and transfer (see "*Subscription and Sale*" and "*Notice to Purchasers and Holders of Notes and Transfer Restriction*s" below).
Certain ERISA Considerations:	Subject to certain conditions, the Notes (or any beneficial interest therein) may be purchased by an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or any entity whose underlying assets are deemed for the purposes of ERISA or the Code to include "plan assets" by reason of such employee benefit plan's or plan's investment in the entity (see "*Certain ERISA Considerations*").
Description of the Issuer:	Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság is a private limited company. It was established by Act XLII of 1994 on the Hungarian Export-Import Bank and the Hungarian Export Credit Insurance Company and commenced operation on 10 August 1994 on the basis of resolution 63/1994 issued by the State Bank Supervisory Authority. Pursuant to its legislative charter, Eximbank's mandate is to act as a specialised credit institution to facilitate the sale of Hungarian goods and services in foreign markets. The registered office of the Issuer is located at Nagymező utca 46-48, 1065 Budapest, Hungary.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the Programme and the Conditions of the Notes appears above. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Conditions of the Notes endorsed on, attached to or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes.

Notes may only be issued under the Programme in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed EUR 2,000,000,000 or its equivalent in other currencies. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement, in connection with which a new offering circular will be published, provided that the Notes issued under the Programme benefit from the Funding Guarantee from Hungary. For the purpose of calculating the EUR equivalent of the aggregate amount of Notes issued under the Programme from time to time:

(a) the EUR equivalent of Notes denominated in another Specified Currency (as specified in the relevant Pricing Supplement in relation to the relevant issue of Notes set out under "*Form of Pricing Supplement*") shall be determined as of the date of issue of such Notes (the "**Agreement Date**") at the official exchange rate(s) published by the National Bank of Hungary on such issue date; and

(b) the EUR equivalent of Zero Coupon Notes and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the original nominal amount of such Notes.

The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable and fungible with all other Notes of that Series. Each Series of Notes may be issued in Tranches on the same date.

RISK FACTORS

Before making an investment in the Notes, prospective purchasers should read the entire Offering Circular and carefully consider the following risks relating to Eximbank, Hungary, the Programme and the Notes. If any of the following risks actually occurs, Eximbank's business, financial condition, results of operations and prospects may be materially and adversely affected and the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Eximbank believes that the factors described below represent the principal risks inherent in investing in the Notes, but Eximbank does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Risks relating to Eximbank

Eximbank is entirely Hungarian state-owned and is subject to government control.

Eximbank is wholly owned by the Hungarian state, with shareholder's rights exercised by the Minister for National Economy. Eximbank is Hungary's official export financing and guarantee agency and, accordingly, is an instrument of economic policy for the Hungarian state rather than a for-profit commercial bank. Under Act XLII of 1994 on the Hungarian Export-Import Bank and the Hungarian Export Credit Insurance Company (the "**Eximbank Act**"), Eximbank is charged with the public task of financing the export of Hungarian goods and services, as well as financing Hungarian investments abroad, thereby enabling companies operating in Hungary – primarily small or medium-sized enterprises but also large corporations – to maximise their export opportunities, while assisting in the maintenance and creation of jobs in Hungary, and also promoting the development of the national economy by improving the competitiveness of Hungarian exports in foreign markets. Going forward, Eximbank's mandate will also encompass financing transactions within the supply chains of domestic exporters, as well as domestic export-related investments, and certain investments made by domestic or foreign entities in Hungary.

Due to its economic policy role, Eximbank's risk-taking limits may exceed those of commercial banks. Although to date Eximbank has not experienced pressure from the Hungarian state to conduct transactions upon more favourable terms with Hungarian state-owned or state-controlled legal entities or to deviate from its credit and lending policies and procedures for public policy reasons, there can be no assurance that Eximbank will not be directed or come under pressure to engage in activities with a higher credit risk than it would otherwise pursue or to provide financing to certain companies or entities on favourable terms. Furthermore, any new strategy that Eximbank pursues as a result of the Hungarian state's direct ownership (including financing a wider range of borrowers and export-related transactions in order to grow its loan portfolio, which will be part of Eximbank's strategy going forward (see "*Description of the Issuer – Overview – Strategy*")) may result in Eximbank taking on increased risk and may not be successful. As a result of the above or other factors, Eximbank may pursue policies or undertake decisions at the direction of the Hungarian state which conflict with the interest of Noteholders, any of which could have a material adverse effect on Eximbank's financial condition and result of operations.

The support that Eximbank currently receives from the Hungarian state, including the Funding Guarantee, may be reduced or withdrawn.

Eximbank relies upon various forms of support from the Hungarian state, any of which could be reduced or withdrawn:

- The Hungarian state is liable, as absolute guarantor, for the fulfilment of Eximbank's obligations to pay principal and interest arising from its borrowings, including debt instruments issued by Eximbank and loans from Hungarian and foreign credit institutions, up to a limit of HUF 1,200 billion under an amendment to Act CLXXXVIII of 2011 on the central budget of Hungary for the year 2012 (the "**2012 Budget Act**"), which was passed by Parliament on 19 November 2012 (the "**2012 Budget Act Amendment**") and came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*). As at 30 September 2012, Eximbank had total borrowings of HUF 181.7 billion (EUR 640.6 million) under the Funding Guarantee, representing approximately 15% of the HUF 1,200 billion upper limit. Although under current Hungarian law the Funding Guarantee is irrevocable, it may nevertheless be revoked, or may prove insufficient to cover the full amount of Eximbank's borrowings. See "*Risk Factors – Risks relating to the Notes - The Funding Guarantee, although designated as irrevocable under Hungarian law, may in the future be changed or revoked* " and " *Risk Factors – Risks relating to the Notes - The Funding Guarantee may be insufficient to cover the full amount of Eximbank's borrowings*" below.

- The Hungarian state also provides a back-to-back statutory guarantee in respect of certain export-credit guarantees that conform to Organisation for Economic Co-operation and Development ("**OECD**") guidelines (issued primarily to banks) and certain other export-related guarantees (issued primarily to corporate customers), up to a combined limit of HUF 80 billion under the 2012 Budget Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*). As at 30 September 2012, some 89%, or HUF 25.3 billion, of Eximbank's overall guarantee portfolio of HUF 28.5 billion was backed by state guarantees, representing 32% of the budgetary limit. Should the Hungarian state cease to back Eximbank's guarantees, or reduce its level of support for Eximbank's guarantees, Eximbank would be subject to additional credit risk, potentially resulting in losses under its guarantees for which no provisions have been made.

- Where Eximbank provides loans based on OECD criteria in the form of medium- to long-term credit at favourable fixed interest rates, the Hungarian state provides Eximbank with periodic interest equalisation payments up to an annual limit of HUF 6.5 billion under the 2012 Budget Act. In addition, Eximbank receives interest support payments from the Hungarian state with respect to tied aid loans provided by Eximbank, under a separate budget appropriation. During the nine months ended 30 September 2012, Eximbank received interest equalisation from the Hungarian state in respect of 87% of its total loans and advances (by nominal amount), with interest equalisation payments totalling 62% of the 2012 limit. Including tied aid loans, as at 30 September 2012, Eximbank had received some form of interest compensation in respect of 91% of its total loans and advances (by nominal amount). If the Hungarian state's interest equalisation or support is reduced or eliminated, or is modified such that it ceases to provide interest payments to Eximbank matching Eximbank's costs (including its funding costs, operating expenses and applicable risk premium), Eximbank would have a higher cost base, reduced profitability and exposure to greater interest rate risk.

- With respect to its buyer's credit and discounting portfolios, Eximbank also benefits from export credit insurance policies sold to its customers by Hungarian Export Credit Insurance Pte Ltd. ("**MEHIB**"), Eximbank's sister agency with which it currently shares management. MEHIB may underwrite insurance policies up to a limit of HUF 500 billion. As at 30 September 2012, approximately HUF 35 billion of Eximbank's total loans and advances (by nominal amount), representing approximately 19% of Eximbank's total portfolio and 68% of Eximbank's direct lending portfolio, consisted of loans for which typically up to 95% (and in the case of tied aid loans, 100%) of principal and interest amounts were covered by MEHIB credit insurance. If credit insurance from MEHIB is reduced, made unavailable, or subject to significantly higher fees or other requirements, including because MEHIB and Eximbank no longer share the same management in the future, Eximbank may be subject to substantially higher levels of credit risk with respect to its buyer's credit and discounting portfolios.

- Historically, Eximbank has financed a substantial portion of its operations from loans and advances provided by the Hungarian Development Bank ("**MFB**"), which is wholly owned by the Hungarian state and was Eximbank's majority shareholder until 23 May 2012. The Hungarian state has also provided capital contributions to Eximbank in the past, and it has recently acted to support Eximbank's liquidity requirements. Although under the Eximbank Act the government is responsible for ensuring the long-term and stable operation of Eximbank, there can be no assurance that the same levels of funding or liquidity support will be available to Eximbank in the future.

In the absence of Eximbank's relationship with the Hungarian state, it would be difficult for Eximbank to obtain similar guarantees, backstop funding and other forms of support in the commercial market at similar levels, or at all. If any of these arrangements with the Hungarian state are significantly altered or discontinued, and in particular if the Eximbank Act is amended in the future such that the Hungarian state's general responsibilities towards Eximbank are reduced or withdrawn, there may be a material adverse effect on Eximbank's financial condition and results of operations.

In addition, the level of support that Eximbank receives from the Hungarian state could be scrutinised by the European Commission from a state-aid perspective. Any such investigation could result in the requirement for reduction or withdrawal of state support of Eximbank, including the Funding Guarantee.

Eximbank has substantial credit exposure to commercial banks in Hungary.

As at 30 September 2012, refinancing facilities to commercial banks in Hungary represented HUF 129,056 million, or 71.3%, of Eximbank's total loans and advances (by nominal amount). In particular, at such date K&H Bank Zrt was Eximbank's single largest borrower, accounting for 24.8% (by nominal amount) of Eximbank's outstanding loans. With respect to its bank refinancing facilities, Eximbank is exposed to the credit risk of the Hungarian commercial banks which it lends to (and which on-lend to end-borrowers in the export sector), rather than being exposed to the credit risk of end-borrowers directly. Eximbank's refinancing portfolio is not covered by MEHIB or other forms of credit insurance, and these facilities are generally not secured by any collateral from the banks. Accordingly, Eximbank's business significantly depends upon the ability of Hungarian commercial banks and other financial institutions accurately to assess the credit risk of their end-borrowers and make payments and meet their other obligations to Eximbank. Negative developments within the Hungarian banking sector could result in higher impairment charges, impede growth in Eximbank's loan portfolio and have an adverse effect on Eximbank's business, financial condition and results of operations.

Eximbank is subject to credit risk in relation to its borrowers, counterparties and the entities to which its guarantee portfolio relates.

Eximbank's business is subject to inherent risks concerning the credit quality of its borrowers, particularly Hungarian commercial banks (see "*Risk Factors – Risks relating to Eximbank – Eximbank has substantial credit exposure to commercial banks in Hungary*" above), but also Hungarian exporters and foreign purchasers of Hungarian exports, as well as the credit quality of the entities to which Eximbank's guarantee portfolio relates and financial institutions with which Eximbank has entered into short-term foreign exchange swaps.

As at 30 September 2012, of Eximbank's total loans and advances (by nominal amount) of approximately HUF 181 billion, approximately HUF 146 billion was not covered by MEHIB insurance, and therefore represented uninsured credit risk exposure of Eximbank. Of this HUF 146 billion, approximately HUF 129 billion was uninsured credit risk to Hungarian commercial banks through refinancing. The balance of approximately HUF 17 billion represented uninsured credit risk exposure to Hungarian exporters through Eximbank's direct pre-export financing portfolio, as well as the uninsured portion of its MEHIB-insured buyer's credit and standard discounting portfolios. In addition, as at 30 September 2012, 11% of Eximbank's guarantee portfolio was issued at its own risk (i.e., not supported by a back-to-back statutory guarantee provided by the Hungarian state).

In general, changes in the credit quality of banks and other customers to which Eximbank lends, or in the credit quality of Eximbank's other counterparties and entities to which its guarantee portfolio relates, can negatively affect the value of Eximbank's assets, and lead to increased provisions and/or loan losses. Many factors affect Eximbank's credit portfolio quality. Some of these factors, including adverse changes in the economy and foreign trade due to local, national and global factors, foreign exchange rates and increased market volatility, may be difficult to anticipate and are outside of Eximbank's control. Other factors are dependent upon Eximbank's policies and the viability of Eximbank's internal credit application and monitoring systems. Eximbank may experience credit losses or delinquency in debt repayments even in normal economic circumstances.

Eximbank's credit exposures are concentrated by industry sector, including domestic banking, foreign, manufacturing, construction, and trade/vehicle repair (see "*Description of the Issuer - Credit Exposure by Industry Sector*"). Eximbank's loans are also concentrated by export destination market (see "*Description of the Issuer – Loans by Destination Markets*"). Economic performance and operating results of companies in the sectors and markets to which Eximbank lends can be volatile, and global and domestic trends in these sectors and markets may have an impact on Eximbank's financial position. There can be no assurance that the customers to which Eximbank or its domestic bank borrowers lends funds will be successful, or that such customers will be able to repay their loans in a timely manner or at all. Any downturn or financial difficulties in the industry sectors to which Eximbank has significant exposure in terms of its loan portfolio could increase the level of Eximbank's problem loans, and adversely affect Eximbank's business and its future financial performance.

Eximbank's activities are highly regulated.

Eximbank's activities are limited to its mandate under the Eximbank Act. As with all credit institutions operating in Hungary, Eximbank is subject to Act No CXII of 1996 on Credit Institutions and Financial Enterprises and is regulated by the Hungarian Financial Supervisory Authority (the "**HFSA**"), with respect to liquidity, solvency and capital adequacy ratios and compliance with money laundering standards. As an institution engaged in officially-supported export lending, Eximbank also has to comply with the prevailing guidelines and directives of the World Trade Organisation ("**WTO**") (particularly the Agreement on Subsidies), the OECD (particularly the OECD Agreement) and the European Union. As a result of this regulatory regime, certain functions and operations generally available to commercial banks are, in the case of Eximbank, limited or prohibited.

Future policy decisions by the Hungarian state or by regulators may result in additional regulation and monitoring of Eximbank's functions and operations and Eximbank may be unable to comply with all applicable rules and regulations on a continuous basis. In particular, any change in regulation of Eximbank to increase the requirements for capital adequacy or liquidity could have an adverse effect on its business. See also "*Risk Factors – Risks relating to Eximbank – Changes in the Hungarian banking regulatory framework may require Eximbank to increase the level of capital that it holds to meet revised capital adequacy standards, which it may not be able to do on acceptable terms or at all*." Any significant changes to Eximbank's regulatory regime or to the Hungarian state's monitoring and enforcement policies may impact Eximbank's ability to lend funds and have an adverse effect on Eximbank's results of operations and financial condition.

Changes in the Hungarian banking regulatory framework may require Eximbank to increase the level of capital that it holds to meet revised capital adequacy standards, which it may not be able to do on acceptable terms or at all.

Eximbank is subject to the Basel II Capital Accord (commonly referred to as "**Basel II**"), as implemented into Hungarian national law, subject to certain exemptions from provisions of Basel II which do not apply given Eximbank's business. On December 16, 2010 and January 13, 2011, the Basel Committee on Banking Supervision (the "**Basel Committee**") adopted further revisions to the Basel II Capital Accord (commonly referred to as "**Basel III**"), which are expected to be implemented in Hungary beginning in 2013. Basel III includes requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. Though management expects that Eximbank will be exempt from Basel III under EU law, there can be no assurance that Basel III will not apply to Eximbank, in whole or in part. If Basel III or any other capital adequacy-related revisions are adopted and applied to Eximbank, and Eximbank is unable to maintain its capital adequacy ratios above the minimum levels required by the HFSA for any reason, this could have a material adverse effect on Eximbank's business, financial condition and/or results of operations.

Eximbank's business is subject to global and regional macroeconomic and financial market conditions.

Global and regional economic conditions have a significant impact on the level of Hungarian exports and Eximbank's business. The recent global financial crisis and subsequent economic recession have resulted in high levels of volatility across many markets (including capital markets), volatile commodity prices, decreased or no liquidity among major financial institutions, widening of credit spreads, lack of price transparency in certain markets, the failure of a number of financial institutions in the United States and Europe, and economic contraction, all of which have had, and may continue to have, a negative effect on the Hungarian economy and Eximbank's customers.

In response to the global financial crisis, the United States, a number of European countries and international monetary organisations have taken steps intended to help stabilise the financial system and increase the flow of credit in the global economy. However, there can be no assurance as to the actual impact that these measures and related actions will have. The failure of these measures and related actions to help stabilise the financial markets and a continuation or worsening of current financial market conditions could lead to declines in investor and consumer confidence, increased market volatility and further economic disruption. Failure to stabilise financial markets could disrupt payment systems, money markets, long-term and short-term fixed income markets, foreign exchange markets, commodities markets and equity markets and adversely affect the cost and availability of funding. The outlook for the global economy over the near to medium term remains challenging, which also impacts prospects for stabilisation and improvement of economic and financial conditions in Hungary.

Economic conditions in many of the export markets of Eximbank's direct and indirect customers remain fragile. Adverse changes in the level of Hungarian exports could affect demand for Eximbank's products and services, and reduce the size of Eximbank's loan portfolio. Any deterioration of the political and economic conditions in Hungary's export markets, individually or in the aggregate, may adversely affect the demand for Hungarian exports and the financial condition of the companies operating in such sectors and may result in, among other things, a decrease in loans to exporters, higher levels of non-performing loans or impairment losses, any of which could have an adverse effect on Eximbank's business, financial condition and results of operations. Continued weakness in or material deterioration of the economies of EU member states or in the economies of Hungary's other principal trading partners could have negative effects on the Hungarian economy and in particular on the health of the Hungarian export market sector and consequently on customer demand for export financing.

In addition, developments in emerging market countries may adversely affect Eximbank's business. Eximbank conducts operations with respect to a number of emerging markets, including Russia. Economic and political developments in emerging markets, including economic crises or political instability may have material adverse effects on Eximbank's business prospects or results of operations.

Eximbank may face increasing levels of problem loans and provisions for possible losses.

As at 30 September 2012, Eximbank had established provisions of HUF 7,263 million for possible losses, representing approximately 2.9% of its total loans and advances (by nominal amount), compared to HUF 6,527 (3.6%) and HUF 6,370 million (4.1%) as at 31 December 2011 and 31 December 2010, respectively. While Eximbank regularly monitors its problem loan levels and has strict credit monitoring processes in place, a number of factors could result in an increased number of problem loans in the future and require Eximbank to record additional provisions for possible losses. In addition, Eximbank's future problem loan recovery rates may not be similar to Eximbank's historical recovery rates and the overall quality of its loan portfolio may deteriorate in the future. Any significant increase in Eximbank's problem loans would have a material adverse effect on its financial condition, capital adequacy and results of operations.

Eximbank's provisioning policies in respect of problem loans require significant subjective determinations, and provisions may not be sufficient to cover actual losses.

Eximbank establishes provisions for possible losses with respect to problem loans, based primarily on the value of collateral (if any) including MEHIB insurance, the length of any non-performing periods, the economic conditions of the destination markets and sectors, and the nature of the lending arrangement. Determining the appropriate level of provisions for possible losses therefore requires exercise of judgment, including assumptions and estimates made in the context of changing political and economic conditions in the destination markets and sectors to which Eximbank lends. If Eximbank's evaluations or determinations are inaccurate, the level of Eximbank's provisions may not be adequate to cover actual losses resulting from its existing problem loan portfolio. Furthermore, Eximbank may have to increase its level of provisions if there is any deterioration in the overall credit quality of Eximbank's existing loan portfolio, including the value of the underlying collateral.

Any future unavailability of capital markets financing or loan financing from the Hungarian state or state-owned entities could have an adverse effect on Eximbank's business, financial condition and results of operations.

Under the Eximbank Act, Eximbank is not permitted to collect deposits from corporate clients or from individuals. Recently, loans from the MFB, Eximbank's previous majority shareholder, supported by the Hungarian state's statutory guarantee, have provided a substantial majority of Eximbank's financial resources. As at 30 September 2012, total loans and deposits from the MFB, including accrued interest payables, constituted 61.7% of Eximbank's total funding.

The issuance of the Notes represents Eximbank's first capital markets transaction. Going forward, Eximbank intends to meet its medium- and long-term funding needs primarily through international money and capital markets issuances, including through the issuance of Notes under the Programme, rather than loans from the Hungarian state or state-owned entities. However, there can be no assurance that capital markets financing will continue to be available to Eximbank on attractive terms, or at all (see "*Risk Factors – Risks relating to Eximbank – The support that Eximbank currently receives from the Hungarian state, including the Funding Guarantee, may be reduced or withdrawn*"). The market turmoil that has accompanied the on-going adverse economic conditions in certain major countries has made it difficult for many companies to obtain capital markets financing. Continued market disruption may make such funding even more expensive and difficult to obtain (see "*Risk Factors – Risks relating to Eximbank – Eximbank's business is subject to global and regional macroeconomic and financial market conditions*"). Furthermore, if capital markets funding is not available, there can be no assurance that loan financing from the MFB or other affiliates of the Hungarian state, or bank financing, will be available to Eximbank in its place.

If at some point in the future, adequate financing is unavailable to Eximbank, this would limit Eximbank's ability to meet customer demand and grow its loan portfolio, which could have an adverse effect on Eximbank's business, financial condition, results of operations and prospects.

Eximbank is exposed to liquidity risk, including the risk that access to short-term funding sources may not be available in the event of liquidity gaps.

Although Eximbank does not rely on demand deposits for funding, it may be adversely affected by liquidity risk. Liquidity risk comprises uncertainties in relation to Eximbank's ability to access funding necessary to cover short-term obligations to borrowers, satisfy maturing liabilities and maintain capital and other regulatory requirements. Eximbank may be subject to liquidity risk as a result of both unexpected increases in the cost of financing and being unable to structure the maturity dates of Eximbank's liabilities reasonably in line with the maturity profile of its assets, as well as the risk of not being able to refinance short-term obligations on time at a reasonable price due to liquidity pressures (see "*Description of the Issuer – Credit Policies and Risk Management - Liquidity Risk and Management.*").

Eximbank's principal liquidity demands consist of short-term loans and deposits from other banks. Eximbank also issues guarantees, a portion of which are not backed by the Hungarian state and which could consequently present a demand for additional liquidity if such guarantees are called. With respect to the portion of Eximbank's guarantees portfolio backed by the Hungarian state, Eximbank is paid only after it applies for funds from the Hungarian state central budget, which could be subject to delay and thereby present a further source of liquidity risk. In addition, as at 30 September 2012 Eximbank has committed to provide an additional HUF 43.2 billion in refinancing facilities to banks, any or all of which could be drawn upon by these banks at any time, if certain conditions are met. Finally, Eximbank may be exposed to maturity mismatches between its assets and liabilities, which may lead to a lack of liquidity. Any liquidity deficiency faced by Eximbank may require it to apply to the Hungarian state on a short term basis for liquidity management support, and there can be no assurance such support would be available in the future.

Eximbank's liquidity risk could be increased by market disruptions or credit downgrades of Eximbank or of Hungary or as a result of budgetary constraints of Hungary, which may reduce the availability of funding. Eximbank's inability to meet its net funding requirements due to inadequate liquidity could adversely affect its business, financial condition and results of operations.

Eximbank may be adversely affected by volatility in interest rates.

Net interest income represents substantially all of Eximbank's revenues. As at 30 September 2012, Eximbank received interest equalisation or support payments from the Hungarian state in respect of 91% of its total loans and advances (by nominal amount), which mitigated interest rate risk as to this portion of Eximbank's loan portfolio. With respect to the portion of Eximbank's loan portfolio not covered by the interest equalisation or support programmes, the loans bear variable interest rates based on LIBOR/ EURIBOR, while funding is also at variable rates (see "*Description of the Issuer – Credit Policies and Risk Management - Interest Rate Risk*").

In general, interest rates are highly sensitive to many factors beyond Eximbank's control, including the monetary policies pursued by central banks, domestic and international economic and political conditions and other factors. To the extent that a mismatch exists in the re-pricing dates of Eximbank's liabilities and assets not covered by the interest compensation programmes, or the interest equalisation and support programmes do not completely mitigate interest rate risk as expected, or these forms of state support are reduced or withdrawn, interest rate volatility may cause Eximbank to face increased net interest expense or require Eximbank to enter into hedging arrangements (see "*Risk Factors – Risks relating to Eximbank – The support that Eximbank currently receives from the Hungarian state, including the Funding Guarantee, may be reduced or withdrawn.*"). An increase in interest rates may also decrease the value of Eximbank's available-for-sale financial assets, raise the cost of any future capital markets funding and increase the risk of default by customers borrowing at variable rates.

If any of the foregoing occurs, it could have a material adverse effect on Eximbank's business, financial condition and results of operations.

Fluctuations in foreign exchange rates may adversely affect Eximbank's business, financial condition and results of operations.

As an international lending institution, Eximbank is subject to risk as a result of adverse movements in foreign currency exchange rates. Although the substantial majority of Eximbank's assets and liabilities are denominated in foreign currencies, primarily the Euro and to a significantly lesser extent the U.S. dollar, Eximbank's functional currency is the Hungarian Forint. The overall effect of exchange rate movements on Eximbank's results of operations and financial position depends primarily on the rate of depreciation or appreciation of the Hungarian Forint relative to the Euro. For the nine months ended 30 September 2012, Eximbank recorded IFRS net foreign exchange gains of HUF 372 million, compared to net foreign exchange losses of HUF 749 million and HUF 404 million in 2011 and 2010, respectively, which were principally the result of fluctuations in the exchange rate between the Euro and the Hungarian Forint. Although Eximbank has adopted procedures and policies aimed at managing its foreign exchange risks (see "*Description of the Issuer – Credit Policies and Risk Management - Currency Risk*"), these may prove ineffective in hedging Eximbank's exposure to currency fluctuations, which could have an adverse effect on Eximbank's business, financial condition and results of operations.

Eximbank's hedging strategies may not prevent losses.

Eximbank may use hedging instruments in an attempt to manage interest rate, currency, credit and other market-related risks. If any of the variety of instruments and strategies Eximbank uses to hedge its exposure to these various types of risk is not effective, Eximbank may incur losses, impairing its ability to timely repay or refinance its debts. In addition, there can be no assurance that Eximbank will continue to be able to hedge risks related to current or future assets or liabilities in accordance with its current policies in an efficient manner or at all. Disruptions such as market crises and economic recessions may limit the availability and effectiveness of Eximbank's hedging instruments or strategies and could have an adverse effect on Eximbank's financial condition and its ability to fulfil its obligations.

Operational problems or errors could have a material adverse impact on Eximbank's business, financial condition and results of operations.

Eximbank is exposed to operational risks of loss resulting from inadequacy or failure of internal processes or systems or from external events. Eximbank is susceptible to, among other things, fraud by employees or third parties, including unauthorised transactions and operational errors, clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems. Although Eximbank maintains a system of internal controls and takes steps to back-up its information technology ("IT") systems, there can be no assurance that operational problems or errors will not occur and that their occurrence will not result in a loss of income or decreased consumer confidence in Eximbank.

Furthermore, Eximbank depends upon the reliability and security of its information technology systems, and the reliability and security of these systems depend upon human operators and future investments that may be required by evolving technology. There can be no assurance that delays in increasing the capacity of Eximbank's IT systems will not have an adverse effect on Eximbank's business, financial condition or results of operations.

Eximbank's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks.

Eximbank engages in risk management activities to systematically monitor and manage credit, currency interest rate and liquidity risk. To manage these risks, Eximbank depends on its evaluation of market information, which may be inaccurate, incomplete, out-of-date or improperly evaluated, and as a result Eximbank's policies and procedures may not be fully effective in identifying, monitoring and managing these risks (see "*Description of the Issuer – Credit Policies and Risk Management*" for a more detailed description of the risks Eximbank faces as well as the policies and procedures it has implemented to address these risks). If any of the variety of strategies Eximbank uses to manage its risks are ineffective, Eximbank may incur losses. Unexpected market developments may in the future also affect a number of Eximbank's risk management strategies. Certain of Eximbank's hedging strategies and other methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not correctly predict future risk exposures, which could be significantly greater than historical results indicate. If the measures which Eximbank uses to identify, monitor and manage risks prove insufficient, it may experience unanticipated disruption of its operations and consequent losses which could have a material adverse effect on Eximbank's business, results of operations and financial condition.

Eximbank's business depends on Eximbank's ability to retain and attract qualified personnel.

The successful operation of Eximbank depends, among other things, on the continued employment of key personnel, as well as Eximbank's ability to continually attract and retain talented and skilled personnel with relevant banking sector experience. Eximbank faces significant competition for trained and professional personnel with relevant banking experience and may be unable to attract or retain such personnel in the future. A failure to recruit, train and/or retain necessary personnel could have an adverse effect on Eximbank's business, financial condition and results of operations.

Eximbank's direct lending customers may have access to financing from a variety of sources, creating indirect competition for Eximbank which may limit its growth and profitability.

Depending on the lending environment and the risk appetite of private commercial banks in Hungary, these banks may choose to target Eximbank's direct lending customers with offers of export financing at competitive rates of interest. The Hungarian banking sector is highly competitive and dominated by a small number of banks. In addition, a significant portion of the Hungarian export sector consists of local subsidiaries of multinational corporations, which may have access to internationally-sourced funding from within their corporate groups on more favourable terms than

Eximbank can provide. There can be no assurance that competitive pressures, including as a result of increased foreign interest in the banking sector in Hungary and increased access to sources of internal funding, will not result in net interest margin compression and downward pressure on Eximbank's revenues with respect to its direct lending, which could adversely affect Eximbank's business, financial condition and results of operations.

Risks relating to Hungary

Hungary's economy and economic growth are vulnerable to adverse external factors, including the economic difficulties of its major trading partners.

The ability of Hungary to pay amounts of principal or interest under the Notes (pursuant to the Funding Guarantee) and Hungary's economy and macroeconomic goals are vulnerable to adverse external factors, including ongoing instability in the international financial markets and turmoil in the European banking system and the sovereign debt market of certain members of the European Monetary System. Hungary relies on exports as a significant driver of GDP growth, and over 75% of Hungary's exports are concentrated within Europe, particularly Germany, which is Hungary's largest export market. If economic recovery from the global recession is slow or stalls and Hungary's primary trading partners continue to experience economic difficulties, or euro area members experience difficulties issuing securities in the sovereign debt market, servicing existing debt or implementing budget austerity measures, or if the Hungarian Forint significantly appreciates relative to foreign currencies, it could result in fewer exports by Hungary. Such a decline in demand for Hungarian exports by Hungary's major trading partners, particularly Germany and other European Union member states, could have a material adverse impact on Hungary's balance of trade and adversely affect Hungary's economic growth. Any such impact could also adversely affect the rating of Eximbank, the trading price of the Notes, and/or the ability of Hungary to meet its obligations under the Funding Guarantee in respect of Eximbank's payment obligations under the Notes.

Any downgrade of Hungary's credit rating could have a material adverse effect on Eximbank.

As at the date of the Offering Circular, the long-term foreign currency and local currency debt of Hungary was rated BB by S&P, with a stable outlook, and Ba1 by Moody's, with a negative outlook, and Hungary's foreign currency and local currency sovereign credit ratings issued by Fitch were BB+ and BBB-, respectively, with a negative outlook. A credit rating may not reflect the potential impact of all risks related to structure, market, additional factors above, and other factors that may affect the value of the Notes issued under the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Hungary's credit ratings are a key factor affecting the cost and availability of financing for Eximbank. Any decision by a rating agency to downgrade Hungary's sovereign rating or place Hungary on ratings watch may have an adverse effect on the market value and trading price of the Notes issued under the Programme. Such an action may result in higher interest expense for interbank market transactions and lead to a restriction of Eximbank's access to funds in the interbank markets generally and, consequently, to higher refinancing costs. Such negative changes may also result in, among other things, a requirement for Eximbank to provide collateral under existing foreign exchange swaps, which may, in turn, require additional liquidity. Furthermore, as a consequence of any downgrade, Hungary's ability to obtain external funding to meet its obligations under the Funding Guarantee in respect of Eximbank's payment obligations under the Notes may be adversely affected.

Uncertainty regarding the outcome of negotiations with the International Monetary Fund regarding a stand-by credit arrangement for Hungary may negatively affect the Hungarian economy.

In November 2011, the government of Hungary announced its intention to commence negotiations with the International Monetary Fund ("**IMF**") regarding a stand-by credit arrangement. Negotiations commenced in 2012 and remain ongoing. The progress of these negotiations has been closely followed by the markets and the conclusion of the arrangement with the IMF is expected to have a positive effect on numerous factors concerning the Hungarian economy, including on trading levels of Hungary's five-year credit default swaps, which have been volatile and which, in the beginning of 2012, were trading at historically high levels which had increased the cost of refinancing Hungarian public debt. If negotiations are protracted further or no agreement is reached between the parties, the market perception regarding the state of government finances is likely to worsen, which may have an adverse effect on the Hungarian economic and business environment and/or the overall assessment of Hungary, its economy and its sovereign rating. Such negative developments may adversely affect Eximbank's ability to raise funds necessary to finance its activities and to meet its payment obligations with respect to interest and principal under the Notes, as well as affect Hungary's ability to meet its obligations under the Funding Guarantee in respect of Eximbank's payment obligations under the Notes.

A slowing economy, high public debt and budgetary deficits have prompted a series of restrictive fiscal measures by the government.

Hungary's GDP grew by 0.9% in 2008, contracted by 6.8% in 2009, grew by 1.3% in 2010 and an estimated 1.6% in 2011, and contracted by 0.7% and 1.3% in the first and second quarters of 2012, respectively. Hungary's total public debt as a percentage of the nominal GDP was 68.2% in 2008, 74.0% in 2009, 74.9% in 2010 and 74.6% in 2011. Hungary's budget deficit as a percentage of GDP was 3.5% in 2008, 2.1% in 2009, 4.2% in 2010 and an estimated 5.7% in 2011. For background on the calculation of these figures, see "*Presentation of Financial and Other Information*."

In order to meet the target deficit ratio of 3% of GDP, the government of Hungary announced two fiscal adjustment packages totalling HUF 700 billion in October 2012. The proposed measures include an increase of the originally planned amount of the financial transaction tax to be introduced in 2013 on financial transfers and cash withdrawals, more effective VAT collection, introduction of reverse taxation in the pork trade, abolishment of the social contribution ceiling, postponement of formerly planned wage increase for teachers and repeal of the 50% reduction of tax on the financial sector in 2013. If the government does not succeed in implementing the measures in its adjustment packages and thereby meeting the target deficit ratio, Hungary may face further measures from the European Commission under its Excess Deficit Procedure. In addition, Hungary may face difficulties in obtaining necessary funding from external sources and the price of funding may further increase, particularly if an agreement with the IMF regarding the stand-by credit arrangement is not reached and GDP growth does not improve.

Any of the foregoing negative developments may adversely affect Eximbank's ability to raise funds necessary to finance its activities and to meet its payment obligations with respect to interest and principal under the Notes, as well as affect Hungary's ability to meet its obligations under the Funding Guarantee in respect of Eximbank's payment obligations under the Notes.

Significant volatility in the value of the Hungarian Forint may adversely affect the Hungarian economic and financial condition.

A significant portion of Hungary's public debt and contingent liabilities are denominated in or linked to foreign currencies, particularly the Euro. Accordingly, a devaluation of the Hungarian Forint relative to foreign currencies, particularly the Euro, could have a negative impact on Hungary's foreign-currency debt service obligations and repayment amounts that outweighs any positive impact on Hungary's Hungarian Forint-denominated debt service obligations and repayment amounts, and any increased competitiveness of Hungarian exports due to such a devaluation. Conversely, any significant appreciation of the Hungarian Forint as compared to foreign currencies, particularly the Euro, could have a negative impact on Hungarian exports that outweighs any positive impact on Hungary's foreign-currency debt service obligations. Any significant appreciation or depreciation of the Hungarian Forint relative to foreign currencies, particularly the Euro, may therefore have a material adverse effect on the economic and financial condition of Hungary.

The European Commission's Excessive Deficit Procedure against Hungary may result in temporary suspension or termination of Hungary's Cohesion Fund allocations.

Since 2004, the European Union's Excessive Deficit Procedure has been ongoing against Hungary. In 2012 the procedure resulted in the unprecedented measure of temporarily suspending part of Hungary's allocations from the EU Cohesion Fund. The Cohesion Fund finances activities regarding trans-European transport networks and the environment, and is aimed at less developed member states of the European Union, intending to bolster their economic and social development, as well as to stabilise their economies. The financial assistance of the Cohesion Fund can be suspended by a European Economic Council decision if, in the view of the Council, a member state shows excessive public deficit and has not taken the appropriate action to resolve the situation. Although the suspension in relation to Hungary was lifted later in 2012, it remains a risk that if Hungary is unable or unwilling to comply with the recommendations of the European Commission with respect to, amongst other things, the reduction of its budgetary deficit, its Cohesion Fund allocation may be delayed, suspended or terminated, thus further hindering development of key sectors of the Hungarian economy.

Non-compliance procedures by the European Commission may have a detrimental fiscal effect on Hungary.

The European Commission may take whatever action it deems appropriate in response to either a complaint or indications of infringements which it detects with respect to a member state not correctly implementing or applying European Law. Under the Commission's non-compliance procedures, the first phase is the pre-litigation administrative phase, also called "infringement proceedings," which are intended to enable the member state to conform voluntarily with the relevant requirements. If infringement proceedings fail, referral by the European Commission to the European Court of Justice opens litigation proceedings.

There are a number of infringement proceedings currently on-going in front of the European Commission against Hungary, and some have already been referred to the European Court of Justice for litigation. If, as has been the case in the past, Hungary loses its case in the European Court of Justice, then Hungary may face potentially significant payment obligations. Such obligations may have an adverse effect on Hungary's budget deficit which may necessitate further restrictive fiscal measures by the government.

Risks relating to the Notes

The Funding Guarantee, although designated as irrevocable under Hungarian law, may in the future be changed or revoked.

The obligations of Eximbank under the Notes are secured by the Funding Guarantee, as provided for in the Eximbank Act. Although the Funding Guarantee is irrevocable under an amendment to the Eximbank Act which was passed on 12 November 2012 and came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*) (the "**Eximbank Act Amendment**"), and any change of law which may negatively impact the Funding Guarantee extended over already issued Notes would be unlawful under current Hungarian law, there is no assurance that a future Hungarian Parliament, or the Hungarian Constitutional Court, will not seek to amend the law or interpret the Hungarian Constitution in such a manner as to revoke the Funding Guarantee with retrospective effect, resulting in amendment, restriction and/or full or partial withdrawal of the Funding Guarantee. In any such case Noteholders would only be able to pursue a claim of enforcement by suing the Hungarian state under Hungarian constitutional, contract or other laws. No assurances can be given as to the impact of any changes to the Eximbank Act or other legislative provisions of Hungarian law which may affect the Funding Guarantee following the date of this Offering Circular.

The Funding Guarantee may be insufficient to cover the full amount of Eximbank's borrowings.

The Hungarian state's Funding Guarantee (including in respect of Notes issued under the Programme in 2012) is subject to an upper limit set by the annual budget. In respect of the annual budget for 2012, this upper limit was increased to HUF 1,200 billion pursuant to the 2012 Budget Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*). A substantial majority of Eximbank's borrowings are denominated in foreign currencies, particularly the Euro. If the value of Eximbank's borrowings exceeds HUF 1,200 billion, or the relevant limit set by any future annual central budget act, at any time during the lifetime of the borrowings, the Funding Guarantee may not be completely effective.

Noteholders may have difficulty enforcing foreign judgments against the Hungarian state in connection with the Funding Guarantee, or against Eximbank.

The Hungarian state, based on Paragraphs (1) and (4) of Article 28 of the Civil Code, is a legal person and, based on Article 48 of Act III of 1952 on civil procedure, is capable of suing and being sued. Hungarian law does not limit a Noteholder's ability to pursue a claim in respect of the Notes or the Funding Guarantee English courts and the recognition or enforcement in Hungary of any judgment so rendered by an English court may only be limited in accordance with Article 34 of Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. Nonetheless, if sued the Hungarian state could seek to claim the exclusive jurisdiction of the Hungarian courts in respect of any claims submitted against it in connection with the Funding Guarantee. This may affect the enforcement of any foreign judgment against the Hungarian state in Hungary.

Furthermore, all of Eximbank's directors and executive officers are residents of Hungary and a substantial portion of the assets of Eximbank and such persons are located in Hungary. As a result, it may be difficult for Noteholders to effect service of process upon Eximbank or such persons outside Hungary, or to enforce judgments or arbitral awards obtained against such parties outside Hungary (see "*Service of Process and Enforceability of Judgments*.").

Ratings could affect marketability of the Notes.

As at the date of the Offering Circular, the long-term foreign currency and local currency debt of Hungary was rated BB by S&P, with a stable outlook, and Ba1 by Moody's, with a negative outlook, and Hungary's foreign currency and local currency sovereign credit ratings issued by Fitch were BB+ and BBB-, respectively, with a negative outlook. As at the date of this Offering Circular, Eximbank was rated "BB+" by Fitch and "BB" by S&P. In addition, one or more additional independent credit rating agencies may assign credit ratings to an issue of Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

Eximbank's credit ratings depend on many factors, some of which are outside of Eximbank's control. Factors that are significant in determining Eximbank's credit ratings or that otherwise could affect its ability to raise financing include its ownership structure, asset quality, liquidity profile, short- and long-term financial prospects, risk exposures, capital ratios, and prudential measures, as well as government support and Eximbank's public policy role. Deterioration in any of these factors or any combination of these factors may lead rating agencies to downgrade Eximbank's credit ratings.

Adverse changes of law may affect the Notes.

The Description of the Notes are governed by English law and the terms are specified with reference to that law as in effect as at the date of this Offering Circular. Similarly, the enforcement rights of the Noteholders against Eximbank and its assets in Hungary assume the application of Hungarian law as presently in effect. No assurance can be given as to the impact on these Notes of any possible judicial decision or change to English or Hungarian law or administrative practice after the date of this Offering Circular.

Exchange rate risks and exchange controls may adversely affect Eximbank's ability to make payments on the Notes.

Eximbank will pay principal and interest on the Notes in Euros, U.S. dollars or any other applicable currency specified in the applicable Pricing Supplement relating to the relevant Series. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros or U.S. dollars (or the applicable currency). These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or U.S. dollars (or the applicable currency) or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro or U.S. dollars (or the applicable currency) would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, any Noteholder whose Investor Currency is not the Euro or U.S. dollars (or the applicable currency) may receive less interest or principal than expected, or no interest or principal.

The Notes constitute unsecured obligations of Eximbank and are effectively junior to those of certain other creditors.

Eximbank's obligations under the Notes constitute unsecured and unsubordinated obligations of Eximbank. Accordingly, any claims against Eximbank under the Notes would be unsecured claims. Subject to statutory preferences, the Notes will rank equally with any of Eximbank's other unsecured and unsubordinated indebtedness. However, the Notes will be effectively subordinated to any of Eximbank's future secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other preferential obligations under Hungarian law. The ability of Eximbank to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows, and the continued availability of the Hungarian state surety guarantee.

Further Notes may be issued without the consent of the Noteholders.

Eximbank may from time to time create and issue further Notes without the consent of the Noteholders, subject to terms and conditions which are the same as those of the Notes, or the same except for the date and amount of the first new payment of interest. Such new Notes may be consolidated and form a single series with the outstanding Notes even if doing so may adversely affect the value of the original Notes.

Transfer of the Notes will be subject to certain restrictions.

The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Prospective investors may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Similar restrictions will apply in other jurisdictions. Prospective investors should read the discussion under the heading "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" for further information about these transfer restrictions. It is their obligation to ensure that their offers and sales of the Notes within the United States and other countries comply with any applicable securities laws.

There may not be an active trading market for the Notes.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued and for which there is such a market). If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Eximbank and/or Hungary. Although application has been made for the Notes issued under the Programme to be admitted to listing and to trading on the Regulated Market of the London Stock Exchange, there can be no assurance that such application will be approved or that an active trading market will develop. Accordingly, Eximbank can give no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to Eximbank's actual or anticipated operating results, adverse business developments, changes to the regulatory environment in which Eximbank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for Hungarian sovereign debt. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes irrespective of factors specific to Eximbank or the Notes.

The Notes may be subject to optional redemption by Eximbank.

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

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

The EU Savings Directive may require tax withholding of certain payments.

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State (or to certain limited types of entities established in that other Member State). However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither Eximbank nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax.

Eximbank is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Modification, waivers and substitutions of the Notes approved by certain Noteholders may adversely affect other dissenting Noteholders.

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

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

SELECTED FINANCIAL INFORMATION

The selected balance sheet and comprehensive income data presented below are extracted from the Financial Statements of the Issuer. The selected consolidated financial data presented below should be read in conjunction with and are qualified in their entirety by reference to the Financial Statements and notes thereto. The Financial Statements have been prepared in accordance with IFRS.

Statement of Financial Position

	As at 30 September 2012 (unaudited)	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
	(HUF in millions)			
Cash, due from banks and balances with the National Bank of Hungary	98	162	67	37
Loans and advances to other banks, net of impairment losses	140,058	128,893	107,469	121,376
Loans and advances to customers, net of impairment losses	48,381	54,589	66,912	78,727
Financial assets at fair value through profit or loss	487	47	618	4,870
Available-for-sale financial assets, net of impairment loss	12,135	11,088	17,621	8,840
Intangibles, property and equipment, net	196	176	188	324
Other assets, net	665	826	904	731
Total Assets	**202,020**	**195,781**	**193,779**	**214,905**
Loans and deposits from other banks	182,232	175,696	173,884	197,713
Financial liabilities at fair value through profit or loss	403	1,407	1,074	-
Provision for guarantees and contingencies	271	21	1,121	119
Other liabilities	902	992	614	918
Total Liabilities	**183,808**	**178,116**	**176,693**	**198,750**
Share capital	10,100	10,100	10,100	10,100
Reserves	8,112	7,565	6,986	6,055
Total Shareholder's Equity	18,212	**17,665**	**17,086**	**16,155**
Total Liabilities and Equity	**202,020**	**195,781**	**193,779**	**214,905**

Statement of Comprehensive Income

	For the nine months ended 30 September 2012 (unaudited) (HUF in millions)	For the nine months ended 30 September 2011 (unaudited) (HUF in millions)	For the year ended 31 December 2011 (HUF in millions)	For the year ended 31 December 2010 (HUF in millions)	For the year ended 31 December 2009 (HUF in millions)
Interest income	7,592	7,599	10,849	10,348	11,384
Interest expense	(4,143)	(4,496)	(6,230)	(4,523)	(5,774)
Net interest income	**3,449**	**3,103**	**4,619**	**5,825**	**5,610**
Net income from fees and commissions	147	110	186	767	206
Provisions and impairment (losses)/reversal	(966)	(311)	(452)	(1,855)	(3,898)
Gains and losses from trading and investment activities, net	372	(620)	(756)	30	1,784
Operating expenses	(2,467)	(2,338)	(3,027)	(3,322)	(3,209)
Profit/(loss) before income tax	**535**	**(56)**	**570**	**1,445**	**493**
Income taxes	(26)	(48)	(36)	(235)	(19)
Profit/(loss) for the period	**509**	**(104)**	**534**	**1,210**	**474**
Other comprehensive income					
Fair value adjustment of available-for-sale securities, net of tax	38	69	45	(279)	205
Other comprehensive income for the period, net of income tax	**38**	**69**	**45**	**(279)**	**205**
Total comprehensive income for the period	**547**	**(35)**	**579**	**931**	**679**

Statement of Cash Flows

	For the nine months ended 30 September 2012 (unaudited) (HUF in millions)	For the nine months ended 30 September 2011 (unaudited) (HUF in millions)	For the year ended 31 December 2011 (HUF in millions)	For the year ended 31 December 2010 (HUF in millions)	For the year ended 31 December 2009 (HUF in millions)
OPERATING ACTIVITIES					
Profit/(loss) before income taxes	535	(56)	570	1,445	493
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortisation			99	197	191
Provision charged/(released) for impairment losses	74	73	1,552	853	4,277
(Profit)/loss from revaluation to fair value	716	1,356	315	2,276	2,092
Difference between impairment loss of a loan and the fair value of the collateral received in exchange for it	(1,443)	(914)	-	(1,800)	-
Net interest income	(3,449)	(3,103)	(4,619)	(5,825)	(5,609)
Interest received	6,666	8,349	11,632	10,418	10,336
Interest paid	(5,038)	(5,339)	(6,994)	(5,109)	(6,171)
Income taxes	(26)	(48)	(36)	(235)	(19)
Dividend paid	-	-	-	-	-
Changes in operating assets and liabilities:					
Net (increase)/decrease in loans and advances to other banks, before impairment losses	(10,985)	19,397	(21,104)	16,076	(2,307)
Net (increase)/decrease in loans and advances to customers, before impairment losses	6,646	17,390	12,527	11,240	(16,268)
Net (increase)/decrease in financial assets at fair value through profit or loss	-	589	589	3,051	-
Net (increase)/decrease in available-for-sale financial assets	(999)	(34,593)	5,422	(9,116)	(4,231)
Net (increase)/decrease in other assets	2	(445)	(838)	304	138
Net increase/(decrease) other liabilities	242	836	(645)	675	(180)
Net cash provided by/(used in) operating activities	**(7,059)**	**3,492**	**(1,530)**	**24,450**	**(17,259)**

	For the nine months ended 30 September 2012 (unaudited)	For the nine months ended 30 September 2011 (unaudited)	For the year ended 31 December 2011	For the year ended 31 December 2010	For the year ended 31 December 2009
	(HUF in millions)	(HUF in millions)	(HUF in millions)	(HUF in millions)	(HUF in millions)
INVESTING ACTIVITIES					
Net (increase)/decrease in held-to-maturity securities	-	-	-	-	-
Purchases of intangibles, property and equipment	(94)	(59)	(87)	(61)	(137)
Net cash used in investing activities	**(94)**	**(59)**	**(87)**	**(61)**	**(137)**
FINANCING ACTIVITIES:					
Proceeds from due to banks and deposits from banks	1,024,026	258,452	414,378	307,882	809,859
Repayment of due to banks and deposits from banks	(1,016,937)	(260,674)	(412,666)	(332,241)	(792,510)
Net cash provided by financing activities	**7,089**	**(2,222)**	**1,712**	**(24,359)**	**17,349**
Net increase/(decrease) in cash and cash equivalents	**(64)**	**1,211**	**95**	**30**	**(47)**
Cash and cash equivalents at the beginning of the year	**162**	**67**	**67**	**37**	**84**
Cash and cash equivalents at the end of the year	**98**	**1,278**	**162**	**67**	**37**

DESCRIPTION OF THE ISSUER

Overview

Purpose and Authority

Eximbank is a specialised credit institution wholly owned by the Hungarian state. It was established by Act XLII of 1994 on the Hungarian Export-Import Bank and the Hungarian Export Credit Insurance Company (the "**Eximbank Act**") in order to facilitate the sale of Hungarian goods and services in foreign markets and commenced operation on 10 August 1994. Since May 2012, shareholder's rights have been exercised on behalf of the Hungarian state by the Minister for National Economy, with the aim of promoting Eximbank's role as an instrument of economic policy in support of Hungarian exports. Eximbank's registered office is located at 1065 Budapest, Nagymező utca 46-48, Hungary.

Under the Eximbank Act, Eximbank is charged with the public task of financing the export of Hungarian goods and services, as well as financing Hungarian investments abroad, thereby enabling companies operating in Hungary – primarily small or medium-sized enterprises but also large corporations – to maximise their export opportunities, while assisting in the maintenance and creation of jobs in Hungary, and also promoting the development of the national economy by improving the competitiveness of Hungarian exports in foreign markets. In support of its mandate, Eximbank may lend directly to the exporters of Hungarian products and services or their foreign purchasers, or, as is more prevalent, indirectly through refinancing facilities to domestic commercial banks (and, to a lesser extent, foreign commercial banks) providing financing related to Hungarian export transactions. Eximbank provides the majority of its loans based on OECD rules in the form of medium- to long-term credit at favourable fixed interest rates. These rates are based on the Commercial Interest Reference Rate ("**CIRR**"), which is the OECD minimum interest rate for officially-supported financing of exports, in effect on the date of the loan contract.

As an export credit agency in the traditional sense, Eximbank provides products and services which represent either alternative or supplementary financial tools, the purpose of which is to fill gaps in trade finance created by the lack of capacity or willingness on the part of commercial banks to provide loans at rates that are attractive to Hungarian exporters, and to provide Hungarian exporters with a more level playing field in terms of access to financing compared to exporters from other countries. The majority of Eximbank's direct customers are small or medium-sized enterprises that tend to export to geographic markets where financing provided by Eximbank has the potential to deliver significant competitive advantages to exporters. Most of Eximbank's loans are made indirectly through commercial banks. While Eximbank does not seek to compete directly with commercial banks, it does provide direct lending to customers upon customer request, or where commercial banks are unable or unwilling to lend to customers directly. In addition, Eximbank provides buyer's credit to support foreign purchasers of Hungarian exports and plays the role of lender in tied-aid agreements concluded between the Hungarian government and governments of tied-aid eligible countries.

According to the Eximbank Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), Eximbank's mandate has been widened to encompass financing transactions within the supply chains of domestic exporters, as well as domestic export-related investments, and certain investments made by domestic or foreign entities in Hungary.

The functions of the state export credit agency in Hungary are divided between Eximbank and the Hungarian Export Credit Insurance Pte Ltd. ("**MEHIB**"). While Eximbank is engaged in the provision of export and export-related financing and export-related guarantees, MEHIB provides export credit insurance to exporters or their banks, including to certain of Eximbank's borrowers.

Strategy

In support of its mandate to finance the export of Hungarian goods and services, Eximbank's historical strategy has been to focus on those market segments or export destinations which, in the view of the Hungarian state, are in need of official support or are under-penetrated by Hungarian exports. Going forward, Eximbank expects to expand this strategy to encompass a wider range of borrowers and export-related transactions as it seeks to grow its loan portfolio.

Relationship with the Government

As Eximbank is a specialised credit institution wholly owned by the Hungarian state and maintained for the purpose of financing the export of Hungarian goods and services, the primary aim of its operations is not to achieve the highest possible profit, but to make efficient and effective use of Hungarian state central budgetary resources in support of its mandate. As such, the Hungarian state is responsible for ensuring the long-term and stable operation of Eximbank in accordance with the Eximbank Act. In addition, Eximbank also benefits from various forms of support from the Hungarian state, as described below.

Statutory Guarantee (törvényi készfizető kezesség) relating to Eximbank's Funding Activities

Under the Eximbank Act, the Hungarian state is liable, as absolute guarantor, for the fulfilment of Eximbank's obligations to pay principal and interest arising from its borrowings, including debt instruments issued by Eximbank and loans from Hungarian and foreign credit institutions.

The Hungarian state's obligations to Eximbank in respect of the Funding Guarantee are subject to an upper limit set by the annual budget. Under the 2012 Budget Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), the upper limit of the Funding Guarantee was increased from HUF 320 billion to HUF 1,200 billion. As at 30 September 2012, Eximbank had total borrowings of HUF 181.7 billion (EUR 640.6 million) under the Funding Guarantee, representing approximately 15% of the HUF 1,200 billion upper limit. Taking into account the maximum amount of Notes that can be issued under the Programme, Eximbank expects its total borrowings will remain within the 2012 limit of the Funding Guarantee provided by the Hungarian state.

According to the Eximbank Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), the Funding Guarantee is irrevocable and has been expanded to include payment obligations arising from the replacement costs of foreign exchange and interest rate swap transactions.

The Hungarian state does not charge any fee in respect of the Funding Guarantee.

In accordance with Hungarian law, if Eximbank fails to perform any of its payment obligations which are guaranteed by the Hungarian state, creditors may seek to recover directly from the Hungarian state by filing a petition with the minister responsible for public finances without first seeking to recover from Eximbank. Within 30 days of receipt of a valid petition, the minister responsible for public finances is required to arrange payment to the relevant creditor.

Statutory Guarantee (törvényi készfizető kezesség) relating to Eximbank's Guarantees (bankgarancia)

Under the Eximbank Act, the Hungarian state also provides a back-to-back statutory guarantee in respect of certain guarantees issued by Eximbank. Eximbank's guarantee portfolio consists of (i) export-credit guarantees, issued primarily to banks and (ii) other export-related guarantees (including tender guarantees, advance repayment guarantees, performance guarantees and warranty guarantees), issued primarily to corporate customers.

The Hungarian state's obligations in respect of this back-to-back statutory guarantee are subject to an upper limit set by the annual central budget. According to the 2012 Budget Act Amendment, which came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), the upper limit is a combined HUF 80 billion in respect of Eximbank's export-credit and other export-related guarantees; replacing the two separate upper limits of HUF 40 billion. By government decree, the back-to-back statutory guarantee is also subject to certain conditions, including that any credit agreement over which Eximbank extends a state-backed export-credit guarantee must conform to OECD guidelines. As at 30 September 2012, Eximbank had outstanding state-backed export-credit guarantees totalling HUF 10.9 billion and state-backed export-related guarantees totalling HUF 14.4 billion, together representing 32% of the HUF 80 billion combined upper limit. Eximbank expects that the Hungarian state's total back-to-back statutory guarantee limit will be increased from HUF 80 billion to HUF 350 billion in the Hungarian state's central budget for 2013.

As at 30 September 2012, some 89%, or HUF 25.3 billion, of Eximbank's overall guarantee portfolio of HUF 28.5 billion was backed by state guarantees. The remaining 11% of Eximbank's guarantee portfolio (which are guarantees issued at its own risk) related to export-credit guarantees where the underlying loans, due mainly to the nature of the export or tenor, are outside OECD guidelines, and accordingly, outside the statutory guarantee.

Interest Equalisation and Support

Where Eximbank provides loans based on OECD criteria in the form of medium- to long-term credit at favourable fixed interest rates, the Hungarian state provides Eximbank with periodic interest equalisation payments up to an annual limit, under the 2012 Budget Act, of HUF 6.5 billion. Eximbank expects that the upper limit of interest equalisation will be abolished in the Hungarian state's central budget for 2013.

During the nine months ended 30 September 2012, Eximbank received interest equalisation from the Hungarian state in respect of 87% of its total loans and advances (by nominal amount), with payments of interest equalisation totalling 62% of the annual upper limit for 2012.

In accordance with OECD guidelines, the loans for which interest equalisation is provided are exclusively fixed rate loans with a tenor of two or more years. Under the interest equalisation programme, the amount of interest compensation provided by the Hungarian state is determined by the difference between (i) the interest rate paid by the borrower and (ii) the sum of Eximbank's variable-rate funding costs, operating expenses and the applicable risk premium, as agreed with the representative of the Ministry for National Economy. Eximbank receives the interest equalisation payment after applying to the Hungarian state within 15 days of the close of each quarter, and the payment for that quarter is received by Eximbank within 30 days of the application.

In addition to receiving payments from the Hungarian state under the interest equalisation programme, Eximbank receives a form of interest support with respect to tied aid loans, which tied aid loans represented 4% of Eximbank's total loans and advances (by nominal amount) as at 30 September 2012. Including these tied aid loans covered by interest support, Eximbank received some form of interest compensation from the Hungarian state in respect of 91% of its total loans and advances (by nominal amount) as at 30 September 2012. Interest support payments for tied aid loans are made based on a slightly different cost base than under the interest equalisation programme.

All other loans provided by Eximbank (i.e., loans that are not covered by the interest equalisation and interest support programmes) are variable rate and are priced by reference to LIBOR/EURIBOR according to Eximbank's average costs.

Interest equalisation and support are intended to promote stability and sustainability for Eximbank, and contribute to interest risk management (see also "*Description of the Issuer – Credit Policies and Risk Management - Interest Rate Risk*"). However, the level of interest equalisation and support provided by the Hungarian state is also intended to hold Eximbank's profit at or near zero for loans covered by these programmes, reflecting Eximbank's role as an instrument of economic policy for the Hungarian state rather than as a traditional profit-oriented bank.

MEHIB Credit Insurance

The functions of the state export credit agency in Hungary are divided between Eximbank and MEHIB, which were both established by the Eximbank Act. MEHIB provides export credit insurance to exporters or their banks, including to certain of Eximbank's borrowers. Eximbank and MEHIB currently share the same management.

Eximbank benefits from export credit insurance policies sold to its customers by MEHIB with respect to its buyer's credit and discounting portfolios. As at 30 September 2012, approximately HUF 35 billion, or 19%, of Eximbank's loans and advances (by nominal amount) consisted of loans for which typically up to 95% (and in the case of tied aid loans, 100%) of principal and interest amounts were covered by MEHIB credit insurance. See "*Issuer - Operations– Product Breakdown*" below. Where a MEHIB-insured loan is non-performing, MEHIB continues to make interest and principal payments including delinquent payments according to the terms agreed by the original borrower up to its coverage amount.

Under the 2012 Budget Act, MEHIB can underwrite export credit insurance up to a limit of HUF 500 billion with a direct state guarantee. As at 31 December 2011 (the most recent date for which information is available), MEHIB had HUF 165.3 billion of insurance policies outstanding.

Funding Support and Liquidity Support

Historically, Eximbank financed a substantial portion of its operations from loans and advances provided by MFB, which is wholly owned by the Hungarian state and was Eximbank's majority shareholder until 23 May 2012, when the Hungarian state took a direct 100% ownership in Eximbank. All funding transactions between Eximbank and the

MFB have been conducted at market rates. In the past, the Hungarian state has also provided capital contributions to Eximbank.

Going forward, Eximbank intends to meet its medium- and long-term funding needs primarily through international money and capital markets issuances, including through the issuance of Notes under the Programme, rather than loans from the Hungarian state or state-owned entities. However, if Eximbank were to face a liquidity shortage, the Hungarian state may support Eximbank's operations by lending government bonds to Eximbank or taking other measures. For example, on 5 October 2012, Eximbank entered into an agreement with the Hungarian state under which it could draw up to HUF 150 billion in government bonds, to be returned by the end of the year; on 10 October 2012, the Hungarian state lent HUF 70 billion of government bonds to Eximbank under this credit line. See "*Description of the Issuer – Funding – Liquidity Portfolio*" below.

Regulatory and Legislative Supervision

Eximbank was established, together with MEHIB, by the Eximbank Act and commenced operations on 10 August 1994 on the basis of resolution 63/1994 issued by the State Bank Supervisory Authority. As a state agency for the promotion of exports, Eximbank is regulated by the Eximbank Act and a number of government and ministerial decrees and provisions that are specific to Eximbank. In addition to these, Eximbank is governed by Act CXII of 1996 on Credit Institutions and Financial Enterprises, which applies to all credit institutions operating in Hungary.

The prudential supervision of Eximbank is carried out by the Hungarian Financial Supervisory Authority ("**HFSA**"). Eximbank currently operates on the basis of operating license 188/1998/F, issued on 9 February 1998 by the Hungarian Money and Capital Markets Supervisory Authority, the legal predecessor to the HFSA. Pursuant to Government decree 196/2007, Eximbank applies the standard approach under Basel II, subject to certain exemptions from provisions of Basel II which do not apply given Eximbank's business, in calculating credit risk and its capital requirement, which are revised annually by the HFSA. The applicability of Basel III to Eximbank will be determined once the proposed legislative package adopting the Basel III guidelines is finalised at the EU level and implemented into Hungarian national law.

As an institution engaged in officially-supported export lending, Eximbank is also required to comply with the prevailing guidelines and directives of the World Trade Organisation ("**WTO**") (in particular, the WTO Agreement on Subsidies and Countervailing Measures), the OECD (in particular the OECD Agreement), and the European Union.

Capitalisation

As at 30 September 2012, Eximbank's subscribed capital amounted to HUF 10.1 billion. Eximbank is wholly owned by the Hungarian state, with shareholder's rights exercised on behalf of the Hungarian state by the Minister for National Economy. As at 30 September 2012, Eximbank's capitalisation was as follows (under IFRS):

	Historical
	(unaudited)
	(HUF millions)
Liabilities:	
Loans and deposits from other banks[1]	182,232
Financial liabilities at fair value through profit or loss	403
Provision for guarantees and contingencies	271
Other liabilities	902
Notes outstanding	—
Total liabilities	183,808
Capital:	
Share capital	10,100
Share premium	400
Retained earnings	1,138
Fair value reserve, net of tax	4
Statutory reserves	6,471
Total capital	18,113

Note:

(1) Eximbank has incurred additional debt since 30 September 2012. See "*Description of the Issuer — Funding—Funding Profile*".

Operations

Overview

Eximbank provides five main export finance-related products: (1) refinancing facilities to domestic and foreign commercial banks providing financing for Hungarian export transactions, (2) buyer's credit facilities (including "tied aid" loans) to foreign purchasers or partners of Hungarian exporters, (3) discounting facilities to Hungarian exporters, (4) direct pre-export financing credit to Hungarian exporters and (5) export-credit and export-related guarantees. In addition, in the past Eximbank has provided, to a limited extent, loans with respect to Hungarian investments abroad.

The following table provides a breakdown of Eximbank's loan products:

Category of loan product	*Category of borrower*	*MEHIB insurance (max %)*	*Interest equalisation/ support*	As at 30 September 2012	As at 31 December 2011	2010	2009
				(HUF millions)			
Refinancing:							
Refinancing of pre-export financing credit .	Bank	N/A	Full[1]	108,720	67,079	60,790	66,755
Refinancing of post-shipment financing credit	Bank	N/A	Full	20,336	20,871	10,055	11,299
Subtotal:				129,056	87,950	70,845	78,054
Buyer's credit facilities (including tied aid loans):							
Classic buyer's credit ...	Municipality; Corporate	95%	Partial[2]	12,905	15,883	29,514	33,556
Interbank buyer's credit	Bank	95%	Partial	1,194	1,894	3,639	26,799
Project risk buyer's credit	Corporate	95%	Full	0	3,829	3,740	2,143
Tied aid	Sovereign	100%	Full	6,263	7,399	6,852	5,847
Subtotal:				20,362	29,005	43,745	68,345
Discounting facilities:							
Discounting of supplier's credit..........	Municipality; Corporate	95%	Partial	20,069	18,668	18,222	26,791
Forfaiting...................	Municipality; Corporate	N/A	N/A	119	210	237	0
Subtotal:				20,188	18,878	18,459	26,791
Direct pre-export financing:							
Short-term pre-export financing	Corporate	N/A	N/A	1,866	2,253	3,557	3,242
Medium- and long-term pre-export financing	Corporate	N/A	Partial	8,969	8,923	7,460	10,007
Subtotal:				10,835	11,176	11,017	13,249
Investment loan:	N/A	N/A	N/A	671	782	641	0
Total loans and advances (nominal amount):				181,112	147,791	144,707	186,439

Notes:

(1) Indicates all the loans in this category receive interest compensation from the Hungarian state.

(2) Indicates a portion of the loans in this category qualify for and receive interest compensation from the Hungarian state.

Product Breakdown

Refinancing Facilities to Domestic Banks

Eximbank indirectly provides Hungarian exporters with access to fixed-rate, medium- and long-term pre-export and post-shipment financing loans via Hungarian commercial banks, which draw funding for these loans through refinancing credit agreements with Eximbank. These loans are Eximbank's largest category of loan, accounting for 71% of its total portfolio of loans and advances (by nominal amount) as at 30 September 2012. The Hungarian commercial banks extend the loans to exporters according to their own credit scoring criteria, and Eximbank is exposed to the direct credit risk of the Hungarian commercial banks rather than the credit risk of the exporter.

Eximbank currently has umbrella credit lines in place with nine Hungarian commercial banks (UniCredit Bank Hungary Zrt., Raiffeisen Bank Zrt., Budapest Bank Nyrt., MKB Bank Zrt., K&H Bank Zrt., OTP Bank Nyrt., CIB Bank Zrt., Takarekbank Zrt. and Commerzbank Zrt) under which these banks can draw funds from Eximbank to refinance loans for exporters up to a certain level of turnover without individual approval by Eximbank. Specific refinancing loans are agreed with the Hungarian commercial banks for companies or loan contracts that do not qualify under one of the umbrella credit lines.

In addition to providing refinancing facilities to domestic banks, Eximbank provides (to a lesser extent) foreign banks with access to refinancing facilities through interbank buyer's credit.

Buyer's Credit (including Tied Aid)

Eximbank provides direct and indirect post-shipment financing to foreign purchasers of Hungarian exporters or the purchaser's bank through its buyer’s credit facilities. These facilities are typically medium- or long-term (i.e., with a tenor of two years or longer), are denominated in EUR or USD and in amounts of generally at least EUR 1 million. Buyer's credit financing, together with MEHIB insurance, is intended to reduce the risk of non-payment faced by Hungarian exporters, and enable foreign purchasers to fund their purchases of Hungarian goods and services using low-interest credit supported by the Hungarian state. When extending buyer's credit to a foreign purchaser (as opposed to tied aid, discussed below), Eximbank typically lends up to 85% of the value of the goods and/or services to the purchaser, with a maximum tenor of 10-12 years. Buyer’s credit includes (i) classic buyer's credit, which is financing applied to and repaid by a foreign purchaser, (ii) interbank buyer's credit arrangements, which is arranged simultaneously through a single foreign bank for multiple Hungarian exporters selling to multiple foreign purchasers and (iii) project risk buyer's credit, which is financing repaid from a project income stream.

A significant portion of Eximbank's buyer's credit loans are mandated by the Hungarian state to provide buyer’s credit through a system of tied aid loans based on intergovernmental agreements, with the aim of reaching new markets in developing countries. Tied aid loans must be disbursed to the Hungarian exporter, and the tied aid provided by Eximbank incorporates special interest terms and aid in the form of an insurance premium. Under OECD guidelines, interest charged to borrowers under tied aid loans must be at least 35% lower than that charged under Eximbank's standard buyer’s credit facility.

In accordance with OECD guidelines, MEHIB insurance covers up to 97.5% of principal and interest amounts under Eximbank's buyer's credit loans (excluding tied aid loans), and 100% of principal and interest amounts under Eximbank's tied aid loans.

Discounting Facilities

Eximbank offers post-shipment financing via discounting of supplier’s credit and forfaiting. Through these facilities, Eximbank purchases from Hungarian exporters accounts receivable which represent future payments from a foreign purchaser of exports, discounted to present value including an applicable risk premium. Discounting facilities are intended to relieve Hungarian exporters of credit risk as well as exchange rate and interest rate risk during the periods these receivables remain outstanding, and improve their competitive position.

Under its standard (non-forfaiting) discounting facilities, Eximbank purchases accounts receivable denominated in EUR or USD from Hungarian exporters with a maximum tenor of 10-12 years, in amounts of generally at least EUR 1 million. When the receivable falls due, the foreign purchaser pays Eximbank instead of the exporter. Eximbank is subject to the credit risk of the foreign purchaser once it purchases a receivable from an exporter. In accordance with OECD guidelines, MEHIB insurance covers up to 95% of principal and interest amounts under Eximbank's standard discounting facilities.

Through its forfaiting portfolio, Eximbank purchases export-derived receivables that are guaranteed by a bank. Forfaite receivables are denominated in EUR or USD, generally have a tenor of between 90 and 365 days and have a value of at least EUR 100,000. MEHIB credit insurance does not cover forfaited receivables but these products are non-recourse to Eximbank.

Direct Pre-export Financing Credit

The pre-export financing provided by Eximbank is a specialised form of primarily medium/long term (i.e., with a tenor of two years or longer) export-related working capital lending in which Hungarian companies are lent funds in connection with planned or documented sales orders (up to one year in advance of the date upon which delivery is to occur). Eximbank lends a maximum of 85% of the value of a given export sale to the exporter, and all of these loans are collateralised.

Guarantee Products

Eximbank extends export-credit guarantees primarily to Hungarian banks to facilitate exporters' borrowings, and extends other export-related guarantees (including tender guarantees, advance repayment guarantees, performance guarantees and warranty guarantees) primarily to corporate customers to provide assurance to foreign purchasers of Hungarian exports. As at 30 September 2012, Eximbank had outstanding state-backed export-credit guarantees totalling HUF 10.9 billion and state-backed export-related guarantees totalling HUF 14.4 billion, together representing 32% of the HUF 80 billion combined upper limit. Eximbank expects that the Hungarian state's total statutory back-to-back guarantee limit will be increased from HUF 80 billion to HUF 350 billion in the Hungarian state's central budget for 2013.

As at 30 September 2012, some 89%, or HUF 25.3 billion, of Eximbank's overall guarantee portfolio of HUF 28.5 billion was backed by state guarantees. See "*Description of the Issuer - Overview - Relationship with the Government*". The remaining 11% of Eximbank's guarantee portfolio (which are guarantees issued at its own risk) related to export-credit guarantees where the underlying loans, due mainly to the nature of the export or tenor, are outside OECD guidelines, and accordingly, not covered by the statutory guarantee.

The following table shows Eximbank’s outstanding guarantees (by nominal amount):

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Export-credit guarantees:				
State-supported	10,931	18,929	16,188	15,268
Own risk	2,309	1,139	1,921	1,810
Export-related guarantees:				
State-supported	14,433	15,866	18,388	20,602
Own risk	779	972	1,568	2,298

Credit Exposure and Interest Rates

As at 30 September 2012, Eximbank's total loans and advances (by nominal amount) amounted to approximately HUF 181 billion. Of this total, approximately HUF 146 billion was not covered by MEHIB insurance, and therefore represented uninsured credit risk exposure of Eximbank. Of this HUF 146 billion, approximately HUF 129 billion was uninsured credit risk to Hungarian commercial banks, and the balance of approximately HUF 17 billion represented uninsured credit risk exposure to Hungarian exporters through Eximbank's direct pre-export financing portfolio and the uninsured portion of its MEHIB-insured buyer's credit and standard discounting portfolios. Of this HUF 17 billion, approximately HUF 7.6 billion was covered by some form of collateral or security over assets of the borrower.

As at 30 September 2012, Eximbank received interest equalisation from the Hungarian state in respect of 87% of its total loans (by nominal amount), and a further 4% of total loans (representing tied aid loans) received interest support, another form of compensation from the Hungarian state. The interest equalisation and support programme is intended to hold profits at or near zero for loans covered by interest equalisation and support, reflecting Eximbank's role as an instrument of economic policy for the Hungarian state rather than as a traditional profit-oriented bank. Loans not covered by the interest equalisation or support programmes are variable interest rate loans with interest set by reference to LIBOR/EURIBOR according to Eximbank's average costs. Any deviation from Eximbank’s average costs are determined by the purpose of the loan, the maturity date and the availability and value of collateral provided (if any) as security for the loan, and Eximbank's assessment of the credit risk of the borrower.

As at 30 September 2012, 91% of Eximbank’s total loan and advances (by nominal amount) consisted of fixed-rate loans and 9% consisted of variable rate loans, compared with 86% and 14%, respectively, as at 31 December 2011.

Loan Commitments by Category

Loan commitments constitute undrawn amounts under Eximbank's existing loan agreements. Eximbank's loan commitments primarily relate to its pre-export refinancing products entered into with banks.

The following table sets out Eximbank’s total (undrawn) loan commitments by category:

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Pre-export financing:				
Direct pre-export financing credit	2,063	36	398	1,987
Pre-export refinancing facilities	43,199	63,570	2,827	5,899
Post-shipment financing:				
Buyer’s credit facilities	529	598	6,962	7,810
Discounting facilities	4,043	11,175	11,258	1,047
Post-shipment refinancing	0	2,638	0	0
Total (undrawn) loan commitments	49,834	78,017	21,445	16,743

Maturities and Amortisation of Outstanding Loans

The following table categorises Eximbank's total loans and advances by their remaining maturities:

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Loans and advances with remaining maturities of one year or less	69,159	84,157	91,972	99,657
Loans and advances with remaining maturities of more than one year	124,965	104,664	87,658	107,536
Total[(1)]	194,124	188,821	179,630	207,193
Interbank lending	0	26,112	19,401	19,803
Defaulted loans under which MEHIB is making regular payments	10,545	12,849	13,814	0
"Forced loans"	956	956	63	63
Reconciliation to total loans and advances	1,511	1,113	1,645	888
Total loans and advances (by nominal amount)	181,112	147,791	144,707	186,439

Note:
(1) The totals include defaulted loans under which MEHIB is making regular payments, interbank lending (for year end figures) and some other items.

The following table sets out the total amount of Eximbank's loans with a bullet repayment structure (non-amortising loans):

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Total loans and advances (by nominal amount)	181,112	147,791	144,707	186,439
Of which non-amortising loans	27,122	27,136	28,847	38,586
Portion of total loans and advances comprised of non-amortising loans	15%	18%	20%	21%

Credit Exposure by Industry Sector

Eximbank's indirect and direct credit risks are concentrated by sector, in particular domestic banking. In accordance with the categorisation system of the Hungarian Central Statistical Office, which is based on the EU's NACE Rev. 2. system, foreign credit risk is not broken down by industry sector.

The following table sets out Eximbank's total loans and advances (by nominal amount), broken down by the industry sector, as categorised according to Hungarian Central Statistical Office standards:

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Domestic banking[1]	129,055	87,949	70,846	79,475
Foreign[2]	39,955	47,231	61,619	94,567
Manufacturing	10,701	11,471	8,063	10,406
Construction	705	1,140	3,656	1,674
Trade/vehicle repair	227	0	301	99
Other	467	0	222	217
Total	181,112	147,791	144,707	186,438

Notes:

(1) "Domestic banking" represents loans to customers via other commercial banks (i.e., Eximbank's "refinancing facilities to banks" product).

(2) In accordance with the categorisation system of the Hungarian Central Statistical Office, for all foreign entities the industry sector is recorded as "Unclassified," and no further breakdown is available.

Loans by Destination Markets

One of Eximbank's objectives is to provide financing which facilitates the diversification of Hungarian export markets. Accordingly, the geographical distribution of exports financed or refinanced by Eximbank differs from the geographic distribution of Hungarian exports as a whole. In the nine months ended 30 September 2012, management believes the proportion of medium- and long-term loans provided by Eximbank related to exports destined to member states of the EU was significantly lower than the proportion of total Hungarian exports to the EU. In the same period, management believes Eximbank financed or refinanced a greater proportion of Hungarian exports to non-EU European countries than total Hungarian exports to these countries, with Russia, in the estimate of management, being Eximbank's single largest export reference market, accounting for approximately one fourth of Eximbank's total loans and advances outstanding as at 30 September 2012.

Largest Borrowers

K&H Bank Zrt was Eximbank's single largest borrower as at 30 September 2012, accounting for 24.8% of its total loans and advances (by nominal amount). As at 30 September 2012, Eximbank's ten largest borrowers accounted for 81% total loans and advances (by nominal amount) and consisted of domestic banks and purchasers of Hungarian exports.

Under its pre-export refinancing facilities, Eximbank has umbrella credit lines in place with nine commercial banks (UniCredit Bank Hungary Zrt., Raiffeisen Bank Zrt., Budapest Bank Nyrt., MKB Bank Zrt., K&H Bank Zrt., OTP Bank Nyrt., CIB Bank Zrt., Takarekbank Zrt., Commerzbank Zrt.) under which these banks can refinance loans for exporters up to a certain level of turnover without individual approval by Eximbank.

Credit Portfolio Quality

To monitor credit quality, Eximbank divides its credit portfolio into five categories: "problem free", "to be monitored", "below average", "doubtful" and "bad," based on the categorisation rules under HAS. As at 30 September 2012, the proportion of loans in Eximbank's credit portfolio considered "problem free" rose to 92.9%, compared with 86.9%, 79.6% and 66.8% as at 31 December 2011, 2010 and 2009, respectively. As at 30 September 2012, Eximbank's loans classified as "below average" or below totalled HUF 5,100 million, representing 2.8% of outstanding loans as at such date.

As at the date of this Offering Circular, the refinancing facilities Eximbank provides to banks are substantially all classified as problem-free; "below average" and below loans primarily relate to direct pre-export financing and the uninsured portion of Eximbank's buyer's credit and standard discounting portfolios.

The following table shows the breakdown of Eximbank's loans and advances (by nominal amount) by credit quality, as assessed by Eximbank's management:

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	(HUF millions)			
Problem free[(1)]	168,168	128,443	115,153	124,507
To be monitored[(2)]	7,844	14,050	25,008	52,763
Below average[(3)]	48	1,920	180	1,301
Doubtful[(4)]	2,270	236	1,463	6,311
Bad[(5)]	2,782	3,142	2,903	1,557
Total	**181,112**	**147,791**	**144,707**	**186,439**

Notes:

(1) "Problem free" loans are loans requiring no provision.

(2) "To be monitored" loans are loans requiring provision of from 1%-10% of the exposure.

(3) "Below average" loans are loans requiring provision of from 11%-30% of the exposure.

(4) "Doubtful" loans are loans requiring provision of from 31%-70% of the exposure.

(5) "Bad" loans are loans requiring provision of from 71%-100% of the exposure.

Provisions and Impairments

Eximbank establishes provisions for possible losses with respect to problem loans, based primarily on the value of collateral (if any) and the presence of MEHIB insurance, the length of any non-performing periods, the economic conditions of the destination markets and sectors, and the nature of the lending arrangement. Eximbank does not expect any loss to result on that portion of its loan portfolio covered by MEHIB insurance and therefore does not subject loans to provisioning to the extent they are covered by MEHIB insurance.

As at 30 September 2012, Eximbank had established provisions of HUF 7,263 million for possible losses, compared to provisions of HUF 6,527 million as at 31 December 2011. As at 30 September 2012, Eximbank's provisions relating to "below average," "doubtful" or "bad" loans were HUF 4,011 million, representing 95% of loans classified as "below average," "doubtful" or "bad" loans at that date. Under HAS, provisions for possible losses are recorded against those loans for which objective evidence of impairment exists as a result of one or more events that has occurred since initial recognition. Eximbank may also record a regulatory reserve for possible losses, to be deducted from retained earnings and used in subsequent years in case of negative earnings for a given year.

Restructured Loans

Certain of Eximbank's direct borrowers have restructured their loans, and special provisions have been recorded by Eximbank for these loans. Restructured loans may include loans in any of the five credit quality categories. As at 30 September 2012, HUF 9,496 million, or 5.2% of Eximbank's HUF 181,112 million total loans and advances (by nominal amount) consisted of restructured loans. In addition, as at such date, Eximbank held debt securities issued through a restructuring plan in the amount of HUF 358 million in exchange for cancellation of restructured loans.

Net Interest Income

The pricing of Eximbank's interest-compensated loans is mainly based on the CIRR, which is the OECD minimum interest rate for officially-supported financing of exports. These loans accounted for 91% of Eximbank's loan portfolio as at 30 September 2012. The pricing of the remaining balance of the loan portfolio is based on LIBOR/EURIBOR. Funding costs for Eximbank are expected to increase in the short term with the expiry of previously borrowed short-term lower-cost funds and the draw of higher-cost new funds with longer maturities. However, management does not foresee any decrease in net interest income because the resulting decrease in net interest margin will be largely compensated by the Hungarian state central budget through the interest equalisation and support programmes.

Eximbank had IFRS net interest income of HUF 3,449 million in the nine months ended 30 September 2012, compared to HUF 3,103 million in the nine months ended 30 September 2011. The principal factor for the increase in net interest income in the nine months ended 30 September 2012 compared to the nine months ended 30 September 2011 was the increase in the loan portfolio.

Eximbank had IFRS net interest income of HUF 4,619 million in the year ended 31 December 2011, compared to net interest income of HUF 5,825 million in the year ended 31 December 2010 and HUF 5,610 million in the year ended 31 December 2009. The principal factors for the decrease in net interest income from 2010 to 2011 were the higher interest expense over that period due in part to a higher effective interest rate on funding as well as slightly decreased interest income, net of interest compensation, partially offset by a higher amount of interest compensation. The slight increase in net interest income in 2010 was due to lower interest expense, due primarily to significantly lower volumes of borrowings in 2010, partially offset by lower interest income on loans and advances to banks and customers.

Net Income from Fees and Commissions

The non-interest income of Eximbank (which includes guarantee fees) is usually not a significant amount compared to net interest income due in part to the fact that Eximbank's fee-earning product range is limited (i.e., there is no fee income connected to current account and deposit-related services, which Eximbank does not offer, etc.), Eximbank does not collect significant fee income on its guarantee products and Eximbank's guarantee portfolio is significantly smaller than its loan portfolio. IFRS Net income from fees and commissions was HUF 206 million in 2009, increasing to HUF 767 million in 2010 due to a non-recurring item but decreasing again to HUF 110 million in 2011.

Eximbank had IFRS net income from fees and commissions of HUF 147 million in the nine months ended 30 September 2012, compared to HUF 110 million in the nine months ended 30 September 2011.

Cost Efficiency

In 2010, Eximbank carried out a cost management and organisational restructuring program, reducing its operating costs to the minimum level possible without threatening day-to-day operation. Despite non-recurring additional cost items resulting from this organisational restructuring and resulting headcount reduction in 2010, Eximbank reduced both wage costs and other personnel-related expenses in 2011. Further cost reductions are not planned as at the date of the Offering Circular.

Profit/(loss) for the Period

In line with Eximbank's mandate of acting as an instrument of economic policy in support of the Hungarian exporting sector, profit levels at Eximbank have remained low over the period. Eximbank had profit of HUF 474 million in 2009, increasing to HUF 1,210 million in 2010 due to a non-recurring item with respect to Eximbank's net income from fees and commissions but decreasing again to HUF 534 million in 2011.

Eximbank had IFRS profit of HUF 509 million in the nine months ended 30 September 2012, compared to a loss of HUF104 million in the nine months ended 30 September 2011.

Funding

Funding Profile

Prior to 2005-06, Eximbank depended primarily on market funding, including short term interbank borrowings and medium-term syndicated, club and bilateral loans. More recently, loans from the MFB, Eximbank's previous majority shareholder, supported by the Funding Guarantee, have provided the substantial majority of Eximbank's financial resources. All transactions with the MFB have been conducted at market rates to observe EU and Hungarian transfer pricing rules. See "*Description of the Issuer – Overview – Relationship with the Government*".

On 23 May 2012, Eximbank became wholly owned directly by the Hungarian state, and this change in ownership has brought with it a new funding approach. Going forward, Eximbank will seek to meet its medium- and long-term funding requirements primarily through the international money and capital markets, including through the issuance of Notes under the Programme.

As at 30 September 2012, the outstanding amount of Eximbank's borrowings and deposits from other banks was HUF 182,232 million, which consisted of HUF 23,240 million in Hungarian Forint and HUF 158,992 million equivalent in foreign currencies. Since 30 September 2012, Eximbank has borrowed EUR 50 million and HUF 15 billion from Hungarian commercial banks. The EUR 50 million loan has a three-year tenor and an amortising repayment schedule; the HUF 15 billion loan has a two-year tenor and a bullet repayment schedule.

In addition, in October 2012 the Hungarian state lent Eximbank HUF 70 billion of government bonds on a short-term basis for liquidity management purposes, to be returned by the end of the year. Eximbank may borrow up to a total of HUF 150 billion of government bonds under this short-term credit line (see "*Description of the Issuer - Funding - Liquidity Portfolio*").

In order to manage day-to-day liquidity, Eximbank is active in the short-term interbank market for loans and deposits and foreign exchange swaps. As at 30 September 2012, 17.7% of Eximbank's funding consisted of short-term fixed-rate interbank borrowings, compared with 0.04% as at 31 December 2011, at which date Eximbank was a net lender in the interbank market and loans from MFB to Eximbank constituted a larger portion of Eximbank's funding.

As at 30 September 2012, 82.3% of Eximbank's funding consisted of variable-rate loans, compared to 99.96% as at 31 December 2011.

All of Eximbank's borrowings are unsecured but guaranteed by the Hungarian state pursuant to the Funding Guarantee (see "*Description of the Issuer - Overview - Relationship with the Government.*"). As at 30 September 2012, Eximbank's total IFRS loans and deposits from other banks of HUF 182,232 million amounted to approximately 15% of the HUF 1,200 billion limit of the Funding Guarantee under the 2012 Budget Act Amendment.

Foreign Currency Borrowings

The substantial majority of Eximbank's borrowings are denominated in foreign currencies, primarily Euro and to a significantly lesser extent U.S. dollars. As at 30 September 2012, the outstanding amount of Eximbank's IFRS long-term and short-term foreign currency borrowings was HUF 158,992 million, a decrease from HUF 175,696 million, HUF 170,977 million and HUF 197,713 million as at 31 December 2011, 2010 and 2009, respectively. Eximbank frequently enters into related currency swap transactions intended to hedge its foreign exchange risk.

Repayment Schedule

The following table sets out the principal repayment schedule of Eximbank's total IFRS borrowings as at 30 September 2012:

	Maturing on or before 31 December					
	2012	2013	2014	2015	Thereafter	Total
Currency	*(HUF millions)*					
HUF	18,190	-	-	5,000	-	23,190
Foreign	84,144	13,054	30,076	1,275	30,000	158,549(1)
Total HUF equivalent	102,334	13,054	30,076	6,275	30,000	181,739

Note:

(1) Not including accrued interest of HUF 443 million as at 30 September 2012.

Related Party Funding Facilities

The following table sets out Eximbank's funding facilities from the MFB as at 30 September 2012[1]:

Amount *(EUR)*	Date of Origination	Interest Rate	Amount of Principal Outstanding *(EUR)*	Amount of Principal Outstanding *(HUF millions equivalent)*	Maturity Date
180,000,000	09/02/2008	3.152	180,000,000	56,003	10/11/2012(2)
71,000,000	06/19/2009	2.901	17,750,000	22,090	11/09/2012(2)
100,000,000	07/06/2010	3.223%	100,000,000	31,113	04/22/2014
100,000,000	09/17/2007	0.482%	100,000,000	31,113	09/12/2017

Notes:

(1) This table does not include the HUF 70 billion in government bonds that the Hungarian state lent Eximbank on a short-term basis in October 2012. See "*Description of the Issuer - Funding - Liquidity Portfolio*".

(2) The amount outstanding under this facility was repaid upon maturity.

Other than as set out above, Eximbank had no other funding facilities (on or off balance sheet) from related parties, including the Hungarian state, as at 30 September 2012.

Market Funding

Eximbank has borrowed from foreign and Hungarian banks. The following table sets out the medium-term borrowings of Eximbank from parties unrelated to the Hungarian state as at 30 September 2012(1):

Lender	Classification	Amount *(EUR)*	Amount *(HUF millions)*	Date of Origination	Interest Rate	Maturity Date
Domestic Bank	Re-refinancing	6,132,040	1,740	07/23/2009	2.937%	06/26/2015
Domestic Bank	Re-refinancing	19,133,943	5,428	06/25/2009	3.176%	06/29/2017
Domestic Bank	Re-refinancing	30,262,590	8,586	01/17/2011	2.625%	05/12/2021
Domestic Bank	Re-refinancing	16,368,280	4,644	01/17/2011	2.625%	05/12/2021
Domestic Bank	Bilateral loan agreement	-	5,000	09/03/2012	8.940%	08/31/2015
Foreign Bank	Bilateral loan agreement	10,000,000	2,837	06/11/2010	2.848%	05/17/2013
Foreign Bank	Bilateral loan agreement	10,000,000	2,837	06/11/2010	2.848%	05/17/2013
Foreign Bank	Bilateral loan agreement	20,000,000	5,674	06/30/2010	2.122%	06/18/2013

Note:

(1) This table does not include the EUR 50 million and HUF 15 billion loan agreements Eximbank has concluded since 30 September 2012. See *"Description of the Issuer – Funding – Funding Profile".*

Liquidity Portfolio

As at 30 September 2012, Eximbank's total investment in securities amounted to HUF 11,765 million, representing 5.9% of its total assets, and consisted primarily of zero-coupon bonds issued by the National Bank of Hungary and Hungarian government bonds held for the purposes of liquidity management and maintaining a liquidity reserve. Since 30 September 2012, the Hungarian state has lent HUF 70 billion of government bonds to Eximbank on a short-term basis for liquidity management purposes, to be returned prior to the end of the year.

None of Eximbank's securities portfolio is held for proprietary or client trading.

As at 30 September 2012, Eximbank also held HUF 1,523 million of securities denominated in USD issued in 2010 by a Kazakh bank pursuant to the restructuring of a loan from Eximbank which was not insured by MEHIB. Of this HUF 1,523 million, HUF 1,165 million was classified as impaired.

Credit Policies and Risk Management

Credit Policies

The Risk Management department formulates and proposes Eximbank's risk assessment criteria for the relevant decision-making body, which is in most cases the Board of Directors, gathers data from Eximbank's various operating groups and produces various internal and external reports.

Credit Risk Classification Rules

Customers (including corporate and bank customers) are classified by the Risk Management department. Classifications are reviewed at least every year. The basis of classification is a rating system, including quantitative assessment and qualitative assessment. Roughly equal weight is given to quantitative and qualitative factors.

For corporate customers, quantitative factors include the customer's financial ratios compared to the relevant sector summary figures, while qualitative factors include ownership, management and organisation, financial soundness, asset management, market position, accounting and information systems, status and risks of the relevant industry sector, level of production, the relationship of the industry to government spending levels and marketing developments. For banks, quantitative factors include asset quality, equity, liquidity and earnings while qualitative factors include asset quality, organisation, management, general views, market position and customer risk, ownership structure and peer group analysis. Due to its economic policy role, Eximbank's risk-taking limits may exceed those of commercial banks.

Country risk limits are approved by the Credit Committee and reviewed at least semi-annually.

Credit Approval

Credit approval is centralised at Eximbank. Once the assessment of a customer is completed by the loan officer, including relevant inputs from other departments (for example, Risk Management for credit risk and the Legal Operations department), the loan officer makes a written recommendation. The credit is then submitted to the relevant decision-making body, as set out in the table below:

Amount of Exposure	Approval by
Up to HUF 5 billion	Credit Committee
From HUF 5 billion to HUF 20 billion	Board of Directors
Over HUF 20 billion	Minister for National Economy

If the application is approved, the loan officer then prepares all relevant legal documentation in collaboration with the Legal Operations and Back-Office departments. Conditions precedents are checked by the independent Loan Administration Department before the loan contract is finalised.

The same procedures are observed with respect to credit exposures related to the extension of guarantees.

Credit exposures are monitored at least quarterly.

Collateralisation Policy

Eximbank's collateral requirements are differentiated by type of customer.

Bank customers

Based on the low risk level of Hungarian financial institutions, as determined by Eximbank, and generally accepted banking practices with respect to providing credit to financial institutions, Eximbank does not require collateral behind refinancing loans to Hungarian commercial banks.

Corporate customers

Eximbank generally requires collateral or other credit support (including MEHIB insurance) when lending directly to exporters or foreign buyers, as is customary in commercial banking practices. The minimum collateral requirement for a borrower is typically based on a four-tier credit rating system, resulting in collateral levels of 50%, 60%, 70% or 100% of Eximbank's exposure. However, the relevant decision-making body may approve lower collateral requirements in certain cases at its discretion.

Depending on the type of borrower and loan, the collateral may be equipment purchased with the loan proceeds, industrial plants, real estate, marketable securities as well as transferred rights in receivables due. The value of the collateral is appraised at least once a year and, where applicable, must typically be insured. Other forms of credit support include MEHIB insurance, bank guarantees and corporate guarantees.

As at 30 September 2012, approximately HUF 35.3 billion, or 67.7%, of Eximbank's total direct lending of HUF 52.1 billion was insured by MEHIB, and a further HUF 7.6 billion, or 14.6%, was covered by collateral (not including MEHIB insurance), totalling 82.3% of the relevant part of the total credit portfolio.

Currency Risk

Currency risk refers to the current or future threat to Eximbank's earnings and capital base as a result of adverse movements in foreign currency exchange rates. A portion of Eximbank's borrowings are denominated in foreign currencies, primarily the Euro and U.S. dollar, which involves risk related to exchange rate fluctuations between these currencies and the Hungarian Forint, which is Eximbank's functional and operational currency. Eximbank seeks to manage these risks by keeping the currency breakdown of its liabilities close to the currency breakdown of its assets, by hedging the remaining foreign currency exposure related to its borrowings through the use of currency swaps and by limiting its overall net open foreign currency position to HUF 1,100 million, of which EUR and USD open positions may not exceed HUF 400 million each. Eximbank's risk department is responsible for checking compliance with this limit.

Eximbank does not speculate in foreign currencies or engage in client trading in foreign exchange.

Interest Rate Risk

Interest rate risk refers to the current or future threat to Eximbank's earnings and capital base as a result of adverse movements in interest rates. Interest rate risk arises to the extent that Eximbank's assets and liabilities have different re-pricing dates. With respect to a significant portion of Eximbank's loan portfolio, interest rate risk is limited through the Hungarian state's interest equalisation and support programmes, which allocates quarterly payments (effectively based on floating rates) to compensate Eximbank for the difference between its funding costs and interest income (see "*Description of the Issuer – Overview - Relationship with the Government.*"). As at 30 September 2012, Eximbank received interest compensation from the Hungarian state in respect of 91% of its total loans and advances (by nominal amount), compared with 86%, 72% and 66% as at 31 December 2011, 2010 and 2009, respectively. With respect to the portion of Eximbank's loan portfolio that is not covered by the interest equalisation or support programmes, the loans bear variable interest rates based LIBOR/EURIBOR, while funding is also at variable rates. For these reasons, and because Eximbank's liabilities and assets have relatively short average times to re-pricing, management believes interest rate risk has been adequately managed.

Liquidity Risk and Management

Liquidity risk comprises uncertainties in relation to Eximbank's ability to access funding necessary to cover short-term obligations to borrowers, satisfy maturing liabilities and maintain capital and other regulatory requirements. Eximbank seeks to manage liquidity risk through effective cash flow management, matching maturity of assets and liabilities, and diversification of its funding sources. In terms of funding sources, multiple financial institutions have established short-term interbank limits with Eximbank, and Eximbank may issue Hungarian-state guaranteed bonds in the domestic Hungarian and international capital markets up to the limit of the Funding Guarantee.

The Assets and Liabilities Committee ("**ALCO**") of Eximbank supervises strategic aspects of Eximbank's liquidity and assets and liabilities management. Eximbank is also subject to an internal target liquidity ratio such that 5% of total assets plus 50% of contingent liabilities (based on monthly averages) must be covered by liquidity reserves. Liquidity reserves are defined as the sum of securities accepted by the National Bank of Hungary as collateral for covered loans, the net positive balance of one day interbank activity (lending and taking), Eximbank's account balances with other banks and any undrawn instalments of existing facilities.

In the case of a liquidity contingency situation, as declared based on communication procedures between Treasury, ALCO, the Risk Department, and the Ministry for National Economy, the securities held in Eximbank's liquidity reserve may be used to enter into covered loan or repo transactions on the markets, used to draw loans under already-contracted credit lines through National Bank of Hungary facilities, or sold. If necessary the Ministry for National Economy is immediately asked for liquidity support.

Capital Adequacy

The following table sets forth Eximbank's capital base and capital adequacy ratios, as at 30 September 2012 and 31 December 2011, 2010 and 2009:

	As at			
	30 September	31 December		
	2012	2011	2010	2009
	(HUF millions, except percentages)			
Core capital[(1)]	16,783	16,803	16,476	15,334
Supplementary capital[(2)]	16,783	16,803	27,875	27,084
Solvency Margin	33,566	33,606	44,351	42,418
Total risk-weighted exposure to credit risk[(3)]	173,214	145,098	108,639	131,782
Capital Adequacy Ratio[(4)]	16.5%	19.4%	37.3%	22.8%

Notes:

(1) Shareholder's equity, as adjusted (e.g. to subtract retained earnings).

(2) In accordance with the Eximbank Act, supplementary capital has been capped at the level of Eximbank's core capital since 1 January 2011. Supplementary capital presently consists of a portion of the long-term loan from the MFB which matures on 12 September 2017, as capped in accordance with the Eximbank Act. Furthermore, from 12 September 2013, the amount of the outstanding balance of this loan which may be counted towards Eximbank's supplementary capital will be reduced to 80% of the principal outstanding, reducing further by 20% per year until maturity and repayment of the loan.

(3) Calculated in accordance with Act CXII of 1996 on Credit Institutions and Financial Enterprises, Government Decree 196/2007, and the standard approach to risk-weighting Eximbank's assets under Basel II subject to certain exemptions disapplying various provisions of Basel II to Eximbank given its business.

(4) Ratio of Solvency Margin to total risk (including credit, interest rate, exchange rate, concentration risks, stress tests to model and operational risk).

Despite the protracted financial crisis, Eximbank has maintained the stability of its operations. Its shareholders' equity (of which share capital that has remained constant at HUF 10.1 billion since 2001) rose by 1.2% in the nine months ended 30 September 2012, to HUF 16.9 billion, compared to 31 December 2011, and by 2% in 2011, to HUF 16.7 billion, compared to 31 December 2010.

In the nine months ended 30 September 2012, Eximbank's capital adequacy ratio fell by 2.9%, primarily due to an increase in risk exposure due to growth in Eximbank's loan portfolio. In 2011, its capital adequacy ratio fell from 37.3% as at 31 December 2010 to 19.4% as at 31 December 2011, partly due to an increase in risk exposure, but primarily due to a change in law whereby the subordinated capital loan to Eximbank from the MFB maturing in 2017 could no longer be entirely recognised as regulatory capital. Nevertheless, in the view of the HFSA this still reflected an appropriate level of capital adequacy for Eximbank's prudential operation. In the nine months ended 30 September 2012, Eximbank's general risk reserves remained stable at HUF 246 million when compared to 31 December 2011.

As at 30 September 2012, Eximbank's solvency ratio was 16.5%, a decrease from 19.4% as at 31 December 2011, which was primarily due to increased lending.

Beginning on January 1, 2008, the HFSA implemented the Basel II capital adequacy framework in Hungary. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk, market risk, capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operations risk and allows certain financial institutions to use internal models to measure credit risk.

Eximbank is subject to Basel II as implemented into Hungarian national law, subject to certain exemptions from provisions of Basel II which do not apply given Eximbank's business. Eximbank is required by Act CXII of 1996 on Credit Institutions and Financial Enterprises to maintain a risk adjusted capital adequacy ratio of 8%, calculated in accordance with Government Decree No. 196/2007. The regulation of the capital adequacy requirement is administered by the HFSA (see "*Description of the Issuer – Overview - Regulatory and Legislative Supervision*"). Eximbank's capital adequacy ratio has always exceeded the statutory minimum. However, to the extent that Eximbank fails to maintain this ratio, the Hungarian regulatory authorities may require corrective measures ranging from management improvement recommendations to emergency measures such as disposal of assets.

Basel III is scheduled to be implemented in Hungary beginning in 2013. The applicability of Basel III to Eximbank will be determined once the proposed legislative package adopting the Basel III guidelines is finalised at the EU level and implemented into Hungarian national law, but Eximbank's management expects that Basel III will not apply to Eximbank.

Property

Eximbank's office, which it leases, is located at H-1065 Budapest, Nagymező utca 46-48, Hungary. Eximbank maintains no other branch offices and has no subsidiaries.

Directors, Management and Employees

Eximbank's governance and management is the responsibility of its Chief Executive Officer, Board of Directors and Supervisory Board.

Eximbank's Client Relations and Pre-shipment Financing as well as Refinancing and Post-shipment Financing, Product Development, Marketing and PR departments are managed by the Deputy CEO for Business Affairs. The Risk Management, Accounting and Controlling, and Treasury departments are managed by the Deputy CEO for Finance. The Administration (Back Office), Internal Customer Service and IT departments are managed by the Deputy CEO for Operations. All three deputy CEOs report directly to the Chief Executive Officer. Additionally the Legal, HR, Strategic Communication and PR, International Relations and Internal Audit departments report directly to the Chief Executive Officer.

Those risk-related decisions that are not the prerogative of the Board of Directors or the Ministry for National Economy have come under the authority of the Credit Committee, made up of the Chief Executive Officer and the Deputy CEO for Business Affairs, the Deputy CEO for Risk Management, the executive officer supervising the Risk Management Department and the Executive Officer in charge of Client Relations.

The ALCO, consisting of the Chief Executive Officer, the Deputy CEO supervising the Treasury, the Deputy CEO for Business Affairs, the Executive Officer for Controlling and the Executive Officer for Treasury, has exclusive authority to pass decisions regarding the management of Eximbank's assets and liabilities.

Eximbank has an internal auditor but no separate audit committee; instead, the Supervisory Board is responsible for ensuring that Eximbank has a functioning system of internal controls.

As at 30 September 2012, the members of Eximbank's executive management were:

Position	Name	Age	Expiration of Term
Chief Executive Officer	Roland Nátrán	32	2017
Deputy CEO – Operations	Tamás Darabos	33	2017
Deputy CEO – Business Affairs	Dr. Gábor Hegyi	42	2017
Deputy CEO – Chief Financial Officer	István Herczegh	34	2017
Chief Legal Counsel, Director – Legal Department	Dr. Eszter Boros	36	indefinite term
Director – Treasury	Ákos Dölle	41	indefinite term
Director – Back Office	Péter Lázár	44	indefinite term
Director – Internal Audit	Attila Szalay	38	indefinite term
Director – Refinancing and Post-shipment Financing	Dr. Viktor Nagy	37	indefinite term
Director – Accounting and Controlling	István Szegedy	50	indefinite term
Director – Risk Management	Anna Winkler	57	indefinite term
Director – Client Relations and Pre-export Financing	Judit Zeller	56	indefinite term
Director – Human Resources and Organisation Development	Petra Kórósi	33	2017
Director – Strategic Communication, Marketing and PR	Edit Szalai	33	2015
Director – International Relations	László Lengyel	42	indefinite term

As at 30 September 2012, the members of Eximbank's Board of Directors were:

Name	Position	Age	Expiration of Term
Ernő Pető	Chairman of the Board	65	2017
Roland Nátrán	Chief Executive Officer/Member of the Board	32	2017
István Herczegh	Deputy CEO/Member of the Board	34	2017
Dr. Ádám Balog	Member of the Board	34	2017
Norbert Csizmadia	Member of the Board	37	2017
Dr. Kolos Kardkovács	Member of the Board	40	2017
Dr. Róza Nagy	Member of the Board	61	2017

As at 30 September 2012, the members of Eximbank's Board of Supervisory Board were:

Name	Position	Age	Expiration of Term
Dr. Richárd Adorján	Chairman of the Supervisory Board	38	2015
János Gerendás	Member of the Supervisory Board	30	2015
Kornél Kisgergely	Member of the Supervisory Board	32	2015
Dr. Ábel Berczik	Member of the Supervisory Board	41	2015
József Gordos	Member of the Supervisory Board	56	2015
Dr. László Windisch	Member of the Supervisory Board	34	2015

As at 30 September 2012, Eximbank employed 109 persons, compared with 106, 110 and 119 as at 31 December 2011, 2010 and 2009, respectively.

DESCRIPTION OF HUNGARY

The following information has been extracted from Exhibit 99.D "Description of Hungary" included in the form 18-K annual report filing made by Hungary with the US Securities and Exchange Commission dated 10 October 2012.

General

Hungary (until December 31, 2011, the country was known as "**The Republic of Hungary**", hereinafter referred to as "**Hungary**") lies in Central Europe and covers an area of approximately 93,000 square kilometres ("**km**"). Hungary is bordered by seven countries: Slovakia and Ukraine to the north, Romania to the east, Serbia and Croatia to the south, and Slovenia and Austria to the west. The Danube River crosses Hungary, connecting the country with ports on the Black Sea. Hungary has historically been a nexus of social and cultural life and a trade link between Eastern and Western Europe. Hungary's capital is Budapest.

Currently, the population of Hungary is approximately 10.0 million. Approximately 69.6% of the population lives in urban areas and approximately 1.7 million live in Budapest, which is the political, administrative, cultural and commercial centre of Hungary. While approximately 97% of the population is Magyar, there are minorities of Croat, German, Roma, Romanian, Serb and Slovak ethnicity.

The following table sets forth certain information with respect to the population growth rate in Hungary for the periods indicated:

The Population of Hungary

	As of January 1,					
	2007	2008	2009	2010	2011	2012*
Population (in thousand persons)	10,066	10,045	10,031	10,014	9,986	9,958
Increase (decrease) in population (%)	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)

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Source: CSO

* Preliminary data.

The Age Distribution of the Population of Hungary

	As of January 1,				
Age (in years)	2008	2009	2010	2011	2012*
	(Number of persons, in thousands)				
0-9	966	968	972	964	957
10-19	1,188	1,135	1,109	1,082	1,054
20-29	1,451	1,376	1,350	1,328	1,313
30-39	1,540	1,592	1,605	1,611	1,618
40-49	1,264	1,267	1,278	1,292	1,309
50-59	1,488	1,470	1,447	1,421	1,393
60-69	1,053	1,089	1,110	1,130	1,149
70-79	755	750	749	752	755
80-89	324	348	354	360	362
90 +	40	36	40	46	52

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Source: CSO

* Preliminary data.

Political System

Transformation and New Constitution

Immediately after World War II, Hungary was governed by a "grand coalition" of Hungarian political parties. By 1948, however, all non-communist parties had been abolished with the support of the Soviet Union. The Hungarian Socialist Workers' Party dominated all facets of government until 1990.

During the late 1980s, the political system in Hungary changed dramatically. On October 23, 1989, Hungary was proclaimed a republic and, to signify the country's change in status to a free democratic state, Hungary's name was changed from the "Hungarian People's Republic" to the "Republic of Hungary." Also in 1989, the constitution was substantially amended to its current form. Under this new constitution, Hungary instituted a multi-party democratic government, making it one of the first formerly communist countries in Central and Eastern Europe to undertake democratic reforms. Non-communist political parties were established in 1989, and, in 1990, the first multi-party elections in the country since 1947 took place.

On April 18, 2011, the Parliament adopted the new constitution for Hungary. See "*Recent Political Developments*" below.

President

The President of Hungary is the head of the state, elected by Parliament for a term of five years. The President may, but need not, be elected from the members of Parliament (but cannot be both President and a member of Parliament at the same time). The President may only be re-elected once. The President's authority is limited. Most of the actions taken by the President require the countersignature of the Prime Minister or the appropriate minister. The main powers of the President include:

- representing the nation as head of state;
- concluding international treaties and agreements on behalf of Hungary (agreements that are legislative in character require the prior consent of Parliament);
- safeguarding the democratic operation of the political process;
- acting as commander-in-chief of the armed forces;
- setting the date for Parliamentary and local elections;
- initiating certain measures in Parliament;
- initiating referenda;
- appointing and removing, among others, the President and Vice-Presidents of the NBH; and
- granting pardons.

The most recent presidential election was held in May 2012. See "*Recent Political Developments*."

Government

The government of Hungary (the "**Government**") consists of the Prime Minister and other ministers forming the Cabinet (currently 9 ministers). The Government is charged with the executive function of Hungary and with proposing legislation to Parliament. The Prime Minister and the Government's programme are approved by a simple majority vote of Parliament. The Prime Minister is nominated by the President of Hungary and elected by Parliament to serve for four years. If the Prime Minister loses his/her office for any reason, such as resignation, death or removal through a no-confidence vote, and, therefore, the Government loses its mandate, a new Prime Minister will be elected by the Parliament with a mandate that expires after the next general election. The other ministers are nominated by the Prime Minister and appointed and removed by the President. There are two substitute prime ministers, nominated by the Prime Minister, who shall replace the Prime Minister if he/she loses his/her office by reason of death, loss of his/her voting right or conflict of interest.

On May 29, 2010, Mr. Viktor Orbán submitted the government programme. On the same day, the Government was formally inaugurated. In the new governmental structure, the Minister for National Economy is responsible for public finances; previously such responsibility belonged to the Minister of Finance.

Parliament

The single-chamber Hungarian Parliament is the country's supreme legislative body. The Parliament elects the President, the Prime Minister, the members of the Constitutional Court, the President and Vice-Presidents of the State Audit Office, the President of the Supreme Court and the Attorney General. See "Recent Political Developments."

Members of Parliament are elected by popular vote for four-year terms. Elections are held using a combination of individual constituency voting (the candidate receiving the most votes in a particular district being elected from that district) and proportional voting (parties receiving at least 5% of the popular vote proportionally dividing a set number of seats). Hungary last held Parliamentary elections in April 2010. See "*Recent Political Developments.*" The next Parliamentary elections will occur in April 2014.

On April 16, 2012 the Parliament adopted the Act on Parliament, which changed the operation of the Parliament, the rules of Parliamentary Members' remuneration and the rules regarding conflicts of interest.

Judiciary

The Hungarian judiciary consists of the Supreme Court, the county courts, the Metropolitan Court of Budapest and the local and labour courts. Legislation may provide for special courts to be convened for certain types of cases. Three Courts of Appeal located in Budapest, Pécs and Szeged were established with regional jurisdiction on July 1, 2003 and began their operations at that time. Two more Courts of Appeal with regional jurisdiction located in Debrecen and Győr were established in July 2004 and began their operations on January 1, 2005. The Supreme Court sets guidelines for the judicial process of every court. Resolutions of the Supreme Court concerning uniformity are binding on all courts of the Hungarian judiciary. Judges of Hungary are independent and are subordinate only to the law. Local courts have original jurisdiction. The Courts of Appeal, the county courts and the Metropolitan Court of Budapest have both appellate and original jurisdiction. The President of Hungary nominates, and Parliament elects, the President of the Supreme Court. The President of the Supreme Court nominates, and the President of Hungary appoints, the Vice-Presidents of the Supreme Court. The President of Hungary also appoints and removes professional (non-arbitration) judges. The President of Hungary may only remove professional judges for cause using procedures prescribed by law. On November 28, 2011, the Parliament adopted the Act on Organisation and Administration of Courts and a separate Act on Legal Status and Remuneration of Judges. In accordance with these Acts, the Hungarian judiciary remains a four-level court system, but the names of the courts have been changed and new special courts have been established for public administration cases. See "*Recent Political Developments*."

The Constitutional Court is separate from the regular Hungarian judiciary. It decides on the constitutionality of legislation and other actions as set forth in the Hungarian Constitution. The Constitutional Court may annul any law or legal measure that it determines to be unconstitutional. Any person may initiate proceedings in the Constitutional Court to address issues within its jurisdiction. Adoption of the New Constitution (as hereinafter defined) includes changes to the main responsibilities of the Constitutional Court. The New Constitution entitles the Constitutional Court to annul a legal rule or a single judgment or to apply other specific legal consequences set forth by Cardinal Act (as hereinafter defined), only if such legal rule or judgment is contrary to the Constitution or an international agreement of Hungary. It also increases the number of members on the Constitutional Court from 11 to 15 and the term of their mandates from nine to 12 years. Members and the President of the Constitutional Court are elected by a two-thirds majority of the Members of Parliament, and Members of the Constitutional Court may not be re-elected. See "*Recent Political Developments*."

Legislation facilitating and regulating the market economy is relatively new. Consequently, Hungarian courts are generally less experienced than their Western European counterparts in areas such as securities, banking and commercial law. Parties often refer disputes relating to such matters to the court of arbitration attached to the Hungarian Chamber of Commerce and Industry or the Permanent Court of Arbitration of Financial and Capital Markets.

On January 11, 2012, the European Commission commenced legal action against Hungary over new legislation that came into force on January 1, 2012 regarding the mandatory early retirement of judges and prosecutors at the age of 62 rather than 70, and the effect of that mandate on the independence of the judiciary.

Parliamentary Commissioners

Pursuant to the Data Protection and Freedom of Information Act of 1992 and the Act on the Parliamentary Commissioner of 1993, Parliament elects the Parliamentary Commissioner for Civil Rights, the Parliamentary Commissioner for Data Protection and Freedom of Information, and the Parliamentary Commissioner for National and Ethnic Minorities' Rights (such commissioners are also known as Ombudsmen). Each Ombudsman is elected for a period of six years (with the first such election having taken place in 1995) and is exclusively responsible to Parliament. The principal role of the Ombudsmen is to help defend the public's rights vis-à-vis the public administration.

Any individual who alleges that a proceeding, decision or action (including any omission to act) of, or taken by, any administrative or governmental authority and certain other entities caused the violation of his or her rights or that such violation is imminent may apply to the Ombudsmen to help protect his or her respective rights. In addition to monitoring and supervising data protection and the freedom of information in general and exercising the competence of an Ombudsman in the relevant area, the Data Protection Commissioner's tasks also include, most importantly, the maintenance of the Data Protection Register and providing opinions on related legislative proposals and categories of official secrets. Pursuant to the Act on State and Official Secrets of 1995, the Parliamentary Commissioner for Data Protection is also entitled to change the classification of state and official secrets.

At the end of 2007, the Act on the Parliamentary Commissioner of 1993 was amended and the position of Parliamentary Commissioner for Future Generations was created. This Ombudsman is responsible for controlling the implementation of the regulation ensuring the sustainability and improvement of the environment and nature.

Local Government

Hungary is divided into administrative units, which include the capital (Budapest), counties, cities/towns and villages. Local governments are autonomous, democratically manage local affairs and may set the rates of certain limited local taxes. The Hungarian Constitution grants all local authorities the same fundamental rights; however, the duties and responsibilities of local governments may differ according to national and local legislation. Local governments consist of representative bodies, whose members are elected for four-year terms. Decisions of local authorities may only be revised if they conflict with the Constitution or national legislation. Local government elections were last held on October 3, 2010. See "*Recent Political Developments*."

Recent Political Developments

Hungary held Parliamentary elections in April 2010. Nominees of the following parties gained mandates: the Hungarian Socialist Party ("**HSP**"), the electoral partnership comprising Fidesz-Hungarian Civic Union ("**Fidesz**") and the Christian Democrats People's Party ("**CDPP**"), Jobbik – Movement for a Better Hungary ("**Jobbik**") and LMP – Politics Can Be Different ("**LMP**"). Fidesz and CDPP formed an alliance before the elections and submitted a joint list of nominees. The following table sets forth the results of the 2010 Parliamentary elections as published by the Hungarian National Election Office (the "**NEO**"):

	Number of seats	Share of seats (%)
Fidesz-CDPP	263	68.14
HSP	59	15.28
Jobbik	47	12.18
LMP	16	4.15
Independent Representatives	1	0.26
Total	386	100.00

Source: NEO

Composition of the Parliament as of December 31, 2011

	Number of seats	Share of seats (%)
Jobbik	46	11.92
LMP	15	3.89
Fidesz	226	58.55
HSP	48	12.44
CDPP	37	9.59
Independent Representatives	14	3.63
Total	386	100.00

Source: *Parliament of Hungary*

Composition of the Parliament as of August 21, 2012

	Number of seats	Share of seats (%)
Jobbik	45	11.66
LMP	15	3.89
Fidesz	226	58.55
HSP	48	12.44
CDPP	37	9.59
Independent Representatives	15	3.89
Total	386	100.00

Source: *Parliament of Hungary*

Fidesz-CDPP obtained a majority of the Parliamentary seats in the 2010 elections. Fidesz-CDPP formed a government with a total of 263 of the 386 Parliamentary seats. Mr. Viktor Orbán was proposed by the then current President of Hungary and was elected by Parliament to serve as the new Prime Minister.

In 2010 and 2011, the Fidesz-CDPP coalition enacted the following amendments to the Hungarian Constitution:

- reduction in the number of Parliamentary seats from 386 to 200, of which 13 members representing national and ethnic minorities could be elected (such amendments to be effective commencing with the next parliamentary elections), and introduction of the position of deputy prime minister and a new category of government officials;
- introduction of a nomination committee, composed of members proportionate to the members of the Parliamentary factions, to replace the previous method for nominating the members of the Constitutional Court;
- amendment to the right to freedom of the press and the inclusion of the concept of pluralism and the right to be informed about public affairs, intended to foster and enrich national and European identity and Hungarian and minority languages, to strengthen national cohesion and satisfy community demands;
- narrowing of the Constitutional Court's scope of review, such that legal norms on the budget, budget execution, central taxes, duties, contributions, customs and general terms of local taxes may only be reviewed and annulled by the Constitutional Court if the initiative to review is solely based on specific constitutional rights;
- an anti-corruption amendment providing that income sourced from public resources or bodies managing state-owned assets or from entities owned or controlled by the Government may be taxed retroactively (but limited to the five-year period preceding the applicable tax year), at a rate less than the full income;
- granting to the chairpersons of the Hungarian Financial Supervisory Authority (the "**HFSA**") and the National Media and Infocommunication Authority the authority to issue decrees to regulate the markets for which they are responsible; and
- amendment to the election rules for the members of the Constitutional Court, increasing the number of the members from 11 to 15, extending the term of the members from nine years to 12 years and modifying the election rules for the chairperson of the Constitutional Court, who shall be elected by the Parliament.

Mr. Pál Schmitt, who was elected as President in August 2010, handed in his resignation on April 2, 2012. Pursuant to certain constitutional rules, Mr. László Kövér, as the Chairman of the Parliament, acted as provisional acting president as from April 2, 2012 until May 10, 2012. On May 2, 2012, Mr. János Áder was elected as President by the Parliament and took his office as of May 10, 2012. The next presidential election is expected to be held in 2017.

On January 1, 2011, Hungary took over the Presidency of the Council of the European Union for the first half of 2011. The Hungarian Presidency of the Council of the European Union has built its political agenda around the human factor, focusing on four main topics: (i) growth and employment for preserving the European social model, (ii) a stronger Europe, (iii) a citizen-friendly European Union, and (iv) enlargement of the European Union and European neighbourhood policy. On January 1, 2011, Act CLXXXV of 2010 on Media Services and Mass Media and Act CIV of 2010 of Freedom of the Press and the Fundamental Rules on Media Content (collectively, the "**Media Laws**") went into effect. The Media Laws established the Media Council, which is comprised of members elected by the Parliament by a two-thirds majority for a term of nine years. The Media Laws provide rules to ensure that members are independent, and the members are expected to have no ties, either formal or informal, with any political party or with the Government. The Media Laws cover a variety of media content, ranging from traditional print and radio to television and internet newspapers. Under the Media Laws, information presented in media must be balanced, media is prohibited from defaming or inciting hatred or social exclusion against any community, and the Media Council may impose fines for violating "public interest, public morals or order." Additionally, the Media Laws establish legal protection for journalistic sources: they define rules for the protection of the professional conduct of journalists against undue interference from media owners or advertisers and create immunity for journalists committing minor offences, if unavoidable, in the course of their investigations for the benefit of the public.

On March 7, 2011, an amendment to the Media Laws was adopted by the Parliament to ensure that they comply with the relevant EU directive and to adopt the negotiated refinements. The amendment clarifies, among other things, the use of the term "offenses to minority or majority groups", modifies the scope of the Media Laws in connection with non-Hungarian media content providers, abolishes the prior registration requirement of on-demand audiovisual services and abolishes the requirement of "providing balanced information" in the case of on-demand audiovisual services.

On April 18, 2011, the Parliament adopted the Fundamental Law of Hungary as the new constitution of Hungary ("**New Constitution**"). The New Constitution was promulgated on April 25, 2011 and went into effect on January 1, 2012. The major developments of the New Constitution include, inter alia, the following:

- the new name of the country, which is "Hungary";
- the notion of a "Cardinal Act", which may only be passed, modified or repealed by the votes of two-thirds of the present Members of Parliament;
- the principle of balanced, transparent and sustainable management of the budget, which principle will be enforced primarily by the Parliament and the Government;
- the notion of autonomous regulatory organisations, which will be established by a Cardinal Act of the Parliament;
- the main responsibilities of the Constitutional Court;
- the function of the Commissioner for Fundamental Rights;
- the framework rules for public finances;
- limitations on the level of government debt; and
- the fundamental rules for the responsibilities and composition of the Budgetary Council and rules for the appointment of its president.

The New Constitution entitles the Constitutional Court to annul a legal rule or a single judgment or to apply other specific legal consequences set forth by Cardinal Act, only if such legal rule or judgment is contrary to the Constitution or an international agreement of Hungary. The New Constitution will raise the number of members on the Constitutional Court from 11 to 15 and will raise the term of their mandates from nine to 12 years. Members and the President of the Constitutional Court are elected by a two-thirds majority of the Members of Parliament, and Members of the Constitutional Court may not be re-elected.

As of January 1, 2012, the Parliamentary Commissioner of Fundamental Rights is responsible for activities aimed at protecting fundamental rights, and such functions replace the separated functions of the former Parliamentary Commissioners. The Deputy Commissioners of Fundamental Rights have undertaken the protection of the interests of future generations and the protection of minorities living in Hungary. The Commissioner and Deputy Commissioners shall be elected by a two-thirds majority of the Members of the Parliament, for a term of six years.

Aiming at the balanced, transparent and sustainable management of the budget, the New Constitution sets certain general rules for public finances, as follows:

Under the New Constitution, the Parliament will not be entitled to adopt an Act on the central budget, which would result in the level of government debt exceeding 50% of the gross domestic product. Furthermore, in the course of implementation of the central budget, it will not be allowed to draw a loan or undertake a financial obligation on behalf of Hungary that results in a level of government debt exceeding 50% of the gross domestic product.

The New Constitution includes certain exemptions and transitional rules until the actual level of government debt is reduced to the above-mentioned limit.

Upon the occurrence of a "special legal order"[1] and to the extent necessary to mitigate the effects of the events and circumstances triggering the special legal order, or, in the event of a significant and enduring national economic recession, to the extent necessary to restore the balance of the national economy, the Parliament and the Government are entitled to deviate from the limitations described above.

Until the level of government debt falls below 50% of gross domestic product, the Parliament will be entitled to adopt an Act on the central budget that provides for a decrease of the government debt to gross domestic product ratio. Until the level of government debt falls below 50% of gross domestic product, in the course of implementation of the central budget, it will not however be allowed to draw a loan or undertake a financial obligation on behalf of Hungary that results in an increase of the ratio of government debt to gross domestic product from the previous calendar year.

As long as the government debt exceeds 50% of the gross domestic product, the Constitutional Court may, within its competence pursuant to the respective provisions of the New Constitution, rule on the conformity of Acts on: (i) the central budget; (ii) the implementation of the budget; (iii) central taxes; (iv) stamp duties and contributions; (v) customs duties; and (vi) the central requirements related to local taxes, with those aspects of the New Constitution

[1] "Special legal order" means a state of national crisis, state of emergency, state of preventive defence, event of unexpected attack or state of danger.

relating to rights to life and human dignity, to the protection of personal data, to the freedom of thought, conscience and religion, or in connection with the rights related to Hungarian citizenship, and it may only annul these Acts for the violation of these rights. Acts governing the above matters may be annulled by the Constitutional Court without restriction if the procedural requirements laid down in the New Constitution for the creation and publication of such rules of law have not been complied with.

The method for calculating government debt and gross domestic product and the rules for implementation of the government debt limitations mentioned above will be determined in an Act of Parliament.

The New Constitution prescribes that the burden of public finances, the fundamental rules of the pension system, the establishment of autonomous regulatory organs, the detailed rules of the responsibilities, organisation and operation of the Constitutional Court, detailed rules of the operation of the Budgetary Council and the method for calculating the level of government debt and of gross domestic product will be regulated by Cardinal Acts of the Parliament.

The New Constitution provides for a constitutional basis for the operation of the Budgetary Council and enhances the current statutory provisions applicable to the Council.

In June 2011, the Parliament elected the new members of the Constitutional Court, who filled their positions on September 1, 2011.

The following Cardinal Acts have been adopted by the Parliament:

On June 20, 2011, the Parliament adopted a new Act on State Audit Office, which went into effect on July 1, 2011. As an independent authority, the State Audit Office shall audit the implementation of the Annual Budget, the management of public finances, the utilisation of funds from public finances and the management of national assets.

On July 11, 2011, the Parliament adopted a new Act on Legal Status and Remuneration of the President of Hungary. Pursuant to the New Constitution, such Act set forth the detailed rules of resignation, declaration of his incapacitation by the Parliament, conflict of interest and remuneration.

On July 11, 2011, the Parliament adopted the Act on Informational Self-Determination and Freedom of Information. Upon such Act, a new authority, the independent National Agency for Data Protection and Freedom of Information will be established. The Agency will be responsible for supervision and facilitation of the enforcement of data protection rights and freedom of information in Hungary. The Agency replaced the Data Protection Commissioner's Office on January 1, 2012.

On July 11, 2011, the Parliament adopted the Act on Commissioner for Fundamental Rights. The Commissioner for Fundamental Rights and his two deputies will replace the current system of the four Parliamentary Commissioners. The Commissioner shall be elected by the two-thirds majority of the Members of the Parliament, for a term of six years. One of the deputies will be responsible for safeguarding the constitutional rights and interests of future generations, while the other deputy will be responsible for safeguarding the rights of minorities living in Hungary. The Commissioner for Fundamental Rights will have a wider responsibility than the current Parliamentary Commissioners, and may conduct special proceedings against organisations which are not public bodies (e.g., companies, banks, social organisations) upon a complaint that such organisation seriously violates a fundamental right of a wider number of natural persons.

On November 14, 2011, the Parliament adopted the new Act on Constitutional Court. In accordance with the new Constitution, the number of members of the Constitutional Court was increased from 11 to 15 and their term of office lengthened from nine to 12 years. Members of the Constitutional Court may not be re-elected. Members and the president of the Constitutional Court are elected by a two-thirds majority of the Members of Parliament.

On November 21, 2011, the Parliament adopted the Act on the Consolidation of County Municipalities, Takeover of Institutions of County Municipalities and Certain Health Institutions of the Municipality of Budapest. According to such Act, the Hungarian State assumed the debt obligations of County Municipalities and certain debt items of the Municipality of Budapest. Upon such Act, the Hungarian State assumed HUF 197.6 billion debt as of December 30, 2011, and on the same day prepaid HUF 70.8 billion thereof. Simultaneously, Hungary became the owner of institutions of county municipalities and certain health institutions of the Municipality of Budapest. Most of the institutions taken over by Hungary are health care institutions, libraries and archive offices, which now are governed by the county offices of central government.

On November 28, 2011, the Parliament adopted the Act on Organisation and Administration of Courts and a separate Act on Legal Status and Remuneration of Judges. In accordance with these Acts, the Hungarian judiciary remains a four-level court system, but the names of the courts have been changed, and new special courts have been established for public administration cases.

On December 13, 2011, the Parliament adopted the New Labour Code of Hungary, which contains the fundamental regulation of employment, and provides a more flexible legal relationship between employers and employees. Such Act went into effect as of July 1, 2012.

On December 19, 2011, the Act on Local Governments of Hungary was adopted by the Parliament. Under this Act, the Government is entitled to supervise local governments through the metropolitan and county government agencies, in order to control their lawful operation as of January 1, 2012. The Act introduced certain restrictions relating to debt management of local governments — such as concluding credit or loan agreements or issuing local government bonds – and each funding transaction shall be approved by the Government. The annual incurrence of debt by local governments will be limited to 50% of the revenues of the local government. Such rules of local government debt management shall be applied for the planning and implementation of local government budgets for year 2013.

On December 23, 2011, the Parliament adopted the Act on Economic Stability of Hungary. Such Act contains regulations related to government debt reduction rules and detailed regulation of central government debt limits, rules of governing central government debt, the legal status of the Government Debt Management Agency, and the organisational and procedural order of the Budgetary Council.

On December 23, 2011, the Parliament adopted the Act on Public Finance, which divides the Hungarian public finance system into two subsystems, the subsystem of central government and the subsystem of municipalities. The social security funds and the separated state funds became part of the central government budget.

On December 23, 2011, the Parliament adopted the Act on National Assets, which provides for the protection of certain assets owned by the state or local governments or their public or private organisations. Such Act determines the scope and rules of management of national assets, and limitations related to selling, lending and utilisation of national assets, in order to ensure such assets serve the public interest.

On December 23, 2011, the Parliament adopted the Act on the Elections of Members of Parliament of Hungary, which stipulates that the 199 Members of the Parliament shall be elected by universal, equal, secret and direct ballot. The system is a mixed and one-round election system. This new law will be first applied at the next general elections.

On December 30, 2011, the Parliament adopted the new Act on the National Bank of Hungary, which raised the number of Monetary Council members to a minimum of five and a maximum of nine, and set the number of Deputy Governors of NBH to a minimum of two and a maximum of three; prior to the adoption of the new Act on the National Bank of Hungary, the number of Deputy Governors of NBH was set at two. Upon the proposal of the Prime Minister, Deputy Governors are appointed by the President. The Governor, the Deputy Governors and five other members elected by the Parliament constitute the Monetary Council. "*See — Monetary and Financial System*".

With the exception of the Act on State Audit Office, each Cardinal Act went into effect on January 1, 2012.

Local Government Elections

The following table shows the results of the latest local government elections, which were held in October 2010:

Local Government Elections Results

	Budapest	County government (percentage of total vote)	Municipalities
Independent representatives	24.91	52.17	0.00
Fidesz	29.97	19.57	36.37
CDPP	23.55	15.16	36.37
HSP	11.86	4.96	14.55
Jobbik	3.09	3.76	9.42
LMP	1.61	0.76	1.95
Other	5.00	3.61	1.34
Total	100.00	100.00	100.00

Source: NEO

The next local government elections are scheduled to take place in 2014.

European Parliament Elections

The first elections of Hungarian members to the European Parliament were held on June 13, 2004. The second elections of Hungarian members to the European Parliament were held on June 7, 2009. The following table shows the political affiliations of the Hungarian members of the European Parliament after the second elections:

Seats in European Parliament

	Seats
Fidesz-CDPP	14
Hungarian Democratic Forum	1
HSP	4
Jobbik	3

Source: European Parliament

The next European Parliament elections are scheduled for June 2015.

International Relations

Hungary has undertaken an active foreign policy designed to further its integration into the world community and to foster regional peace and economic development. Hungary joined the United Nations organisation (the "**UN**") in 1955 and is a member of many of its specialised agencies such as UNESCO, FAO, UNIDO, WHO and WTO (as described below). In 1996, Hungary officially became a member of the Organisation for Economic Co-Operation and Development (the "**OECD**"), which was a decisive step towards integrating with the developed nations and obtaining full EU membership. In 1999, Hungary became a full member of the North Atlantic Treaty Organization ("**NATO**"). Hungary maintains diplomatic relations with approximately 165 countries and is a member of a number of international organisations in addition to the UN, OECD, NATO and the EU, including the Global Environment Protection Fund, World Trade Organization ("**WTO**"), the International Bank for Reconstruction and Development (the "**IBRD**" or the "**World Bank**"), the Organization for Security and Co-Operation in Europe, IMF, the Council of Europe, the International Finance Corporation ("**IFC**"), the Central European Free Trade Agreement ("**CEFTA**"), the International Development Agency, Food and Agriculture Organization ("**FAO**"), the World Health Organization ("**WHO**"), the European Bank for Reconstruction and Development ("**EBRD**"), the United Nations Educational Scientific and Cultural Organization ("**UNESCO**"), the United Nations Industrial Development Organization ("**UNIDO**"), the European Investment Bank ("**EIB**") and the Council of Europe Development Bank ("**CEB**"). Hungary is also a member of the Central European Initiative, the other members of which are Austria, Italy, Slovenia, Croatia, Slovakia, Poland and the Czech Republic. The Central European Initiative mainly addresses issues of regional infrastructure development. Hungary has been a member of the Organization for Security and Co-Operation in Europe (formerly referred to as the Conference on Security and Co-Operation in Europe) since its formation in 1975 and was admitted to the Council of Europe in 1990.

European Union

Hungary joined the EU on May 1, 2004. After the European Parliament elections in June 2009, the following Hungarian representatives assumed the following positions in the European Parliament: Pál Schmitt (Fidesz-CDPP) became a vice-president for the European Parliament but subsequently resigned upon being elected as Member of the Parliament of Hungary in April 2010 (from which position he subsequently resigned upon being elected President of Hungary in August 2010); Tamás Deutsch (Fidesz-CDPP) became the vice-chairman for the Committee on Budgetary Control; Kinga Gál (Fidesz-CDPP) became the vice-chairwoman for the Committee on Civil Liberties, Justice and Home Affairs; Kinga Göncz (HSP) became the vice-chairwoman for the Committee on Civil Liberties, Justice and Home Affairs; Zita Gurmai (HSP) became the vice-chairwoman for the Committee on Constitutional Affairs; Ágnes Hankiss (Fidesz-CDPP) became the vice-chairwoman for the Committee on Petitions; and Lívia Járóka (Fidesz-CDPP) became the vice-chairwoman for the Committee on Women's Rights and Gender Equality.

Hungary is entitled to delegate one member to the European Commission. The current Hungarian delegate to the European Commission is Mr. László Andor, who assumed the position of Commissioner for Employment, Social Affairs and Inclusion on February 10, 2010.

The implementation of the Schengen System was a crucial issue in the EU accession negotiations. Hungary became fully integrated into the Schengen System in the beginning of 2008. The configuration of an information network compatible with the Schengen Information System, a principal pre-condition to integration into the Schengen System, has been completed.

Alongside the development of key areas of the economy, Hungary has implemented and intends to continue implementing development programmes and structural reforms to speed the convergence process with the EU. The key programme was the National Development Plan, which was approved on December 19, 2002 and which addressed the allocation of EU funds from 2004 to 2006. The Government published the first version of the second National Development Plan, the "New Development Plan," which addressed the allocation of EU funds from 2007 to 2013. On September 7, 2007, the European Commission adopted the New Development Plan, which included seven regional and eight sector programmes. Overall, Hungary will derive a EUR 25 billion benefit under the New Development Plan.

On July 28, 2010, the Government unveiled a consultative paper on the new Széchenyi Plan, which aimed to revive the Hungarian economy and implement the objectives of The Programme of National Cooperation and to replace the New Development Plan. The Government focused on two major areas: reducing unemployment and creating new jobs through increasing the competitiveness of Hungarian businesses. The scheme, based on European Union funding, guarantees significantly more support for Hungarian small and medium enterprises than has previously been available. With this support scheme tailored to private businesses, the core objective of the new Széchenyi Plan is to create one million new jobs in 10 years.

The new Széchenyi Plan was launched on January 15, 2011. At the heart of the programme are the seven priority areas identified in the consultative paper, which collectively form the foundation of a long-term strategic plan in parallel with the Government's short-term crisis management programme.

The seven main areas are the following:

1. The health industry (remedial and preventive healthcare, rehabilitation, R&D, biotechnology, medical equipment manufacturing, spas, etc.);

2. The green economy (renewables, geothermal energy, biotech R&D, etc.);

3. A home-building programme;

4. Development of the business environment (stable economic, business and tax environment);

5. Science and innovation (R&D spending is aimed to reach 1.5% of gross domestic product ("**GDP**") by 2015);

6. Employment (job creating, boosting employment and productivity); and

7. The economy of transport and logistics.

Hungary plans to become a member of the European Monetary Union in accordance with the Maastricht Treaty. By entering the EU, Hungary also became a member of the European Investment Bank.

The financial flows between Hungary and the EU from 2006 to 2010 are discussed under "*Public Finance – EU Net Position*."

For information about Hungary's strategy in regards to its participation in the Exchange Rate Mechanism and the adoption of the Euro, see "*Public Finance – Medium-Term Fiscal Programme and the Convergence Programme*."

THE ECONOMY

Background

The Hungarian economy has undergone a radical transformation since the fall of communism in 1989. As with other post-communist countries in the region, the Hungarian economy during the last 15 years can be characterized by economic dislocation at the beginning of the 1990s, with gradual improvement as reforms were implemented. The highlights of these economic reforms and trends include:

- an ambitious privatisation programme – the vast majority of Hungary's large state-owned enterprises have already been privatised. See "*Privatisation*";
- a shift in exports from countries formerly participating in the Council for Mutual Economic Assistance ("**COMECON**") to those of Western Europe and other industrialized countries. Currently, approximately three-quarters of Hungarian exports are to EU markets. See "*Balance of Payments and Foreign Trade – Foreign Trade*";
- the ratios of gross and net external debt to GDP declined in the second half of the 1990s, but have been rising since 2002, gross and net external debt to GDP ratio reaching 102.0% and 44.4%, respectively, in 2011, and the structure of external debt has changed. Meanwhile, the ratio of public sector debt to GDP dropped from 72% in 1996 to 50.6% in 2001, but has increased since 2001, reaching 74.6% in 2011. See "*National Debt*";
- the GDP growth rate adjusted for calendar-day effect reached 3.9% in 2006, albeit decreasing to 0.1% in 2007, 0.7% in 2008, contracting by 6.7% in 2009 and growing by 1.2% in 2010. The GDP increased by 1.7% in 2011. The GDP dropped by 1.2% in the first quarter of 2012 and 1.2% in the second quarter of 2012. See "*The Economy – Recent Economic Performance – Gross Domestic Product*";
- inflation decreased dramatically since the end of 1995 from 28.3% to 2.3% as of April 2006, partly as a result of the reduction of the VAT rate. The inflation rate increased to 4.7% as of December 2010, mainly as a result of food and energy price dynamics, and declined to 4.1% as of December 2011, mainly as a result of lower energy, food, fuel, alcoholic beverage and tobacco price dynamics. The inflation rate increased to 6.0% in August 2012, mainly as a result of tax increases. See "*The Economy – Recent Economic Performance – Inflation*";
- foreign direct investment (the total amount of capital invested in Hungary from abroad) has generally increased since 1995, reaching EUR 86.8 billion as of the end of 2011. During the first two quarters of 2012, the balance of net direct investment amounted to EUR 187.9 million outflow, compared to a EUR 523.4 million outflow during the same period in 2011. See "*Balance of Payments and Foreign Trade – Foreign Direct Investment*"; and
- between 2002 and 2005, the general government deficit according to ESA methodology as a percentage of GDP generally decreased, reaching 7.9% of GDP in 2005, but increased to 9.5% in 2006. The government deficit as a percentage of GDP decreased in 2007 and 2008, reaching 5.1% and 3.7%, respectively, increased to 4.5% in 2009, decreased slightly to 4.4% in 2010 and, according to preliminary data, turned into a surplus of 4.2% in 2011.

Recent Economic Performance

The following table sets out certain macroeconomic statistics regarding Hungary for the periods indicated:

Selected Macroeconomic Statistics

	2007	2008	December 31, 2009	2010	2011[1]	First quarter of 2012[1]	Second quarter of 2012[1]
Economic Data[2]							
Nominal GDP (HUF billions)	24,991.8	26,545.6	25,622.9	26,747.7	28,080.3	6,498.2	7,048.2
Real GDP (growth in %)	0.1	0.9	(6.8)	1.3	1.6	(0.7)	(1.3)
Real exports (growth in %)	15.0	5.7	(10.2)	14.3	8.4	1.9	2.1
Real imports (growth in %)	12.8	5.7	(14.8)	12.8	6.3	(0.3)	0.2
Rate of unemployment (as of the period end (%))	7.7	8.0	10.5	10.8	10.7	11.7	10.9
Consumer prices (growth in %)	8.0	6.1	4.2	4.9	3.9	5.6 [8]	5.6[5]
Producer prices (growth in %)	0.3	5.0	4.9	4.5	4.2	6.8 [8]	7.0 [5]
State Budget; Public and External Debt[3]							
State budget surplus/(deficit) (HUF billions)	(1,361.4)	(918.4)	(528.7)	(1,128.5)	(1,600.7)	(517.5)[4]	(0,2)[4]
as a % of GDP	(5.4)	(3.5)	(2.1)	(4.2)	(5.7)		
Total revenues (HUF billions)	11,636.9	12,548.1	12,911.0	12,410.5	12,937.0	3,198.8[4]	3,580.6[4]
as a % of GDP	46.6	47.3	50.4	46.4	46.1		
Public debt (HUF billions), unconsolidated	15,585.5	18,103.9	18,964.9	20,041.0	20,955.5	20,826.8	20,621.6
as a % of GDP	62.4	68.2	74.0	74.9	74.6		
External public debt (HUF billions)	4,472.6	6,774.8	8,468.5	8,842.8	10,170.4	9,427.7	8,934.7
as a % of GDP	17.9	25.5	33.1	33.1	36.2		
Balance of Payments Data[6]							
Current account (EUR billions)[7]	(7.2)	(7.8)	(0.2)	1.0	0.9	0.0	0.5
as a % of GDP	(7.3)	(7.3)	(0.2)	1.1	0.9		
Exports (EUR billions)[7]	80.4	85.9	70.7	83.6	90.8	22.3	23.2
Imports (EUR billions)[7]	79.7	85.6	66.3	77.5	84.2	20.8	21.0
NBH's foreign exchange reserves (EUR billions)	16.4	24.0	30.7	33.7	37.8	34.7	35.6

Sources: Hungarian Central Statistical Office, NBH, Ministry for National Economy

Notes:

(1) Preliminary data.
(2) Derived from data published by the CSO.
(3) Derived from the government budget as published by the Ministry for National Economy.
(4) Non-consolidated data excluding local governments.
(5) Average data for the first half of the year.
(6) Derived from data published by the NBH.
(7) Including goods and services.
(8) Average of the first three months.

Gross Domestic Product

The following table presents the nominal GDP at current market prices, as well as real GDP growth rates, per capita GDP and USD equivalents for the periods indicated:

Gross Domestic Product

	2007	2008	2009	2010	2011	First quarter of 2012[(1)]	Second quarter of 2012[(1)]
Nominal GDP (HUF billion)	24,991.8	26,545.6	25,622.9	26,747.7	28,080.3	6,498.2	7,048.2
Annual real GDP growth rate (%)[(1)]	0.1	0.7	(6.7)	1.2	1.7	(1.2)	(1.3)
Per capita GDP (in HUF)[(3)]	2,482,759.3	2,642,567.4	2,554,374.4	2,670,940.3	2,811,969.0	652,556.2	708,571.8
U.S. Dollar Equivalents:							
GDP (USD billions)[(2)]	135.9	154.5	126.7	128.5	139.7	31.2	35.1
Per capita GDP (USD)[2)(3)]	13,505.6	15,381.7	12,629.2	12,832.0	13,993.7	2,884.9	3,087.6

Source: CSO

Notes:

(1) Data adjusted for calendar-day effect.
(2) Calculated according to the average HUF/USD exchange rate of the corresponding period calculated by the NBH.
(3) Calculated according to population as of the beginning of the corresponding period.

In 2007 and 2008, GDP growth dropped to 0.1% and 0.7%, respectively, according to data adjusted for calendar-day effect, partly as a result of tight fiscal policy. In 2009 GDP decreased by 6.7% mainly as a result of deteriorating global economic activity. In 2010 and 2011 GDP increased by 1.2% and 1.7%, respectively; the slow global economic growth rate played a significant role in the relatively low economic growth rate of Hungary.

In 2011, GDP increased by 1.6% according to data not adjusted for calendar-day effect. Value added by the agricultural industry grew significantly as a result of favourable weather conditions, with the sector increasing by 27.2%. As external demand strengthened further, value added by the industry sector (i.e., manufacturing, mining and quarrying and electricity) increased by 5.7%. Construction contracted by 7.8% as home construction continued to struggle due to continuing tightened credit constraints. The value added by the service sector fell by 0.7%. The unemployment rate and consumer sentiment did not improve, and, as a result, domestic demand was weak.

Domestic use diminished slightly by 0.6% in 2011. Consumption decreased slightly by 0.2%. Gross fixed capital formation contracted by 5.5% as a result of still unfavourable investor sentiment. Gross capital formation fell by 2.4% due to a positive change in inventories. Net exports turned the contraction of domestic use into a growth of total GDP. Exports grew by 8.4% partly as a result of the improving state of the economy in Western Europe. The dynamics of imports lagged behind that of exports due to weak investment sentiment and stagnating consumption, as import demand from investment and consumption still faltered. A 6.3% growth in imports was mainly the result of the import content of increasing exports.

In the first half of 2012, GDP decreased by 1.2%. Value added by the agricultural industry fell significantly as a result of worse weather conditions compared to the previous year, with the sector decreasing by 8.5%. As external demand was weaker, value added by the industry sector (i.e., manufacturing, mining and quarrying and electricity) decreased by 0.4%. Construction contracted by 10.7% as home construction continued to struggle due to continuing tightened credit constraints. The value added by the service sector decreased slightly by 0.1%. The unemployment rate and consumer sentiment did not improve significantly, and, as a result, domestic demand is weak.

Domestic use diminished by 3.2% in the first half of 2012. Consumption contracted by 1.1%. Gross fixed capital formation contracted by 5.5%, as a result of still unfavourable investor sentiment. Gross capital formation decreased by 11.7%. Net exports dampened the contraction of domestic use of 3.2% into a 1.0% fall of total GDP. Exports grew by 2.0% mainly as a result of the slightly improving state of the economy in Western Europe. Imports decreased slightly by 0.1% due to weak investment sentiment and stagnating consumption, as import demand from investment and consumption still faltered.

The following table shows the sector composition of GDP in each of the periods indicated:

Sector Composition of GDP

	2007	2008	December, 31, 2009	2010	2011	First quarter of 2012	Second quarter of 2012
			(percentage of contribution)				
Agriculture, forestry and fishing	3.6	3.4	2.9	3.2	4.6	2.9	4.1
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	22.4	21.8	20.8	22.7	24.4	25.8	24.3
Of which:							
Manufacturing	18.9	18.4	17.0	18.8	20.6	21.8	20.9
Construction	4.2	4.2	4.1	3.7	3.3	1.8	2.7
Services, total	55.4	55.9	56.7	54.9	52.7	53.5	52.7
Of which:							
Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities	10.7	11.1	10.0	9.5	9.4	8.5	9.4
Transportation and storage	5.2	4.9	4.9	4.8	4.7	4.5	4.6
Information and communication	4.4	4.4	4.9	4.8	4.6	4.7	4.5
Financial and insurance activities	3.8	3.5	4.1	4.0	3.7	3.9	3.6
Real estate activities	7.0	7.1	7.6	7.6	7.2	7.4	7.1
Professional, scientific and technical activities; administrative and support service activities	6.6	7.0	7.1	6.9	6.5	7.0	6.7
Public administration and defence; compulsory social security; education; human health and social work activities	15.2	15.3	15.6	15.0	14.1	15.2	14.2
Arts, entertainment and recreation, repair of household goods and other services	2.5	2.6	2.5	2.4	2.4	2.4	2.6
Taxes less subsidies on products	14.4	14.7	15.5	15.5	15.0	16.0	16.3
GDP, total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CSO

Inflation

The following table illustrates the year-on-year change and the yearly average change in the Consumer Price Index (the "**CPI**") and the Producer Price Index (the "**PPI**") for each of the years indicated:

Inflation

	2007	2008	2009	2010	2011
			(%)		
CPI (yearly average)	8.0	6.1	4.2	4.9	3.9
CPI (year-on-year)	7.4	3.5	5.6	4.7	4.1
PPI (yearly average)	0.3	5.0	4.9	4.5	4.2
PPI (year-on-year)	1.7	5.6	1.3	8.1	7.5

Source: CSO

Deregulation since 1990 has led to a high rate of inflation in Hungary. This rate was relatively high in the 1990s compared to rates in Western Europe due to the general phasing out of price supports and the high public sector deficit. However, the rate of inflation has generally been declining since the change in monetary regime in May 2001.

In the first half of 2007, the inflation rate increased significantly, reaching 9.0% in March 2007, mainly as a result of base effect and a significant increase in regulated prices. The 12-month inflation rate declined to 3.5% in December 2008, mainly as a result of weak domestic demand and appreciation of the Forint in the summer of 2008. The inflation rate then declined further to 2.9% in March 2009, but increased again, reaching 6.4% in January 2010 mainly as a result of VAT and excise duty changes. The inflation rate decelerated to 3.7% in August 2010 as the effect of changes in VAT and excise duties phased out. The inflation rate increased to 4.2% in November 2010, mainly as a result of increasing energy and food prices. The yearly average inflation for the year 2010 reached 4.9%. The inflation rate decreased to 3.1% in July 2011, mainly as a result of lower energy, food, fuel, alcoholic beverage and tobacco price dynamics. The inflation rate increased to 4.1% in December 2011, mainly as a result of higher energy, alcoholic beverage and tobacco price dynamics. The yearly average inflation for the year 2011 was 3.9%. The inflation rate grew to 6.0% in August 2012, mainly as a result of tax increases.

Price Regulation

As of the end of 2008, approximately 80% of all prices in Hungary were unregulated. The main categories of products and services that continue to have regulated prices are: electricity, gas, purchased heating, various pharmaceutical products, meals at schools, kindergartens and nurseries, the state lottery, local and long-distance passenger transport, state-owned housing rent, various household utilities (including water and sewage charges and refuse collection services) and postal services.

In line with relevant EU Directives, Hungary intends to abolish regulated pricing schemes from the increasingly market-based energy and postal sectors. Deregulation of the energy sector began in July 2004. The entire energy sector has been deregulated, including the residential segment; however, if electricity is provided by a so-called universal service provider, retail electricity prices are capped by regulation. In February 2006, Parliament approved a bill on the temporary regulation of prices paid by Magyar Villamos Művek Zrt. ("**MVM**") (a state-owned energy company in Hungary) for energy produced by power plants. Under the current rules, the deadline for deregulation of the postal services is the end of 2012.

Wages

The following table sets forth year-on-year changes in nominal and real wages for the periods indicated:

	Wages					
						First five months of
	2007	2008	2009	2010	2011	2012
			(%)			
Nominal net wage index	3.0	7.0	1.8	6.9	6.4	1.7
Real net wage index	(4.6)	0.8	(2.3)	1.9	2.2	(3.7)

Source: CSO

In 2007, real wages dropped by 4.6% compared to 2006, mainly as a result of the higher tax burden and increasing inflation rate. In 2008 and 2009, real wages dropped by 0.8% and 2.3%, respectively, primarily as a result of a strict income policy in the public sector. In 2010, there was a 1.8% increase in net real wages, mainly as a result of a lower tax burden. In 2011, net real wages grew by 2.2%, partly as a result of a lower tax burden. In the first five months of 2012, net real wages dropped by 3.7%, partly as a result of accelerating inflation.

As with GDP growth, nominal and real wage changes have not been consistent across Hungary. Relatively stronger overall economic growth in western Hungary and a generally immobile labour force (due to a general reluctance to relocate to other parts of the country) have led to a substantial decrease in unemployment in western Hungary and disproportionately higher wage increases as compared to the rest of Hungary. Hungary's incentive policies (mainly consisting of the promotion of investment in less developed regions and the development of transportation infrastructure and of human resources) and utilisation of the Structural and Cohesion Funds of the EU are in part designed to increase employment levels in the eastern parts of the country.

Employment

The following table illustrates the general composition of employment and unemployment for each of the years indicated:

	Unemployment					
						First half of
	2007	2008	2009	2010	2011	2012
			(annual average, %)			
Employed	50.9	50.3	49.2	49.2	49.7	50.0
Unemployed	4.0	4.3	5.5	6.2	6.1	6.4
Unemployment rate(1)	7.4	7.8	10.0	11.2	11.0	11.3

Source: CSO

Note:

(1) Based on the international sampling methodology pursuant to the guidelines of the International Labour Organization.

The unemployment rate in 2007 (calculated using the guidelines of the International Labour Organization) was 7.4%. The unemployment increased to 7.8% in 2008. In 2009, the unemployment rate increased to 10.0%, and in 2010 the unemployment rate reached 11.2%, primarily as a result of lay-offs, especially in the private sector. In 2011, the unemployment rate decreased slightly to 11.0%. During the first half of 2012, the unemployment rate was 11.3%. In previous years, the activity rate was generally lower, partly due to the low mobility of the workforce in Hungary. Economic development has generally not been uniform throughout Hungary since 1990, with a higher concentration of jobs in Budapest and the central region of Hungary. High commuting costs (in terms of both time and the financial burden) generally discourage potential employees from traveling to distant workplaces, while discrepancies in real estate prices and inadequate housing rental opportunities have discouraged the relocation of Hungary's workforce. This trend has been decreasing, as new infrastructure investments (particularly Hungary's highway construction projects) have brought new investment and job opportunities to less developed regions of Hungary, thereby increasing the activity rate. Furthermore, relatively high levels of taxation have led to the formation of a relatively large "grey economy," with many employers avoiding adequate reporting of their activities (including with respect to hiring) in order to avoid paying taxes. Labour unions have not gained any significant influence in Hungary and to date have not caused any substantial work stoppages in Hungary. Labour unions are generally stronger in the public sectors of the economy in Hungary.

The increase of activity rate has been an important policy of the Government. The Government has taken a number of steps to reduce the unemployment rate. In order to help reduce the social contributions burden of the workforce and the importance of the so-called "grey economy," the monthly flat-rate health care contribution was reduced from HUF 3,450 to HUF 1,950 beginning as of November 2005. As of January 1, 2010, the fixed monthly health care contribution of HUF 1,950 per employee paid by employers was abolished. See "Public Finance – Health Care System." In addition, new laws were passed, which took effect as of August 1, 2005, making it easier to employ part-time employees. Furthermore, the Government introduced several initiatives aimed at helping currently unemployed workers find employment, including job-search assistance programmes and adult vocational training programmes. Lastly, the Government initiated the "START" programme, which is aimed at helping first-time employees find employment. The START programme provides, among other things, employer contribution discounts to employers hiring graduates under a certain age and certain other potential first-time employees.

On January 1, 2012, the new public work programme called Start Work Programme (Start Munkaprogram) was introduced. Hungary's 2012 budget allocated HUF 132 billion for the financing of public work programmes, with the objective of providing work for more than 200,000 people. The Start Work Programme is based on three pillars: (1) national public work programme, (2) local government public work programmes, and (3) micro-regional pilot projects.

The following table illustrates the general composition of employment in Hungary by major sector for each of the years indicated:

Composition of Employment by Sector

	2007	2008
	(in thousands of persons)	
Agriculture, hunting and forestry, fishing	89.9	86.8
Of which:		
Forestry, logging and related service activities	9.2	8.6
Industry	745.6	747.3
Of which:		
Mining and quarrying	4.7	4.7
Manufacturing	692.4	696.1
Electricity, gas and water supply	48.5	46.5
Construction	129.6	125.5
Wholesale and retail trade; repair of motor vehicles and household goods	355.0	365.1
Hotels and restaurants	86.3	88.6
Transport, storage and communication	214.6	211.5
Financial intermediation	67.0	70.4
Real estate, renting and business activities	234.8	252.8
Public administration and defence; compulsory social security	267.7	262.9
Education	273.4	266.9
Health and social services	210.0	201.5
Of which:		
Human health activities	128.9	120.7
Social work activities	80.8	80.5
Other community, social and personal service activities	86.7	83.2
National economy total	2,760.7	2,762.5
Of which:		
Business sector	1,933.3	1,953.2
Budgetary institutions	748.6	722.0

Source: CSO

Composition of Employment by Sector[1]

	2008	2009	2010	2011	First quarter of 2012	Second quarter of 2012
		(in thousands of persons)				
Agriculture, forestry and fishing	169.2	175.8	171.8	185.1	188.0	188.0
Mining and quarrying	8.5	8.5	11.1	11.1	7.4	7.4
Manufacturing	853.0	794.6	786.6	809.0	800.8	800.8
Electricity, gas, steam and air conditioning supply	33.7	38.8	37.3	38.1	38.4	38.4
Water supply, sewerage, waste management and remediation activities	47.0	45.3	48.1	51.6	57.6	57.6
Construction	312.0	293.3	277.6	264.0	240.3	240.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	576.4	549.2	539.8	545.7	543.0	543.0
Transportation and storage	258.3	254.3	259.0	259.2	261.0	261.0
Accommodation and food service activities	157.2	152.8	154.5	163.5	162.8	162.8
Information and communication	96.6	91.0	96.3	91.8	96.3	96.3
Financial and insurance activities	94.1	95.5	91.0	91.8	86.6	86.6
Real estate activities	20.4	19.9	21.0	21.5	22.3	22.3
Professional, scientific and technical activities	145.7	138.1	139.0	137.9	130.0	130.0
Administrative and support service activities	104.8	116.3	110.3	114.2	124.2	124.2
Public administration and defence; compulsory social security	287.8	304.7	317.2	309.6	312.6	312.6
Education	313.2	319.1	323.9	316.9	310.9	310.9
Human health and social work activities	245.8	239.6	251.6	255.0	261.3	261.3
Arts, entertainment and recreation	65.2	58.4	60.2	62.8	63.0	63.0
Other activities	90.5	86.7	84.9	83.2	84.9	84.9
Total	3,879.4	3,781.9	3,781.2	3,811.9	3,791.3	3,791.3

Source: CSO

Note:

(1) As of January 1, 2008, CSO used a new breakdown by sector.

Principal Sectors of the Economy

Industry

The following table indicates the gross production indices by industry sector for the periods indicated:

Gross Production Indices by Industry[1]

	2011	First quarter of 2012	Second quarter of 2012
	(corresponding period of the previous year = 100)		
Agriculture, forestry and fishing	127.2	94.2	89.6
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	105.7	99.8	99.3
Of which:			
Manufacturing	107.0	100.3	99.9
Construction	92.2	89.1	89.3
Services, total	99.3	100.0	99.8
Of which:			
Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities	99.6	100.3	99.0
Transportation and storage	100.7	98.2	99.6
Information and communication	102.2	103.0	104.5

Financial and insurance activities	93.3	97.5	98.3
Real estate activities	98.4	99.2	98.7
Professional, scientific and technical activities; administrative and support service activities	98.1	100.3	100.0
Public administration and defence; compulsory social security; education; human health and social work activities	99.9	100.7	99.8
Arts, entertainment and recreation, repair of household goods and other services	103.0	99.8	99.6
Taxes less subsidies on products(2)	x	x	x
GDP, total	**101.6**	**99.3**	**98.7**

Source: CSO

Note:

(1) Data unadjusted for calendar-day effect.

(2) For these items the volume index is not applicable.

Industry. In 2011, industrial gross production grew by 5.6%, and total sales increased by 1.6%. In the last five years, industrial export sales amounted to approximately half of the total sales of the sector. In 2011, export sales grew by 7.9%, while domestic sales fell by 5.2%. In the first six months of 2012, export sales increased by 1.0%, while domestic sales dropped by 1.7%. As a result, total sales diminished by 0.2%, and gross production fell by 0.4%. In 2011, more than 90% of the total industrial production was attributable to manufacturing. The value of production in mining and quarrying amounted to 0.4% of the total industry's production, and the value of production of electricity, gas, steam and air conditioning supply amounted to 6.8% of the total industrial production.

Manufacturing. In 2011, gross production in the manufacturing sector increased by 6.0% and total sales grew by 5.5%. In 2011, export sales in manufacturing increased by 8.4%, while domestic sales declined by 0.8%. In the first six months of 2012, export sales grew by 1.8%, and domestic sales decreased by 1.7%. As a result, total sales increased by 0.8%, and gross production diminished by 0.1%. In 2011, approximately 40% of the manufacturing production was attributable to the subsector of manufacture of computer, electronic and optical products and the subsector of manufacture of transport equipment.

Manufacture of computer, electronic and optical products. Gross production in this subsector fell by 5.2%, and total sales decreased by 4.7%, in 2011. In 2011, export sales in this subsector decreased by 3.8%, and domestic sales fell by 19.1%. In the first six months of 2012, export sales declined by 10.7%, and domestic sales decreased by 27.7%. As a result, total sales dropped by 11.9%, and gross production fell by 13.2%.

Manufacture of transport equipment. Gross production in this subsector grew by 12.2%, and total sales increased by 11.8%, in 2011. In 2011, export sales in this subsector increased by 12.5%, while domestic sales grew by 4.4%. In the first six months of 2012, export sales grew by 11.2%, and domestic sales increased by 2.8%. As a result, total sales increased by 10.5%, and gross production grew by 9.6%.

Energy. Energy imports in 2011 decreased by 8.2% compared to the previous year and amounted to 707.3 PetaJoule. The export of energy in 2011 increased by 9.7% compared to 2010 and amounted to 147.7 PetaJoule. The two most important energy products are oil and gas.

Energy, gas and water supply

In 2011, the total energy consumption amounted to 1,072 PetaJoule, which was 1.4% less than in 2010. Domestic energy production covered 39% of the total consumption, and imports covered 61%. The volume of domestic production decreased by 1.2% in 2011 compared to 2010. Production from renewable energy sources amounted to 18% of the total domestic production.

According to data compiled by the Hungarian Energy Office, in 2011 39.2% of Hungary's total energy demand was supplied by domestic energy sources; 10.6% of the total energy consumed was produced from coal; and 64.6% of energy consumption consisted of hydrocarbon, which was imported primarily from Russia.

Hungary's primary external source of energy is the gas and oil imported from Russia. In 2009, disputes between Russia and the Ukraine over the pricing of natural gas supplies and transit fees from Russia resulted in Russia's cessation of natural gas deliveries to European Union countries, including Hungary, for approximately two weeks. Although Hungary primarily compensated for the energy shortage through its gas reserves, the service interruption had some adverse impact on certain sectors, including industrials.

Hungary is taking measures to reduce future disruptions in its energy supply by diversifying its external and internal energy sources and routes of delivery and further accumulating gas reserves. Hungary is currently maintaining a reserve of at least a 12-week supply of oil, in compliance with OECD requirements. A construction project that is currently under way would provide a direct gas pipeline from Russia to Hungary. In addition, the European Union is negotiating for the construction of a gas pipeline from the Caspian region, Middle East and Egypt, which, if completed, would provide a direct gas supply to Hungary. Also, Hungary operates a nuclear power plant and has some renewable energy sources, such as the ability to produce biomass and geothermal energy, as well as wind and solar energy, although its capacity for utilising hydropower is limited due to the geographic properties of Hungary. In an effort to reduce Europe's dependence on imported energy sources, the European Commission has set target levels and dates for EU members to attain renewable energy sources, designating a 13% target for Hungary to achieve by 2020.

The Ministry of Transport, Telecommunication and Energy is also aiming to create and maintain a competitive electricity market and to fully liberalise the sector, in accordance with EU Directives. All of Hungary's natural gas distribution companies, six electricity distribution companies and all but two of its power generation companies have been privatised.

The following table provides certain information regarding the composition of consumption of the main energy resources in Hungary in each of the years 2007 through 2011:

Composition of Consumption of Energy Resources

	2007	2008	2009	2010	2011
			(%)		
Coal	12.6	12.1	9.4	10.2	10.6
Hydrocarbon	67.5	67.2	68.1	67.2	64.6
Of which:					
Crude oil and petroleum products	27.5	27.3	31.5	32.2	33.4
Natural gas	40.0	39.9	35.8	34.4	31.2
Other resources	19.9	20.7	22.5	22.6	24.8
Total	100.0	100.0	100.0	100.0	100.0
Of which:					
Domestic	37.8	38.5	38.5	37.4	39.2
Imports	62.2	61.5	61.5	62.6	60.8

Source: Hungarian Energy Office

Construction

In 2011, the output of the construction sector decreased by 7.9% compared to 2010, mainly as a result of a decline in the construction of dwellings and commercial and office buildings, and civil engineering works also decreased significantly. Compared to 2010, the construction of buildings fell by 11.5%, while civil engineering works decreased by 3.8%. The output of the construction sector in the first six months of 2012 fell by 10.1% compared to the same period in 2011, partly as a result of ailing home building activities. Civil engineering construction fell by 7.9% and building construction dropped by 12.0% in the first six months of 2012 compared to the corresponding period in 2011.

Service Industries

Gross value added by services decreased by 0.7% in 2011 and diminished by 0.1% in the first half of 2012. The fall in the services industry in 2012 as compared to 2011 was primarily the result of weakening domestic demand. In 2011, five out of eight subsectors contracted. The subsectors of (i) Transportation and storage; (ii) Information and communication; and (iii) Arts, entertainment and recreation, repair of household goods and other services increased by 0.7%, 2.2%, and 3.0%, respectively. The subsectors of (i) Wholesale and retail trade, repair of motor vehicles and motorcycles, accommodation and food service activities; (ii) Financial and insurance activities; (iii) Real estate activities; (iv) Professional, scientific and technical activities, administrative and support service activities; and (v) Public administration and defence, compulsory social security, education, human health and social work activities fell by 0.4%, 6.7%, 1.6%, 1.9% and 0.1%, respectively. In the first two quarters of 2012, the gross value-added in the services sector decreased by 0.1% compared to the corresponding period in 2011, as a result of ailing domestic demand. The subsectors of (i) Wholesale and retail trade, repair of motor vehicles and motorcycles, accommodation and food service activities; (ii) Transportation and storage; (iii) Financial and insurance activities; (iv) Real estate activities; and (v) Arts, entertainment and recreation, repair of household goods and other services decreased by 0.4%, 1.1%, 2.1%, 1.0% and 0.3%, respectively. The declines in these subsectors were mainly offset by the increases in the subsectors of (i) Information and communication; (ii) Professional, scientific and technical activities, administrative and support service activities; and (iii) Public administration and defence, compulsory social security, education, human health and social work activities of 3.8%, 0.1%, and 0.2%, respectively.

The following table sets forth the composition of the service industry per individual sub-sector for the periods indicated:

Composition of Service Industry per Sub-Sector

	2011	First quarter of 2012	Second quarter of 2012
Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities	17.8	15.8	17.9
Transportation and storage	8.9	8.3	8.7
Information and communication	8.7	8.7	8.5
Financial and insurance activities	7.1	7.3	6.9
Real estate activities	13.6	13.9	13.4
Professional, scientific and technical activities; administrative and support service activities	12.4	13.1	12.8
Public administration and defence; compulsory social security; education; human health and social work activities	26.9	28.3	26.9
Arts, entertainment and recreation, repair of household goods and other services	4.6	4.5	4.9
Services, total	100.0	100.0	100.0

Source: CSO

Agriculture

The amount of harvested grain increased from 12.3 million tons in 2010 to 13.8 million tons in 2011 due to relatively favourable weather conditions. Production of maize amounted to 8.1 million tons, production of wheat amounted to 4.1 million tons. Among the grains, the average yield of maize increased by 1.9% compared to the previous year, but exceeded the average of the previous five years by 5.9%. The average yield of wheat grew by 13.5% compared to 2010. Compared to the 2006-2010 average, the average yield of wheat in 2011 increased by 4.0%. In 2011, the total amount of sugar beet, rapeseed and alfalfa hay harvest fell by 5.9%, 0.6% and 5.3%, respectively, and the amount of harvested sunflower and potatoes grew by 41.0% and 15.6%, respectively, compared to the harvested amounts in the year 2010.

In 2012, the harvested cereals amounted to 5.5 million tons, 2.0% lower than the amount of harvested cereals for the year 2011. The amount of harvested wheat fell by 3.3% and reached 4.0 million tons in 2012. The amount of harvested barley grew by 0.8% and reached 1.0 million tons in 2012. The amount of harvested oats grew by 8.7% and reached 0.1 million tons in 2012, and the amount of harvested triticale increased by 0.3% and reached 0.3 million tons in 2012.

Infrastructure

Hungary is a landlocked country and is located at the crossroads of several important transport corridors for the region. Three main roadways (forming part of the Trans-European Network), three corridor branches and various railways and waterways cross Hungary. With Budapest as a hub, several corridors connect Hungary to the Trans-European Network. Hungary plays a central role in international transport connections for Central and Eastern Europe and for South-Eastern Europe towards the West and the East. However, compared to Western European countries, the transportation network in Hungary is less developed, suffering from a shortage of bridges, a lack of transversal connections, poor quality in infrastructure and a low proportion of expressways.

As of the end of 2011, the national road network of Hungary was 31,698 km long.

In 2006, all infrastructure investments of the State Highway Management Company Limited by Shares (Állami Autópálya Kezelő Zrt.) (the "**ÁAK Zrt.**") were assumed by National Motorway Company Limited by Shares (Nemzeti Autópálya Zrt.) (the "**NA Zrt.**"), currently National Infrastructure Developing Private Company Limited (Nemzeti Infrastruktúra Fejlesztő Zrt.) (the "**NIF Zrt.**"). Despite the public-private partnership ("**PPP**") type financing plans, all investments were financed through bank loans, the majority of which were assumed by the central budget at the end of 2006.

In 2007, the Government changed its previous plan relating to "Programme Motorways" which was expected to be constructed by the ÁAK Zrt. using a PPP framework. The development of the road network became a state task, and the Government decided to finance the construction from the central budget. Infrastructure projects are managed by NIF Zrt., while the maintenance of motorways are the responsibility of ÁAK Zrt. Accordingly, a programme for the development of transportation for the years 2008 through 2013 was established that utilises both the sources derived from the New Development Plan and the PPP framework. In 2011, one new motorway section was completed (route M43 from Szeged to Makó).

Hungary has one international airport (Ferihegy International Airport in Budapest), which currently meets the majority of the air traffic needs of the country. Since May 2006, several transportation companies provided aerial transportation services between European cities and airports at Sármellék, Debrecen, Győr-Pér and Pécs-Pogány. In line with international trends, the traffic at Ferihegy International Airport has steadily increased over the last several years. Terminals 2A and 2B were integrated during the year 2011 with the new building of Skycourt.

Navigation is possible along 1,600 km of the rivers in Hungary. There is commercial navigation on the Danube River and, to a very limited extent, on the Tisza River.

The telecommunications sector’s level of development, in both wireline and wireless communication, approaches the average level of other EU members. However, compared to Western European countries, the internet connectivity is relatively low, the structure of the information-communications services market is not up-to-date and the proportion of broadband access is relatively low.

On October 4, 2010, a reservoir wall collapsed at the MAL Zrt. aluminium plant in Ajka, in the western region of Hungary, resulting in injuries and fatalities from the toxic waste spill. According to government estimates, the damage amounts to HUF 55 billion, or 0.2% of GDP. On October 6, 2010, the Government declared a state of danger for the area affected by the toxic waste spill. On October 12, 2010, the Government acquired temporary control of MAL Zrt. to mitigate the consequences of the accident and prevent further incident. A Government Commissioner was appointed to make immediate business decisions for, and manage the affairs of, MAL Zrt.

PRIVATISATION

Status of Privatisation Efforts

Since 1990, Hungary has privatised nearly 1,300 enterprises out of the 1,860 enterprises previously owned by the state. The Hungarian Privatisation and State Holding Company (Állami Privatizációs és Vagyonkezelő Zrt.) ("**ÁPV Zrt.**") manages these sales.

Most of the larger companies involved in the privatisation programme have already been partially or fully privatised. Permanent government control is anticipated for 36 companies. The scope of property, which is required to remain state-owned in the long term, is defined by law as follows:

- national public utility service providers;
- property or companies of strategic importance for the national economy; and
- property or companies that accomplish tasks or fulfil objectives for national defence or other special purposes.

After two earlier attempts to privatise Malev Hungarian Airlines ("**Malev**") in 1997 and 2007, respectively, on February 26, 2010, Hungary reacquired a 95% interest in Malev in order to provide financial stability to the Hungarian national airline following the bankruptcy of an indirect shareholder during the global economic crisis. Hungary was involved in the equity increase of Malev in part by purchasing new shares and in part by a non-capital contribution through the conversion of earlier debts. As a result, Hungary acquired a stake in the company with a total value of HUF 25.2 billion. On February 3, 2012, based on the resolution of its Board of Directors, Malev ceased its operation in order to minimize its losses. Malev has had financial struggles for several years and is reported to owe HUF 60 billion (USD 270 million) to lenders. On February 14, 2012, the Metropolitan Court of Budapest declared Malev insolvent and ordered the liquidation of the company.

On May 24, 2011, Prime Minister Viktor Orbán announced that the Hungarian state would buy a 21.2% stake of MOL (Hungarian Oil Company) from Surgutneftegas (a Russian energy company). Under a sale and purchase agreement, the Hungarian state paid EUR 1.88 billion to the seller, which corresponds to the average share price recorded during the last three months prior to the price agreement. The deal had no direct impact on Hungary's public debt or the level of the budget deficit. The transaction became effective on June 25, 2011, when the relevant amendment of the Budget Act for the year 2011 went into effect and an affirmative resolution was adopted by the Parliament. The affirmative resolution was necessary because of the large value of the transaction. The purchase was settled on July 6, 2011.

In addition to the stake directly owned by the Hungarian state, the Pension Reform and Debt Reduction Fund currently owns a 3.39% stake of MOL, which shall be deemed as indirectly owned by Hungary. Hungary's direct and indirect ownership of MOL totals 24.7%.

On June 9, 2011, the Government decided to sell Hungary's 25% share of Budapest Airport to Hochtief AG for HUF 36.6 billion. The sale was completed on June 17, 2011.

Methods of Privatisation Used

Hungary is unique among Central European countries in that a large majority of its privatisations were conducted through public tenders, with sales for cash consideration. These outright sales, often to strategic long-term investors, were successful in bringing new management and know-how to many Hungarian enterprises. Public offerings played an important and successful role in the privatisation process.

In recent years, the importance of compensation vouchers has decreased significantly. Compensation vouchers were the rights distributed to individual Hungarian citizens under the Compensation Act, which was designed to provide compensation for losses suffered, including the loss of property and personal freedom. These compensation vouchers entitled the holders to bid for shares in certain privatised entities. In 2003, in order to end the compensation voucher system, the Government decided to offer the shares of FORRÁS Trust and Investment Company (a state-owned asset management company) in exchange for the compensation vouchers. The offering was completed in June and July of 2003, and the shares of FORRÁS Trust and Investment Company were listed on the Budapest Stock Exchange.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets out the balance of payments of Hungary for the periods indicated:

Balance of Payments[1]

	December 31,					First quarter of	Second quarter of
	2007	2008	2009	2010	2011	2012	2012
	(EUR millions)						
I. Current account, credit	87,667.2	92,267.9	77,442.7	90,239.9	98,142.8	24,017.8	24,924.7
debit	94,890.4	100,019.6	77,645.2	89,206.9	97,233.2	24,024.8	24,406.0
net	*(7,223.2)*	*(7,751.7)*	*(202.5)*	*1,033.0*	*909.6*	*(7.0)*	*518.7*
1. Goods, net	*(690.2)*	*(1,208.1)*	*2,341.4*	*3,214.7*	*3,360.2*	*994.7*	*1,308.0*
1.1. Exports	67,819.6	72,096.2	57,358.0	68,977.8	75,232.7	18,968.7	19,342.9
1.2. Imports	68,509.8	73,304.3	55,016.6	65,763.1	71,872.6	17,974.1	18,034.9
2. Services total, credit	12,575.0	13,818.8	13,309.4	14,641.8	15,587.0	3,371.5	3,836.4
debit	11,232.9	12,301.9	11,322.9	11,709.5	12,362.5	2,785.6	2,979.1
net	*1,342.1*	*1,516.9*	*1,986.5*	*2,932.3*	*3,224.5*	*585.9*	*857.3*
3. Income, credit	4,314.3	4,550.6	4,315.2	4,188.2	4,616.5	1,101.9	1,103.5
debit	11,686.1	12,031.8	9,250.1	9,647.6	10,771.8	2,503.7	2,821.9
net	*(7,371.7)*	*(7,481.2)*	*(4,934.9)*	*(5,459.4)*	*(6,155.3)*	*(1,401.8)*	*(1,718.4)*
4. Current transfers, credit	2,958.3	1,802.4	2,460.1	2,432.2	2,706.5	575.7	641.8
debit	3,461.7	2,381.7	2,055.7	2,086.7	2,226.2	761.4	570.0
net	*(503.4)*	*(579.3)*	*404.5*	*345.4*	*480.3*	*(185.7)*	*71.8*
II. Capital account, credit	1,031.8	1,049.3	1,723.9	2,248.2	2,474.3	389.9	476.3
debit	323.6	33.2	652.6	557.2	126.1	56.5	19.8
net	*708.2*	*1,016.1*	*1,071.3*	*1,691.0*	*2,348.2*	*333.4*	*456.5*
5. Capital transfers, credit	877.1	928.1	1,716.1	2,229.3	2,458.7	389.3	475.1
debit	88.2	9.6	47.1	256.5	15.3	2.7	4.4
net	*788.9*	*918.5*	*1,669.0*	*1,972.7*	*2,443.4*	*386.5*	*470.6*
6. Acquisition/disposal of non-produced, non-financial assets, credit	154.7	121.2	7.8	18.9	15.6	0.6	1.2
debit	235.3	23.5	605.6	300.6	110.8	53.7	15.3
net	*(80.6)*	*97.6*	*(597.8)*	*(281.7)*	*(95.2)*	*(53.1)*	*(14.1)*
III. Financial account [2]	*6,662.7*	*16,694.6*	*4,942.6*	*1,842.2*	*2,196.3*	*(2,493.1)*	*(1,531.3)*
7. Direct investment, net	*209.3*	*2,676.6*	*128.2*	*725.4*	*118.5*	*423.7*	*(611.6)*
7.1. Abroad	(2,642.8)	(1,514.1)	(1,347.9)	(956.9)	(3,173.3)	(3,387.8)	(1,669.8)
7.1.1. Equity capital and reinvested earnings, net	(2,513.3)	(1,530.2)	(863.3)	(1,026.3)	(309.7)	(6,330.1)	(182.6)
7.1.1.1. Equity capital, net	(1,877.7)	(2,235.7)	(765.7)	(935.9)	(351.1)	(6,266.1)	(90.0)
7.1.1.2. Reinvested earnings, net	(635.6)	705.5	(97.7)	(90.4)	41.4	(64.0)	(92.6)
7.1.2. Other capital, net	(129.5)	16.1	(484.5)	69.3	(2,863.6)	2,942.3	(1,487.1)
7.1.2.1. Assets, net	(114.5)	(149.6)	(763.9)	128.4	(2,774.9)	3,055.4	(1,393.4)
7.1.2.2. Liabilities, net	(15.0)	165.7	279.4	(59.1)	(88.7)	(113.1)	(93.8)
7.2. In Hungary	2,852.1	4,190.7	1,476.1	1,682.4	3,291.8	3,811.5	1,058.1
7.2.1. Equity capital and reinvested earnings, net	3,118.5	4,166.8	(1,810.1)	2,967.6	3,938.3	1,171.3	(553.5)
7.2.1.1. Equity capital, net	844.0	3,271.7	(1,618.3)	3,130.5	2,709.5	958.5	822.2
7.2.1.2. Reinvested earnings, net	2,274.5	895.1	(191.8)	(162.9)	1,228.8	212.8	(1,375.7)
7.2.2. Other capital, net	(266.4)	23.9	3,286.2	(1,285.2)	(646.6)	2,640.2	1,611.6
7.2.2.1. Assets, net	(3,744.0)	(2,270.4)	(4,074.3)	304.9	(226.0)	2,109.9	1,428.4
7.2.2.2. Liabilities, net	3,477.6	2,294.3	7,360.5	(1,590.1)	(420.5)	530.3	183.2
8. Portfolio investment	*(1,626.8)*	*(2,530.8)*	*(3,592.0)*	*(138.0)*	*6,578.5*	*406.2*	*(678.9)*
8.1. Assets, net	(2,125.0)	(2,516.8)	(737.8)	(376.4)	1,623.6	131.0	214.7
8.1.1. Equity securities, net	(1,884.6)	(2,191.4)	(799.6)	(505.7)	1,623.8	178.9	259.8
8.1.2. Bonds and notes, net	(233.3)	(319.8)	81.3	117.4	10.5	(53.9)	(41.5)
8.1.3. Money market instruments, net	(7.1)	(5.6)	(19.5)	11.8	(10.7)	5.9	(3.6)
8.2. Liabilities, net	498.2	(14.0)	(2,854.2)	238.4	4,954.9	275.2	(893.6)
8.2.1. Equity securities, net	(3,634.9)	(260.2)	504.2	(145.7)	226.0	321.2	277.7
8.2.2. Bonds and notes, net	4,054.1	252.1	(3,505.8)	(268.6)	3,167.5	(115.7)	(307.5)
8.2.3. Money market instruments, net	79.0	(5.9)	147.3	652.7	1,561.4	69.7	(863.8)
9. Financial derivatives	*838.3*	*(671.4)*	*641.1*	*624.9*	*(792.8)*	*(232.8)*	*(117.0)*
9.1. Assets, net	4,616.1	7,888.4	5,627.3	4,919.1	5,009.6	1,325.8	1,190.9
9.2. Liabilities, net	(3,777.9)	(8,559.7)	(4,986.2)	(4,294.2)	(5,802.4)	(1,558.6)	(1,307.9)
10. Other investment, net	*7,242.0*	*17,220.1*	*7,765.3*	*630.0*	*(3,707.9)*	*(3,090.2)*	*(123.9)*
10.1. Assets, net	(3,911.3)	(2,175.3)	(423.6)	141.3	1,740.8	791.3	1,838.4
10.1.1. Short-term, net	(1,221.6)	981.7	(983.9)	(1,175.8)	629.8	726.1	1,385.2
10.1.2. Long-term, net	(2,689.7)	(3,157.0)	560.3	1,317.2	1,111.0	65.2	453.2

10.2. Liabilities, net	11,153.3	19,395.4	8,188.9	488.6	(5,448.7)	(3,881.4)	(1,962.3)
10.2.1. Short-term, net	5,863.8	2,737.6	(108.7)	3,807.6	(744.1)	(2,103.7)	(977.3)
10.2.2. Long-term, net	5,289.4	16,657.8	8,297.6	(3,319.0)	(4,704.6)	(1,777.7)	(985.0)
IV. Net errors and omissions	*(13.5)*	*(2,282.9)*	*(325.4)*	*(1,548.3)*	*(1,580.5)*	*(640.9)*	*1,045.8*
V. Overall balance	*134.2*	*7,676.1*	*5,485.9*	*3,017.9*	*3,873.6*	*(2,807.6)*	*489.8*
VI. International reserves	*(134.2)*	*(7,676.1)*	*(5,485.9)*	*(3,017.9)*	*(3,873.6)*	*2,807.6*	*(489.8)*

Source: NBH

Notes:

(1) In 2008 and 2010, there were methodological changes in the calculation of the balance of payments statistics, as discussed in further detail below.

(2) Excluding international reserves.

The current account surplus of EUR 1,033 million in 2010 decreased to EUR 910 million in 2011, largely due to an increase in the net outflow of incomes. During 2011, net direct investment was positive, and the net inflow was EUR 119 million.

In the first two quarters of 2012, the current account showed a sufficit of EUR 512 million compared to a sufficit of EUR 555 million in the first two quarters of 2011. See "—*Foreign Direct Investment*."

Methodological Changes in Calculation of Balance of Payments Statistics

In 2010, Hungary implemented the methodological changes described below with respect to the calculation of the balance of payments statistics.

1. *Changes in the balance of trade in goods resulting from a new method of delivery terms*

    - The balance of payments method applies the value of goods at the customs border of the exporting country, while the primary source of data (i.e., the CSO's foreign trade statistics) uses the prices charged for delivery at the Hungarian border (i.e., the value at the Hungarian border). While the two values are the same with respect to exports, the import value shown by the foreign trade sector is greater than what is required by the balance of payments method. Consequently, the import data compiled by the CSO is applied for the purposes of financial accounts following a terms of delivery adjustment. This is done in accordance with the means used for the GDP compilation, where turnover is credited by the value of goods as recorded at the border of the exporting country.

    - In recent years, terms of delivery adjustment was carried out using an average adjustment factor at the national economy level in connection with financial accounts and GDP; however, the adjustment factor is reviewed from time to time due to changes in the structure of foreign trade. In 2009, the CSO and NBH launched the review process and the changes in the applied methodology. As a result, adjustments have been made in the financial accounts, reflecting higher import figures for the period from 2006 through 2010.

2. *Retroactive data revisions*

    - No direct sources of data are available for deposits made and loans borrowed abroad by Hungarian households. In 2010, a methodological change was implemented to retroactively adjust the statistics to reflect data (on an estimated basis) on deposits made and loans borrowed abroad by Hungarian households by using alternative data sources, including:

        - quarterly data from the monetary statistics of Oesterreichische Nationalbank and Deutsche Bundesbank on deposits and loans of Hungarian households;

        - annual data from the monetary statistics of the Swiss National Bank on deposits of Hungarian clients;

  - information supplied on the interest income of Hungarian private individuals by financial service providers, as well as information supplied to the Hungarian Tax and Financial Control Administration on the annual interest income of Hungarian private individuals pursuant to Council Directive 2003/48/EC; and

  - cumulative data from the balance of payment statistics and from previous cash-flow reports and carried over receivables and liabilities attributed to non-member states of the European Economic Area.

- Changes to Hungary's data collection system in 2008 resulted in a new method for estimating commercial loans. Prior to 2008, the current account primarily showed the CSO numbers for external trade, while the data for financial account originated from the CSO data shown under goods and were based on an algorithm created from cash-flow reports of banks made to NBH relating to goods. The new data collection system introduced in 2008 relies on CSO data under goods, using it as a data source in accordance with international standards.

  Based on the data gathered by the revised data collection system, it was determined that the time series for the commercial loans obtained by the data collection system did not coincide with the new data reported. Consequently, it was necessary to modify the time series for commercial loans for the period from 2004 through 2008. The estimation relied on balance of payment statistics reported directly after 2008, as well as on the data on goods recorded in the current account. The estimate modified the time series for both trade credit receivables and trade credit debts.

- Prior to 2008, the data collection system did not provide accurate information on declared but unpaid dividends, resulting in an accumulated debt for the period prior to 2008 relating to non-financial companies. After the introduction of the new data collection system, the NBH concluded that no additional debts resulted from approved and unpaid dividends and, accordingly, reduced the debts from approved and unpaid dividends that were recognized for the period from 2004 through 2008.

3. *Effects of a significant corporate restructuring during the fourth quarter of 2009*

- In 2009, a restructuring by a multinational company of its Hungarian branch resulted in a revaluation of the branch in excess of its book value. For statistical recording purposes, the NBH approved the revaluated amount and recorded the data on the transactions and the international investment positions accordingly. Although the transaction has no impact on the total direct investments made in Hungary in the balance of payments statistics, the revalued amount shown under shares and other equity are recorded as net disinvestment (expenditure), while the inflow of capital of the same value appears under shares and equity and other capital transactions (as an increase in intra-group loan liabilities). In the statistics, the volume of direct investment in Hungary shows significant growth due to the overvaluation. The value of shares and other equity resulting from the above transactions and reflecting the new ownership structure does not differ significantly from the value prior to the revaluation. The difference between the original equity and the revalued capital is shown as a loan liability, as a result of which the intra-group loan liability increases significantly.

Foreign Trade

The following tables set forth Hungary's trade in goods by territory for the periods indicated:

Exports

	European Union countries	Non-EU countries	Total	EU-15	Countries joining the EU after 2004	Asian countries	American countries
				(EUR millions)			
2007	54,588	14,416	69,004	41,271	13,317	3,346	2,047
2008	57,504	15,876	73,380	42,204	15,300	3,756	2,194
2009	46,652	12,487	59,139	34,982	11,670	3,272	1,799
2010	55,305	16,144	71,449	40,783	14,522	4,613	2,143
2011	60,879	19,099	79,978	43,183	17,696	6,021	2,364
2012Q1	15,264	4,708	19,973	10,978	4,287	1,330	653
2012Q2	15,328	4,780	20,108	10,871	4,457	1,287	788

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Source: CSO

	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment	Total
			(EUR millions)			
2007	4,320	1,314	2,003	18,288	43,079	69,004
2008	4,909	1,726	2,751	19,498	44,496	73,380
2009	4,271	1,301	1,523	16,314	35,729	59,139
2010	4,955	1,732	2,024	19,724	43,014	71,449
2011	6,020	2,436	2,898	23,418	45,205	79,978
2012Q1	1,541	655	787	6,133	10,857	19,973
2012Q2	1,633	682	752	6,320	10,720	20,108

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Source: CSO

Imports

	European Union countries	Non-EU countries	Total	EU-15	Countries joining the EU after 2004	Asian countries	American countries
				(EUR millions)			
2007	48,226	20,898	69,124	38,548	9,677	11,815	1,490
2008	50,344	23,356	73,700	39,541	10,803	11,778	1,751
2009	38,089	17,313	55,401	29,617	8,471	9,846	1,530
2010	44,731	21,203	65,934	33,718	11,013	12,154	1,645
2011	50,593	22,324	72,917	37,254	13,339	10,589	2,386
2012Q1	12,790	5,433	18,223	9,483	3,307	2,334	691
2012Q2	13,126	5,070	18,196	9,782	3,344	2,275	544

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Source: CSO

	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment	Total
			(EUR millions)			
2007	2,885	1,169	6,615	22,197	36,259	69,124
2008	3,422	1,424	9,393	23,305	36,155	73,700
2009	3,046	897	6,055	17,893	27,510	55,401
2010	3,270	1,385	7,064	21,014	33,201	65,934
2011	3,893	1,871	9,013	24,370	33,769	72,917
2012Q1	1,541	655	787	6,133	10,857	19,973
2012Q2	1,633	682	752	6,320	10,720	20,108

Source: CSO

Hungary's foreign trade in goods with industrialized countries (in particular, EU countries) has increased in recent years. EU countries accounted for 76% and 76% of Hungary's exports and 69% and 71% of imports in 2011 and the first six months of 2012, respectively.

Trade Policy

Hungary has taken a number of steps since the beginning of the 1990s to integrate its economy into the global trading system.

EU. Upon accession to the EU, Hungary adopted all aspects of the Common Commercial Policy of the EU. This includes the application of the Common External Tariff, EU preferential trade agreements and regimes, WTO commitments and trade defence measures. The overall effect of these changes is that the trade regime of Hungary has become more open and transparent (for example, the average level of customs duties decreased by about 50% following Hungary's accession to the EU, and the country gained membership in the Agreement on Government Procurement, the Agreement on Trade in Civil Aircraft and the Information Technology Arrangement within the framework of the WTO). Further, by virtue of Hungary's membership in the EU, it is also a member of the European Economic Area ("EEA"), along with Norway, Iceland, and Lichtenstein and the other EU-member countries.

Bilateral Trade Agreements. In addition to the multilateral trade agreements discussed above, Hungary has also entered into bilateral trade agreements with several countries, including Slovenia, Romania, Turkey, Israel, Bulgaria, Lithuania, Latvia and Estonia. Hungary has entered into trade and co-operation agreements with certain Central European countries designed to lower or eliminate trade barriers.

Foreign Direct Investment

The following table sets forth historical records of foreign direct investment ("**FDI**") in Hungary and Hungarian direct investments abroad during the years indicated:

Foreign Direct Investment

	2007	2008	December 31, 2009	2010	2011	First quarter of 2012	Second quarter of 2012
Direct investment							
Abroad	(2,642.8)	(1,514.1)	(1,347.9)	(956.9)	(3,173.3)	(3,387.8)	(1,669.8)
Equity capital and reinvested earnings, net	(2,513.3)	(1,530.2)	(863.3)	(1,026.3)	(309.7)	(6,330.1)	(182.6)
Other capital, net	(129.5)	16.1	(484.5)	69.3	(2,863.6)	2,942.3	(1,487.1)
In Hungary	2,852.1	4,190.7	1,476.1	1,682.4	3,291.8	3,811.5	1,058.1
Equity capital and reinvested earnings, net	3,118.5	4,166.8	(1,810.1)	2,967.6	3,938.3	1,171.3	(553.5)
Other capital, net	(266.4)	23.9	3,286.2	(1,285.2)	(646.6)	2,640.2	1,611.6
Net direct investment	209.3	2,676.6	128.2	725.4	118.5	423.7	(611.6)

Source: NBH

In 2007, the net FDI inflow was significantly lower than in previous years, partly as a result of a less favourable global investment environment. In 2008, the volume of net FDI increased to pre-2007 levels. In 2009, the volume of net FDI was close to zero, and the net inflow was EUR 128 million. The contraction in 2009 was primarily the result of credit constraints and deteriorating investor confidence and economic performance in Hungary as a result of the global financial crisis. In 2010, the volume of net FDI inflow was positive although modest compared to the volume in the years preceding 2006. In 2011, the volume of net FDI was close to zero, and the net inflow was EUR 119 million. As of December 31, 2011, the cumulative FDI was EUR 86.8 billion, which constituted 87% of the GDP in 2011. The first two quarters of 2012 showed a negative net direct investment.

The following table sets forth certain information regarding FDI in Hungary and Hungarian direct investments abroad during the six months ended June 30, 2012 as compared to the same period in 2011:

Foreign Direct Investment

	Six months ended June 30, 2011	2012	%
	(EUR millions)		change
Direct investment, net	(107.4)	(187.9)	174.9
Abroad, net	(262.2)	(5,057.6)	1,928.6
Equity capital and reinvested earnings, abroad, net	(88.6)	(6,512.7)	7,347.0
Equity capital, abroad, net	(206.2)	(6,356.1)	3,081.9
Reinvested earnings, abroad, net	117.6	(156.6)	(133.2)
Other capital, abroad, net	(173.6)	1,455.1	(838.2)
Assets, net	69.2	1,662.0	2,402.1
Liabilities, net	(242.8)	(206.9)	85.2
In Hungary, net	154.8	4,869.6	3,145.8
Equity capital and reinvested earnings, in Hungary, net	2,488.5	617.9	24.8
Equity capital, in Hungary, net	1,347.9	1,780.7	132.1
Reinvested earnings, in Hungary, net	1,140.6	(1,162.9)	(102.0)
Other capital, in Hungary, net	(2,333.7)	4,251.8	(182.2)
Assets, net	(979.0)	3,538.3	(361.4)
Liabilities, net	(1,354.7)	713.5	(52.7)

Source: NBH

During the six-month period ended June 30, 2012, the balance of net direct investment showed an outflow of EUR 188 million compared to the EUR 107 million net outflow during the same period of 2011.

Direct investment abroad in the first six months of 2012 generated a net outflow of EUR 5,058 million, while in the same period in 2011 direct investment abroad generated a net capital outflow of EUR 262 million. The increase of the outflow was primarily a result of the EUR 6,356 million net capital outflow with respect to net equity capital abroad in the first six months of 2012, while net equity capital abroad in the same period of 2011 generated EUR 206 million capital outflow. With respect to net other capital abroad, there was a net capital inflow of EUR 1,455 million in the first six months of 2012, while during the same period of 2012 the net capital outflow with respect to net other capital abroad amounted to EUR 174 million. In the first six months of 2012, there was a net capital outflow of EUR 157 million with respect to reinvested earnings abroad, while during the same period in 2011 there was a net capital inflow of EUR 118 million with respect to reinvested earnings abroad.

Direct investment in Hungary in the first six months of 2012 generated a net inflow of EUR 4,870 million, while in the same period in 2011 direct investment in Hungary generated a net capital inflow of EUR 155 million. The increase of the inflow was primarily a result of a net capital inflow with respect to net other capital in Hungary of EUR 4,252 million in the first six months of 2012, while during the same period in 2011, the net capital outflow with respect to net other capital in Hungary amounted to EUR 2,334 million. The EUR 1,781 million net capital inflow with respect to net equity capital movements in Hungary in the first six months of 2012, was higher than the net equity capital movements in Hungary in the same period of 2011, generating EUR 1,348 million capital inflow. In the first six months of 2012, there was a net capital outflow of EUR 1,163 million with respect to reinvested earnings in Hungary, while during the same period in 2011 there was a capital inflow of EUR 1,141 million with respect to reinvested earnings in Hungary.

In recent years, reinvested earnings in Hungary and FDI in the form of other capital have been relatively high, amounting to approximately half of the balance of net income on equities. Further, the increasing investment by Hungarian companies in the form of equity capital abroad has primarily been a result of certain Hungarian companies seeking to increase their footprint in the Central-Eastern European region generally.

Foreign Direct Investment by Industry[1]

FDI flows (equity capital) abroad by economic activity, net (excluding SPEs)

	2007	2008	2009	2010	2011
			(EUR millions)		
AGRICULTURE, HUNTING AND FORESTRY	(0.9)	3.4	(0.2)	(0.2)	0.0
FISHING	0.0	0.0	0.0	0.0	0.0
MINING AND QUARRYING	0.0	(0.1)	0.0	0.1	0.0
MANUFACTURING	673.1	1088.1	374.6	18.5	422.3
of which: FOOD PRODUCTS; BEVERAGES AND TOBACCO	1.6	0.0	0.0	0.1	0.0
TEXTILES AND TEXTILE PRODUCTS	0.1	0.7	(1.0)	0.0	0.0
LEATHER AND LEATHER PRODUCTS	0.0	0.0	0.5	0.0	0.0
WOOD AND WOOD PRODUCTS	0.0	0.0	0.2	0.0	0.0
PAPER AND PAPER PRODUCTS; PUBLISHING AND PRINTING	5.2	19.9	0.0	(2.3)	1.6
COKE, REFINED PETROLEUM PRODUCTS AND NUCLEAR FUEL	566.7	927.3	302.6	42.6	352.7
CHEMICALS AND CHEMICAL PRODUCTS	81.3	55.0	23.9	409.6	22.7
RUBBER AND PLASTIC PRODUCTS	3.4	0.6	7.0	1.5	5.3
OTHER NON-METALLIC MINERAL PRODUCTS	10.5	(6.6)	13.4	(7.6)	1.2
BASIC METALS AND FABRICATED METAL PRODUCTS	0.5	9.7	0.0	0.5	0.0
MACHINERY AND EQUIPMENT	0.0	1.6	(0.8)	(476.5)	0.3
ELECTRICAL AND OPTICAL EQUIPMENT	3.8	79.9	28.4	140.6	38.6
TRANSPORT EQUIPMENT	0.1	0.1	0.3	(90.0)	0.0
MANUFACTURING NOT ELSEWHERE CLASSIFIED	0.0	0.0	0.0	0.0	0.0
ELECTRICITY, GAS AND WATER SUPPLY	39.0	17.2	6.8	(218.2)	0.0
CONSTRUCTION	1.3	0.9	21.2	1.7	0.4
SERVICES	1093.4	1125.4	363.6	1289.8	102.1
WHOLESALE AND RETAIL TRADE; REPAIR OF VEHICLES	121.8	165.9	(2.1)	28.5	15.6
HOTELS AND RESTAURANTS	(3.9)	0.0	0.0	0.0	0.0
TRANSPORT, STORAGE POSTAL SERVICES AND COMMUNICATION	10.0	29.4	9.3	(60.9)	59.7
FINANCIAL INTERMEDIATION	216.6	355.8	66.1	139.7	118.9
of which: MONETARY INTERMEDIATION	199.1	426.9	72.9	118.1	146.2
OTHER FINANCIAL INTERMEDIATION	(1.3)	32.1	(10.2)	15.2	(30.7)
INSURANCE COMPANIES, PENSION FUNDS	13.8	(105.7)	3.4	4.8	3.4
REAL ESTATE ACTIVITIES AND BUSINESS ACTIVITIES	747.1	567.4	270.7	1182.7	(92.1)
of which: REAL ESTATE	19.4	4.8	44.6	200.2	(17.9)
COMPUTER ACTIVITIES	2.5	31.2	(0.4)	11.8	1.0
OTHER BUSINESS ACTIVITIES	724.5	531.3	226.5	970.7	(75.2)
of which: MANAG. HOLDING COMPANIES	659.9	376.3	230.0	959.2	(33.2)
OTHER SERVICES	1.8	6.8	19.6	(0.2)	(0.1)
NOT ALLOCATED ECONOMIC ACTIVITY	4.6	0.0	0.0	0.0	0.0
PURCHASE AND SALE OF REAL ESTATE, DIRECT INVESTMENT OF HOUSEHOLDS ABROAD	67.3	0.8	(0.3)	0.1	(78.5)
TOTAL	1877.7	2235.7	765.6	1091.8	446.3

FDI flows (equity capital) in Hungary by economic activity, net (excluding SPEs)

	2007	2008	2009	2010	2011
			(EUR millions)		
AGRICULTURE, HUNTING AND FORESTRY	21.0	2.7	10.8	35.2	3.3
FISHING	0.0	0.0	0.0	0.0	0.0
MINING AND QUARRYING	26.7	18.4	77.1	82.0	9.3
MANUFACTURING	1,549.7	143.2	(222.3)	439.6	(11,280.7)
of which: FOOD PRODUCTS; BEVERAGES AND TOBACCO	30.7	30.6	76.0	(23.9)	7.6
TEXTILES AND TEXTILE PRODUCTS	8.3	1.3	0.2	(0.8)	0.7
LEATHER AND LEATHER PRODUCTS	0.3	(0.1)	7.6	1.0	0.0
WOOD AND WOOD PRODUCTS	0.2	(62.5)	20.5	10.8	5.3
PAPER AND PAPER PRODUCTS; PUBLISHING AND PRINTING	39.2	(12.0)	42.1	8.4	(3.8)
COKE, REFINED PETROLEUM PRODUCTS AND NUCLEAR FUEL	1,236.5	0.0	0.0	0.0	(1,862.0)
CHEMICALS AND CHEMICAL PRODUCTS	(124.2)	11.1	132.1	58.4	168.8
RUBBER AND PLASTIC PRODUCTS	130.1	(36.8)	19.9	64.8	51.6
OTHER NON-METALLIC MINERAL PRODUCTS	10.1	32.9	79.5	257.2	26.2
BASIC METALS AND FABRICATED METAL PRODUCTS	104.7	28.9	51.3	(194.2)	(156.3)
MACHINERY AND EQUIPMENT	0.6	63.3	(1,034.8)	(3.8)	(43.4)
ELECTRICAL AND OPTICAL EQUIPMENT	72.4	59.1	340.4	289.0	(612.6)
TRANSPORT EQUIPMENT	40.0	27.2	40.7	(47.3)	(8,866.5)
MANUFACTURING NOT ELSEWHERE CLASSIFIED	0.8	0.2	2.2	19.9	3.6
ELECTRICITY, GAS AND WATER SUPPLY	(9.9)	57.2	10.5	99.4	519.0
CONSTRUCTION	38.0	145.3	4.9	18.4	20.8
SERVICES	(1,119.3)	2,644.8	(1,458.8)	2,393.8	13,341.9
WHOLESALE AND RETAIL TRADE; REPAIR OF VEHICLES	22.8	(143.8)	325.9	395.3	308.2
HOTELS AND RESTAURANTS	19.7	8.5	25.9	74.1	5.5
TRANSPORT, STORAGE POSTAL SERVICES AND COMMUNICATION	7.2	449.9	203.4	156.3	222.3
FINANCIAL INTERMEDIATION	353.2	761.1	342.4	308.6	617.8
of which: MONETARY INTERMEDIATION	321.8	113.6	307.9	176.9	661.3
OTHER FINANCIAL INTERMEDIATION	13.9	38.8	19.7	101.8	(58.8)
INSURANCE COMPANIES, PENSION FUNDS	12.6	605.2	15.6	9.4	15.4
REAL ESTATE ACTIVITIES AND BUSINESS ACTIVITIES	(1,539.2)	1,522.8	(2,360.4)	1,449.8	12,258.2
of which: REAL ESTATE	205.8	486.1	215.5	173.7	39.3
COMPUTER ACTIVITIES	84.9	11.8	(5.3)	10.8	0.0
OTHER BUSINESS ACTIVITIES	(1,831.3)	1,009.0	(2,576.9)	1,225.0	12,211.9
of which: MANAG. HOLDING COMPANIES	(2,481.7)	412.1	686.6	1,284.4	2,643.8
OTHER SERVICES	17.0	46.3	4.0	9.8	(70.2)
NOT ALLOCATED ECONOMIC ACTIVITY	52.7	0.0	0.0	0.0	0.0
PURCHASE AND SALE OF REAL ESTATE, DIRECT INVESTMENT OF HOUSEHOLDS ABROAD	285.1	260.1	47.0	47.6	45.3
TOTAL	844.0	3,271.7	(1,530.7)	3,116.0	2,658.9

The following table sets forth the composition of net FDI into Hungary according to the country of origin for the periods indicated:

Foreign Direct Investment by Country of Origin[(1)]

FDI flows (equity capital) abroad by the investments' country, net (excluding SPEs)

	2007	2008	2009	2010	2011
			(EUR millions)		
Europe	1,774.1	1,228.4	251.2	(178.8)	550.5
Albania	0.0	0.0	0.0	0.0	0.0
Austria	26.8	24.5	(33.8)	11.4	7.6
Belgium	0.3	0.1	0.0	0.0	0.4
Belarus	0.0	0.0	0.0	0.0	0.0
Bulgaria	43.0	(46.0)	85.5	13.2	24.9
Cyprus	56.2	162.7	(34.3)	(14.5)	173.9
Czech Republic	46.8	37.7	1.5	30.4	4.5
Denmark	0.2	0.0	0.0	0.0	0.0
United Kingdom	646.9	(571.3)	0.0	2.2	0.0
Estonia	0.0	0.0	(0.8)	0.8	0.0
Finland	0.1	0.0	0.0	0.0	0.0
France	(2.8)	1.5	2.7	100.8	0.1
Greece	0.0	0.0	0.0	0.0	0.0
Netherlands	42.6	(656.2)	75.3	(61.0)	32.8
Croatia	57.3	908.9	31.5	(9.4)	139.9
Iceland	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	(0.1)	0.0	0.0
Poland	3.2	9.9	4.0	10.0	18.5
Latvia	0.0	0.0	(0.9)	0.8	0.0
Liechtenstein	5.4	0.0	0.0	0.0	0.0
Lithuania	0.0	0.0	(1.1)	1.3	0.5
Luxemburg	114.0	810.2	(19.1)	(671.6)	(28.3)
Macedonia	0.0	0.0	0.0	0.0	0.0
Malta	0.0	0.0	0.0	0.0	0.0
Montenegro	5.9	15.0	15.0	35.0	10.0
Germany	32.0	5.4	(0.3)	(17.1)	(2.1)
Norway	(0.4)	0.0	0.0	0.0	0.0
Italy	470.9	0.0	1.3	1.2	(1.4)
Russia	33.6	185.4	(4.9)	(15.8)	4.0
Portugal	0.0	0.0	20.6	(3.2)	(20.8)
Romania	59.1	34.9	37.1	108.5	136.1
Spain	(0.8)	4.5	2.1	(8.3)	1.0
Switzerland	33.7	(1.3)	0.5	255.9	3.5
Sweden	0.3	0.0	0.0	(0.1)	0.0
Serbia	29.6	17.3	14.8	6.1	21.6
Slovakia	7.3	(44.1)	(12.7)	4.8	8.4
Slovenia	2.1	152.6	1.5	4.1	7.5
Turkey	0.0	10.6	0.3	0.4	4.9
Ukraine	40.9	154.8	65.0	34.6	2.8
America	23.8	959.6	277.8	997.9	(33.4)
North America	21.4	1.5	(1.9)	42.8	(33.4)
United States	21.2	1.5	(1.9)	133.9	(33.4)
Canada	0.3	0.0	0.0	(91.1)	0.0
Central America	2.2	874.6	235.8	815.1	0.0
Mexico	0.0	0.0	0.5	0.0	0.0
South America	0.2	83.6	44.0	140.0	0.0
Argentina	0.1	5.2	0.0	1.6	0.0
Brazil	0.1	78.3	44.0	138.4	0.0
Chile	0.0	0.0	0.0	0.0	0.0
Columbia	0.0	0.0	0.0	0.0	0.0
Uruguay	0.0	0.0	0.0	0.0	0.0
Venezuela	0.0	0.0	0.0	0.0	0.0
Asia	55.3	34.1	233.6	266.0	7.7
Near and Middle East	47.5	29.6	211.9	103.1	6.6
Iran, Islamic Republic of	0.0	0.0	0.0	0.0	0.0
Israel	47.3	29.6	0.2	103.1	6.4
Other Asian Countries	7.8	4.5	21.7	162.9	1.1
South Korea	0.0	(1.0)	0.3	0.0	0.0
Philippines	0.0	0.0	0.0	0.0	0.0
Hong Kong	0.0	0.0	0.0	0.0	1.0
India	0.0	0.0	0.0	0.0	0.0

Indonesia	0.0	0.0	0.0	0.0	0.0
Japan	6.5	0.4	0.0	3.5	0.0
China	1.0	5.0	2.5	1.1	0.1
Malaysia	0.0	0.0	18.9	7.4	0.0
Singapore	0.0	0.0	0.1	150.8	0.0
Taiwan	(0.1)	0.0	0.0	0.0	0.0
Thailand	0.0	0.0	0.0	0.0	0.0
Africa	3.7	1.0	0.0	0.1	(0.8)
North Africa	0.0	0.0	0.0	0.0	0.0
Egypt	0.0	0.0	0.0	0.0	0.0
Morocco	0.0	0.0	0.0	0.0	0.0
Other African Countries	3.7	1.0	0.0	0.1	(0.8)
South Africa	0.1	0.0	0.0	0.0	0.0
Oceania & Polar Regions	0.5	0.0	0.0	0.0	0.0
Australia	0.4	0.0	0.0	0.0	0.0
New Zealand	0.1	0.0	0.0	0.0	0.0
International Organisations	0.0	0.0	0.0	0.0	0.0
Not allocated	20.4	12.6	3.0	6.6	(77.6)
Total	1,877.7	2,235.7	765.6	1,091.8	446.3

FDI flows (equity capital) in Hungary by the investors' country, net (excluding SPEs)

	2007	2008	2009	2010	2011
			(EUR millions)		
Europe	836.3	2,836.4	(2,030.7)	2,838.1	(182.1)
Albania	0.0	0.0	0.0	0.0	0.0
Austria	1,494.6	1,199.6	(322.7)	465.8	593.5
Belgium	76.2	20.5	136.7	25.8	40.1
Belarus	0.0	0.0	0.1	0.0	0.0
Bulgaria	0.2	0.0	0.0	0.0	0.0
Cyprus	(96.5)	448.6	(19.7)	172.4	91.7
Czech Republic	27.2	5.1	(14.7)	13.8	7.5
Denmark	(3.5)	109.0	117.4	2.1	0.0
United Kingdom	(1,900.8)	2.2	175.1	132.2	126.4
Estonia	0.0	0.0	0.0	0.0	0.0
Finland	8.3	25.3	13.8	4.3	(686.4)
France	71.9	746.7	126.1	241.6	56.3
Greece	0.8	0.0	0.0	0.0	0.0
Netherlands	310.8	956.1	514.6	1,175.9	999.0
Croatia	40.3	5.3	(0.5)	(89.9)	0.0
Iceland	0.1	0.0	0.0	0.0	0.0
Ireland	15.7	5.6	0.6	0.0	(272.6)
Poland	10.6	37.5	9.7	32.6	2.6
Latvia	0.1	0.0	0.0	0.0	0.0
Liechtenstein	(18.3)	9.0	42.5	(2.6)	2.8
Lithuania	0.5	0.0	0.0	0.0	0.0
Luxemburg	52.0	233.7	(4,396.8)	(455.2)	75.2
Macedonia	1.1	0.0	0.0	0.0	0.0
Malta	0.8	0.0	0.0	0.0	(63.0)
Montenegro	0.0	0.0	0.0	0.0	0.0
Germany	580.6	(667.6)	226.9	542.7	734.9
Norway	0.9	9.2	10.6	(1.4)	0.0
Italy	132.6	(97.3)	23.0	83.1	25.4
Russia	1.3	(671.5)	785.2	1.2	(1,862.0)
Portugal	71.8	0.0	11.9	39.0	(50.7)
Romania	0.6	5.4	98.1	60.1	15.6
Spain	233.4	22.3	88.3	(81.0)	(86.2)
Switzerland	(311.0)	413.4	450.2	444.7	114.6
Sweden	8.2	5.9	25.6	(29.8)	(46.6)
Serbia	(0.1)	8.0	3.5	0.0	0.0
Slovakia	1.1	(11.2)	3.4	20.6	0.0
Slovenia	3.9	1.6	(1.2)	(1.2)	0.0
Turkey	4.5	0.9	(0.8)	0.0	0.0
Ukraine	0.4	0.0	0.0	0.0	0.0

America	(51.4)	320.8	264.6	228.7	2,699.2
North America	61.2	(116.7)	97.1	66.0	96.3
United States	60.7	(152.8)	(0.7)	118.0	15.5
Canada	0.5	36.1	97.8	(52.0)	80.9
Central America	(112.8)	435.8	160.3	157.7	2,602.9
Mexico	0.0	0.0	0.0	0.0	0.0
South America	0.3	1.7	7.2	5.0	0.0
Argentina	0.1	0.0	0.0	0.0	0.0
Brazil	0.1	0.0	7.2	0.0	0.0
Chile	0.0	0.0	0.0	0.0	0.0
Columbia	0.0	1.7	0.0	5.0	0.0
Uruguay	0.0	0.0	0.0	0.0	0.0
Venezuela	0.1	0.0	0.0	0.0	0.0
Asia	13.8	82.4	203.2	34.4	162.6
Near and Middle East	14.3	(2.8)	(9.9)	(0.1)	0.0
Iran, Islamic Republic of	0.5	0.0	0.0	0.0	0.0
Israel	2.6	(7.4)	(10.1)	(0.5)	0.0
Other Asian Countries	(0.5)	85.3	213.1	34.5	162.6
South Korea	0.3	1.6	4.7	10.7	0.0
Philippines	0.0	0.0	0.0	0.0	0.0
Hong Kong	(1.9)	1.8	99.6	(10.0)	73.7
India	0.0	0.0	0.0	0.0	0.0
Indonesia	0.1	0.0	0.0	0.0	0.0
Japan	(1.5)	17.4	11.1	11.0	2.2
China	1.7	0.9	0.0	9.9	3.3
Malaysia	0.0	64.3	(2.8)	0.0	(5.1)
Singapore	0.1	(0.7)	100.4	12.8	88.5
Taiwan	0.0	0.0	0.0	0.0	0.0
Thailand	0.0	0.0	0.0	0.0	0.0
Africa	(0.7)	29.0	29.4	7.0	(23.3)
North Africa	0.0	0.0	0.0	(1.0)	0.0
Egypt	0.0	0.0	0.0	0.0	0.0
Morocco	0.0	0.0	0.0	(1.0)	0.0
Other African Countries	(0.7)	29.0	29.4	8.0	(23.3)
South Africa	0.0	8.1	24.9	15.6	(23.3)
Oceania & Polar Regions	(0.4)	3.1	2.8	12.5	2.5
Australia	(0.3)	0.0	0.0	12.5	2.5
New Zealand	(0.1)	3.1	2.8	0.0	0.0
International Organisations	0.0	0.0	0.0	(4.7)	0.0
Not allocated	46.3	0.0	0.0	0.0	0.0
Total	844.0	3,271.7	(1,530.7)	3,116.0	2,658.9

Source: NBH

Note:

(1) Reinvested profits are not included.

Foreign Exchange Reserves

The following table presents the level of Hungary's gold and foreign exchange reserves as of the dates indicated:

Gold and Foreign Exchange Reserves

	December 31,				July 31,	
	2007	2008	2009	2010	2011	2012
			(EUR millions)			
International net gold reserves(1)	55.8	61.0	75.9	104.3	119.3	130.9
Foreign exchange(2)	16,329.7	23,979.1	30,600.5	33,570.2	38,644.3	35,767.8
Total	16,385.5	24,040.1	30,676.4	33,674.5	38,763.6	35,898.7

Source: NBH

Notes:
(1) Gold valued at London rates fixed on the relevant date.
(2) Consists of foreign currencies, including the counterparts of swapped gold, converted at exchange rates at the dates shown.

MONETARY AND FINANCIAL SYSTEM

National Bank of Hungary

The NBH is the central bank of Hungary. The independence of the NBH and the members of its decision-making bodies in carrying out the tasks and meeting their obligations is provided for by Act LVIII of 2001 on the National Bank of Hungary (the "**National Bank Act**"). The NBH's primary objective is to use monetary instruments to achieve and maintain price stability and, without prejudice to this objective, to support the economic policy of the Government. These instruments include:

- setting the central bank base rate (the rate for the NBH's main policy instrument, the two-week deposit facility) and the setting of rates for overnight deposit and lending facilities;
- establishing the minimum reserve requirements for commercial banks;
- conducting open market operations, which include sales and purchases of government securities from commercial banks and engaging in other similar transactions to regulate liquidity within the economy; and
- determining and implementing the exchange rate policy in agreement with the Government.

The NBH is a company limited by shares, with a registered capital of HUF 10 billion. The NBH is wholly owned by Hungary and is regulated by the National Bank Act. The supreme body of the NBH is the General Assembly, and the Minister for National Economy (previously the Finance Minister) represents Hungary as the sole shareholder. The Monetary Council is the highest monetary policy decision-making body of the NBH. The Monetary Council holds meetings at least once every two weeks and makes the most important decisions concerning the general activities of the NBH, including the setting of the official interest rate.

In accordance with the latest regulation of the National Bank Act as amended in 2007, the number of Monetary Council members must be a minimum of five and maximum of seven. According to the new regulation, the Governor of the NBH, the Deputy Governors of the NBH and four other members can become a member of the Monetary Council. However, the other members of the Monetary Council nominated earlier are entitled to serve their term in office until the end of their respective mandates. Therefore, currently the Monetary Council consists of seven members.

On February 21, 2011, the Parliament adopted the amendment to Act LVIII of 2001 on the National Bank of Hungary, modifying the appointment procedure of the members of the Monetary Council (other than the Governor and the Deputy Governors of the NBH, who are members of the Council by virtue of their position). According to the amendment, the four Monetary Council members may be nominated by the Committee on the Economy and Information Technology (a Parliamentary committee) and elected by members of Parliament. The criteria for the appointment of Monetary Council members and the rules guaranteeing their independence with regards to tenure of office, grounds for dismissal and conflicts of interest remain unchanged. The amendment went into effect on February 25, 2011.

On December 30, 2011, the Parliament adopted the new Act on the National Bank of Hungary, which raised the number of Monetary Council members to a minimum of five and a maximum of nine, and set the number of Deputy Governors of NBH to a minimum of two and a maximum of three; prior to the adoption of the new Act on the National Bank of Hungary, the number of Deputy Governors of NBH was set at two. The Prime Minister proposes candidates for Deputy Governors, who are then appointed by the President. The Governor, the Deputy Governors and five other members elected by the Parliament constitute the Monetary Council.

On April 12, 2012 the European Central Bank announced that according to the European Central Bank, the amendment of the new Act on the National Bank of Hungary violated the independence of NBH. On April 17, 2012, the Government introduced a bill to amend this Act to the Parliament of Hungary. (In June 2012, such bill was withdrawn and a new bill was submitted on July 6, 2012.)

On April 17, 2012, the Government introduced an amendment to the New Constitution in the Parliament, proposing to abolish the provision of the New Constitution which allowed the merger of NBH and HFSA. Subsequently the amendment was approved by the Parliament on June 4, 2012 and entered into force on June 18, 2012.

As of July 17, 2012 the European Commission has formally closed the infringement procedure launched against Hungary on January 17, 2012, since the Hungarian Parliament adopted the new Bill on the amendment to the Central Bank Act on July 6, 2012.

Under the amendments, the Monetary Council will not be charged with executing its own decisions, will not decide on the scope of authority of deputy governors or determine the way its tasks are communicated. The amendment abolished the obligation of MNB to send the agenda of the Monetary Council to the government and also abolished the possibility of participation of a government representative on the Monetary Council's meetings.

According to the amendment, the number of internal members (the governor and his deputies) may not reach the number of external members, while the number of external members may not reach the twice of the number of internal members.

On December 21, 2006, the NBH decided to issue two-week bonds instead of accepting two-week deposits. According to the evaluation of the NBH, the measure had no effect on the conduct of monetary policy. The reason for the change was to enhance the development of the financial sector and the liquidity management of the banks.

Monetary Policy

As set forth in Hungarian law, the NBH is responsible for achieving and maintaining price stability. In June 2001, the Monetary Council decided to conduct its monetary policy within the framework of inflation targeting, which is supplemented by an exchange rate regime using a wide fluctuation margin. See "*Exchange Rate Policy*." The inflation target is 3% for each year following 2006. The NBH tolerates a deviation of plus or minus 1% from the inflation target.

The main monetary policy instrument used by the NBH to keep the rate of inflation within the target band is its two-week deposit facility. The NBH periodically accepts unlimited two-week deposits at the central bank base rate (i.e., the main official interest rate). Furthermore, the NBH reduces the volatility of overnight interest rates by maintaining an interest rate band around the central bank base rate. The width of the band is plus or minus 0.5% (the active overnight repo rate is 0.5% above and the passive overnight deposit rate is 0.5% below the official rate).

The following table sets forth indicative interest rates of the NBH as of the dates shown:

Selected Interest Rates

	December 31,				
	2007	2008	2009	2010	2011
NBH base rate(1)	7.5	10.0	6.25	5.75	7.00
Real rate(2)	0.7	6.3	0.6	1.5	2.8

Sources: Central Statistical Office, NBH
Notes:
(1) Two-week rate.
(2) The real rate is calculated as follows: (1 + central bank base rate)/(1 + year-on-year inflation rate as of year-end) – 1, where interest rates are expressed as decimal numbers.

As of December 31, 2006, the central bank base rate stood at 8.00%. As inflation prospects improved in mid-2007, the NBH started to reduce the central bank base rate. As of December 31, 2007, the base rate was 7.50%. Since April 1, 2008, the NBH started raising the base rate gradually, due to higher inflation risks. On October 22, 2008, NBH increased the central bank base rate by 300 basis points. In November 2008, NBH reduced the central bank base rate by 50 basis points, and in December 2008, the central bank base rate was reduced twice, by 50 basis points each time. As of December 31, 2008, the central bank base rate was 10.00%. During 2009, NBH cut the central bank base rate by 375 basis points. On December 31, 2009, the base rate stood at 6.25%. In the first half of 2010, NBH gradually cut the central bank base rate by 100 basis points. On each of November 30, 2010, December 21, 2010 and January 25, 2011, the Monetary Council raised the central bank base rate by 25 basis points, resulting in a base rate of 5.50%, 5.75% and 6.00%, respectively, due to upside risks to inflation. On each of November 30, 2011 and December 21, 2011, the Monetary Council raised the central bank base rate by 50 basis points, resulting in a base rate of 6.50% and 7.00%, respectively. On August 28, 2012, the Monetary Council decreased the central bank base rate by 25 basis points, resulting in a base rate of 6.75%. On September 25, 2012, the Monetary Council decreased the central bank base rate by 25 basis points, resulting in a base rate of 6.50%.

The Government and NBH set an inflation target of 3% plus or minus 1% for 2007 and thereafter. The annual average inflation for the year 2008 exceeded significantly the inflation target and amounted to 6.1%, mainly as a result of increasing global oil prices and rising food prices caused by poor harvest in 2007. The annual average inflation rate for 2009, 2010 and 2011 was 4.2%, 4.9% and 3.9%, respectively, and, according to the latest Quarterly Report on Inflation, published on June 28, 2012, there is a high probability of not achieving the 2012 inflation target. Although expected ailing domestic demand would push inflation downwards, the planned tax increases would increase inflation. In the Report on Inflation, the NBH estimated that the average annual inflation for 2012 and 2013 would be 5.3% and 3.5%, respectively, which is higher than the 3% long-term inflation target rate.

Since 2001, the NBH has also reformed the minimum reserves system. The required reserve ratio was reduced from 17% in 1995 to 5% in August 2002. The cut in the effective reserve ratio was intended to contribute to the narrowing of the spread between deposit and lending rates. In parallel with the reduction of the minimum reserves ratio, the NBH gradually increased the interest rate paid on the reserves. Since May 1, 2004 (the date of Hungary's accession to the EU), the reserves carry an interest rate equal to the central bank base rate. This increase in interest on reserves was instituted with a view to increasing the profitability of the banks and to help eliminate the indirect taxation of banks in accordance with the guidelines of the European Central Bank (the "**ECB**"). On November 24, 2008, the Monetary Council decided to reduce the reserve ratio from 5% to 2% in order to support domestic credit institutions' forint liquidity. The 2% reserve ratio applied by the NBH is equal to the reserve ratio applied by the ECB. On September 6, 2010, the Monetary Council decided all credit institutions subject to reserve requirements would be free to decide whether they want to satisfy their reserve requirements at the current 2% or a higher reserve ratio. Beginning with the November 2010 maintenance period, credit institutions subject to reserve requirements may choose a 2%, 3%, 4% or 5% reserve ratio, and they may alter their choice of the reserve ratio twice a year, in April and October. The method of calculating reserves will remain unchanged. Therefore, required reserves will be equal to the product of the reserve base and the chosen reserve ratio.

The NBH does not use money supply targets as an instrument of monetary policy. The money supply flexibly adjusts to the money demand, which is indirectly influenced by the monetary policy. Increases in monetary aggregates are slowing due to the decrease in the rate of inflation.

The following table provides information about the composition of the money supply as of the dates indicated:

Money Supply

	December 31,				As of July 31,	
	2007	2008	2009	2010	2011	2012
			(HUF billions)			
M1[(1)]	6,203	5,962	5,852	6,635	7,343	6,787
Deposits with agreed maturity of up to 2 years	6,535	8,196	8,156	7,716	8,026	7,795

	December 31,				As of July 31,	
	2007	2008	2009	2010	2011	2012
			(HUF billions)			
M2 [(2)]	12,739	14,158	14,008	14,351	15,369	14,583
Repos and money market units	1,269	1,299	1,729	2,090	2,049	1,682
M3 [(3)]	14,007	15,457	15,737	16,441	17,418	16,265

Source: NBH

Notes:
(1) Consists of currency in circulation outside monetary financial institutions plus overnight deposits.
(2) Consists of M1 plus deposits with fixed terms of up to two years.
(3) Consists of M2 plus repos, money market funds and debt securities with maturities of up to two years.

On February 25, 2008, in agreement with the Government, the Monetary Council decided to abandon the flexible peg of the Forint to the euro within a fluctuation band and adopt a floating exchange rate regime, effective February 26, 2008. According to the Monetary Council, the floating exchange rate regime provides NBH with better conditions to achieve its inflation target and, therefore, meet the nominal convergence criteria to enter into the European Exchange Rate Mechanism II ("**ERM II**").

In September 2008, real economic performance weakened sharply. Liquidity dried up in the financial markets and problems arose with the adequacy of bank capital, driven by a general lack of confidence, increasing risk aversion and a rapid de-leveraging of balance sheets. The deterioration in global investor sentiment in September and October 2008 had significant adverse effects on the Hungarian economy, and Hungarian foreign exchange, stock and government securities markets came under severe pressure.

As a consequence of deteriorating financial market conditions and the adverse economic environment, the Hungarian domestic banking sector was exposed to liquidity and solvency risks. The economic downturn and the depreciated Forint exchange rate affected households' ability to pay their mortgages and other debts, which are primarily denominated in foreign currency (especially Swiss francs ("**CHF**")), causing a further decline in the quality of the loan portfolios of banks and leasing companies.

Since the decline of the global economy in 2008, the NBH has promoted a monetary policy to bolster its domestic banking sector. It has introduced new instruments to provide Forint and foreign currency liquidity. The NBH has also broadened the range of eligible collateral for bank operations, extended the maturity of tenders for Forint loans and FX swaps and reduced the mandatory reserve ratio. Other contributory factors to the continuing financial stability of the domestic banking sector include the access to liquidity resulting from the financial support package provided by the IMF and the EU, as well as the financial commitment provided by foreign banks to their Hungarian bank subsidiaries.

On October 10, 2008, the NBH announced the introduction of two-way O/N FX swap tenders. The NBH conducts its two-way FX swap tenders — providing euro and Forint liquidity — under a competitive bidding scheme. On both sides, FX swaps are offered as an overnight facility. Auctions for the two sides are conducted simultaneously. Bids are evaluated such that the bid amounts accepted at the two auctions would be equal.

Moreover, the NBH and the ECB jointly announced an agreement to support the NBH's instrument of euro liquidity provision. The NBH and the ECB have established an agreement on repurchase transactions, which will provide the NBH with a facility to borrow up to EUR 5 billion in order to provide additional support to the NBH's operations.

In addition to these measures, effective October 16, 2008, the NBH introduced an overnight FX swap facility to provide euro liquidity until countermanded. Within the framework of the new standing facility, counterparties of the NBH may swap Forint amounts for euro amounts on business days, at a pre-specified price. Also, the Monetary Council of the NBH introduced two new lending facilities. The first instrument is a weekly tender for two-week, fixed-rate secured loans for an unlimited amount. The second instrument is a regular tender for six-month, variable-rate secured loans, for a pre-specified amount.

The NBH also entered into an agreement with the primary dealers of government securities whereby the primary dealers undertook to provide continuous bid and offer prices on the Budapest Stock Exchange for all publicly issued Forint-denominated government securities with residual maturities of more than 90 days and to increase their holdings of Hungarian government securities. The agreement expired at the end of 2008. In addition, the NBH bought government securities from primary dealers via auctions.

On October 22, 2008, the Monetary Council decided to narrow the interest rate corridor formed by the overnight deposit and collateralised lending facilities to plus or minus 50 basis points from the central bank base rate.

On November 4, 2008, the NBH and the Ministry of Finance sent a letter of intent to the IMF requesting that the IMF support the Government's and the NBH's programme to firmly anchor macroeconomic policies and reduce financial stress through a Stand-By Arrangement ("**SBA**") for a period of 17 months in the amount of Special Drawing Rights ("**SDRs**") SDR 10.5 billion (EUR 12.5 billion).

On November 24, 2008, the Monetary Council decided to reduce the reserve ratio from 5% to 2% in order to support domestic credit institutions' Forint liquidity. Effective December 2008, such reserve ratio was equal to the reserve ratio applied by the ECB.

On January 19, 2009, the NBH cut the central bank base rate by 50 basis points. The central bank base rate stood at 9.50% as of January 20, 2009. During the first three months of 2009, the Forint weakened further, trading above the HUF 310/Euro level.

On January 28, 2009, the NBH announced that from February 2, 2009, until withdrawal, the NBH would introduce one-week, fixed price EUR/CHF FX swap tenders in order to provide Swiss franc liquidity. Under the tender scheme, certain credit institutions would be allowed to transact EUR/CHF FX swaps with the NBH at a fixed price on the first trading day of the week. In the starting leg of the transaction, the counterparty of the NBH would sell euros to the NBH in exchange for Swiss francs. The NBH would announce the fixed price expressed in swap points in advance. The NBH would accept bids up to EUR 5.0 billion.

On the same day, the Swiss National Bank ("**SNB**") and the NBH announced the establishment of a temporary EUR/CHF swap agreement, which remained in place until the end of January 2010. The facility allowed the NBH to provide Swiss franc funding to banks in its jurisdiction in the form of foreign exchange swaps. Starting on February 2, 2009, the NBH joined the weekly EUR/CHF foreign exchange swap operations conducted under the umbrella of the SNB. Under the agreement, SNB provided the NBH with Swiss francs against the euro. The EUR/CHF swap operations would be conducted with a term of seven days at a fixed price.

Moreover, the NBH decided to broaden the range of counterparties eligible to participate in the six- month, variable-rate collateralised loan tenders.

On February 5, 2009, the NBH announced the introduction of a six-month EUR/HUF swap tender, providing euro liquidity on March 2009 up to EUR 5.0 billion.

The NBH extended the range of eligible collateral in lending to banks to include certain euro or Swiss franc denominated local authority bonds from February 20, 2009.

On March 2, 2009, the NBH announced that as of March 9, 2009, until further notice, the NBH would introduce a euro-liquidity providing three-month, variable-rate EUR/HUF FX swap tender to any amount remaining unallocated of the EUR 5.0 billion assigned to the purpose of the six-month EUR/HUF FX swap tenders.

On March 8, 2009, the NBH announced that it intended to encourage banks to increase their recourse to its Forint and foreign currency liquidity-providing instruments that were newly introduced, that it would soon be converting EU funds in the market, and that it stood ready to use the full range of monetary policy instruments at its disposal.

On March 12, 2009, the NBH announced that, in line with the Monetary Council's decision on March 8, 2009, the NBH would start converting the net current and capital transfers from the EU on the foreign exchange market. On the basis of the forecast of the Ministry of Finance, the NBH expected that the amount of net transfers from the EU to be converted would be approximately EUR 1.4 billion in 2009. The NBH would convert this amount on the interbank foreign exchange market in a discretionary manner over the course of the year as regular OTC transactions.

On October 20, 2009, the NBH cut the central bank base rate by 50 basis points.

On November 23, 2009, the NBH decided to widen the interest rate corridor around the central bank base rate from plus or minus 50 basis points to plus or minus 100 basis points, effective November 24, 2009. As a result, for NBH's counterparties, the interest rate on the overnight deposit facility was 100 basis points lower, and on the overnight collateralised loan it was 100 basis points higher, than the central bank base rate. With the reduction in the central bank base rate to 6.5%, also effective November 24, 2009, the bank's overnight standing deposit rate was set at 5.5% and the overnight collateralised loan rate was set at 7.5%. At the same time, the interest rate on the two-week central bank loan exceeded the policy rate by 50 basis points, i.e., it was set at 7.0%.

In December 2009, the Government introduced regulatory changes in an effort to enhance financial stability through more stringent regulation of the financial sector and lending practices. The Government implemented the following regulatory reforms:

- Legislation on strengthening the institutional framework for financial supervision was approved by the Parliament in December 2009. In line with this legislation, the HFSA was upgraded to an autonomous institution that is accountable to the Parliament and controls its budget and human resources. Also, the Financial Stability Council ("**FSC**") was established for the purpose of providing continuous valuation of the markets supervised by the HFSA. The members of FSC are the Chairman of the HFSA, the Governor of the NBH and the Minister responsible for regulation of financial, capital and insurance markets, who is the Minister for National Economy. Legislation was also enacted granting the FSC and the NBH the right to propose regulations to the Government or to any member of the Government and to initiate parliamentary legislation at the Government on a "comply or explain" basis, i.e., Government officials are obliged either to adopt the proposal within 15 days, or to publicly explain the rationale for disagreeing with such proposal.

- A set of amendments to the Law on Credit Institutions and Financial Enterprises was also enacted by the Parliament in December 2009. These amendments, among other things, establish a stricter regime for the removal of bank executives that no longer meet "fit and proper" criteria, stipulate an additional lower mandatory threshold for the appointment of a supervisory commissioner by the HFSA (i.e., the capital adequacy ratio falling below 4%), and clarify that only the HFSA has the power to initiate liquidation proceedings with respect to financial institutions.

- Though large-scale defaults on household loans have been avoided, the Government developed separate regulations to reduce risks related to lending to households in foreign currency. These regulations prescribe lower loan-to-value ratios for foreign currency loans than for forint loans, and prescribe changes to banks' scoring systems for the approval of household loans, which imply lower monthly instalments for foreign currency loans than for Forint loans. The main restrictions introduced by these regulations are the following:

	Currency	Ratio
For all types of household loans		
Maximum monthly payment-to-credit capacity(1) ratio	Euro	80%
	Other currency	60%
For household mortgages	Forint	75%
Maximum loan-to-value ratio	Euro	60%
	Other currency	45%
For car purchase financing	Forint	75%
Maximum loan-to-value ratio	Euro	60%
	Other currency	45%
Maximum maturity of car financing: 7 years		

Note:—

(1) Credit capacity is the maximum monthly repayment capacity of a given borrower in HUF and is to be determined in line with the in-house regulation of each bank.

On January 18, 2010 the NBH announced that the Swiss National Bank, the European Central Bank, the Narodowy Bank Polski and the NBH would discontinue EUR/CHF foreign exchange swaps, whereby Swiss francs were provided against euros with a term of seven days. Demand for liquidity provided by this type of operation had declined and conditions in the Swiss franc funding market had improved. Therefore, the NBH conducted the last one-week EUR/CHF swap operation on January 25, 2010.

On January 25, 2010, the NBH cut the central bank base rate by 25 basis points, resulting in a rate of 6.00%.

On February 8, 2010, the NBH announced a new monetary policy tool to support the development of the domestic Forint mortgage lending and mortgage bond markets (the "**Mortgage Bond Purchase Programme**"). The objective of the programme is to eliminate the barriers to the autonomous development of the mortgage bond market and thereby to enhance financial stability and the efficiency of the monetary transmission mechanism. Under the programme, the NBH purchases Forint mortgage bonds and undertakes regulatory initiatives to develop the domestic Forint mortgage lending market. In accordance with the Mortgage Bond Purchase Programme, the NBH buys domestically issued mortgage bonds listed as eligible collateral first in the secondary market and then in the primary market (up to a total notional value of HUF 100 billion).

The NBH made its first purchase of mortgage bonds under the programme in the Hungarian primary market on March 18, 2010. The NBH has indicated that it would purchase up to 20% of the bonds. Purchases by the NBH are subject to certain conditions aimed at enhancing the liquidity and transparency of the secondary mortgage bond market. Therefore, the NBH would buy parts of adequately sized mortgage bond issues in the primary market if the issuer proves that continuous market making in the bonds in the secondary market is ensured. For credit institutions undertaking market making in mortgage bonds, the NBH offers a mortgage bond lending facility on demand. All domestic credit institutions subject to reserve requirements are allowed to participate in the programme, provided that they satisfy the relevant technical requirements. The Mortgage Bond Purchase Programme expired as of December 31, 2010.

To date, the programme has resulted in positive developments. There was a significant narrowing in the interest differential between newly granted Forint and foreign currency loans in recent months, resulting in improved competitiveness of Forint mortgage loans. Consequently, a number of banks have introduced new Forint-based mortgage lending products. Such improvements in the conditions for Forint-based financing for banks and their customers marked the first step of the programme.

The NBH expects to undertake a number of other initiatives within the framework of the Mortgage Bond Purchase Programme to support the development of the Forint mortgage lending market in 2010. The goal of such initiatives will be to enhance the transparency of mortgage loan products and to widen the range of institutions eligible to issue mortgage bonds.

On February 22, 2010 the NBH cut the central bank base rate by 25 basis points, resulting in a rate of 5.75%.

On March 29, 2010, the NBH cut the central bank base rate by 25 basis points, resulting in a rate of 5.50%.

On March 31, 2010, the NBH announced that, as of April 1, 2010, it would make available the mortgage bonds it purchased under the Mortgage Bond Purchase Programme for on-lending to domestic credit institutions with direct Real Time Gross Settlement System ("RTGS") or Interbank Clearing System ("ICS") membership that have entered into a written market-maker agreement.

On April 26, 2010, the NBH cut the central bank base rate by 25 basis points, resulting in a rate of 5.25%.

On November 30, 2010, the NBH raised the central bank base rate by 25 basis points, resulting in a rate of 5.50%.

On December 21, 2010, the NBH raised the central bank base rate by 25 basis points, resulting in a rate of 5.75%.

On January 25, 2011, the NBH increased the central bank base rate by 25 basis points, resulting in a rate of 6.00%.

On March 1, 2011, the mandate of four members of the Monetary Council expired. As a result the number of Monetary Council members temporarily dropped to three.

On March 7, 2011, the Parliament appointed two new members of the Monetary Council. Mr. Ferenc Gerhardt and Ms. Andrea Bártfai-Mager took their positions on March 21, 2011 and the number of Monetary Council members temporarily increased to five.

On March 21, 2011, the Parliament appointed two new members to the Monetary Council. Dr. János Béla Cinkotai assumed his position on March 22, 2011. Dr. György Kocziszky assumed his position on April 5, 2011, and the number of Monetary Council members increased to seven.

On September 20, 2011 Mr. András Simor, governor of NBH announced that according to the estimate of NBH, approximately one-fifth of foreign exchange mortgage loans of the households would be repaid at the fixed rate and NBH is ready to use the foreign exchange reserve via FX swap agreements concluded with Hungarian banks.

Subsequently, on September 30, 2011 the NBH announced that it would hold tenders to sell Euros on a weekly basis, and more frequently if needed. The banks eligible to enter the tender receive the allotted amount in Euros via a FX swap agreement. The FX swap would be rolled over on a daily basis. The rollover amount would be reduced by the amount of fixed rate repayment of the given bank. The bank is obliged to provide certain data to NBH, and to repay the short-term liabilities (with maturity below one year) first in case the bank reduces its liabilities as a consequence of fixed rate repayment.

On November 30, 2011, the NBH increased the central bank base rate by 50 basis points, resulting in a rate of 6.50%.

On December 21, 2011, the NBH increased the central bank base rate by 50 basis points, resulting in a rate of 7.00%.

Recent Developments in Monetary Policy

On February 15, 2012 the NBH announced that the NBH was prepared to offset the recent weakening in banks' capacity to lend by introducing a two-year collateralised credit facility and a new universal mortgage bond purchase scheme and by expanding the range of eligible collateral.

According to the announcement the NBH intended to provide two-year variable-rate refinancing to credit institutions at its prevailing policy rate against securities delivered as collateral. The conditions for the provision of such refinancing had been designed to facilitate an expansion in bank lending to the corporate sector. The new instrument conforms to international practice adopted to offset a weakening in the banking sector's capacity to lend and allows banks to access to financing at maturities of limited availability in the market without the need to pay a term premium on longer-term funding. By providing a long-term lending facility, the NBH expected to contribute to a strengthening in banks' balance sheets through an improvement in the maturity match between assets and liabilities, which in turn may offset the decline in lending activity.

In addition the NBH intended to promote lending to the household sector by introducing a universal mortgage bond purchase scheme. According to the statement mortgage bonds are a key factor contributing to an improvement in the maturity match between assets and liabilities. In the view of NBH, a universal structure for mortgage bond issuance may foster the development of a more efficient mortgage bond market. However, the benefits of the model change can only be realised if banks have adequate potential and willingness to issue mortgage bonds. Based on the experiences drawn from the previous programme in 2010, the NBH is able to effectively improve banks' access to funding related to HUF mortgage lending via purchases in the primary market if an amendment to the regulation giving all credit institutions the right to issue mortgage bonds, drawn up in agreement with the Government, is passed by Parliament.

In addition to the above, by expanding the range of eligible collateral the NBH can alleviate liquidity constraints potentially impeding lending to the corporate and household sectors through an increase in banks' liquidity buffers. According to the statement, extending the right to issue mortgage bonds may be an important support in this area, as a result of an increase in the outstanding amount of mortgage bonds accepted as eligible collateral. Linking the minimum credit rating limit for bank and corporate bonds to the lower rating of government debt instead of the current 'BBB-' was expected to result in a further easing in conditions.

On August 28, 2012, the NBH cut the central bank base rate by 25 basis points resulting in a rate of 6.75%.

On September 25, 2012, the NBH cut the central bank base rate by 25 basis points resulting in a rate of 6.50%.

Exchange Rate Policy

According to the National Bank Act, the NBH and the Government jointly determine the framework of the exchange rate regime. The NBH then decides on the exchange rate policy within that framework. As a result of a joint decision in May 2001, the Forint was "pegged" to the Euro such that the exchange rate was permitted to shift against the Euro in either direction by up to 15% against the central parity, which was set to HUF 276.1/Euro in May 2001. In combination with the adoption of the inflation targeting framework in June 2001, these policies were consistent with the primary objective of the NBH of achieving and maintaining price stability. These changes allowed the NBH greater flexibility to resume an anti-inflationary policy. However, on February 25, 2008, in agreement with the Government, the Monetary Council of the NBH decided to abandon the flexible peg of the Forint to the Euro within a fluctuation band and adopt a floating exchange rate regime. According to the Monetary Council, the floating exchange rate regime provides NBH with better opportunity to achieve its inflation target and, through this, to meet the nominal convergence criteria and enter into ERM II.

In the first half of 2007, the Forint fluctuated around HUF 250/Euro. By mid-2007, the Forint depreciated to HUF 260/Euro, mainly as a result of the subprime crisis. By the end of 2007, the Forint traded around HUF 255/Euro.

In the first two months of 2008, the Forint depreciated further, reaching HUF 265/Euro, and in October 2008, it reached HUF 275/Euro. The weakening of the Forint was mainly a result of the low global liquidity and worsened global investor sentiment. In response, the NBH increased the central bank base rate by 300 basis points. The rate hike prevented the Forint from further depreciation, and it stabilized until the end of 2008 at HUF 275/Euro. As of December 31, 2008, the Forint traded at HUF 265/Euro.

In the spring of 2009, the Forint weakened further as a result of the ongoing negative impact of the global financial crisis and global economic slowdown. In March 2009, the Forint weakened to HUF 315/Euro. In the second quarter of 2009, the Forint strengthened as a result of a relatively high central bank base rate, decreasing expected Hungarian fiscal and current account deficit and improving global economic growth expectations. By July 2009, the Forint strengthened to HUF 266.43/Euro.

However, in the second half of 2009 and the first quarter of 2010, the Forint fluctuated around HUF 270/Euro. After the general elections of April 2010, the Forint weakened as a result of the ongoing negative effects of the global crisis and increased uncertainty concerning the future Hungarian economic policy. In the second half of 2010, the Forint fluctuated around HUF 280/Euro. As of December 31, 2010, the HUF/Euro exchange rate was HUF 278.75/Euro.

During the first eight months of 2011, the Forint fluctuated between HUF 260/Euro and HUF 280/euro levels. During the last four months of the year, the Forint weakened significantly partly as a result of unfavourable global investor sentiment. As of December 31, 2011, the HUF/Euro exchange rate was HUF 311.13/Euro.

In the first eight months of 2012 the Forint strengthened significantly, partly as a result of favourable global investor sentiment. As of October 1, 2012, the HUF/Euro exchange rate was HUF 284.86/Euro.

Foreign Exchange and Convertibility of the Forint

Since 1996, Hungarian foreign exchange regulations have been consistent with the convertibility standards of Article VIII of the IMF and with the regulations of the OECD.

Since January 1998, Hungarian residents have been able to purchase shares and debt instruments with a maturity of at least one year issued by all OECD-based issuers, and non-residents have been able to issue such instruments denominated in foreign currency in the Hungarian securities market. Hungarian companies and individuals have also been able to receive foreign exchange denominated loans with a maturity of more than one year (with certain reporting obligations) and have been able to take out foreign exchange denominated loans with a maturity of less than one year, with approval from the NBH.

In accordance with the continuing liberalisation of restrictions on capital movements in recent years, the Forint has been fully convertible since June 2001, both in terms of current transactions and capital transactions. All principal restrictions relating to foreign investment have been removed: non-residents have unrestricted access to Hungarian short-term securities, HUF-denominated accounts and the onshore derivatives market, and residents have unrestricted access to offshore financial services and short-term foreign securities. Certain minor restrictions have remained, the principal objectives of which are the prevention of money laundering. The full convertibility of the Forint meets all current EU requirements.

The Hungarian Banking System

In April 2000, the supervisory agencies for commercial banks, investment activities, pension funds and insurance activities were integrated under one single agency – the HFSA (in Hungarian: *Pénzügyi Szervezetek Állami Felügyelete*). However, there are separate legislative regimes for banking, insurance, pension funds and investment services. Currently, the laws for insurance, banking and pension funds are well established and generally comply with all applicable EU directives and regulations.

Since 1991, Hungary's banking system has been subject to a regulatory and supervisory framework based on principles and guidelines of the BIS. Act CXII of 1996 on Credit Institutions and Financial Enterprises (the "**Credit Institutions Act**"), in effect since January 1, 1997, endeavours to facilitate harmonisation of the Hungarian banking system with EU uniform banking standards.

Supervision of the Hungarian Banking System

Supervision of banking activities in Hungary has improved as the banking system has developed. The NBH supervisory responsibilities have largely been transferred to the HFSA, with the NBH retaining a more limited supervisory role.

Role of the NBH

While the NBH has no legal obligation to support Hungary's credit institutions, the NBH may serve as a lender of last resort to credit institutions that encounter temporary liquidity difficulties.

Role of the Hungarian Financial Supervisory Authority

Other than credit institutions having their seat in an EU member state (which are regulated by their respective home supervisory authority) all financial institutions operating in Hungary are required to procure a license from the HFSA before they may establish themselves, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares representing a qualifying holding (10%) or terminate its operations.

The HFSA is responsible for verifying compliance by credit institutions operating in Hungary with the Credit Institutions Act and applicable banking regulations. The HFSA is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing licenses, instituting liquidation proceedings and imposing fines on credit institutions and the managers of such credit institutions.

Banking Regulations

The president of the HFSA has the power to issue regulatory decrees in the scope set forth in Act CLVIII of 2010 on the Hungarian Financial Supervisory Authority, in Act CXX of 2001 on the Capital Markets (the "**Capital Markets Act**") and the Credit Institutions Act. The Capital Markets and the Credit Institutions Act and Act CXXXVIII of 2007 on Investment and Commodity Exchange Service Providers and their Activities also set forth matters upon which the government or Minister for National Economy may issue regulatory decrees.

The Credit Institutions Act requires Hungarian credit institutions to maintain a solvency ratio of 8%. Pursuant to its authority under the Credit Institutions Act, the Finance Minister has issued a decree on the calculation of the solvency ratio. The decree adopts BIS standards prescribing how the ratio of a bank's regulatory capital and risk-weighted assets (on- and off-balance sheet items) must be calculated. In addition, the Finance Minister has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off-balance sheet items) and on certain foreign country risks present in their assets.

Portfolio risk provisions are calculated by categorizing the assets of a credit institution into the following categories: standard, watch, sub-standard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category: for standard assets, 0%; for watch assets, 0% to less than or equal to 10%; for sub-standard assets, greater than 10% to less than or equal to 30%; for doubtful assets, greater than 30% to less than or equal to 70%; and for bad assets, greater than 70% to 100%.

Hungary has harmonised its guidelines on capital adequacy requirements for investment firms and commercial banks with EU Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions. The adaptation of EU Directive 2006/48 and EU Directive 2006/49 (Basel II) was finalized in early 2008. Individual banks are required to create their own guidelines, which are to be reviewed annually.

Structure of the Hungarian Banking System

The Credit Institutions Act provides for three types of credit institutions:

- banks (credit institutions that may provide the full range of financial services);
- specialised credit institutions (credit institutions that provide special activities, for example, mortgage banks or the Hungarian Development Bank Ltd. (the "**MFB**")); and
- co-operative credit institutions (credit co-operatives and savings co-operatives).

Only credit institutions are entitled to collect deposits from the public and provide money transmission services. In addition, banks are entitled to provide the full range of financial services listed in the Credit Institutions Act, including making loans, issuing guarantees, trading foreign currencies, issuing bank cards and providing depository services. Banks may also engage, for their own account or for the accounts of customers, in trading in government and corporate securities and derivatives, and may also provide investment services. The total assets of the credit institutions amounted to HUF 28,797.3 billion and HUF 26,804.7 billion as of December 31, 2011 and June 30, 2012, respectively.

The following table illustrates certain trends in the Hungarian banking system for the periods indicated:

Banking System – Selected Indicators

	Banking survey (% change, year on year) As of July 31,					
	2007	2008	2009	2010	2011	2012
Domestic credit	15,1	23,3	(10,0)	4,1	(0,1)	(5,3)
Credits to enterprises	13,6	14,8	(10,1)	(0,8)	1,9	(0,8)
Credits to households	27,8	35,1	(5,6)	9,3	(0,9)	(9,5)
Broad money (M3)	10,8	10,3	1,8	3,0	5,9	0,1

Source: NBH

Specialised credit institutions are limited with respect to the scope of services they may provide and with respect to the types of clients to which they may provide such services. Specialised credit institutions in Hungary include housing savings associations and mortgage banks. There are two special state-owned institutions: the MFB and the Hungarian Eximbank.

Cooperative institutions may only provide limited types of financial services, primarily taking deposits and making small loans. As of December 31, 2011 and June 30, 2012, Hungarian cooperative institutions held aggregate total assets of HUF 1,745.1 billion and HUF 1,634.0 billion, respectively.

In addition to the credit institutions discussed above, several other financial entities play an important role in strengthening the Hungarian banking and financial sectors. These entities include:

- the National Deposit Insurance Fund, which credit institutions are required to join, insures deposits up to HUF 13 million per depository, but does not cover the deposits of the Government or certain other entities;
- the Credit Guarantee Corporation, which guarantees loans to small and medium-sized businesses;
- the National Savings Cooperatives Institutions Protection Fund, which is a voluntary consortium of cooperative institutions designed to further such institutions' mutual interests; and
- the Hungarian Export Credit Insurance Corporation, which provides insurance for export credits and exchange rate risks.

Ownership Structure of the Banking Sector

Following the dynamic growth of foreign share ownership in the banking sector in the second half of the 1990s, the proportion of registered capital held by foreign investors stabilized in 2002. According to data compiled by HFSA, approximately 91% of the total equity capital of the Hungarian banking sector (excluding the MFB and the Hungarian Eximbank which were owned by the Hungarian state) was held by non-residents as at the end of June 2012.

The only banks (other than the NBH) in which Hungary currently holds controlling interests are the MFB (Hungarian Development Bank) and the Hungarian Eximbank.

In May 2009, Hungary acquired a special priority share in FHB JelzálogbankNyrt. issued in accordance with the Act CIV of 2008 on the strengthening of the stability of financial intermediaries. As a holder of this share, any dividend payments and resolutions required the consent of Hungary in addition to approval by a 75% of shareholders at the general shareholders meeting. However, in March 2010, such special priority share was cancelled and Hungary's interest was dissolved.

Capital Markets

During the course of its transition to a market economy, Hungary attached great importance to the development of a sound capital market in order to promote economic development and to finance Hungarian enterprises. The Capital Markets Act regulates the offering and trading of securities (including government securities) and the institutional framework of the Hungarian capital market (including stock exchanges, investment funds and clearing houses). State control and supervision of the capital markets was delegated to the HFSA. In line with the trend in other international markets generally, Hungary has moved towards a universal financial system when regulating the relationship between investment and banking services. Banks with proper authorisation may carry on investment and financial services activities within the same organisational frameworks, thereby offering universal banking services. By the end of 2007, regulation of the capital markets in Hungary was substantially in compliance with applicable EU regulations and guidelines.

Stock Exchange

The Budapest Stock Exchange (the "**BSE**") opened in 1990 and is a self-governing and self-regulating organisation that selects its own governing bodies and officials, adopts its own regulations, defines its operating rules and fixes the fees charged for its services.

In February 2004, the BSE and the Budapest Commodity Exchange (the "**BCE**") agreed to integrate their respective activities. The integration was completed in November 2005, and all exchange products formerly traded on the BCE and all members of the BCE were transferred to the BSE.

In January 2010, the BSE, in addition to the Vienna, Ljubljana and Prague Stock Exchanges, became a member of the Central East European Stock Exchange Group through the acquisition of a simple majority stake in the BSE by CEESEG AG. As a result of such acquisition, the following entities are the major shareholders of the BSE: CEESEG AG (50.45%), Österreichischen Kontrollbank AG (18.34%), National Bank of Hungary (6.94%) and the Hungarian Branch Office of KBC Securities (5.19%).

The following table sets forth selected indicators relating to the BSE as at the end of and for the periods indicated:

	December 31,				
	2007	2008	2009	2010	2011
Total spot turnover values (in USD millions)	26,005	15,688	14,188	15,931	10,869
Equities	25,290	14,334	13,310	15,117	9,926
Government Bonds	163	913	388	533	662
Corporate Bonds	284	96	4	6	11
Bonds of International Institutions	-	-	-	-	-
Mortgage Bonds	170	108	52	28	7
T-Bills	42	139	310	63	42
Investment Funds	55	40	27	28	18
Compensation Notes	0	0	0	0	0
Certificates	0	59	97	155	204
Total number of transactions	1,654,992	1,950,035	3,476,711	2,790,242	2,608,683
Equities	1,629,373	1,893,117	3,349,885	2,612,465	2,333,671
Government Bonds	233	1,106	853	830	1,598
Corporate Bonds	14,942	9,363	130	181	424
Bonds of International Institutions	-	-	-	-	-
Mortgage Bonds	2,089	2,509	1,369	537	425
T-Bills	52	113	72	94	106
Investment Funds	7,177	8,433	10,046	9,218	9,125
Compensation Notes	1,126	1,097	1,107	616	497
Certificates	0	34,297	113,249	166,301	262,837
Average number of daily transactions	6,755	7,959	13,851	10,985	10,648
Average daily turnover (in USD millions)	106	64	57	63	44
Average value per transaction (in USD thousands)	16	8	4	6	4
Number of trading days	245	251	251	254	253
Total Futures Turnover (in USD millions)	19,367	11,037	9,259	10,763	7,027
Budapest Stock Exchange Index "BUX"	3,060	1,993	1,258	2,272	1,002
Currencies	9,499	5,575	5,223	5,077	3,926
Shares	6,804	3,469	2,778	3,415	2,098
Interest Rates	3	0	0	0	0
Number of transactions	435,519	469,633	466,346	578,139	410,212
Total Options Turnover (in USD millions)	379	267	162	23	24

Equity options	0	0	0	0	0
Index options	1	0	0	0	0
Currency options	378	267	162	23	24
Number of trades (thousand)	1,109	936	665	94	167
Average exchange rate HUF/USD	183.83	171.80	202.26	208.15	200.94

Source: Budapest Stock Exchange

Notes:
USD values calculated based on EUR values of the Budapest Stock Exchange and the yearly average EUR/HUF and USD/HUF foreign exchange rates calculated by the NBH.

PUBLIC FINANCE

General Information

The public finance sector in Hungary consists of the central government budget, social security funds (pension and health funds), extra-budgetary funds and local government budgets, which together are referred to as the general government budget.

Methodology

The fiscal year for the Government is the calendar year. The general government budget data are compiled in several stages by the Ministry for National Economy (prior to May 29, 2010, the Ministry of Finance had such responsibility). In the fall of each calendar year, the Ministry for National Economy is required to compile the first preliminary budget (called the "planned budget") for the following calendar year in accordance with the budget act approved by Parliament for such year.

In January of each given calendar year, the Ministry for National Economy compiles the first version of the general government budget for the previous year. This budget (compiled according to data available in January) is called the "preliminary budget." During the course of the year, the Ministry for National Economy collects additional information concerning the revenues and expenditures related to the previous year. In light of this additional information, the Ministry for National Economy revises the preliminary budget (compiled in January) and compiles the second version of the general government budget for the previous year. This budget (compiled according to data available in May of a given calendar year) is called the "fact budget." The main reason for the differences between the preliminary and fact budgets is the uncertainty of the exact amounts of revenues and expenditures of the central governmental institutions, as balance sheets of these institutions are not compiled until May of a given calendar year. The Ministry for National Economy is obliged to compile the final account by the end of August of a given calendar year using the fact budget. The final account is submitted to the Parliament, and the Parliament approves the final account with a simple majority vote. However, the final account submitted to Parliament may differ from the final account approved by Parliament due to amendments. After the final account is approved by Parliament, the Ministry for National Economy compiles the third version of the general government budget for the previous year, known as the "final budget."

The information included in this document with respect to the budget for 2011 and 2012 was derived from the budget for 2011 and 2012 as calculated by the Ministry for National Economy (and prior to May 29, 2010, the Ministry of Finance) using data available in August 2012.

Budget Trends

The following table sets forth the main fiscal trends in Hungary for the years indicated:

Budget Trends[1]

	General government balance, consolidated						
	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Planned	2012 Expected
				(*HUF billions*)			
GFS method							
Revenues	11,612.9	12,572.7	12,915.2	12,417.5	12,939.6	14,156.6	13,999.9
Privatisation receipts	24.0	24.7	4.1	7.0	2.6	2.3	1.8
Revenues (excluding privatisation receipts)	11,588.9	12,548.1	12,911.0	12,410.5	12,937.0	14,154.3	13,998.1
Expenditures	12,974.3	13,466.4	13,439.7	13,539.0	14,537.7	14,882.8	14,645.4
Balance (excluding privatisation receipts)	(1,385.4)	(918.4)	(528.7)	(1,128.5)	(1,600.7)	(728.5)	(647.4)
Balance in % of GDP	(5.5)	(3.5)	(4.0)	(4.2)	(5.7)	(2.5)	(2.2)

General government balance – consolidated							
ESA method							
Revenues	11,386.9	12,085.8	12,015.1	12,085.1	14,883.4	13,497.8	13,502.5
Expenditures	12,673.7	13,073.2	13,185.8	13,210.3	13,678.8	14,235.8	14,186.8
Balance	(1,286.8)	(987.3)	(1,170.7)	(1,125.2)	1,204.6	(738.0)	(684.2)
Balance in % of GDP	(5.1)	(3.7)	(4.6)	(4.2)	4.3	(2.5)	(2.3)

Source: CSO and Ministry of Finance

Notes:

(1) For methodological remarks on planned, expected, preliminary, fact and final budgets see "*Public Finance – Methodology*."

According to final data available in August 2012, the general government deficit (including local governments) amounted to HUF 1,728.4 billion (6.1% of GDP) for the year 2011, according to the GFS methodology. The general government surplus for the year 2011, according to the ESA methodology, (local governments included) reached HUF 1,204.6 billion, equalling 4.3% of the GDP for the year 2011.

The 2012 planned general government deficit (local governments included) is HUF 726.2 billion according to the GFS methodology. The 2012 planned general government deficit (local governments included) is HUF 1,204.6 billion (2.5% of GDP) according to the ESA methodology.

On October 29, 2008, the IMF, the EU and the World Bank agreed to grant a financial assistance package of up to USD 25.1 billion to Hungary. The IMF agreed to provide a 17-month standby facility of USD 15.7 billion (EUR 12.5 billion), while the EU agreed to lend USD 8.1 billion (EUR 6.5 billion), and there is a possibility to draw down USD 1.3 billion (EUR 1 billion) from the World Bank to assist Hungary in addressing the negative impact of the global financial crisis.

A HUF 600 billion banking sector package was set up by the Parliament. The banking sector package contained provisions for added capital and funded a guarantee fund for interbank lending. Funding was divided as follows: total funding of HUF 600 billion was divided equally between the Capital Base Enhancement Fund and the Refinancing Guarantee Fund. The package was available to private Hungarian banks of systemic importance. The Capital Base Enhancement Fund was set up to bring the eligible banks' capital adequacy ratio (CAR) up to 14%. The Guarantee Fund was meant to bring comfort to the providers of wholesale funding and secure the refinancing of the eligible banks. Its endowment of HUF 300 billion was invested in euro denominated government bonds of Euro area countries and managed by the NBH. It was available until the end of 2009, and it provided a guarantee for the rollover of loans and wholesale debt securities with an initial maturity of more than three months and up to five years, against a fee and with appropriate safeguards.

As of December 31, 2010, out of the financial assistance package provided by the IMF, SDR 0.1 billion was used for the bank rescue package, SDR 0.9 billion was used in form of loans to banks, SDR 3.2 billion was used for sovereign debt service and SDR 2.2 billion was placed at NBH as deposit. Meanwhile, out of the financial assistance package provided by the EU, EUR 5.5 billion was used for sovereign debt service. The NBH had also drawn down SDR 1.3 billion from the IMF facility as of December 31, 2010.

In November 2008, the Parliament approved the Act on Fiscal Responsibility. The Act set out new fiscal rules regarding the central subsystem of the Government, established the Fiscal Council and introduced guarantee elements prevailing in the planning of the budget, which ensure that, compared to the accepted medium-term expenditure ceilings, additional expenditure claims could only be planned in the event that their negative effect on the balance can be offset by the decrease of other expenditure elements or increase in revenues. The Act also determines expenditure caps and balance limitations, both for the coming years and in the long run.

In February 2009, Hungary introduced a net total revenue neutral tax reform and also undertook certain reform measures. The key structural changes included increasing the retirement age, changing pension indexation rules, establishing an upper limit for the "13th month" pension benefit of HUF 80,000, eliminating the "13th month" pension benefit for new entrants, tightening disability retirement rules, cutting interest subsidy to housing loans, restricting social policy, cutting compensation for gas and distance heating costs (consumer prices), changing family allowance, child-care pay (as abbreviated in Hungarian: GYED) and child-care aid (as abbreviated in Hungarian: GYES), and changing local government subsidies. The pension reforms aim to reduce pension expenditures by 3% (as a per cent of GDP) over a period of approximately the next 50 years.

As of January 1, 2010 the simplified business tax rate (in Hungarian: EVA) increased from 25% to 30%.

On January 5, 2010, the Ministry of Finance published the preliminary general government deficit (excluding local governments) for the year 2009, in accordance with GFS methodology. The deficit reached HUF 918.6 billion, equalling 3.6% of the projected GDP for the year 2009.

On April 1, 2010, the CSO published the preliminary general government deficit (including local governments) for the year 2009, in accordance with ESA methodology. In 2009, the deficit reached HUF 1,035.0 billion, equalling 4.0% of the preliminary 2009 GDP.

Simultaneously, the NBH published the preliminary general government debt figure (including local governments) as of the end of 2009, in accordance with ESA methodology. The debt reached HUF 20,421.2 billion, equalling 78.3% of the preliminary GDP for the year 2009.

On June 8, 2010, the Prime Minister announced a 29-point economic plan. The following table sets forth the estimated budgetary effects, to the extent available, of the announced measures on the 2010 budget.

	The estimated budgetary effects of the Government's 29-measure Economic Plan on the 2010 budget			
	Revenue increase	Expenditure increase	Revenue decrease	Expenditure decrease
		(*HUF billion*)		
Changes in corporate income tax	0.0	0.0	45.0	0.0
Modification related to the 10% tax for individual entrepreneurs/self-employed	0.0	0.0	1.3	0.0
Introduction of a flat tax rate of 16% on personal income (abolishment of tax credits)	0.0	0.0	0.0	0.0
Abolishment of tax on high value assets at the central budget level	0.0	0.0	1.7	0.0
Modification of Act CXLIV of 2009 on flood control cooperatives	0.0	0.0	0.0	0.0
Abolishment of some local taxes at the local government level	0.0	0.0	0.0	0.0
The estimated budgetary effects of the Government's	0.0	0.0	0.0	0.0
- tax on holiday resorts	0.0	0.0	0.0	0.0
- the utility tax of entrepreneurs	0.0	0.0	0.0	0.0
Replacement of the tax on holiday resorts with a tax on buildings (or with other local tax)	0.0	0.0	0.0	0.0
Increase of the revenue from company cars (tax on high-power cars)	0.5	0.0	0.0	0.0
Decrease of the tax on diesel oil for carriers	0.0	0.0	0.0	0.0
Modification of the law on domestic work and introduction of its tax-exempt status	0.0	0.0	3.0	0.0
Modification of the law on dues, extension of dues exemption	0.0	0.0	0.0	0.0
- central budget	0.0	0.0	0.8	0.0
- local government	0.0	0.0	0.7	0.0
Abolishment of the third of the 51 permits required in the course of investment projects	0.0	0.0	0.0	0.0
Simplified employment (related to social securities revenues)	0.0	0.3	0.6	0.0
One does not have to become an entrepreneur to have their apartment leased	0.0	0.0	0.0	0.0
Reduction of excise tax on alcohol distillation at households	0.0	0.0	3.1	0.0
Abolishment of the VAT on charitable donations	0.0	0.0	2.5	0.0
The production, processing and selling of food will be simplified for small producers	0.0	0.0	0.0	0.0
Széchenyi card	0.0	0.4	0.0	0.0

	The estimated budgetary effects of the Government's 29-measure Economic Plan on the 2010 budget			
	Revenue increase	Expenditure increase	Revenue decrease	Expenditure decrease
	(*HUF billion*)			
The radical restructuring of EU resources to benefit small and medium sized companies	0.0	0.0	0.0	0.0
Freezing of budgetary institutions funding	0.0	0.0	0.0	40.5
Payments of central budgetary institutions	7.0	0.0	0.0	0.0
Withdrawal of carry-overs	0.0	0.0	0.0	30.0
Stopping of all bonuses, review of contracts and procurements	0.0	0.0	0.0	12.0
The negative effect of expenditure-decreasing changes on tax revenues (PIT, VAT, premiums)	0.0	0.0	0.0	0.0
Savings at extra-budgetary funds	0.0	0.0	0.0	18.0
Introduction of an extra tax (98%) on severance payments, bonuses and other forms of personal income of government officials	1.0	0.0	0.0	0.0
Savings in the asset management chapter (in expenditures related to state property)	0.0	0.0	0.0	20.0
Decrease of the support of political parties by 15%	0.0	0.0	0.0	0.2
Appointment of budgetary inspectors to institutions managing significant public funds	0.0	0.0	0.0	0.0
Establishment of the National Asset Management Corporation	0.0	0.0	0.0	0.0
Introduction of the banking tax (solely in 2010-11)	187.0	0.0	0.0	0.0
Loss on Corporate Tax because of the introduction of the banking tax	0.0	0.0	20.0	0.0
Solely Forint-based mortgages could be registered	0.0	0.0	0.0	0.0
Secondary inspection of all foodstuff	0.0	0.0	0.0	0.0
Ordering of the freeze of utility charges	0.0	0.0	0.0	0.0
Ordering the stop of all evictions until December, 31, 2010	0.0	0.0	0.0	0.0
Total	**195.5**	**0.7**	**78.7**	**120.7**
Total effect on the balance of the budget				**236.8**

Source: Ministry for National Economy

On July 22, 2010, the Parliament approved the Act XC of 2010 that levied a special tax on financial institutions. See "*Public Finance – Taxation*" for further details on the special tax. According to an estimate compiled by the Fiscal Council, the levy will generate additional revenue in the aggregate amount of HUF 185.6 billion in the years 2010 and 2011.

On October 13, 2010, the Government announced that a special tax will be levied on retail businesses, telecommunication companies and energy supply companies. See "*Public Finance – Taxation*" for further details on the special tax. The tax is expected to generate additional revenue of HUF 61 billion from telecommunication companies, HUF 70 billion from energy supply companies and HUF 30 billion from retail businesses. The tax will be levied temporarily in the years 2010, 2011 and 2012.

On October 13, 2010, the Government announced that mandatory payments of participants in private pension funds will be withheld by the government for a 14-month period, which commenced on November 1, 2010. Such payments, estimated to be in the amount of HUF 30 billion per month, are expected to reduce the deficit of the annual budget of 2010 and 2011.

On October 30, 2010, Mr. György Matolcsy, Minister for National Economy, submitted the budget proposal for the year 2011. According to the proposal, the accrual-based (according to ESA methodology) general government deficit, including local governments, for the year 2011 will amount to 2.9% of the expected GDP. The Parliament approved the budget on December 23, 2010.

On December 13, 2010, the Parliament approved an act on the establishment of the Pension Reform and Debt Reduction Fund. According to the new legislation, participants in a mandatory private pension fund can choose to remain in the "three-pillar" system or elect to be in a "two-pillar" system. The portfolio of the participants in the private pension funds who choose the "two-pillar" system will be transferred to a state pension fund. See "*Pension System*" for further details on the recent pension reforms.

On December 13, 2010, Parliament also approved a special act (Act CLIII of 2010 on the Amendment of Certain Acts to Establish the Budget of the Republic of Hungary of 2011) changing the composition of the Fiscal Council to consist of the Governor of the NBH, the President of the State Audit Office and an economist of outstanding knowledge nominated by the President of Hungary. The Fiscal Council is an independent fiscal body, whose members assess the appropriateness and sustainability of the Government's budget proposals by utilising the expertise of the institutions such members lead. The amendment broadens the range of expertise available to the Fiscal Council and enhances its authority, such as by providing the Fiscal Council the right to send budget proposals back to the Government for further consideration.

On January 7, 2011, the Ministry for National Economy published the preliminary general government deficit (excluding local governments) for the year 2010, in accordance with GFS methodology. The deficit reached HUF 869.8 billion, equalling 3.2% of the projected GDP for the year 2010.

On February 11, 2011 the Government announced the creation of a stability reserve fund in the amount of HUF 250 billion. The measure includes the freezing of the funds of certain ministries in the amount of HUF 187 billion altogether.

On March 1, 2011, the Government announced a structural reform package called the "Széll Kálmán Plan".

The primary objective is to reduce Hungary's public debt mostly via permanent cuts on the expenditure side. In addition, the Government is hopeful that such measures will strengthen potential growth and stimulate employment. The most affected fields are:

Labour market: The aim is to encourage inactive groups to re-enter the labour market. To this goal the unemployment benefit system is to be redesigned (shortened period covered, capped benefit level), active labour market policies will be financed by EU funds, in terms of social transfers a maximum allowance will be introduced (capping) that will cover each type of support, family supports in parallel shall be maintained at the present nominal level, vocational training and higher education system changes to address market needs.

Pension system: The main aim is to improve its sustainability in a way that contributes to increasing the activity rate. To this end the early retirement schemes are to be radically tightened (in the case of armed forces, police, fire services, etc.); disability pension expenditures must be revised; introduction of full CPI indexation is to be considered.

Public transport: Parallel services between the public transport companies must be abolished by establishing a holding company, the National Transport Company. At the same time, the wide spread price-subsidy system shall be cut back (free transport for the family members of transport employees is to be abolished, benefits shall be the responsibility of the new holding company, except for the transport for the 65+ population).

Higher education: Must be attuned to the needs of the economy and the labour market. The number of participants in the various courses must match the expectations of the labour market. To this end the proportion of scientific and technological degrees must be raised – meanwhile unnecessary faculties with their infrastructures shall be abolished. Tuition and institutional system shall be modernised taken into account the scrutinized number of state-sponsored students.

Prescription drug subsidy system: Within the medicine budget of HUF 343.5 billion in 2011 the objective is to reach a savings of HUF 120 billion within three years' time by transformation of the medicine subsidising system.

State and local government finance: The efficiency of local government system must be increased by reducing fragmentation. Credit taking for local governments shall be strictly regulated and conditional to governmental authorisation. In terms of state level administration public procurement law is to be modified, in parallel with the abolishment of the practice of having subcontracts, which are in connection with tasks carried out via government or central administrative staff. The efficiency of tax collection must be improved.

Cuts in administrative costs: The 'First Strike' measures aimed at cutting administrative burdens of enterprises in nine prioritised areas devised in cooperation with a wide range of entrepreneurs. Its effect is targeted to reach HUF 100 billion (non-budgetary effect).

The following table sets forth the planned budgetary effect of the measures contained in the Széll Kálmán Plan, as estimated by the Ministry for National Economy.

	2011	2012	2013	2014
		(HUF billion)		
Employment and labour market	0	195	213	213
Pension system reform	12	93	129	129
Public transport	0	45	60	60
Higher education	0	12	38	38
Prescription drug subsidy system	0	83	120	120
State and municipal funding	0	32	122	122
Contributions to the fund established to reduce public debt	0	90	220	220
Total	12	550	902	902

Source: Ministry for National Economy

The Government expects the budget deficit to GDP ratio to shrink to 2.9% in 2011, 2.5% in 2012, 2.2% in 2013 and 1.9% in 2014. As a result of one-off revenues the budget surplus can reach 4% of the GDP in the year 2011. As a result the public debt to GDP ratio will fall to 80% in 2011, 72% in 2012, 68% in 2013 and 66% in 2014. The Government plans to reduce income centralisation to GDP ratio to 42% in 2012, 40% in 2013 and 39% in 2014, and to reduce redistribution to GDP ratio to 44% in 2012, 42% in 2013 and 41% in 2014.

The following table sets forth legislative measures that have been undertaken to implement the Széll Kálmán Plan as of December 31, 2011:

Date	Action
June 14, 2011	The Parliament adopted the amendment to the Criminal Code and as of January 1, 2012, the perpetrator of the sick pay fraud will be punishable by imprisonment of up to 2 years.
June 30, 2011	The Government Resolution No. 1226/2011 (VI.30.) on legislation programme for 2012 and 2013 in order to the implement of the pharmaceutical subsidy system transformation was adopted, after the consultations conducted between the Government and the relevant parties.
July 1, 2011	Amendment to regulation of electricity and natural gas prices went into effect.
July 1, 2011	The Act LXXXI of 2011 on the Amendment of Certain Health Related Acts went into effect. Such Act reregulates sick pay transfers and funding system of prescription drugs.
July 11, 2011	The Hungarian Parliament adopted the new Act on Public Procurement, which will go into effect on January 1, 2012.
July, 11, 2011	The Parliament adopted the Act on Public Employment and the amendment to acts related to public employment.
September 30, 2011	The Minister of National Development issued a new decree on district heating prices. According to the decree the retail district heating prices has been fixed as of March 31, 2011.
November 28, 2011	The Parliament adopted the Act on abolishment of early retirement pensions, new regulation for early retirement benefits and social services of retired officers.
December 5, 2011	Act on amendment to Health Act, prescription drug subsidy system and certain other acts was adopted by the Parliament.
December 20, 2011	Act on national public education was adopted by the Parliament.

Date	Action
December 20, 2011	Act on benefits of persons with reduced capacity to work and amendment to certain acts was adopted by the Parliament.
December 20, 2011	Act on public administration officers was adopted by the Parliament, and went into effect as of March 1, 2012.
December 23, 2011	The Parliament adopted the Act on national higher education, which significantly reduces the number of students supported and financed by the state.
December 23, 2011	The Parliament adopted the Act on amendment to bankruptcy and liquidation proceedings law, business association law, corporate transparency, company registration and insolvency law and certain other laws related thereto, which result in a more efficient foreclosure and transparent liquidation and procedural rules.
December 23, 2011	The Parliament adopted the Act on national mobile payment system, which centralises mobile distribution services via a mobile payment system and went into effect on May 1, 2012.
December 30, 2011	The Hungarian State assumed certain debt items of MÁV.

The table below sets forth the legislative measures planned in order to implement the Széll Kálmán Plan:

Originally planned date	Action
By December 31, 2011	Hungary will have worked out those Acts which are necessary for the operation of the new pension system
By December 31, 2011	The Ministry for National Economy will have implemented those further measures which will result in a further reduction in the tax liabilities of enterprises
By December 31, 2011	The Ministry for National Development will have completed the plan aimed at the debt restructuring and reorganisation of the MÁV
By December 31, 2011	The Ministry of Justice and Public Administration will have worked out those Acts which will reduce the burdens of the enterprises by making foreclosure and liquidation procedures faster and more transparent
By January 1, 2012	Hungary will have revised the former classifications in the framework of the new, transparent system for the certification and registry of disabled persons in a fair and systematic way
By January 1, 2012	The National Transport Holding Company will be established and the structural consolidation of public transport will begin
By January 1, 2012	Hungary will have launched the new system of public employment
By January 1, 2012	The new, sustainable pension system will be launched
	The amount of political parties' nominal funding will be frozen at the level of 2011
	As soon as the new Constitution goes into effect, we will implement a system aimed at tax reduction
On September 1, 2012	The new Act on public education will enter into force

Originally planned date	Action
Starting September 1, 2012	The new system of higher education will be launched
On January 1, 2013	New electronic toll system which will be based on road utilisation will be launched
From 2014	Hungary will vote a 200-strong National Assembly

Source: Parliament and Ministry for National Economy

On May 24, 2011, Prime Minister Mr. Viktor Orbán announced that Hungary will purchase shares of the Hungarian oil company MOL amounting to 21.2% of total shares worth EUR 1.88 billion. The purchase was effective as of July 6, 2011.

On May 30, 2011, Prime Minister Mr. Viktor Orbán announced that the Government had reached an agreement with the Banking Association. According to the announcement, households would be entitled to pay foreign currency denominated mortgage debt service at a fixed exchange rate. In case of EUR, the exchange rate would be HUF 250/EUR; in case of Swiss franc, the exchange rate would be HUF 180/CHF; and in the case of Japanese Yen, the exchange rate would be HUF 2/JPY. The difference between the actual and the fixed exchange rate would be financed by the bank in HUF. The debtor would start repaying this debt in 2015. The Government would set up a company that would build residential buildings and would buy and re-lend part of the homes of the households in serious indebtedness. The moratorium for foreclosures would be abolished gradually and a quota would be set. In case of buildings worth more than HUF 30 million, the moratorium ended on July 1, 2011. In case of buildings worth less than HUF 30 million a quota would be set up for each quarter. In the 4th quarter of 2011 2% of such buildings can be sold; in the 1st quarter of 2012 3%; in the 2nd quarter of 2012 4%; in the 3rd quarter of 2012 5% of such buildings can be sold. Afterwards 5% of such buildings can be sold quarterly. Financial intermediaries would be able to issue loans denominated in foreign currency but only to clients with income exceeding 15 times the average wage. Interest payments would be subsidised by Hungary in case the debtor sells the residential building in order to move to a smaller residential building.

The following table sets forth the quotas and the exploitation rates for the periods indicated.

	Basis of the quota	Number of retail properties that can be designated according to the quota	Number of retail properties designated for forced liquidation	Utilisation of the quota (%)
2011 Q4	100,268	2,664	1,928	72.4 %
2012 Q1	99,771	3,564	2,943	82.6 %
2012 Q2	107,180	3,802	3,177	83.6 %
2012 Q3	113,840	4,053	2,866	70.7 %

Source: HFSA

On June 9, 2011, the Government decided to sell Hungary's 25% share of Budapest Airport to Hochtief AG for HUF 36.6 billion. The sale was completed on June 17, 2011.

On July 28, 2011, the European Union declared that certain Hungarian legislation concerning VAT violates the legislation of the European Union. As a result, Hungary will have to pay back certain withheld value-added tax receipts to private enterprises. According to calculations compiled by the Ministry of National Economy, the effect would be approximately HUF 255 billion additional expenditure.

On September 6, 2011, Prime Minister Mr. Viktor Orbán announced that additional deficit reduction measures amounting to approximately HUF 100 billion are needed to achieve the deficit target for 2011.

In order to achieve the deficit target, the government announced measures aimed at amending the budget position by HUF 100 billion. These measures focus on four key fields. Due to the abuse of VAT regulations, the state loses an estimated HUF 600 billion in tax revenues each year. The Hungarian national tax authority is committed to boosting the focused collection of VAT liabilities from concealed incomes that will improve the balance of the budget by HUF 40 billion. The government will save another HUF 40 billion by speeding up the reform of public administration and by limiting public sector procurements. The government can ensure extra revenues by raising the excise tax on some goods and the tax on gambling. The budget will also benefit from dividends from foreign equities of the portfolio of private pension funds, and that will also contribute to improving the balance. The following table sets forth the expected results of the announced measures:

Field	Measure	Expected revenues
VAT	Improving efficiency of tax collection	HUF 40bn
State administration	Speeding up reform, limiting public procurements	HUF 40bn
Excise tax	Raising tax on gambling by 50%	HUF 1bn
	Raising tax on tobacco by 7%	HUF 5bn
	Raising the excise tax of alcohol by 5%	HUF 1bn
	Raising tax on flavoured alcoholic beverages by 50%	
	Raising the excise tax on gasoline from 97 HUF to 110 HUF per litre	HUF 3bn
Dividends from shares	Dividends received from foreign equities by the private pension fund reform	HUF 10bn

Source: Ministry for National Economy

On September 12, 2011, Prime Minister Mr. Viktor Orbán announced that households would be entitled to repay their foreign currency denominated mortgage debt at a fixed exchange rate. In case of EUR the exchange rate would be HUF 250/EUR; in case of Swiss franc, the exchange rate would be HUF 180/CHF; and in the case of Japanese Yen, the exchange rate would be HUF 2/JPY. The creditors would not be forced to provide loans denominated in local currency to the debtor. In case of foreign currency denominated debt, the interest rate should be based on a reference interest rate, and the yield (according to standard national definition "THM") would be maximized at 30%. The banking sector should use a positive debtor list in case of natural persons. Subsequently on September 15, 2011 the Government announced that debtors should apply for repayment until the end of the year 2011.

On September 16, 2011, Minister for National Economy Mr. György Matolcsy announced that the general government deficit for the year 2012 is planned to reach 2.5% of GDP. Even as circumstances have changed, the Government is committed to uphold the deficit target of 2.5% of GDP. In order to achieve this, improvements in the budget balance totalling HUF 550 billion had been announced. The estimates of the budgetary effects of the measures were based on the expected economic environment described in the Széll Kálmán Plan. On the basis of recent developments, however, further measures are needed to improve the balance by HUF 1,000 billion. The majority of these measures will be achieved by the reduction of expenditures.

The Stability Fund of HUF 250 billion set up in February 2011 and additional measures of HUF 303 billion is meant to reduce expenditures. In addition, measures of HUF 445 billion would increase revenues.

Compared to 2011, the 2012 balance is expected to improve by an additional HUF 750 billion on top of the Stability Fund, which has been included in the base calculations for 2011. The amount of HUF 750 billion is comprised of two main items: an improvement of the budget balance by HUF 600 billion, and a new Financial Protection Fund of HUF 150 billion that provides a buffer in order to secure the targets in case of less favourable scenarios. This fund would be financed by higher VAT rates. A higher safety margin would be provided by the radical reduction of public debt, and the interest payments will decrease by HUF 50 billion, a figure which had not been included in the preliminary calculations. This amount, however, would remain a buffer to address unforeseen future events.

On October 12, 2011 Prime Minister Mr. Viktor Orbán announced that the Government plans to introduce a social benefit to encourage home ownership by families. The social benefit will be a one-time financial grant towards the building or purchase of a new home to a family if the family does not currently own a home and at least one of the parents has been employed in the previous six months. If the family builds a new house, the expenditures must be confirmed with receipts. Persons who owe money to the state (for example, overdue taxes) are not eligible for the social benefit. The grant would equal HUF 0.8-1.3 million for a family consisting of two children and parents, HUF 1.2-2.0 million for a family with three children, and HUF 1.6-2.5 million for a family with four or more children.

According to estimate of the Ministry of National Economy the total expenditures of the state related to this measure for the year 2012 will equal approximately HUF 5.2 billion. In addition to this initiative, the Government also plans to introduce interest payment support equal to HUF 1.3 billion in the year 2012.

On October 28, 2011 the Ministry of National Economy issued a summary on the projected effect of measures introduced during the course of the year 2011 on the budget for the year 2012. According to the summary, 83% of the savings planned in the Széll Kálmán Plan is included in the 2012 budget. The following table sets forth the impact of the measures introduced during the course of the year 2011 on the budget for the year 2012:

	Billion HUF	Per cent of GDP
Employment and labour market	158	0.54
Pension system	42	0.14
Public transport	26	0.09
Higher education	12	0.04
Health	83	0.29
Public and local government financing	44	0.15
Contribution to the Debt Reduction Fund	90	0.31
Total	455	1.56

Source: Ministry for National Economy

Further to the important structural reforms that mainly bring benefits in the medium to longer term, appropriations in the Budget Bill were determined in line with the prudent planning described in the Convergence Programme:

- Nominal wages have been frozen in the public sector. The wage supplement compensating for the abolishment of tax credits for low earners remains in effect.
- In addition to the freezing of family subsidies, other social transfers do not increase either.
- Appropriations of budgetary chapters are based on the levels decreased by the 2011 stability reserve, making those measures structural.

The following table sets forth the impact of the measures included in the Convergence Programme on the 2012 budget:

	Billion HUF	Per cent of GDP
Freezing wages with the compensation of low income employees for the elimination of tax credit	43	0.54
Freezing social benefits other than family benefits	8	0.03
Freezing chapter reserves of constitutional chapters and reserves of the Media Service and Asset Fund	13	0.04
Elimination of spending included in the "stability reserve"	241	0.83
Total	305	1.05

Source: Ministry for National Economy

On December 30, 2011, the debt of MÁV was partially taken over by Hungary in the amount of HUF 50 billion.

In view of the increased risks surrounding the macroeconomic projections, the Budget Bill includes substantially higher reserves than what was assumed in the Convergence Programme. Apart from the general reserve (HUF 100 billion) to be used for exceptional measures by the government, i.e., to cover unforeseeable expenditures and/or revenue shortfalls, a new, special reserve for interest expenditures (HUF 50 billion) caters for any risks arising from potentially adverse global financial market developments. Furthermore, an additional safety reserve of HUF 150 billion (0.5% of GDP) is set aside to tackle any unexpected revenue shortfalls or expenditure overruns due to possibly worsening macroeconomic conditions. Sensitivity analyses suggest that a 1% slower GDP growth implies a deterioration of only around 0.4 percentage point, even if the deceleration is taking place in the worst structure, i.e., with the most negative effect on the balance (a weaker domestic demand). If a weaker growth path is accompanied by higher inflation, higher VAT revenues would partly offset the deterioration of the budget balance. On top of the overall HUF 300 billion (1% of GDP) effective reserves, additional earmarked reserves of HUF 154 billion (0.5% of GDP) are also included in the Budget, that cover principally the compensation related to the changes in the tax system.

In light of the weaker growth outlook and also due to the decision of the Government to create sizable extraordinary reserves in the budget, the measures included in the Convergence Programme would not have ensured the attainment of the deficit target (net of the reserves). Against this backdrop, the Budget Bill contains further balance improving measures both on the expenditure and revenue side.

The following table sets forth the impact of the additional measures not included in the Széll Kálmán Plan and/or the Convergence Programme on the 2012 budget:

	Billion HUF	As a percentage of GDP
Expenditure side		
Narrowing of tasks in chapter managed appropriations and increase of own resources (fee revenues)	35	0.12
Review and more efficient management of public tasks and duties reduction and abolishment of certain public tasks	110	0.38
Reduction of social subsidies granted at local level (decrease in employment substitute benefit)	18	0.06
Reduction of spending related to public assets	5	0.02
Expenditure reduction	168	0.58
Revenue side		
Increase of the standard VAT rate from 25% to 27%	140	0.48
Increase of excises (tobacco* alcohol gasoline)	42	0.14
Increase of gambling tax and taxing of on-line gambling	32	0.11
Increase in employee's contribution by 1 percentage point and broadening of the base of contributions	112	0.38
Broadening of the PIT base	16	0.05
Stricter condition on accounting losses in the CIT and increase of the company car tax	50	0.17
Increase of tax on unhealthy foods and broadening of tax base	10	0.03
Introduction of (insurance) tax on car accidents	27	0.09
Increase of other fees	11	0.04
Increase of product fees	36	0.12
Change of licence plates	12	0.04
Revenue increase	488	1.68
Total additional adjustment	656	2.25

Source: Ministry for National Economy

* The impact of the increase of excise duty on tobacco was partly already included in the Convergence Programme projections.

On November 17, 2011 the Government announced that within the regular annual economic policy consultations with the IMF, the Government has launched negotiations about this type of cooperation.

On December 15, 2011 the Government announced new measures to achieve the deficit target for 2012. The new measures seek to compensate for a lower growth and weaker exchange-rate targets for 2012. The government rebased its 2012 budget on economic growth of 0.5% and an exchange rate of 299HUF/EUR. The new assumptions mean that a gap of HUF 320 billion must be covered in order to achieve the targeted deficit. New measures include tapping HUF 200 billion of reserves while generating an extra HUF 120 billion by diverting private-pension contributions next year, raising HUF 20 billion by raising the excise duty on tobacco products and cutting HUF 52 billion from ministry reserves intended to cover unforeseen expenditures. According to the announcement, the future of the entire pension system should be reconsidered. The government had approved measures aiming to keep the budget deficit at 2.5% of GDP for the year 2012.

On December 15, 2011 the Government and the commercial banks of Hungary concluded an agreement on the bail-out of mortgage debtors indebted in foreign currency. In case of debtors with an at least 90 days delinquency 25% of the debt is remitted in case the mortgage was backed by real estate worth HUH 20 million maximum. In case of debtors with less than 90 days delinquency a fixed-rate repayment schedule will be set up. According to the calculations of the Government the losses stemming from the depreciation of the Forint will be born by the state by one-third, the lender by one-third and the debtor by one-third in case the foreign exchange rate do not exceed a threshold. In case the exchange rate exceeds the thresholds of 270HUF/CHF, 340HUF/EUR or 3.3HUF/JPY the losses stemming from the depreciation of the Forint to the thresholds of 270HUF/CHF, 340HUF/EUR or 3.3HUF/JPY will be born by the state, the debtor and the lender on an equal basis. The losses stemming from the depreciation of the Forint over the thresholds of 270HUF/CHF, 340HUF/EUR or 3.3HUF/JPY will be born by the state exclusively. Commercial banks will be entitled to reduce the surtax by one-third of their losses stemming from the fixed-rate repayment schedule.

On December 16, 2011, the delegation representing the EU and the IMF suspended the negotiations with the Government of Hungary.

As of December 31, 2011, out of the financial assistance package provided by the IMF, SDR 0.1 billion was used for the bank rescue package, SDR 0.9 billion was used in form of loans to banks, and SDR 3.2 billion was used for sovereign debt service. Meanwhile, out of the financial assistance package provided by the EU, EUR 5.5 billion was used for sovereign debt service. The NBH had also drawn down SDR 1.3 billion from the IMF facility as of December 31, 2011.

On January 5, 2012, the Hungarian Government indicated it would conclude an EU-IMF financial assistance package within a reasonable time.

On January 9, 2012, the Ministry for National Economy published the preliminary general government deficit (excluding local governments) for the year 2011, in accordance with GFS methodology. According to the preliminary data available in January 2012, the deficit reached HUF 1,734.4 billion.

On January 11, 2012, the European Commission commenced legal action against Hungary over new legislation that came into force on January 1, 2012. The infringement proceedings concern the following three areas: the independence of the judiciary as regards mandatory early retirement of judges and prosecutors at the age of 62 instead of 70; the independence of the national data protection authority; and the independence of NBH.

On February 21, 2012, the Government announced deficit contracting measures to secure the deficit targets for the year 2012 and 2013. According to the decree of the government the ministers of the corresponding portfolio should elaborate proposals to

1) cut the amount of drug subsidies for the year 2012
2) additional savings for the year 2013
3) cut the expenditures related to the public transportation in the capital of Hungary
4) introduce the electronic road toll system in the middle of the year 2013
5) cut the expenditures of chapter-administered appropriations and other central government expenditures
6) a partial suspension of public procurements

On February 22, 2012, the European Commission proposed to freeze transfers from the Cohesion Fund in the amount of EUR 495 million for the year 2013 as a consequence of non-compliance concerning the Excessive Deficit Procedure against Hungary.

On March 6, 2012, the European Commission accepted proposals to Hungary to ensure the deficit target for the year 2012.

On March 13, 2012, the ECOFIN approved the European Commission's proposal of February 22, 2012 to freeze transfers from the Cohesion Fund.

Subsequently on May 30, 2012, the European Commission published the final recommendation for a Council Recommendation on Hungary's 2012 national reform programme and delivered a Council opinion on Hungary's convergence programme for 2012-2015. According to the final recommendation, Hungary should take the following actions:

1. Correct the excessive deficit by 2012 in a durable manner, by implementing the 2012 budget and reducing reliance on one-off measures. Thereafter, specify all structural measures necessary to ensure a durable correction of the excessive deficit and to make sufficient progress towards the medium-term budgetary objective, including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark. To mitigate the accumulated macroeconomic imbalances, put the public debt ratio on a firm downward path.

2. Revise the Cardinal Act on Economic Stability of Hungary by putting the new numerical rules into a binding medium-term budgetary framework. Continue to broaden the analytical remit of the Fiscal Council, with a view to increasing the transparency of public finances.
3. Make the taxation of labour more employment-friendly by alleviating the impact of the 2011 and 2012 tax changes on low earners in a sustainable, budget-neutral manner, for example, by shifting part of the tax burden to energy taxes and recurrent taxes on property. Strengthen measures to encourage women's participation in the labour market, particularly by expanding childcare and pre-school facilities.
4. Strengthen the capacity of the Public Employment Service to increase the quality and effectiveness of training, job search assistance and individualised services, with particular regard for disadvantaged groups. Strengthen the activation element in the public work scheme through effective training and job search assistance. Implement the National Roma Integration Strategy, and mainstream it with other policies.
5. Implement measures envisaged to reduce the administrative burden. Ensure that public procurement and the legislative process support market competition and ensure a stable regulatory and business-friendly environment for financial and nonfinancial enterprises, including foreign direct investors. Reduce tax compliance costs and establish a stable, lawful and non-distortive framework for corporate taxation. Remove unjustifiable restrictions on the establishment of large-scale retail premises. Provide specific well-targeted incentive schemes to support innovative small- and medium-sized enterprises in the new innovation strategy.
6. Prepare and implement a national strategy on early school-leaving by ensuring adequate financing. Ensure that the implementation of the higher education reform improves access to education for disadvantaged groups.
7. Reform the public transport system to make it more cost efficient. Increase the crossborder capacities of the electricity network, ensure the independence of the energy regulator and gradually abolish regulated energy prices.

On March 7, 2012, the European Commission announced that it would take the next step in the infringement procedure against Hungary relating to the independence of the data protection authority and in the case of lowering the retirement age of judges. In the procedure relating to the independence of NBH, the European Commission has requested additional information from the Government of Hungary.

On March 22, 2012, The Hungarian Government announced that the European Commission did not accept the legal arguments of the Hungarian reply of 29 November 2011, which had responded to the detailed EC statement in regard to the infringement procedure on the extra tax for the telecom sector, and it decided to refer the case to the European Court of Justice. However, the Hungarian government is convinced that the Hungarian regulations currently in force are fully compliant with EU law.

On April 2, 2012 the fixed exchange rate loan system for FX debtors was opened. According to the announcement of the Ministry for National Economy the objective of the fixed exchange rate loan system is to cushion the impact of the substantial volatility of the exchange rates of certain foreign currencies and make more calculable the situation of FX debtors. People involved could request participation in the scheme beginning April 2, 2012 from the financial institution which has provided the loan. According to the conditions of the fixed exchange rate loan system, the difference between instalments calculated at a fixed exchange rate and the instalments which are payable according to the actual exchange rate will be booked at two separate accounts. At one of them the difference between the principal repayments and at the other the interest repayment liabilities according to the fixed rate scheme and the actual exchange rate will be registered. Debtors are exempt from paying the latter. The joint capital account which registers the liabilities of a customer will charge interest on the basis of interbank rates and consequently at a discounted rate. A debtor who albeit assuming more difficulties but can still pay the instalments in spite of the higher Swiss franc exchange rate had better continue to repay according to the original contract conditions. Therefore, the fixed exchange rate loan system is the most optimal solution for debtors who have been in such a situation by now which make it impossible for them to repay their debt in the near future according to the statement.

On April 2, 2012, the CSO published the preliminary general government balance (including local governments) for the year 2011, in accordance with ESA methodology. In 2011, the surplus reached HUF 1,180.1 billion, equalling 4.2% of the preliminary 2011 GDP.

From the assets of private pension funds – except for real returns and additional membership fees – HUF 2,677.7 billion, and related to this, HUF 44.0 billion of other revenues were accounted in the system of national accounts as the revenues of the general government sector in 2011. Without the transfer of assets of private pension funds the revenues of the general government sector amounted to HUF 12,161.7 billion, the deficit to HUF 1,541.6 billion, the latter of which is 5.5% of GDP. The deficit increased by HUF 395.5 billion, 1.2 percentage points of GDP compared to 2010.

Simultaneously, the NBH published the preliminary general government debt figure (including local governments) as of the end of 2011, in accordance with ESA methodology. The debt reached HUF 22,692 billion, equalling 80.6% of the preliminary GDP for the year 2011.

The following table sets forth those legislative measures that have been undertaken to implement the Széll Kálmán Plan as of October 1, 2012:

Date	Action
February 1, 2012	The new public employment system has been launched.
On April 3, 2012	The Government made a resolution on government guarantee for a maximum amount of HUF 63 billion to support the surety of Municipality of Budapest provided as security to the restructuring loans of Budapest Public Transport Company (BKV).
September 1, 2012	The new system of higher education has been launched.
September 1, 2012	The new Act on public education entered into force.

On April 23, 2012, the Hungarian government adopted the programme entitled "Next Step: Széll Kálmán Plan 2.0", which includes the Convergence Programme and the National Reform Programme. In 2012 the first Széll Kálmán Plan aimed for a fiscal adjustment of HUF 550 billion, 83.4% of which was achieved according to the statement issued by the government of Hungary on April 23, 2012. The measures in the Széll Kálmán Plan 2.0 target additional fiscal adjustments totalling HUF 150 billion in 2012. According to the programme, 73% of the objectives of the first Széll Kálmán Plan – as a consequence of government measures – will be met by 2013, whereas in 2013 the government of Hungary will further improve the situation of the state budget by approximately HUF 600 billion (government estimate implies a range of HUF 567 billion – HUF 665 billion) through the Széll Kálmán Plan 2.0. Consequently, Hungary is carrying out a structural adjustment programme totalling 2% of GDP in 2012 and 4% of GDP in 2013.

The government of Hungary approved additional measures in April 2012 which are expected to bring the expected improvement of the general government deficit for the year 2012 together with the measures taken in February and the forecast of a better-than-calculated balance for the 2012 budget at the local government subsystem.

The following table sets forth the measures announced in the Széll Kálmán Plan 2.0 and their estimated effect on the general government deficit for the years 2012 and 2013, respectively:

	2012	2013
	(HUF billion)	
Reduction of expenditures of budgetary institutions, chapter-and other centrally administered appropriations	44.7	44.7
Reduction of pharmaceutical subsidies	10.0	40.0
Balance improvement of local governments	60.0	90.0
Introduction of a telecommunication services tax	30.0	52.0
Introduction of reverse charge VAT in agriculture	10.0	15.0
Launching the electronic road toll at an increased level	0.0	75.0
Reduction of central subsidies to metropolitan public transportation	0.0	10.0
Elimination of central subsidies to the Research and Technological Innovation Fund	0.0	25.2
Amendment of public tasks performed by state-owned companies	0.0	20.0
Introduction of a financial transaction levy	0.0	130.0-228.0
Maintaining and extending the income tax levied on energy providers	0.0	55.0
Merging and transforming current taxes levied on insurance companies	0.0	15.0
Reduction of the number of minor taxes	0.0	-5.0
Total:	154.7	567-665

Source: Ministry for National Economy

Furthermore, the surtax on financial institutions will be halved, in accordance with an agreement concluded between the government of Hungary and the Hungarian Banking Association. By implementing the Széll Kálmán Plan 2.0 the government of Hungary intends to finalise the transition to a tax system that enables reduction of taxes on labour by increasing taxes on consumption and sales. This would be a minor burden on individuals but would contribute significantly to the budget as a whole. The new tax measures are structural, and thus they will enable the government of Hungary to create sustainable stability on the revenue side of the budget.

The Széll Kálmán Plan 2.0 also includes the National Reform Programme of Hungary for 2012. The National Reform Programme introduces measures which aim to achieve the objectives of the Europe 2020 Strategy on the fields of labour market policy, research – development – innovation, climate policy and energy efficiency, education and social inclusion.

On April 23, 2012, the Parliament of Hungary accepted the Act on Takeover of Special Institutions for Inpatients of Local Governments and the Amendment of Certain Acts Related Thereto. Due to this Act, the assets and debt of 70 health care institutions shall be transferred to the central government. The date of devolution of the assets was May 1, 2012. The assumption of debt should have taken effect on July 31, 2012; however, the assumption agreements have not been settled as of September 20, 2012.

On April 25, 2012, the European Commission announced that according to the assessment of the European Commission Hungary has taken sufficient action and commitments to enter into negotiations on precautionary balance of payment assistance. This decision has been taken in light of commitments by Hungary, confirmed by Mr. Viktor Orbán, Prime Minister of Hungary on April 24, 2012 after his meeting with Jose Manuel Barroso, President of the European Commission, to take tangible steps to ensure compliance with EU law on all the issues that are relevant for the stable and independent legal environment that lies at the heart of investors' confidence and influences macroeconomic stability. Based on Hungary's reply to the European Commission's administrative letter on this matter, the European Commission agreed on April 25, 2012 to close the infringement case on the independence of the Central Bank once the relevant legislation is adopted. The Hungarian authorities have also committed to continue consultations with the European Central Bank in view of reaching agreement on the remaining open issues. Hungary has also committed to address promptly and fully the recommendations of the Venice Commission on key priority areas in the field of the judiciary reform. Before the negotiations regarding the EU-IMF financial assistance for Hungary can be concluded, the European Commission expects that the commitments to be fully implemented.

On May 11 2012, the Government submitted three new Bills (on Telecom Tax, on Uniform Insurance Tax, on Financial Transaction Duty Tax) to the Parliament of Hungary to introduce the taxes announced in the Széll Kálmán Plan 2.0.

On May 18, 2012, the Parliament adopted the Act on Telecom Tax. As of July 1, 2012, the telecom tax is imposed on calls via mobile phone and messages ('SMS' and 'MMS'). The tax rate is HUF 2 per minute and per message, though for individuals the first 10 minutes is tax-free in every month, and the tax is capped at HUF 700 for individuals and HUF 2,500 for companies per month.

On May 30, 2012, the European Commission adopted a proposal for a Council decision to lift the suspension of commitments from the Cohesion Fund for Hungary, after concluding that the country has taken the necessary action to correct its excessive deficit, in line with the Council Recommendation of March 13, 2012.

On June 14, 2012, the Government of Hungary approved the first draft of the budget for the year 2013. According to the first draft, the general government deficit for the year will equal HUF 660 billion, total revenues will equal HUF 14,840 billion, and total expenditures will equal HUF 15,500 billion. The draft budget was based on assumptions of a 4.2% inflation rate, 1.6% real growth rate and a foreign exchange rate of HUF 299.4/Eur.

On June 21, 2012, the Government of Hungary submitted a proposal for the Parliament to amend the legislation regarding NBH. The IMF announced that the IMF would examine the proposal together with the European Commission and the European Central Bank to determine if the proposal is sufficient to ensure central bank independence.

On June 28, 2012, Mr. Antal Rogán, the leader of the parliamentary faction of the majority governing party Fidesz announced that the Ministry for National Economy and the parliamentary factions of Fidesz and the minority governing party CDPP had concluded an agreement whereby the Government will reduce tax burdens in the amount of HUF 300 billion. Taxes on labour will be reduced in case of employees below the age of 25 and above the age of 55, and blue-collar workers. Small enterprises will be entitled to choose to pay a favourable tax instead of paying taxes normally. To cover the additional expenditures the Government will extend the base of the financial transaction duty; contrary to the original plans the Hungarian State Treasury and the Hungarian Central Bank will not be exempt from the tax. According to the calculations of the Ministry for National Economy this will generate an additional HUF 200 billion. According to the Ministry for National Economy the interest rate expenditures would be significantly lower than planned originally, covering an additional HUF 100 billion of revenue loss. Moreover the financial transaction duty would be capped at HUF 6000 per transaction except for transactions by the Hungarian State Treasury and the NBH. As a result the expected revenue would be HUF 140 billion instead of HUF 280 billion planned originally. The lower than expected interest revenues would cover HUF 50 billion of the revenue loss. The expected 2% real growth rate (higher than the 1.6% real growth rate planned originally) would cover the revenue loss in the amount of HUF 50 billion. Moreover the expected revenue from the financial transactions duty paid by the Hungarian State Treasury and the NBH would be HUF 40 billion higher than originally planned. As a result the measures will not increase the general government deficit.

On July 9, 2012, the Parliament adopted the Act on Financial Transaction Duty, which will go into effect on 1 January 2013. The new duty will be levied on those payment service providers (PSPs) which have their registered seat or branch office in Hungary, with special rules for the National Bank of Hungary. NBH shall pay the duty solely upon the issuance of NBH securities with a term not exceeding two weeks and upon accepting NBH deposits with a maturity of between one day and two weeks. The duty shall be paid monthly, and the general duty rate will be 0.1% of the amount of the financial transaction, however, the duty – with the exception of transactions by NBH or Hungarian Treasury or Settlement Center of the Post Office—cannot exceed HUF 6,000 per transaction. In the case of one day deposits at NBH, the duty rate will be 0.01%. Also on July 9, 2012 the Parliament adopted the Act on Uniform Insurance Tax in order to decrease the number of taxes imposed on insurance companies at present. This Act will go into effect on 1 January 2013, and by introduction of this new type of tax, the surtax imposed on insurance companies and the fire protection contribution will be abolished.

On July 12, 2012 the Parliament approved the principal figures of the budget for the year 2013. According to the decision the total revenues of the general government will amount to HUF 15,083 billion, the total expenditures will amount to HUF 15,733 billion. As a result, the general government deficit for the year 2013 will be HUF 653 billion.

On July 17, 2012 negotiations started among the Government of Hungary, the IMF and the EC; delegates from the European Central Bank took part in the negotiations as observers. The negotiations ended on July 25, 2012 as planned. According to the press release issued by the European Commission on July 26, 2012, the Hungarian Government's commitment to further fiscal consolidation is to be welcomed. At the same time, meeting the targets in the Convergence Programme in a durable and balanced manner as recommended by the European Council will require decisive steps. Moreover, in order to put the public debt ratio onto a firm downward path and maintain macroeconomic stability, a stable policy and institutional framework is needed based on a more business friendly environment and continued structural reforms that enhance growth and employment. According to the press release, the European Commission plans to continue the constructive negotiations with the authorities on these issues in cooperation with the IMF and the ECB in the period ahead.

On August 7, 2012, the Ministry for National Economy published the preliminary general government deficit (excluding local governments) for the first seven months of the year 2012, in accordance with GFS methodology. The deficit reached HUF 437.5 billion, equalling 75.9% of the planned deficit for the year 2012.

On September 6, 2012, the Ministry for National Economy published the preliminary general government deficit (excluding local governments) for the first eight months of 2012, in accordance with GFS methodology. The deficit reached HUF 559.5 billion, equalling 97.1% of the targeted deficit for the year 2012.

On September 7, 2012, the Bill on Second Amendment to Fundamental Law (New Constitution of Hungary) was introduced to the Parliament. Pursuant to such Amendment, the retirement age of the judges and prosecutors will be modified from 62 (general retirement age) to 65 years; however, the retirement age of heads of courts and judicial divisions will be 62 years.

On September 11, 2012, the Bill on amendment to the Act on Central Budget of Hungary for year 2012 was adopted by the Parliament, which provides for a HUF 150 billion loan to Hungarian Eximbank provided by the state as owner.

Central Government Budget

The following table sets forth information concerning central government revenues and expenditures for the final budget for the years 2007, 2008, 2009, 2010 and 2011, and the planned and preliminary budgets for 2012:

Central Government Revenues and Expenditures[(1)]

	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Planned	2012 Expected
				(HUF billions)			
Revenues							
Payments of Economic Units							
Corporate taxes (including financial institutions)	700.3	699.9	597.2	343.9	352.0	424.3	425.8
DPTT	31.5	38.8	26.6	108.9	111.5	94.0	110.0
Gambling tax	71.5	72.7	66.7	53.4	51.6	78.4	58.4
Eco tax	19.9	25.2	23.9	23.5	23.5	26.4	25.9
Simplified business tax	152.8	166.5	169.7	181.9	172.3	225.0	170.0
Other central payments	124.1	139.2	111.6	44.1	108.6	178.5	178.5
Other payments	19.3	30.1	21.7	36.3	32.0	33.0	33.0
Surtax on Financial Institutions	0.0	0.0	0.0	182.3	186.5	187.0	51.2
Surtax on Retail, Telecommunications and Energy Sectors	0.0	0.0	0.0	151.7	171.9	155.0	160.0
Total	1,119.2	1,172.4	1,017.5	1,125.8	1,209.9	1,401.6	1,212.8
Taxes on Consumption							
Value added tax	1,979.4	2,114.1	2,168.5	2,313.6	2,219.5	2,722.0	2,867.6
Excises	912.0	929.7	902.4	886.6	909.6	927.9	919.5
Public health production tax					3.3		
Telecom levy							14.7
Total	2,891.4	3,043.8	3,070.9	3,200.1	3,132.3	3,649.9	3,801.8
Payments of Households							
Gross PIT revenues	1800.0	1,998.9	1,874.2	1,767.9	1,382.8	1,574..3	1,521.0
PIT revenues of central budget([1])	1,697.3	1,872.4	1,744.4	1,632.0	1,256.4	1,461.2	1,407.8
Private persons' special tax	20.8	27.6	25.5	6.1	0.3	0.0	0.0
Tax payments	5.6	5.8	8.3	3.0	0.2	0.2	0.2
Fees	118.8	131.0	112.2	83.5	75.3	102.5	98.5
Other Revenues					3.7	0.2	1.4
Total	1,945.3	2,163.3	2,020.2	1,860.5	1,462.3	1,677.2	1,621.0
Central Budgetary Institutions and Chapter Administered Appropriations							
Revenue of the central budgetary institutions	828.8	778.2	794.2	890.6	925.7	952.1	1,252.1
Own revenues of chapter administered professional appropriations	150.8	144.5	227.9	165.3	353.8	16.1	90.9
EU support of chapter administered professional appropriations	287.4	329.0	602.7	814.0	890.1	1,527.7	1,357..9
Total	1266.9	1,251.7	1,624.8	1,869.9	2,169.6	2,495.9	2,700.9
Payments of Central Budgetary Institutions	49.5	94.4	65.5	57.3	45.5	32.3	33.3
Contribution to National Social Fund						17.7	17.7
Payments of Local Governments	11.3	17.0	14.9	11.6	7.2	0.0	6.6
Payments of Extrabudgetary and Social Security Funds	135.9	143.4	146.1	8.0	0.0	0.0	0.0
Revenues of International Transactions	3.5	1.5	2.1	1.3	4.2	0.6	0.4
Payments Related to State Property	48.8	71.7	143.4	71.0	40.0	50.4	106.8
Other Revenues	20.3	47.7	39.9	125.2	39.5	19.3	8.6
Revenues Related to Debt Service	0.2	9.7	0.1	0.0	0.0	0.0	0.0
Lump Sum Cash Flow Facility from EU	0.0	51.1	28.7	-8.7	22.9	39.8	20.1
Customs and import duties	9.2	9.8	8.2	8.6	9.6	8.8	9.3
Pension Reform and Debt	0.0	0.0	0.0	0.0	95.6	0.0	0.0

Reduction Fund							
Total Revenues[2]	*7,501.6*	*8,077.3*	*8,182.1*	*8,330.7*	*8,238.7*	*9,393.5*	*9,539.3*
Interest Revenues	92.7	82.0	142.3	130.5	103.5	59.3	112.0
Total Revenues(3)	7,594.3	8,159.3	8,324.3	8,461.1	8,342.2	9,452.8	9,651.3
Expenditures							
Subsidiaries to Economic Units	197.4	203.1	178.6	201.4	212.0	237.5	236.6
Support to the Media	52.2	51.3	53.7	45.8	53.7	61.8	61.8
Consumer Price Subsidy	111.9	107.6	107.4	107.3	108.3	93.0	94.0
Housing Grants	228.5	185.6	199.3	147.4	129.1	120.1	168.3
Family Benefits Social Subsidiaries							
Family benefits	508.1	503.0	464.6	461.5	454.9	456.1	453.3
Income supplement benefits	151.7	156.6	149.9	144.1	136.6	68.0	64.1
Under-age benefits						303.7	290.7
Other specific subsidies	26.5	26.3	26.5	26.8	27.5	24.9	29.6
Total	686.3	685.9	641.0	632.4	618.9	852.6	837.6
Central Budgetary Institutions and Chapter Administered Appropriations							
Expenditures of central budgetary institutions	2,382.6	2,348.9	2,239.2	2,371.7	2,521.0	2,415.7	2,795.9
Chapter administered professional appropriations	1,814.5	1,647.0	1,808.0	1,833.1	2,209.7	2,445.6	2,422.7
Central investment	37.3	0.0	0.0	0.0	0.0	0.0	0.0
Chapter balance reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	4,234.4	3,995.8	4,047.2	4,204.8	4,730.7	4,861.4	5,218.6
Support to Political Parties and Other Civil Organisations	5.2	5.2	5.3	5.0	3.8	3.8	3.8
Transfer to Social Security Funds	777.8	835.0	913.8	1,147.5	637.8	675.5	679.2
Transfer to Local Governments							
Direct transfer from the budget	1,251.9	1,295.3	1,178.5	1,123.5	1,069.2	916.8	938.5
Yielded PIT revenues	102.6	126.4	129.9	135.9	126.4	113.1	113.1
Total	1,354.5	1,421.7	1,308.4	1,259.4	1,195.6	1,029.9	1,051.6
Transfer to Extrabudgetary Funds	27.9	32.8	40.6	17.6	89.1	72.5	93.8
Expenditures of International Transactions	14.6	14.2	9.5	2.6	0.9	2.3	4.7
Debt Service Related Expenditures	10.3	20.6	18.4	9.9	11.8	13.7	13.7
Other Expenditures	22.5	26.1	22.6	29.4	14.7	18.2	18.7
Reserves						412.1	28.4
Extraordinary Expenditures	73.2	16.0	16.9	9.2	266.0	10.0	10.0
Government Guarantees Redeemed	10.3	17.1	20.4	33.5	29.4	40.2	46.3
Contribution to EU Budget	189.5	210.6	223.7	230.2	233.0	264.3	264.3
Expenditures Related to State Property	0.0	67.0	99.3	95.4	633.3	114.6	146.2
Interest Payments	995.7	1,133.5	1,161.8	1,136.4	1,101.1	1,163.0	1,226.0
Total Expenditures	8,992.3	9,029.3	9,067.9	9,315.1	10,069.3	10,046.6	10,203.7

Source: Ministry of Finance

Notes:—

(1) The PIT share to local governments will be reduced from 40% to 8% in 2012; base corrections between 2007 and 2011: the yearly differences have been moved from Own revenues into Subsidies.

(2) Excluding interest revenues.

(3) Including interest revenues

Central Government Budget Process

The Ministry for National Economy is responsible for preparing the central government budget on a calendar year basis for the Government. The Government submits the central government budget to Parliament for consideration and ultimate approval. The annual central government budget for each coming year is supposed to be approved prior to the beginning of the relevant year. If Parliament does not approve the budget by such time, the Government is obliged to propose a bill on an interim central government budget without delay. If the bill on the interim central government budget is not approved by Parliament either, the Government is entitled to collect revenues due to the central government budget in accordance with the laws then in force and to make expenditures in line with the central government budget for the preceding calendar year.

Within eight months following the end of each calendar year, the final accounts for the preceding year are compiled by the Government and are submitted to Parliament for final approval.

The major components of revenue under the central government budget are comprised of taxes imposed on consumption (including VAT), enterprise taxes and taxes on households (primarily personal income taxes). The major expenditure items of the central government budget are comprised of debt service and transfers to the social security funds, budgetary institutions, local governments and extra-budgetary funds.

Roles of the Ministry for National Economy, the Hungarian State Treasury and the Government Debt Management Agency

As of May 29, 2010, the Ministry for National Economy assumed responsibility from the Ministry of Finance for supplying information to support the Government's decision-making and for coordinating issues falling within the Government's scope of authority in relation to public finances. See "*Hungary – Political System – Government*". Specific responsibilities include the preparation of the bill on the final accounts of the central government and the central government budget, which is presented to the Parliament each calendar year.

The Ministry for National Economy is required to ensure the execution of the central budget, the solvency of the central government, the financing of the central government and the recording of government debt, including guarantees granted and sureties undertaken by the Government, and loans and claims of the central government. These tasks are executed through the Treasury, and debt and liquidity management tasks are carried out by Államadósság Kezelő Központ Zártkörűen Működő Részvénytársaság, a special government debt management agency (the Government Debt Management Agency Private Company Limited by Shares or "**GDMA Pte Ltd.**").

The Treasury was established on January 1, 1996 as a central budgetary organisation. The legal and professional supervision of the Treasury is performed by the Ministry for National Economy. Within its budget execution responsibilities, the Treasury's main task is the management of budget appropriations and government cash flows and the determination of the daily financing needs of the central government. The management of budget appropriations includes the registration of annual appropriations, the monitoring of their changes and the right to authorise payments from appropriated amounts.

The cash management duties of the Treasury include account management for the budgetary institutions, which, in accordance with the Act on Public Finances, are obliged to keep their accounts with the Treasury. The Treasury administers the Single Treasury Account, which is the cash account of the Treasury held at the NBH.

The Treasury's responsibilities also include the provision of funds for public investments, the transfer of contributions and subsidies to municipalities, and the management and collection of loans and other claims of the central government.

The Government's borrowing needs are financed by the GDMA Pte Ltd. The Finance Minister established the GDMA Pte Ltd. in order to concentrate debt management functions into one organisation. Accordingly, the GDMA Pte Ltd. manages, renews and records the Forint and foreign exchange debt of the central government and, pursuant to the amendment of the Public Financing Act of 2003, manages the liquidity of the Single Treasury Account. In the context of liquidity management, the GDMA Pte Ltd. introduced new secondary market operations (such as repurchase transactions on the domestic securities market).

In the domestic market, the responsibilities of the GDMA Pte Ltd. include the administration of auctions and subscriptions, and the development of the institutional framework and structure of government securities markets. Further, the GDMA Pte Ltd. provides easily accessible, up-to-date information on the government securities markets and on financing of Hungary's borrowing needs in order to encourage transparency. With respect to foreign debt management, the GDMA Pte Ltd. acts in the name of Hungary in raising funds, manages the foreign exchange debt of the central government, ensures promptness and accuracy in respect of debt service payments and effects hedging transactions to reduce risks.

Taxation

The current Hungarian taxation system was introduced in 1988. The most important elements of the Hungarian tax system are corporate profit tax, personal income tax, value added tax, excise duty and local taxes. The Hungarian tax system has undergone moderate changes in recent years in an effort to improve competitiveness and to harmonise the Hungarian tax system with EU standards.

Hungarian tax law distinguishes between domestic and foreign taxpayers. The tax liability of a domestic taxpayer extends to income originating from both Hungary and abroad, while the tax liability of a non-Hungarian taxpayer is restricted to its Hungarian source of income as defined by the respective Hungarian tax law and is also generally affected by the applicable double taxation treaty. Hungary has entered into a double taxation treaty with more than 60 countries, including almost all of the OECD countries. Of the OECD countries, Hungary does not have a double taxation treaty with New Zealand and Mexico.

Hungary, like many developing countries, has a substantial "shadow" economy, which is able to avoid paying taxes. However, such "shadow" economy has diminished in recent years, as evidenced by increases in tax receipts that have outpaced GDP growth. Further improvement is expected as larger companies and multinational enterprises assume a greater role in the Hungarian economy.

On July 9, 2012, the Parliament adopted the Act on Financial Transaction Duty, which will go into effect on January 1, 2013. The new duty will be levied on those payment service providers (PSPs) which have their registered seat or branch office in Hungary, with special rules for the NBH. NBH shall pay the duty solely upon the issuance of NBH securities with a term not exceeding two weeks and upon accepting NBH deposits with a maturity of between one day and two weeks. The duty shall be paid monthly, and the general duty rate will be 0.1% of the amount of the financial transaction, however, the duty – with the exception of transactions by NBH or Hungarian Treasury or Settlement Center of the Post Office – cannot exceed HUF 6,000 per transaction. In the case of one day deposits at NBH, the duty rate will be 0.01%. Also on July 9, 2012 the Parliament adopted the Act on Uniform Insurance Tax in order to decrease the number of taxes imposed on insurance companies at present. This Act will go into effect on January 1, 2013, and by introduction of this new type of tax, the surtax imposed on insurance companies and the fire protection contribution will be abolished.

Corporate Profit Tax and Corporate Dividend Tax

As of January 1, 2010, the general corporate tax rate on profits increased from 16% to 19%, but taxpayers may take advantage of certain tax preferences. As of July 1, 2010, the availability of the lower 10% corporate tax rate for companies generating revenues of up to HUF 50 million was expanded to apply to companies generating revenues of up to HUF 500 million. Domestic entities receiving dividends are exempted from Hungarian dividend tax. A foreign entity receiving dividend, interest and royalties from a local source is not subject to withholding tax. Pursuant to legislation enacted by Parliament on November 16, 2010, from January 1, 2013 the corporate tax rate will be reduced to a flat rate of 10%.

Personal Income Tax

Until 2005, Hungary had a three-tier graduated personal income tax rate structure with rates of 18%, 26% and 38%. On January 1, 2005, the second tier personal income tax rate (26%) was abolished. In January 1, 2006, the upper tier rate was reduced from 38% to 36%. In January 2009, the personal income tax base broadened, while the first tier rate decreased from 18% to 17% and the upper tier rate decreased from 36% to 32%. As of January 1, 2010, the tax bracket was increased from HUF 1.9 million to HUF 5 million and the basis of tax payment was simultaneously broadened.

As of January 1, 2011, Hungary's personal income tax rate structure was simplified with the introduction of a one-tier tax rate system, with a flat tax rate of 16% on personal income.

Value Added Tax

As of September 1, 2006, the 15% VAT rate (VAT rate lower than the standard rate imposed on certain items) was increased to 20%, while the standard VAT rate decreased from 25% to 20%, and the 5% rate on special needs items (e.g., medicine and books) remained unchanged. As of July 1, 2009, the standard VAT rate was increased to 25%. A reduced 18% VAT rate was introduced with respect to certain basic food items. Currently, there is no tax imposed on some services (e.g., postal and financial services). The current Hungarian VAT system is fully harmonised with all relevant applicable EU Directives. The standard VAT rate was increased to 27% as of January 1, 2012.

Registration Tax

Registration tax has been levied on the registration of cars since February 2004; however, in line with a recent decision of the European Parliament, this tax will be abolished gradually by 2016.

Excise Tax

An excise duty is levied on the manufacturing, importing, warehousing, storage and distribution of mineral oils, alcoholic products, beer, wine, champagne, intermediary alcohol products and tobacco products. As of January 1, 2010, excise duty levied on petrol and alcoholic beverages increased by 10% and on diesel by 7.6% and the minimum tax on cigarettes decreased by 8.3%. As of November 1, 2011, excise duty levied on gasoline increased by 13%, on alcohol spirits increased by 5%- 50%, on cigarettes increased by 8% and on tobacco increased by 12%.

Luxury Tax

In January 2006, the Government introduced a tax on the purchase of expensive residential buildings with a value in excess of HUF 100 million. On December 17, 2008, the Constitutional Court of Hungary held the Act on Luxury Tax to be unconstitutional and set aside the regulation retroactively. As of January 1, 2010, a new tax was levied on certain assets of high value (e.g., residential real property, watercraft, aircraft and high performance cars). On January 28, 2010, the Constitutional Court of Hungary in its final and non-appealable decision, ruled that such law imposing taxes on high-value residential real property is unconstitutional under the laws of Hungary due to uncertainties in assessing the market value of residential real property. The Constitutional Court did not overturn the tax on other high-value assets (e.g., watercraft, aircraft and high performance cars). As of August 16, 2010, the tax on high-value assets (e.g., watercraft, aircraft and high performance cars) was abolished by the Government.

Solidarity Surtax

As of January 1, 2010, the Government abolished the 4% solidarity surtax, which was in effect since September 1, 2006 and was payable by entities subject to corporate tax and natural persons with incomes above a certain level.

Surtax on Financial Institutions

On July 22, 2010, the Parliament adopted an act imposing a special tax on financial institutions on their 2010 income or adjusted balance sheet as of December 31, 2009 or the sum of the net value of managed funds and other managed portfolio assets. Such surtax will also be levied for the year 2011 and is applicable to all financial institutions (both domestic and foreign) with at least one set of annual financial statements prepared by July 1, 2010, including banks, insurance companies and other financial sector enterprises (e.g., investment companies, stock exchanges, commodity exchange service providers, venture capital fund managers, investment fund managers), including branches. The Government intends to maintain the financial institution surtax in 2012, with the scope, rate and base to be determined by future legislation.

The tax base and rate vary according to the type of institution as follows:

Type of Institution	Tax Base and Rate
Banks	0.15% of the adjusted balance sheet total up to HUF 50 billion and 0.5%([1]) of amounts in excess of such threshold
Insurance companies	6.2%([2]) of the adjusted premium income
Financial enterprises	6.5% of interest and 6.5% of fees and commission income
Investment companies	5.6% of the adjusted net income
Stock exchanges	5.6% of the adjusted net income
Commodity exchange service providers	5.6% of the adjusted net income
Venture capital fund managers	5.6% of the adjusted net income
Investment fund managers	0.028% of the sum of the net value of managed funds and other managed portfolio assets

Notes:—

(1) As of 2011, such tax rate has been increased to 0.53%.

(2) As of 2011, such tax rate has been replaced by a three-tier progressive tax rate structure with rates of 1.5%, 3.0% and 6.4%. The lowest tier extends up to HUF 1 billion, the middle tier from HUF 1 billion up to HUF 8 billion, and the highest rate on income exceeding HUF 8 billion.

According to the agreement concluded on December 15, 2011 the surtax imposed on credit institutions can be reduced by certain loss items arising from the fixed rate repayment schedule.

Surtax on Retail, Telecommunications and Energy Sectors

On October 20, 2010, the Parliament adopted an act approving a surtax on retail businesses, telecommunications companies and energy supply companies. Retail businesses are subject to a progressive tax at 0.1% on net sales revenues between HUF 500 million and HUF 30 billion, 0.4% between HUF 30 billion and HUF 100 billion, and 2.5% above that level. Telecommunication companies are subject to a 4.5% tax on annual net sales revenues between HUF 500 million and HUF 5 billion and 6.5% on the excess above HUF 5 billion. Energy supply companies, which are already subject to a special surtax of 8% on adjusted net profits in addition to the standard corporate income tax rate, are now subject to an additional 0.3% tax on annual net sales revenues up to HUF 5 billion and 1.05% on revenues exceeding HUF 5 billion. According to the Government's current plans, these special taxes will remain in effect for three years.

Surtax on certain products endangering public health

As of September 1, 2011 a new Act has gone into effect that introduces a surtax on certain products containing high level of sugar or salt. Such surtax is payable by the person or legal entity selling the product for the first time in Hungary (e.g., the Hungarian manufacturer or the importer). The rates of the surtax vary by the type of the product as follows:

Type of product	Tax Rate
Soft drinks	HUF 5 per litre
Energy drinks	HUF 250 per litre
Pre-packaged product with high level of sugar	HUF 100 per kilogram
Salted snacks (e.g., chips)	HUF 200 per kilogram
Food flavouring mixes	HUF 200 per kilogram

Other Central Government Revenues

Customs duties are imposed on goods imported from outside the European Union in accordance with the EU customs code. The central government levies duties on the acquisition of real estate, cars and certain other products and also on certain administrative procedures.

Local Taxes

Local taxes vary between municipalities. Local governments are permitted to assess local business tax and various property taxes.

Social Security and Extra-Budgetary Funds

The social security funds consist of two funds: the pension fund and the health fund. The following table sets forth the revenues and expenditures for social security and certain extra-budgetary funds:

Social Security and Extra-Budgetary Funds, Revenues and Expenditures

	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Planned	2012 Expected
				(HUF billions)			
Social Securities Fund							
Revenues	4,318.7	4,302.8	4,128.9	4,299.6	4,451.7	4,449.7	4,446.5
Expenditures	4,291.1	4,370.3	4,285.6	4,394.9	4,535.3	4,485.0	4,543.2
Surplus (deficit)	27.6	(67.5)	(156.7)	(95.4)	(83.7)	(35.3)	(79.7)
Extra Budgetary Funds(2)							
Revenues	459.5	485.4	465.2	407.7	428.8	438.5	472.0
Expenditures	396.6	457.2	496.5	347.9	359.6	385.5	398.4
Surplus (deficit)	62.9	28.2	(31.4)	59.8	69.2	53.0	73.6

Source: Ministry of Finance
Notes:—
(1) For methodological remarks on planned, expected, preliminary, fact and final budgets, see "*Public Finance – Methodology.*"
(2) Currently, these funds consist of the Nuclear Fund, the National Employment Fund, the Wesselényi Miklós' Flood and Inland Waters Compensation Fund, the Research and Development Fund, the National Cultural Fund, and the Bethlen Gábor Fund.

The contribution of the central government to the social security funds was HUF 422.4 billion in 2005, HUF 890.6 billion in 2006, HUF 777.8 billion in 2007, HUF 835.0 billion in 2008, 913.8 billion in 2009, HUF 1,147.5 billion in 2010 and, according to preliminary data, HUF 637.8 billion in 2011. The contribution of the central government to the social security funds will be HUF 675.5 billion in 2012 according to the planned budget.

Social Security System

Before the fall of communism in 1989, social security in Hungary was based on the principle of solidarity and risk sharing. The provision of social, health and pension benefits through collection and reallocation was carried out by the Hungarian state. Since the change of the political and economic system, self-provision has been playing an increasingly important role in Hungary's social security system. Currently, Hungarian citizens may affect the social security benefits they receive in the future by making voluntary payments into a private investment account or joining a voluntary pension fund. The Hungarian state provides social security benefits for those incapable of self-provision.

Health Care System

The Hungarian health care system is accessible to persons who have a Hungarian social security card and make mandatory contributions to the social security system. Three levels of health care are available and are expected to be utilised in the order of basic care to more serious care. However, treatments can commence at a higher level of care if it would be more efficient. The first level of care is the basic health care provided by the family doctor, the second level consists of specialised consulting services in out-patient care, and the third level consists of in-patient care at a health care facility (e.g., hospital, clinics or sanatorium). However, disabled individuals are entitled to use ambulant services, receive sickness benefit and/or qualify for disability pension. In addition to such disability benefits, disabled persons are entitled to additional financial and in-kind benefits, including, for instance, the right to use designated parking lots and receive financial assistance for travel.

Several changes to the health insurance system were implemented in recent years. For example, the amount of social security contributions increased; the availability of free or low-cost health care servicing for the indigent population was limited to the neediest; and household contribution towards the financing of health services increased. The number of days of sick payment paid by employers has generally decreased in recent years, but the contribution of the employer to the amount paid to the patient has increased. Prior to January 1, 2010, employers paid 5% of an employee's income and the employee contributed 56%. In addition, there was a fixed monthly health care contribution by employers of HUF 1,950 per employee. As of January 1, 2010, the contribution system was simplified. Until December 31, 2011, a 27% social security contribution contains a 24% pension insurance contribution and a 3% health insurance and employment market contribution. The requirement for contributions by employers, employees and entrepreneurs has been abolished. As of January 1, 2012, the 27% social security contribution has been abolished, and a 27% social contribution tax has been introduced, which shall be paid by the employer.

Pension System

In the course of the reform of the social security system, the pension system has undergone the most fundamental transformation over the last decade. The single-tier pension system was replaced by a three-tier system in 1998, pursuant to which in addition to the pension contribution deducted from wages on a mandatory basis, private pension funds offer the possibility of self-provision. Furthermore, an employee had the possibility of joining a voluntary pension fund as well. The three pillars of this system were: compulsory state pensions; compulsory private pension funds; and voluntary private pension funds.

In November 2010, the Parliament approved pension reform legislation, with the ultimate goal of transforming the "three-pillar" system into a "two-pillar" system, which is closer to European practices. The "two-pillar" system would consist of the state-run compulsory pension and the voluntary private pension. Until January 31, 2011, individuals who were participants in the compulsory private pension system could opt to transfer their private pension to the state-run pension system or opt to remain in the private pension system, although the former option is encouraged through significant incentives. In regards to the latter option, the remaining participants will not receive further entitlement in the state-run pension system and, therefore with the exception of employees who have already had the minimum service time in the state-run pension system, will receive their pensions solely from their private pension's funds.

The objective of the pension reform is to address concerns with the three-pillar system. Under such system, pension liabilities have been increasingly affecting the budget and low net real returns on the compulsory private pensions pose a threat to future pension payments.

Under the "two-pillar" pension system, payments are made into the state pension fund and to a private pension fund selected by the employee. The total pension contribution equals 34% of an employee's monthly salary (which is a slight increase from the 33.5% under the old system), out of which 10% (previously 9.5%) is paid by the employee and 24% by the employer. The employer's contribution is paid into the state pension fund. If the employee opts to remain solely in a private pension fund, as of January 1, 2012,the employee's 10% contribution will be transferred to the private pension fund selected by the employee. For employees solely participating in the state pension system, the entire 10% contribution would be applied to the state pension fund. Due to the transitional provisions of the pension reform legislation, employees' contribution shall be transferred to the state pension fund during the period from November 1, 2010 to December 31, 2011 irrespective of employees' selection between the state pension system and the private pension system. Such transitional suspension of contribution payments to private pension funds aims to facilitate the correction of the annual budget and to keep the annual deficit target of 2010 and 2011.

The pension reform is expected to generate public revenue from two sources. First, the accumulated funds of individuals opting into the state pension system are expected to contribute to a significant decrease in the explicit public debt. Second, permanent revenues received from future pension contributions is expected to help balance the state pension system in the long term.

Effective January 1, 2010, the retirement age for both women and men was raised to 62.5 years. Within the next six years, the retirement age will be gradually increased to 65 years. See "Public Finance – Budget Trends." However, the positive effects of the pension reform on the general budget will not be apparent for at least 30 years, due to the delayed effect.

On December 23, 2011, the Parliament adopted the Act on Economic Stability of Hungary. According to the Act, the participants of private pension funds and their employers shall pay the 34% to the state pension fund, and they will be entitled to receive 75% of their pension from the state pension fund. Based on such Act, the participants of private pension funds could opt to transfer their private pension to the state-run pension system until March 31, 2012, in order to receive their pensions solely from state pension fund.

Sustainability of the Social Security System

Health Care System. Since 2002, the in-kind benefits of the health insurance system have generally increased faster than GDP. This was the result of the rapid dissemination of innovative drugs, wage adjustments for health care employees and the rapid increase of services. Due to the strict budgetary requirements in 2004, numerous short-term measures were adopted (including the freezing of pharmaceutical drug prices, digressive financing techniques and the introduction of cost-volume agreements) in order to help control the expenditures relating to the health care system.

In order to ease the burden of the state in the long-term in the financing of the health care system, the Government has started preparations for a financing reform of the health care system. The reform efforts will be aimed at curbing the expenditure growth and introducing cost-effective services by changing the financing and incentive mechanisms.

Pension System. According to demographic projections, the proportion of the population over the retirement age compared to the population of the working age will increase significantly in the next decades. The increase in the retirement age (see "Pension System") and the increase in the employment rate may result in a temporary improvement, but will not be sufficient to overturn the long-term trend.

In response to these adverse demographic trends, the Government has taken certain steps to reform the pension system. Most importantly, these steps include (in addition to raising the retirement age) the introduction of mixed financing and the application of the so-called Swiss indexation (50% of wage increases, and 50% of inflation).

Local Government Finance

The following table sets forth the revenues and expenditures at the local government level for the years indicated for all the local governments:

Local Government Revenues and Expenditures

	As of year ended December 31,						
	2007 Final	2008 Final	2009 Final	2010 Final	2011 Final	2012 Planned	2012 Expected
				(HUF billions)			
Revenues							
Own revenues[1]	1.079.1	1,210.7	1,251.8	1.234.4	1,233.9	1,214.6	1,179.5
Subsidies	1,251.9	1.295.3	1,178.5	1,123.5	1,069.2	916.8	938.5
Other revenues	725.8	737.5	692.0	808.6	1,026.3	660.2	635.1
Total revenues, GFS (excluding privatisation)	**3,056.8**	**3,243.5**	**3,122.3**	**3,166.5**	**3,329.4**	**2,791.6**	**2,752.1**
Privatisation revenues	23.9	24.7	4.1	7.0	2.6	1.8	2.6
Total revenues, (including privatisation)	**3,080.7**	**3,268.2**	**3,126.4**	**3,173.5**	**3,332.0**	**2,793.4**	**2,754.7**
Expenditures							
Wages	1,477.9	1,502.7	1,407.9	1,388.6	1,286.6	1,085.8	1,073.9
Investments	583.7	550.6	573.6	694.1	605.2	599.4	633.8
Other expenditures	1,0.73.0	1,199.3	1,227.4	1,322.8	1,296.7	1,258.2	1,137.0
Total expenditures	**3,134.6**	**3,252.6**	**3,208.9**	**3,405.5**	**3,188.5**	**2,943.4**	**2,844.7**
Surplus (deficit), GFS (excluding privatisation)	**(77.8)**	**(9.1)**	**(86.6)**	**(239.0)**	**140.9**	**(151.8)**	**(92.6)**
Surplus (deficit) (including privatisation)	**(53.9)**	**15.6**	**(82.5)**	**(232.0)**	**143.5**	**(150.0)**	**(90.0)**

Source
Note:
(1) GFS excludes privatisation revenues.

The municipalities are to a large extent autonomous according to the Hungarian Constitution and the Local Government Act. However, the Government must take the local government deficit into account when preparing and implementing the central government budget and other parts of the public budget, over which the Government and Parliament have more direct control. Parliament can, nevertheless, influence the financial situation of local governments through the volume of budget grants (transfers) and the tax-sharing system.

During 2011, the revenues of the local governments amounted to HUF 3,329.4 billion, the expenditures amounted to HUF 3,188.5 billion, and thus the fiscal deficit of the local governments amounted to HUF 140.9 billion for 2011.

EU Net Position

The following table sets forth certain information with respect to the budgetary relations between Hungary and the EU:

Budgeted financial flows between Hungary and the EU budget between 2007 and 2011

	2007	2008	2009	2010	2011
	(HUF millions, current prices)				
EU resources appearing in the Hungarian budget	287,396.2	380,107.6	631,412.0	805,243.9	913,026.3
National contribution (co-financing of projects)	171,615.3	139,991.4	226,505.6	226,759.1	400,948.5
EU resources out of the Hungarian budget (mainly agricultural subsidies)	167,645.3	203,796.7	320,133.1	297,160.7	197,852.9
National contribution to the EU Budget	189,520.0	210,581.0	223,657.8	230,186.7	233,047.6

Source: Ministry for National Economy

Certain EU funds are only available for certain projects if Hungary contributes a certain percentage amount towards such project. In addition, EU funds that are not used for their designated purpose in a given year are lost and cannot be carried over to a subsequent year.

The EU Commission has criticised Hungary's high budget deficit several times in recent years, following Hungary's failure to reach its targets for reducing its budget deficit. In December 2004, the EU Commission stated that Hungary was the only country among the 10 new member states at such time not to take effective action to curb its large budget deficit. In 2004, the EU Commission initiated a so-called "excessive deficit procedure" against Hungary for failing to achieve these targets. Since Hungary is not yet a member of the Eurozone, the last two steps of the excessive deficit procedure that would impose penalty payments on Hungary do not apply. However, the non-compliance with the recommendations could end in the freezing of some EU subsidies, although there is no precedent for such penalties being levied by the EU in the past.

Medium-Term Fiscal Programme and the Convergence Programme

Hungary's economic policy targets are set out in a Convergence Report submitted annually to the European Commission. The report discusses Hungary's policy goals for achieving the criteria set by the European Commission to attain membership in the Eurozone. The European Commission regularly evaluates the Convergence Reports, including the economic targets and the achievement of such targets.

Under EU legislation, prior to adopting the Euro, Hungary is required to have fulfilled the following convergence criteria (the "**Maastricht Criteria**"):

- price stability — maintain a sustainable price performance and achieve an average rate of inflation (measured over a period of one year before the examination) that does not exceed by more than 1.5% the average rate of inflation of the three member states which perform the best in terms of price stability;
- long-term interest rates — achieve an average nominal long-term interest rate (measured over a period of one year before the examination) that does not exceed by more than 2% that of the three best performing EU Member States in terms of price stability;

- the Government budgetary position — achieve a ratio of planned or actual government deficit to GDP that does not exceed 3%, unless either (i) the ratio has declined substantially and continuously and reached a level that comes close to the reference value or (ii) the excess of the reference value is only exceptional and temporary and the ratio remains close to the reference value;
- government debt — achieve a ratio of government debt to GDP that does not exceed 60%, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace; and
- exchange rate — participate for at least two years in the Exchange Rate Mechanism ("**ERM II**") and observe the normal fluctuation margins close to central parity provided for by the mechanism for at least two years.

The convergence required for entering the Eurozone is formally assessed annually and the final decision is subsequently made by a summit of EU Member States acting on the recommendation of the ECOFIN Council.

On April 15, 2011, the Ministry for National Economy published the latest version of Hungary's Convergence Programme. The Convergence Programme is based on the Széll Kálmán plan described in "*Public Finance – Budget Trends*". The updated Convergence Programme includes a conservative and a dynamic GDP growth rate path. According to the conservative path, GDP would grow by 3.1% in 2011, 3.0% in 2012, 3.2% in 2013, 3.3% in 2014 and 3.5% in 2015. According to the dynamic path, GDP would grow by 3.2% in 2011, 3.6% in 2012, 4.8% in 2013, 5.2% in 2014 and 5.5% in 2015. The general government deficit to GDP ratio according to ESA methodology (including local governments) would reach 2.5% in 2012, 2.2% in 2013, 1.9% in 2014 and 1.5% in 2015. The gross public debt to GDP ratio would reach 72.1% in 2012, 69.7% in 2013, 66.7% in 2014 and 64.1% in 2015. Hungarian public finance is closely monitored on a quarterly basis by the IMF and EU in connection with the financial assistance package provided to Hungary by such organisations. See "*Future Economic Plan*" and "*National Debt— Relations with Multilateral Financial Institutions — The IMF, the EU and the World Bank*."

Future Economic Plan

In September 2011, the Ministry for National Economy revised the macroeconomic outlook. Since the announcement of the Széll Kálmán Plan, the global and domestic economic environment has changed significantly in the following aspects:

- Risks to growth have become graver. The growth of our key foreign trading partners is expected to slow down substantially,
- Financial risks have become more pronounced. The uncertainty in global financial markets needs to be monitored more closely,
- One positive development is that Hungary has been one of the very few countries in Europe for which interest payments on public debt have declined following the reduction of public debt.

Consequently, in light of the new circumstances, the Government decided to revise its macroeconomic forecast and, in order to achieve its ultimate objective, to implement the necessary measures. The revised macroeconomic forecast which serves as a basis for the calculations of the 2012 Budget includes the impact of the new measures, and displays weaker growth prospects. These, however, are mainly driven by external factors.

- The growth rate goal of the government for 2012 remains 2%, in line with market expectations. However, having considered the prevailing risk factors as well as the impact of new measures, the Government assumes a GDP growth of 1.5% for the 2012 budget calculations.
- The Government projects a 4.2% CPI inflation for 2012, which signals a slight rise.
- The Government will pursue a deficit target of 2.5% of GDP which facilitates a further reduction of public debt, down from 73.2% at the end of 2011 to 72% at the end of 2012.
- Due to the measures aimed at reducing the level of public debt and the ensuing improving financing conditions, the interest payments for public debt continue to decrease further to 3.6% of GDP from the current 3.8%.
- Household consumption growth is expected to remain positive in 2012 by 0.2%.
- After the 2% decrease in investments in 2011, the Government expects investments to rise by 3.2% in 2012.
- Our external position will remain strongly positive: we expect both the foreign trade balance and the current account to be in surplus in 2012.
- Labour market conditions are expected to improve further: payroll numbers will rise by 1.5% and the employment rate by 1 percentage point, whereas the unemployment rate will continue to decline steadily, to levels below 11%.

NATIONAL DEBT

General Information

Traditionally, the NBH was the primary entity through which Hungary borrowed money in foreign currencies. Pursuant to the 1997 amendment to the National Bank Act, the NBH may now only incur foreign currency debt for its own purposes and all foreign currency borrowings and debt security issuances for the central budget must be made directly by Hungary. In such respect, as of May 29, 2010, the Ministry for National Economy acts on behalf of Hungary (prior thereto, the Ministry of Finance had such responsibility). In turn, such Ministry has delegated these debt management functions to the GDMA Pte Ltd., which was part of the Treasury until 2001, but thereafter became a separate legal entity. Since January 1, 1999, foreign currency debt issuances have been arranged by the GDMA Pte Ltd. See "*Public Finance – Central Government Budget – Roles of the Ministry for National Economy, the Hungarian State Treasury and the Government Debt Management Agency*."

The NBH has remained the legal or named obligor on the outstanding foreign currency debt incurred prior to January 1, 1999. The majority of the interest rate and exchange rate risks associated with these debts and any related swaps, however, have been effectively transferred to Hungary pursuant to a series of transfer agreements, whereby Hungary has essentially agreed to pay the NBH sufficient funds to cover these obligations. Following this transfer of risk, Hungary entered into a number of swap agreements to match the currency profile of this debt portfolio to that of the currency basket (100% Euro since January 2000) upon which the Forint is pegged. The NBH may still act as an agent of Hungary for the purposes of obtaining foreign loans and issuing securities abroad. Since January 1997, the NBH has acted in this agency role on the basis of an agency agreement, which was entered into by the NBH and Hungary, as permitted by the amended National Bank Act.

Because of this history, all references to public debt include debt of Hungary and the NBH. Public debt also includes debt of the social security and other extra-budgetary funds, but does not include local government debt. External public debt refers to public debt that is denominated in a foreign currency and almost always owed to a non-Hungarian party. Internal public debt refers to public debt denominated in Forint and typically owed to parties within the country. Gross external debt refers to all of the foreign currency denominated debt owed by Hungarian persons and both public and private entities to non-resident creditors. Loans between the NBH and Hungary relating to external borrowings originally made by the NBH were not added for the purposes of calculating public debt figures, to avoid double counting.

Public Debt

The following table sets out certain statistics regarding Hungarian public debt for the years indicated:

	December 31(1)				
	2007	2008	2009	2010	2011(2)
	(HUF billions, except for percentages)				
Internal Public Debt	11,103.8	11,250.6	10,476.2	10,978.2	10,362.2
% of Nominal GDP	44.4 %	42.4 %	40.9%	41.0%	36.9%
External Public Debt	4,472.6	6,774.8	8,468.5	8,842.8	10,170.4
% of Nominal GDP	17.9 %	25.5%	33.1%	33.1%	36.2%
Other Liabilities(3)	9.1	78.5	20.1	220.0	422.9
Total Public Debt	15,585.5	18,103.9	18,964.9	20,041.0	19,987.6
% of Nominal GDP	62.4%	68.2%	74.0%	74.9%	71.2%
Nominal GDP	24,992	26,546	25,623	26,748	28,080

Source: GDMA Pte Ltd.

Notes:—

(1) This table shows the public debt of Hungary from the perspective of the economic obligations of the central government. Financial derivatives and mark-to-market deposits from 2005 are included. In this table, external debt refers to government obligations denominated in foreign currency, while internal debt refers to obligations denominated in local currency.

(2) Preliminary data as at the end of December 2011.

(3) Including a special item in connection with a debt assumption in 2006.

Although the central government's gross debt to GDP ratio decreased substantially between 1996 and 2001 as a result of a primary budget surplus, the debt redemption effected from privatisation proceeds and significant real GDP growth, this trend has reversed since 2002. In 2002, 2003 and 2004, the central government gross debt to GDP ratio grew due to the expansionary fiscal policy. The fiscal restrictions introduced by the Minister of Finance in 2006 were set to diminish the budget deficit and thus reduce the central government gross debt to GDP ratio. The total central government debt totalled HUF 18,964.9 billion at the end of 2009, showing an increase of 4.8% in nominal terms compared to HUF 18,103.9 billion at the end of 2008, which was partly as a result of draw-downs from the financial assistance package. The government gross debt to GDP ratio in 2009 was 74.0%, as compared to 68.2% as at the end of 2008 and 62.4% at the end of 2007. The government gross debt to GDP ratio increased slightly to 74.9% in 2010.

The central government debt totalled HUF 20,955.5 billion at the end of December 2011, showing an increase of 4.6% in nominal terms compared to HUF 20,041.0 billion at the end of 2010. The government gross debt to GDP ratio at the end of December 2011 was 74.4%, as compared to 74.9% as at the end of 2010.

On November 5, 2007, Fitch Ratings Ltd. ("**Fitch**") changed its foreign currency and local currency sovereign credit ratings outlook of Hungary from "negative" to "stable," but affirmed its ratings of "BBB+".

On March 14, 2008, Standard & Poor's Ratings Services ("**S&P**") changed its long term foreign currency and local currency debt outlook of Hungary from "stable" to "negative," but the rating remained "BBB+."

On October 15, 2008, S&P put the sovereign credit rating of Hungary on the negative watch list.

On October 17, 2008, Fitch changed its foreign currency and local currency sovereign credit ratings outlook of Hungary from "stable" to "negative," but affirmed its ratings of "BBB+".

On November 7, 2008, Moody's Investors Service, Inc. ("**Moody's**") lowered its local and foreign currency government bond ratings and the country ceiling for foreign currency bank deposits of Hungary from A2 to A3 with a "negative" outlook.

On November 10, 2008, Fitch changed its foreign currency and local currency sovereign credit ratings of Hungary to "BBB" and "BBB+", respectively, carrying a "stable" outlook.

On November 17, 2008, S&P changed its long term foreign currency and local currency debt rating of Hungary from "BBB+" to "BBB," with a "negative" outlook.

On March 2, 2009, Fitch changed its foreign currency and local currency sovereign credit ratings outlook of Hungary from "stable" to "negative."

On March 30, 2009, S&P changed its long term foreign currency and local currency debt rating of Hungary from "BBB" to "BBB–," with a "negative" outlook.

On March 31, 2009, Moody's changed its long term foreign and local currency debt rating of Hungary from "A3" to "Baa1," with a "negative" outlook.

On October 2, 2009, Standard & Poor's revised its "negative" outlook to "stable" while it affirmed a debt rating of "BBB-" for the long-term foreign currency and local currency.

On December 6, 2010, Moody's changed its long term foreign and local currency debt rating of Hungary from "Baa1" to "Baa3," with a "negative" outlook.

On December 23, 2010, Fitch changed its foreign currency sovereign credit ratings of Hungary from "BBB" to "BBB-", carrying a "negative" outlook.

On June 6, 2011, Fitch changed the outlook on Hungary's foreign and local currency sovereign credit ratings from "negative" to "stable", while affirming the long term foreign and local currency rating at "BBB-" and "BBB," respectively.

On November 11, 2011, Fitch changed the outlook on Hungary's foreign and local currency sovereign credit ratings from "stable" to "negative," while affirming the long term foreign and local currency rating at "BBB-" and "BBB," respectively.

On November 11, 2011, Standard & Poor's placed its "BBB-/A-3" foreign and local currency credit ratings on Hungary on CreditWatch with negative implications.

On November 24, 2011, Moody's downgraded Hungary's foreign and local currency credit ratings to "Ba" from "Baa3" and maintained the "negative" outlook.

On December 21, 2011, Standard & Poor's lowered its long- and short-term foreign- and local-currency sovereign credit ratings on Hungary to "BB+/B" from "BBB-/A-3". The outlook remained "negative."

On January 9, 2012, Fitch downgraded the long-term foreign and local currency ratings of Hungary to "BB+" and "BBB-," respectively. The outlook remained "negative."

External Public Debt

The following table sets forth the external public debt as of December 31, 2011 by category and by currency:

	Amount [(1)] *(EUR million)*
By Category (financial derivatives are excluded):	
Bank loans (including bank to bank and syndicated loans)	1,745
Bonds + FRN	18,743
Loans from multilateral financial institutions (e.g., IMF and World Bank)	14,331
Total	34,819
By Currency (financial derivatives are included):	(%)
Euro	86
US Dollar	0
British Pound	0
Other currencies (SDR)	14
Total	100

	before swaps
By Currency (financial derivatives are excluded):	(%)
Euro	48
JPY	4
US Dollar	18
Swiss Franc	2
British Pound	5
SDR	23
Total	100

Source: GDMA Pte Ltd.
Note:
(1) Debt liabilities of the government sector that are not HUF-denominated (including mark-to-market deposits).

In January 2007, Hungary issued a EUR 1.0 billion bond due in 2017. In October 2007, Hungary issued JPY 25 billion Samurai bonds due in 2017. In April 2008, Hungary issued a two-tranche bond totalling CHF 350 million maturing in 2013 and in 2016. In June 2008, Hungary issued a EUR 1.5 billion bond due in 2018. In July 2009, Hungary issued a EUR 1.0 billion bond due in 2014. In January 2010, Hungary issued a USD 2.0 billion bond due in 2020. On March 29, 2011, Hungary issued two tranches of bonds, one tranche maturing in 2021 in the amount of USD 3.0 billion that the other tranche maturing in 2041 in the amount of USD 0.75 billion. Hungary reopened the tranche maturing in 2041 on April 6, 2011 with an increase of USD 500 million. In May 2011, Hungary issued a EUR 1.0 billion bond due in 2019.

External Public Debt Service and Schedule of Payments

Neither Hungary nor the NBH has ever defaulted on the payment of the principal of, or premium or interest on, any debt obligation issued by it.

The following table sets forth the schedule of payments on external public debt as of June 30, 2011:

Schedule of Payments on External Public Debt as of March 31, 2012([1])

Date of maturity	Total	Central bank and General government	Central bank	General government	Forint denominated bonds	Other monetary institutions and other sectors	Other monetary institutions	Other sectors
Second quarter 2012	2,673	1,243	2	1,241	279	1,430	953	476
Third quarter 2012	3,230	1,563	185	1,378	0	1,667	1,420	247
Fourth quarter 2012	3,764	2,235	185	2,050	304	1,530	1,022	507
2012	9,667	5,041	372	4,669	583	4,626	3,396	1,231
First quarter 2013	4,242	2,913	185	2,728	465	1,329	914	416
Second quarter 2013	2,288	1,218	183	1,035	0	1,070	885	185
Third quarter 2013	2,160	1,116	183	933	0	1,043	833	210
Fourth quarter 2013	3,347	1,657	253	1,403	431	1,691	1,439	252
2013	12,037	6,904	805	6,099	896	5,133	4,071	1,063
2014	14,070	8,724	366	8,358	2,431	5,345	3,332	2,013
2015	5,750	2,560	52	2,508	1,112	3,190	1,289	1,901
2016	8,775	5,023	0	5,023	1,295	3,752	1,343	2,409
2017	6,895	4,250	0	4,250	2,197	2,644	957	1,687
2018	2,842	1,749	0	1,749	0	1,093	601	492
2019	2,550	1,842	0	1,842	797	708	406	302
2020	3,961	3,122	0	3,122	728	839	612	227
2021	3,901	2,438	0	2,438	0	1,463	1,196	267
2022	1,323	1,006	0	1,006	594	317	96	220
After	5,714	2,944	0	2,944	360	2,771	933	1,838
Total	**77,485**	**45,604**	**1,594**	**44,010**	**10,994**	**31,881**	**18,232**	**13,649**

Source: NBH
Note:
(1) Excluding: Direct investment, other capital.

Internal Public Debt

As of December 31, 2011, Hungary's total internal public debt, including the social security and extra-budgetary funds, was HUF 10,362.2 billion. As of December 31, 2011, almost all of the Government's internal debt represented either treasury bills or bonds (with 5.7% of the Government's internal debt consisting of loans from EIB and CEB).

Within the total HUF-denominated government debt, publicly issued government securities have been playing a predominant role. Raising public funds on the domestic market depends to a large degree upon the issuance of government bonds. Of the total amount of outstanding publicly issued HUF-denominated government securities, government bonds accounted for approximately 75% as of the end of December 2011.

Hungary's policy is to finance budget deficits partly with internal debt and partly by accessing the international markets. The determination as to the type of financing is based on a benchmark for the debt portfolio composition. The weight of internal debt (domestic currency) ranges between 68% and 75% in the benchmark portfolio; the weight of external debt (foreign currency) ranges between 25% and 32%. The average maturity of internal debt was increased to 4.01 years by the end of 2007, 3.88 years by the end of 2008, 3.93 years by the end of 2009, 4.05 years by the end of 2010 and 3.90 years by the end of 2011.

The Government has also guaranteed certain Hungarian indebtedness. As of December 31, 2011, these guarantees totalled HUF 1,282.3 billion. According to GFS methodology, guarantees are not included in the governmental debt and only affect the central governmental deficit if and when the Government is obliged to make a payment under the guarantee.

Government Obligations to the NBH

The following table shows the Government's obligations to the NBH, including those due to net foreign currency losses, as of December 31 for the years indicated and as of August 31, 2012:

	As of December 31,					As of August 31,
	2007	2008	2009	2010	2011	2012
Short-term	146.7	360.0	279.0	249.5	168.5	168.5
Long-term	0.0	0.0	0.0	0.0	0.0	0.0
Total	**146.7**	**360.0**	**279.0**	**249.5**	**168.5**	**168.5**

Source: NBH

Gross External Debt

The following table sets forth the distribution and maturity of gross external debt of Hungary as of December 31, 2011:

Gross External Debt[(1)]

	December 31, 2011	
	Amount of Debt (EUR millions)	% Medium and Long (%)
Obligor		
National Bank of Hungary[(2)]	6,129.9	26.6
Hungary[(2)]	48,107.5	90.4
Private sector[(2) (3)]	77,421.5	80.3
Total[(2) (3)]	131,658.9	81.5
Financial derivative liabilities	5,342.5	
Entire economy (including financial derivative liabilities)	137,001.4	

Source: NBH
Notes:
(1) In this table, external debt refers to obligations owed to non-resident entities.
(2) External debt as defined in External Debt Statistics: Guide for Compilers and Users (IMF 2003). Financial derivatives are not included.
(3) Direct investment debt liabilities included.

Selected Annual BOP and IIP Figures and Debt Service Indicators of Hungary (BOP Basis)([1])

	2007	2008	2009	2010	2011(3)
Debt Indicators([1])					
Gross debt indicators					
Gross external debt (excl. FDI other loans)/GDP	88.0	93.8	114.0	110.4	101.7
Of which: General government and central bank	34.8	37.4	51.5	53.5	53.8
Gross external debt denominated in foreign currencies (excl. FDI other loans)/GDP	58.9	78.5	97.7	92.9	80.9
Of which: General government and central bank	19.5	26.9	39.6	40.6	37.9
Gross external debt (incl. FDI other loans)/GDP	104.6	116.8	150.2	142.3	130.4
Net debt indicators					
Net external debt (excl. FDI other loans)/GDP	44.5	50.9	56.2	52.6	44.3
Of which: General government and central bank	17.3	13.5	16.1	16.9	15.1
Net external debt denominated in foreign currencies (excl. FDI other loans)/GDP	28.2	37.8	42.9	38.2	27.1
Of which: General government and central bank	2.3	3.4	5.1	5.2	-0.1
Net external debt (incl. FDI other loans)/GDP	50.4	54.5	64.4	59.0	45.6

Debt Service Indicators					
Total debt service denominated in foreign currencies (TDS) (excl. FDI other loans[2)])/GDP	10.1	14.0	21.3	19.4	22.2
Total debt service denominated in foreign currencies (TDS) (excl. FDI other loans[(2)])/XGS	12.5	17.3	27.5	22.5	24.2
Gross interest expenditure (excl. FDI other loans) GDP	3.3	4.2	4.0	3.4	3.8
Net interest expenditures (excl. FDI other loans) GDP	1.8	2.7	2.5	2.1	2.5
Memorandum					
GDP[(3)] (Euro millions)	99,446	105,653	91,322	97,119	100,836
Exports of goods and services (XGS) (Euro millions)	80,395	85,915	70,667	83,620	92,560
Net external financing capacity/GDP	-6.6	-6.4	1.0	3.0	3.6
International reserves (RES) (Euro millions)	16,385	24,040	30,677	33,674	37,774

Source: NBH

Notes:

(1) External debt as defined in External Debt Statistics: Guide for Compilers and Users: equity and financial derivative instruments are excluded.

(2) (TDS) Medium-term credit amortization and gross interest expenditures.

(3) GDP figures for 2011 are preliminary data of CSO.

Relations with Multilateral Financial Institutions

European Bank for Reconstruction and Development ("EBRD")

Since 1991, the EBRD has been involved in a number of state and non-state projects, both in the form of equity participation and loans. The total participation (net business volume) of the EBRD between 1991 and the end of 2010 was close to EUR 2.5 billion in more than 100 projects, more than 90% of which was in the private sector. EUR 50 million of that amount was approved for one project in 2010. According to the latest country strategy for Hungary, the bank prefers to finance infrastructure and energy related projects. In the meantime, due to the effects of the financial crisis, the EBRD confirmed its commitment to continue to support Hungary's financial sector.

Council of Europe Development Bank ("CEB")

Hungary joined the CEB in 1998. According to the CEB's social mandate, the focus of the CEB's projected activity in Hungary is mainly the co-financing of EU-supported investments in 2007-2013 and projects in the field of environmental protection, strengthening social integration and developing human capital. Since Hungary's accession to the CEB, the bank has provided EUR 1.7 billion (90% of which was allocated to the public sector). In 2009, Hungary and the CEB signed three framework loan agreements for an aggregate principal amount of EUR 228 million.

European Investment Bank ("EIB")

Since 1990, the EIB has been financing different government and non-government projects in Hungary. In the past five years, the EIB financed projects by granting loans approximately totalling EUR 7.5 billion.

The EIB finances primarily infrastructure, environmental protection, healthcare and education projects. In 2009, three new loan facility agreements were signed for an aggregate principal amount of up to EUR 790 million. In 2010, three new loan facility agreements were signed for an aggregate principal amount of up to EUR 400 million.

International Finance Corporation ("IFC")

In 2001, the IFC established the Hungary Energy Efficiency Co-financing Programme (HEECP), whereby the IFC grants guarantees and provides technical assistance to projects aimed at increasing the efficiency of energy consumption in Hungary.

The IMF, the EU and the World Bank

In 2008, Hungary received a financial assistance package of up to USD 25.1 billion in the aggregate from the IMF, the EU and the World Bank. The IMF agreed to provide a 17-month standby facility of USD 15.7 billion (EUR 12.5 billion), while the EU agreed to lend USD 8.1 billion (EUR 6.5 billion), and there was a possibility to draw down

USD 1.3 billion (EUR 1 billion) from the World Bank to assist Hungary in addressing the consequences of the global financial crisis.

In July 2010, the Government suspended the negotiations with the IMF concerning the possible extension of the standby facility. The IMF continues to engage in regular consultations with Hungary to monitor and review economic developments. The last consultation was held in October 2010, with the IMF mission concluding that Hungary's determination to adhere to fiscal targets is encouraging, but expressing some concern regarding temporary measures introduced and implemented by Hungary to reach its fiscal targets.

As of December 31, 2011, the following amounts have been drawn down under the facilities:

- IMF: SDR 6.373 billion by Hungary and SDR 1.265 billion by the NBH; and

- EU: EUR 5.5 billion by Hungary.

No disbursements were made in 2010 under either facility. The IMF standby facility expired in October 2010 and the EU facility expired in November 2010.

On November 17, 2011 the Ministry for National Economy announced that Hungary would start negotiations for a new co-operation with IMF.

On February 22, 2012, the European Commission proposed to freeze transfers from the Cohesion Fund in the amount of EUR 495 million for the year 2013 as a consequence of non-compliance concerning the Excessive Deficit Procedure against Hungary.

On May 30, 2012, the European Commission adopted a proposal for a Council decision to lift the suspension of commitments from the Cohesion Fund for Hungary, after concluding that the country has taken the necessary action to correct its excessive deficit, in line with the Council Recommendation of March 13, 2012.

An IMF mission visited Budapest between July 17-25, 2012, in order to start discussions on an IMF/EU-supported programme following a request by the Hungarian authorities. Further discussions are expected to be held in the fourth quarter of 2012.

TABLES AND SUPPLEMENTARY INFORMATION

External Funded Convertible Currency Debt of the NBH and Hungary
(As of December 31, 2011)

Title	Interest rate (%)	Year Issue	Year Maturity([1])	Original amount contracted	Principal amount outstanding	
A. NATIONAL BANK OF HUNGARY						
1. U.S. Dollar Debt						
a. Bonds						
USD Bond	8.875	1993	2013	—	USD	200,000,000.00
Total					USD	(200,000,000.00)
b. Swap Arrangements						
USD/EUR	7.334329	1999	2012	—	USD	(2,020,038.83)
USD/EUR	6.226404	1999	2013	—	USD	(11,052,785.60)
USD/EUR	4.500	2004	2013	—	USD	109,415,000.00
USD/EUR	Floating	2004	2013	—	USD	(109,415,000.00)
USD/EUR	8.875	1999	2012	—	USD	(200,000,000.00)
Total					USD	(213.072.824,43)
Total U.S. Dollar Debt					**USD**	**(13.072.824,43)**
2. Euro Debt						
a. Swap Arrangements						
USD/EUR	5.495	1999	2012	—	USD	1,932,117,79
USD/EUR	4.4325	1999	2013	—	USD	10,582,264,78
USD/EUR	7.0295	1999	2013	—	USD	191,410,443.20
USD/EUR	Floating	1999	2013	—	USD	191,410,443.10
USD/EUR	7.0295	1999	2013	—	USD	(191,410,443.10)
USD/EUR	Floating	2011	2012	—	USD	(30,452,000.00)
USD/EUR	5.368	2011	2012	—	USD	30,452,000.00
USD/EUR	5.28	2008	2014	—	USD	30,000,000.00
USD/EUR	Floating	2008	2014	—	USD	(30,000,000.00)
USD/EUR	Floating	2009	2012	—	USD	(20,000,000.00)
USD/EUR	2.25	2009	2012	—	USD	20,000,000.00
USD/EUR	3.183	2010	2012	—	USD	20,000,000.00
USD/EUR	Floating	2010	2012	—	USD	(20,000,000.00)
USD/EUR	1.867	2010	2012	—	USD	50,000,000.00
USD/EUR	Floating	2010	2012	—	USD	(50,000,000.00)
USD/EUR	1.871	2010	2015	—	USD	50,000,000.00
USD/EUR	Floating	2010	2015	—	USD	(50,000,000.00)
USD/EUR	1.872	2010	2015	—	USD	50,000,000.00
USD/EUR	Floating	2010	2015	—	USD	(50,000,000.00)
USD/EUR	1.953	2010	2012	—	USD	40,000,000.00
USD/EUR	Floating	2010	2012	—	USD	(40,000,000.00)
USD/EUR	3,0197	2011	2016	—	USD	50,000,000.00
USD/EUR	Floating	2011	2016	—	USD	(50,000,000.00)
USD/EUR	3,0187	2011	2016	—	USD	50,000,000.00
USD/EUR	Floating	2011	2016	—	USD	(50,000,000.00)
USD/EUR	3,0877	2011	2016	—	USD	50,000,000.00
USD/EUR	Floating	2011	2016	—	USD	(50,000,000.00)
Total					USD	203,924,825.77
Total Euro Debt					**EUR**	**203,924,825.77**
U.S. Dollar equivalent					**USD**	**263,616,133.63**
3. Japanese Yen Debt						
a. Bonds						
JPY Bond	6.000	1995	2015	—	JPY	10,000,000,000
Total					JPY	10,000,000,000
b. Swap Arrangements						
JPY/JPY	Floating	2010	2015	—	JPY	10,000,000,000
JPY/JPY	6.012	2010	2015	—	JPY	(10,000,000,000)
Total						0
Total Japanese Yen Debt					**JPY**	**10,000,000,000**
U.S. Dollar equivalent					**USD**	**129,013,628.05**
4. SDR Debt						
a. Loan						
SDR Loan	Floating	2009	2014		SDR	1,264,500,000

Total	SDR	1,264,500,000
Total SDR Debt	**SDR**	**1,264,500,000**
U.S. Dollar equivalent	**USD**	**1,941,348,915.00**
NATIONAL BANK OF HUNGARY		
Total External Funded Convertible Currency Debt	**USD**	**2,320,905,852.25**

Note:

(1) In certain cases, this column refers to the dates of scheduled instalment payments. Any such payments made prior to December 31, 2011 are reflected as the difference between the amounts in the columns titled "Original Amount Contracted" and "Principal Amount Outstanding."

Title	Interest rate (%)	Year			Original amount contracted	Principal amount outstanding	
		Issue	Maturity				
B. HUNGARY							
1. U.S Dollar Debt							
a. EIB							
Roads I	MT	1992	2012	ECU	50,000,000	USD	2,020,038.74
Roads II	MT	1993	2013	ECU	72,000,000	USD	11,052,785.37
Total						USD	13,072,824.11
b. Bonds							
USD Bond	4.750	2005	2015	USD	1,500,000,000	USD	1,500,000,000.00
USD Bond	6,250	2010	2020	USD	2,000,000,000	USD	2,000,000,000.00
USD Bond	2.750	1975	2027	USD	669,500	USD	52,400.00
USD Bond	6.375	2011	2021	USD	3,000,000,000	USD	3,000,000,000
USD Bond	7.625	2011	2041	USD	1,250,000,000	USD	1,250,000,000
Total						USD	7,750,052,400.00
c. Swap Arrangements							
USD/EUR	7.33	2000	2012	USD	(50,500,971)	USD	(2,020,038.83)
USD/EUR	6.23	2000	2013	USD	(77,369,499)	USD	(8,289,589.20)
USD/EUR	4.75	2005	2015	USD	(500,000,000)	USD	(500,000,000
USD/EUR	Floating	2009	2013	USD	(283,598,342.78)	USD	(283,598,342.78)
USD/EUR	Floating	2009	2014	USD	(34,830,517.87)	USD	(34,830,517.87)
USD/EUR	Floating	2009	2014	USD	(453,873,616.43)	USD	(453,873,616.43)
USD/EUR	Floating	2009	2014	USD	(453,873,616.44)	USD	(453,873,616.44)
USD/EUR	4,75	2009	2015	USD	(500,000,000)	USD	(500,000,000)
USD/EUR	Floating	2010	2013	USD	(323,860,000)	USD	(323,860,000)
USD/EUR	Floating	2010	2013	USD	(323,859,342.11)	USD	(323,859,342.11)
USD/EUR	6,25	2010	2020	USD	(340,000,000)	USD	(340,000,000)
USD/EUR	6,25	2010	2020	USD	(340,000,000)	USD	(340,000,000)
USD/EUR	6,25	2010	2020	USD	(660,000,000)	USD	(660,000,000)
USD/EUR	6,25	2010	2020	USD	(660,000,000)	USD	(660,000,000)
USD/EUR	Floating	2011	2013	USD	(570,440,889)	USD	(570,440,889)
USD/EUR	Floating	2010	2013	USD	(570,440,889)	USD	(570,440,889)
USD/EUR	6,375	2011	2021	USD	(660,000,000)	USD	(660,000,000)
USD/EUR	6,375	2011	2021	USD	(660,000,000)	USD	(660,000,000)
USD/EUR	6,375	2011	2021	USD	(660,000,000)	USD	(660,000,000)
USD/EUR	6,375	2011	2021	USD	(340,000,000)	USD	(340,000,000)
USD/EUR	6,375	2011	2021	USD	(340,000,000)	USD	(340,000,000)
USD/EUR	6,375	2011	2021	USD	(340,000,000)	USD	(340,000,000)
USD/EUR	7,625	2011	2041	USD	(247,500,000)	USD	(247,500,000)
USD/EUR	7,625	2011	2041	USD	(127,500,000)	USD	(127,500,000)
USD/EUR	7,625	2011	2041	USD	(247,500,000)	USD	(247,500,000)
USD/EUR	7,625	2011	2041	USD	(127,500,000)	USD	(127,500,000)
USD/EUR	7,625	2011	2041	USD	(165,000,000)	USD	(165,000,000)
USD/EUR	7,625	2011	2041	USD	(165,000,000)	USD	(165,000,000)
USD/EUR	7,625	2011	2041	USD	(85,000,000)	USD	(85,000,000)
USD/EUR	7,625	2011	2041	USD	(85,000,000)	USD	(85,000,000)
Total						USD	(10,275,086,841.66)
Total U.S. Dollar Debt						USD	**(2,511,961,617.55)**

Title	Interest rate (%)	Year Issue	Maturity		Original amount contracted		Principal amount outstanding
2. Euro Debt							
a. EIB							
Bp Wastewater	Floating	2006	2017	EUR	94,000,000	EUR	94,000,000
Environment	4.67	2002	2013	EUR	43,000,000		14,333,333.32
Environment II	Floating	2003-7	2013-17	EUR	80,000,000	EUR	80,000,000
Environment III	4.49	2004	2014	EUR	45,900,000	EUR	45,900,000
Environment IV	Floating	2008	2018	EUR	11,500,000	EUR	11,500,000
Flood protection	Floating	2002	2012	EUR	60,000,000	EUR	10,000,000
Railways I-A	MT	1999	2017	EUR	60,000,000	EUR	22,758,620.82
Railways I-B	Floating	2002	2012	EUR	40,000,000	EUR	6,666,666.65
Railways II-B	Floating	2002	2013	EUR	90,000,000	EUR	36,000,000
Railways III	Floating	2004	2014	EUR	40,000,000	EUR	40,000,000
Railways IV	Floating	2004-9	2014	EUR	170,000,000	EUR	36,750,000
Railways V	Floating	2005	2015	EUR	27,000,000	EUR	27,000,000
Roads III	Floating	2003-4	2014	EUR	75,000,000	EUR	75,000,000
Roads IV	Floating	2003	2014	EUR	190,000,000	EUR	119,000,000
M0 Motorway	Floating	2005	2015	EUR	50,000,000	EUR	50,000,000
M3 Motorway	Floating	2007	2017	EUR	320,000,000	EUR	1,966,523.26
M4 Underground	Floating	2005-6	2016	EUR	691,000,000	EUR	472,000,000
Structural funds	Floating	2004-8	2014-18	EUR	445,000,000	EUR	445,000,000
Research and innovation	Floating	2007	2012	EUR	165,000,000	EUR	962,288.17
Education A	Floating	2008	2018	EUR	150,000,000	EUR	100,000,000
Health Sector Development	Floating	2008-11	2019-27	EUR	45,000,000	EUR	30,000,000
Hungary Innovation Support	Floating	2008	2016	EUR	275,000,000	EUR	175,423,025.86
Debrecen University	Floating	2008	2017	EUR	50,000,000	EUR	50,000,000
Pécs – 2010	Floating	2008	2019	EUR	11,000,000	EUR	11,000,000
Cohesion Fund – A	Floating	2010	2015	EUR	100,000,000	EUR	2,587,281.80
Bp Universities	Floating	2011	2021	EUR	85,000,000	EUR	85,000,000
Forests	3.804	2011	2027	EUR	200,000,000	EUR	70,000,000
Economic Competitiveness	3.934	2011	2027	EUR	440,000,000	EUR	98,000,000
Cohesion Fund – II	3,903	2011	2027	EUR	300,000,000	EUR	231,000,000
Education B	3,924	2011	2027	EUR	150,000,000	EUR	50,000,000
Rural Development	3.486	2011	2021	EUR	150,000,000	EUR	90,000,000
Total						EUR	2,596,847,739.88
b. Bonds							
EUR Bond	4.500	2003	2013	EUR	1,000,000,000	EUR	981,000,000
EUR Bond	4.500	2004	2014	EUR	1,000,000,000	EUR	994,600,000
EUR Bond	3.875	2005	2020	EUR	1,000,000,000	EUR	1,000,000,000
EUR Bond	Floating	2005-06	2012	EUR	1,000,000,000	EUR	996,884,000
EUR Bond	3.5	2006	2016	EUR	1,000,000,000	EUR	1,000,000,000
EUR Bond	4.375	2007	2017	EUR	1,000,000,000	EUR	1,000,000,000
EUR Bond	5.75	2008	2018	EUR	1,500,000,000	EUR	1,500,000,000
EUR Bond	6.75	2009	2014	EUR	1,000,000,000	EUR	1,000,000,000
EUR Bond	6	2011	2019	EUR	1,000,000,000	EUR	1,000,000,000
Total						EUR	9,472,484,000
c. Other loans raised							
Council of Europe Development Bank loans	Various	2002-11	2012-21	EUR	1,074,412,698	EUR	523,999,457
EBRD loans	Floating	2003	2014	EUR	4,739,006	EUR	1,113,077.70
KfW DEM loan	6.0583	2001	2015	DEM	120,000,000	EUR	18,878,419.82
European Community	Various	2008-09	2011-14	EUR	5,500,000,000	EUR	3,500,000,000
Total						EUR	4,043,990,954.52

Title	Interest rate (%)	Year Issue	Year Maturity		Original amount contracted		Principal amount outstanding
d. Other loans assumed							
EIB/Railways II-A	Various	2002	2015	EUR	40,000,000	EUR	13,500,000
EIB/M3 Toll Motorway	MT	2002	2015	EUR	49,599,224	EUR	15,261,299.48
EIB/Bp Health	Floating	2011	2034	EUR	28,027,432	EUR	28,027,432
EUR loans	Various	2002-11	2014-308	EUR	243,498,603.52	EUR	219,205,944.87
Total						EUR	275,994,676.35
e. Swap Arrangements							
EUR/USD	5.50	2000	2012	EUR	48,302,945	EUR	1,932,117.79
EUR/USD	4.4325	2000	2013	EUR	74,075,853	EUR	10,582,264.95
EUR/USD	3.8075	2005	2015	EUR	383,612,000	EUR	383,612,000
EUR/USD	Floating	2009	2015	EUR	383,612,000	EUR	383,612,000
EUR/USD	Floating	2009	2013	EUR	202,093,880.70	EUR	202,093,880.70
EUR/USD	Floating	2009	2014	EUR	23,383,000	EUR	23,383,000
EUR/USD	3.922	2009	2014	EUR	301,047,000	EUR	301,047,000
EUR/USD	3.915	2009	2014	EUR	301,047,000	EUR	301,047,000
EUR/USD	1.385	2010	2013	EUR	264,074,000	EUR	264,074,000
EUR/USD	1.3855	2010	2013	EUR	242,937,000	EUR	242,937,000
EUR/USD	5.6575	2010	2020	EUR	469,317,000	EUR	469,317,000
EUR/USD	5.695	2010	2020	EUR	469,317,000	EUR	469,317,000
EUR/USD	Floating	2010	2020	EUR	241,460,000	EUR	241,460,000
EUR/USD	Floating	2010	2020	EUR	241,460,000	EUR	241,460,000
EUR/USD	2.0048	2011	2013	EUR	393,860,000	EUR	393,900,000
EUR/USD	2.0048	2011	2013	EUR	393,860,000	EUR	393,900,000
EUR/USD	Floating	2011	2021	EUR	239,900,000	EUR	239,900,000
EUR/USD	6,2275	2011	2021	EUR	466,400,000	EUR	466,400,000
EUR/USD	6,2865	2011	2021	EUR	465,310,000	EUR	465,310,000
EUR/USD	6,2825	2011	2021	EUR	465,310,000	EUR	465,310,000
EUR/USD	Floating	2011	2021	EUR	240,200,000	EUR	240,200,000
EUR/USD	Floating	2011	2021	EUR	240,200,000	EUR	240,200,000
EUR/USD	7.158	2011	2041	EUR	174,480,000	EUR	174,480,000
EUR/USD	7.158	2011	2041	EUR	174,480,000	EUR	174,480,000
EUR/USD	Floating	2011	2041	EUR	89,910,000	EUR	89,910,000
EUR/USD	Floating	2011	2041	EUR	89,910,000	EUR	89,910,000
EUR/USD	7,2575	2011	2041	EUR	115,460,000	EUR	115,460,000
EUR/USD	7,2575	2011	2041	EUR	115,460,000	EUR	115,460,000
EUR/USD	Floating	2011	2041	EUR	59,480,000	EUR	59,480,000
EUR/USD	Floating	2011	2041	EUR	59,480,000	EUR	59,480,000
EUR/GBP	4.495	2004	2014	EUR	753,200,000	EUR	753,200,000
EUR/GBP	3.82	2005	2017	EUR	486,948,000	EUR	486,948,000
EUR/GBP	Floating	2005	2017	EUR	250,852,000	EUR	250,852,000
EUR/GBP	4.14	2006	2016	EUR	478,599,000	EUR	478,599,000
EUR/GBP	Floating	2006	2016	EUR	246,551,000	EUR	246,551,000
EUR/GBP	Floating	2009	2013	EUR	54,548,325.02	EUR	54,548,325.02
EUR/GBP	Floating	2009	2014	EUR	6,073,000	EUR	6,073,000
EUR/GBP	3.970	2009	2014	EUR	206,472,000	EUR	206,472,000
EUR/GBP	1.3625	2010	2013	EUR	64,333,000	EUR	64,333,000
EUR/GBP	1,19	2010	2013	EUR	63,266,000	EUR	63,266,000
EUR/GBP	1,789	2011	2013	EUR	212,440,000	EUR	212,440,000
EUR/JPY	3.092	2005	2012	EUR	338,320,000	EUR	338,320,000
EUR/JPY	3.821	2006	2013	EUR	355,745,000	EUR	355,745,000
EUR/JPY	4.9855	2007	2017	EUR	151,112,000	EUR	151,112,000
EUR/JPY	Floating	2009	2013	EUR	52,144,648.29	EUR	52,144,648.29
EUR/JPY	Floating	2009	2014	EUR	5,879,000	EUR	5,879,000
EUR/JPY	4.080	2009	2014	EUR	279,518,000	EUR	279,518,000
EUR/JPY	1.7775	2010	2013	EUR	70,043,000	EUR	70,043,000
EUR/JPY	2.32	2011	2013	EUR	176,720,000	EUR	176,720,000
EUR/EUR	5.28	2002	2014	EUR	30,000,000	EUR	30,000,000
EUR/EUR	Floating	2002	2014	EUR	(30,000,000)	EUR	(30,000,000)
EUR/EUR	5.368	2002	2015	EUR	30,452,000	EUR	30,452,000
EUR/EUR	Floating	2002	2015	EUR	(30,452,000)	EUR	(30,452,000)

Title	Interest rate (%)	Year Issue	Year Maturity	Original amount contracted		Principal amount outstanding	
EUR/EUR	4.500	2004	2014	EUR	(300,000,000)	EUR	(300,000,000)
EUR/EUR	Floating	2004	2014	EUR	300,000,000	EUR	300,000,000
EUR/EUR	4.500	2004	2014	EUR	(700,000,000)	EUR	(700,000,000)
EUR/EUR	Floating	2004	2014	EUR	700,000,000	EUR	700,000,000
EUR/EUR	4.495	2004	2014	EUR	(300,000,000)	EUR	(300,000,000)
EUR/EUR	Floating	2004	2014	EUR	300,000,000	EUR	300,000,000
EUR/EUR	3.253	2005	2012	EUR	250,000,000	EUR	250,000,000
EUR/EUR	Floating	2005	2012	EUR	(250,000,000)	EUR	(250,000,000)
EUR/EUR	3.259	2005	2012	EUR	250,000,000	EUR	250,000,000
EUR/EUR	Floating	2005	2012	EUR	(250,000,000)	EUR	(250,000,000)
EUR/EUR	3.875	2005	2020	EUR	(200,000,000)	EUR	(200,000,000)
EUR/EUR	Floating	2005	2020	EUR	200,000,000	EUR	200,000,000
EUR/EUR	3.893	2006	2012	EUR	330,000,000	EUR	330,000,000
EUR/EUR	Floating	2006	2012	EUR	(330,000,000)	EUR	(330,000,000)
EUR/EUR	3.3959	2006	2014	EUR	250,000,000	EUR	250,000,000
EUR/EUR	Floating	2006	2014	EUR	(250,000,000)	EUR	(250,000,000)
EUR/EUR	4.9899	2006	2014	EUR	350,000,000	EUR	350,000,000
EUR/EUR	Floating	2006	2014	EUR	(350,000,000)	EUR	(350,000,000)
EUR/EUR	3.5	2006	2016	EUR	340,000,000	EUR	340,000,000
EUR/EUR	Floating	2006	2016	EUR	(340,000,000)	EUR	(340,000,000)
EUR/EUR	4.375	2007	2017	EUR	340,000,000	EUR	340,000,000
EUR/EUR	Floating	2007	2017	EUR	(340,000,000)	EUR	(340,000,000)
EUR/EUR	5.374	2007	2014	EUR	170,000,000	EUR	170,000,000
EUR/EUR	Floating	2007	2014	EUR	(170,000,000)	EUR	(170,000,000)
EUR/EUR	5.75	2008	2018	EUR	500,000,000	EUR	500,000,000
EUR/EUR	Floating	2008	2018	EUR	(500,000,000)	EUR	(500,000,000)
EUR/EUR	3.625	2009	2016	EUR	510,000,000	EUR	510,000,000
EUR/EUR	Floating	2009	2016	EUR	(510,000,000)	EUR	(510,000,000)
EUR/EUR	3.250	2009	2014	EUR	680,000,000	EUR	680,000,000
EUR/EUR	Floating	2009	2014	EUR	(680,000,000)	EUR	(680,000,000)
EUR/EUR	6.00	2011	2019	EUR	340,000,000	EUR	340,000,000
EUR/EUR	Floating	2011	2019	EUR	(340,000,000)	EUR	(340,000,000)
EUR/CHF	Floating	2008	2013	EUR	47,393,000	EUR	47,393,000
EUR/CHF	Floating	2008	2016	EUR	63,191,000	EUR	63,191,000
Total						EUR	11,683,002,236.75
Total Euro Debt						**EUR**	**28,072,319,607,50**
U.S. Dollar equivalent						**USD**	**36,289,433,270.24**
3. Pound Sterling Debt							
a. Bonds							
GBP Bond	5.500	2004	2014	GBP	500,000,000	GBP	500,000,000
GBP Bond	5.000	2005	2017	GBP	500,000,000	GBP	500,000,000
GBP Bond	5.000	2006	2016	GBP	500,000,000	GBP	500,000,000
Total						GBP	1,500,000,000
b. Swap Arrangements							
GBP/EUR	5.50	2004	2014	GBP	(500,000,000)	GBP	(500,000,000)
GBP/EUR	5.00	2005	2017	GBP	(170,000,000)	GBP	(170,000,000)
GBP/EUR	5.00	2006	2016	GBP	(330,000,000)	GBP	(330,000,000)
GBP/EUR	5.00	2006	2016	GBP	(170,000,000)	GBP	(170,000,000)
GBP/EUR	5.00	2006	2016	GBP	(330,000,000)	GBP	(330,000,000)
GBP/EUR	Floating	2009	2013	GBP	(47,137,389.58)	GBP	(47,137,389.58)
GBP/EUR	Floating	2009	2014	GBP	(5,437,522.86)	GBP	(5,437,522.86)
GBP/EUR	Floating	2009	2014	GBP	(186,402,554.96)	GBP	(186,402,554.96)
GBP/EUR	Floating	2010	2013	GBP	(53,800,000)	GBP	(53,800,000)
GBP/EUR	Floating	2010	2013	GBP	(53,801,530.28)	GBP	(53,801,530.28)
GBP/EUR	Floating	2011	2013	GBP	(192,049,924.78)	GBP	(192,049,924.78)
Total						GBP	(2,038,628,922.46)
Total Pound Sterling Debt						**GBP**	**(538,628,922.46)**
U.S. Dollar equivalent						**USD**	**(830,613,780)**

Title	Interest rate (%)	Year Issue	Year Maturity	Original amount contracted		Principal amount outstanding	
4. Japanese Yen Debt							
a. Bonds							
JPY Bond	0.96	2005	2012	JPY	45,000,000,000	JPY	45,000,000,000
JPY Bond	1.67	2006	2013	JPY	50,000,000,000	JPY	50,000,000,000
JPY Bond	2.11	2007	2017	JPY	25,000,000,000	JPY	25,000,000,000
Total						JPY	120,000,000,000
b. Swap Arrangements							
JPY/EUR	0.96	2005	2012	JPY	(45,000,000,000)	JPY	(45,000,000,000)
JPY/EUR	1.67	2006	2013	JPY	(50,000,000,000)	JPY	(50,000,000,000)
JPY/EUR	2.11	2007	2017	JPY	(25,000,000,000)	JPY	(25,000,000,000)
JPY/EUR	Floating	2009	2013	JPY	(6,971,218,030)	JPY	(6,971,218,030)
JPY/EUR	Floating	2009	2014	JPY	(789,781,661)	JPY	(789,781,661)
JPY/EUR	Floating	2009	2014	JPY	(36,876,909,302)	JPY	(36,876,909,302)
JPY/EUR	Floating	2010	2013	JPY	(7,958,970,000)	JPY	(7,958,970,000)
JPY/EUR	Floating	2011	2013	JPY	(20,578,079,439)	JPY	(20,578,079,439)
Total						JPY	(193,174,958,432)
Total Japanese Yen Debt						**JPY**	**(73,174,958,432)**
U.S. Dollar equivalent						**USD**	**(944,056,687)**
5. Swiss franc Debt							
a. Loans							
Assumed loans	Various	2011	2028	CHF	150,000,000	CHF	299,503,881.97
Total						CHF	299,503,881.97
b. Bonds							
CHF Bond	3.5	2008	2013	CHF	150,000,000	CHF	150,000,000
CHF Bond	4	2008	2016	CHF	200,000,000	CHF	200,000,000
Total						CHF	350,000,000
c. Swap Arrangements							
CHF/EUR	3.5	2008	2013	CHF	(75,000,000)	CHF	(75,000,000)
CHF/EUR	4.0	2008	2016	CHF	(100,000,000)	CHF	(100,000,000)
Total						CHF	(175,000,000)
Total Swiss Franc Debt						**CHF**	**474,503,881.97**
U.S. Dollar equivalent						**USD**	**504,530,033.38**
6. Special Drawing Right Debt							
IMF	Floating	2008-09	2014	SDR	6,372,500,000	SDR	6,372,500,000
Total Special Drawing Right Debt						**SDR**	**6,372,500,000**
U.S. Dollar equivalent						**USD**	**9,783,508,075**
HUNGARY							
Total External Funded Convertible Currency Debt						**USD**	**42,290,839,294.07**
TOTAL EXTERNAL CONVERTIBLE CURRENCY FUNDED DEBT OF THE BANK AND OF HUNGARY						**USD**	**44,611,745,146.32**

Internal Debt of Hungary

(As at December 31, 2011)

Title	Interest rate (%)	Year Issue	Year Maturity		Original amount contracted		Principal amount outstanding
					(HUF, EUR and USD millions)		
1. Loans							
a. from EIB	Fixed, Floating	2007-10	2025	EUR	2,570	HUF	480,992.2
b. assumed loans	Floating	2011	2016	HUF	50,000.0	HUF	50,000.0
c. from CEB	Fixed, Floating	2009	2019	EUR	433	HUF	59,833.2
Total Loans						**HUF**	**590,825.5**
						USD	**2,454.8**
2. Hungarian Treasury Bonds for the purpose of:							
a. 1998-11 Central Budget	Fixed, Floating	1998-11	2011-28	HUF		HUF	7,519,618.0
b. Housing Loans	Floating	1992	2016	HUF	83,200.0	HUF	16,700.0
c. Purchase of net rouble receivables held by the Bank	8.4	1992	2012	HUF	48,300.0	HUF	1,426.4
d. Loan Consolidation Programme and Bank Consolidation Programme	Floating	1993-96	2013-16	HUF	395,000.0	HUF	259,783.0
e. Securitization of non-interest bearing debt outstanding to the Bank	Floating	1994-96	2026	HUF	417,110.0	HUF	125,317.8
Total Hungarian Treasury Bonds						**HUF**	**7,922,845.2**
						USD	**32,918.6**
3. Hungarian Treasury Bills:							
a. Fixed interest rate	5.25-7.0	2010-11	2012-13			HUF	307,604.4
b. Discount	—	2011	2012			HUF	1,540,917.8
Total Hungarian Treasury Bills						**HUF**	**1,848,522.3**
						USD	**7,680.4**
HUNGARY'S TOTAL INTERNAL DEBT						HUF	10,362,193.0
U.S. Dollar Equivalent(1)						USD	43,053.8

Source: GDMA Pte Ltd.

Note:

(1) All totals calculated on the basis of exchange rates as on December 31, 2011. The exchange rate was 240.68 HUF/USD on December 31, 2011.

Guarantees Provided by Hungary

(As of December 31, 2011)

Title	Principal Amount Outstanding	
	(millions)	
Hungary Guaranteed Debt in Foreign Currency (expressed in USD equivalents)[1]		
Loans raised from international financial institutions	USD	549.96
Guarantees for various purposes	USD	323.42
Guarantees based on law	USD	4,060.20
Total Guarantees in Foreign Currency	USD	4,933.58
Hungary Guaranteed Debt in HUF		
Guarantees for various purposes	HUF	116,022.00
Guarantees based on law	HUF	1,166,260.60
Total Guarantees in HUF	HUF	1,282,282.60
USD Equivalent(1)	USD	5,327.75
TOTAL FOREIGN CURRENCY AND HUF GUARANTEES	USD	10,261.33

Source: GDMA Pte Ltd.

Note:

(1) Calculated on the basis of exchange rate as of December 31, 2011.

FORM OF THE NOTES

Each Series of Notes will be either in bearer form, with or without interest coupons attached ("**Bearer Notes**"), or in registered form, without interest coupons attached ("**Registered Notes**").

Notes in bearer form will be issued only outside the United States to persons who are not U.S. persons in reliance on Regulation S under the U.S. Securities Act ("**Regulation S**") and Notes in registered form will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule144A under the U.S. Securities Act.

Except in the circumstances described in the relevant global Note (each a "**Global Note**"), investors will not be entitled to receive definitive Notes. Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking société anonyme ("**Clearstream, Luxembourg**") or The Depository Trust Company ("**DTC**") will maintain records of the co-ownership participations or the beneficial ownership interests, as the case may be, in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their co-ownership participations or their beneficial ownership interests, as the case may be, only through Euroclear and Clearstream, Luxembourg or DTC.

Bearer Notes

Bearer Notes may be issued either in classic Global Note form ("**CGN**") or new Global Note form ("**NGN**") through Euroclear or Clearstream, Luxembourg (Euroclear and Clearstream, Luxembourg together the "**International Central Securities Depositories**" or "**ICSDs**"). Under the terms of the NGN, the issue outstanding amount is determined based on the ICSDs' records. Bearer Notes in CGN form are physically annotated to reflect the issue outstanding amount under the terms of each CGN.

Global Notes issued in CGN form will be deposited with a common depositary for Euroclear and Clearstream Luxembourg, DTC and/or any other agreed clearing system.

Global Notes issued in NGN form will be deposited and safekept by a common safekeeper (the "**Common Safekeeper**") and serviced by a common service provider (the "**Common Service Provider**") for Euroclear and Clearstream, Luxembourg.

Global Notes in NGN form that the Issuer wishes to make potentially eligible as collateral for Eurosystem monetary policy or intra-day credit operations will be deposited and safekept throughout their lives by Euroclear or Clearstream, Luxembourg as Common Safekeeper.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes (i) in CGN form by making payments to the common depositary for Euroclear and Clearstream, Luxembourg or to DTC, and (ii) in NGN form by making payments to the Common Service Provider for Euroclear and Clearstream, Luxembourg for distribution to their account holders.

Each Tranche of Bearer Notes will initially be represented by a temporary bearer Global Note (a "**Temporary Bearer Global Note**"), without interest coupons or talons, which, in the circumstances described below, or, if so specified in the applicable Pricing Supplement, a permanent bearer Global Note (a "**Permanent Bearer Global Note**" and, together with the Temporary Bearer Global Note, the "**Bearer Global Notes**"). The Bearer Global Notes will, in either case, (i) if they are intended to be issued in NGN form, as stated in the applicable Pricing Supplement, be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper; and (ii) if the Bearer Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

Upon delivery of a Temporary Bearer Global Note, Euroclear and/or Clearstream, Luxembourg and/or such other agreed clearing system will credit purchasers with nominal amounts of Notes of the relevant Tranche equal to the nominal amounts thereof for which they have paid.

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

On and after the date (the "**Exchange Date**") which is the later of (i) 40 days after the Temporary Bearer Global Note is issued and (ii) 40 days after the completion of the distribution of the relevant Tranche, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue), interests in the Temporary Bearer Global Note will be exchangeable (free of charge) either for interests in a Permanent Bearer Global Note of the same Series without interest coupons or talons or, where specified in the applicable Pricing Supplement (subject to such notice period as is specified in the Pricing Supplement), for Bearer Notes in definitive form ("**Definitive Bearer Notes**") in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused.

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

Unless otherwise provided in the applicable Pricing Supplement, a Permanent Bearer Global Note will be exchangeable (free of charge), in whole or (subject to the Notes which continue to be represented by the Permanent Bearer Global Note being regarded by Euroclear and Clearstream, Luxembourg as fungible with the Definitive Bearer Notes issued in partial exchange for such Permanent Bearer Global Note) in part, for security printed Definitive Bearer Notes (at the expense of the Issuer, unless otherwise specified in the applicable Pricing Supplement) with, where applicable, interest coupons and talons attached only (unless otherwise specified in the applicable Pricing Supplement) upon the occurrence of an Exchange Event as described therein. "**Exchange Event**" means (i) an Event of Default has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear or Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with the Conditions (as defined below) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Fiscal Agent.

Temporary Bearer Global Notes, Permanent Bearer Global Notes and Definitive Bearer Notes will be issued pursuant to the Agency Agreement. At the date hereof, neither Euroclear nor Clearstream, Luxembourg regard Notes in global form as fungible with Notes in definitive form.

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

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

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Bearer Global Note and the Bearer Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Bearer Global Note then, unless within a period of 15 days commencing on the relevant due date payment in full of the amount due in respect of the relevant Global Note is received by the bearer in accordance with the terms of such Bearer Global Note, such Bearer Global Note will become void at 8.00pm (London time) on such fifteenth day. At the same time, holders of interests in such Bearer Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg (as the case may be) will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 4 December 2012, executed by the Issuer.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a Global Note in registered form (a "**Regulation S Global Note**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the U.S. Securities Act ("**QIBs**"). The Registered Notes of each Tranche sold to QIBs will initially be represented by a global note in registered form (a "**Rule 144A Global Note**" and, together with a Regulation S Global Note, the "**Registered Global Notes**").

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC or (ii) be deposited with, and registered in the name of a nominee of a Common Depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Registered Global Notes that are held in Euroclear and/or Clearstream Luxembourg may be held under the New Safekeeping Structure (the "**NSS**"). Registered Global Notes that are held in Euroclear and Clearstream, Luxembourg, will be registered in the name of a nominee for such system or, as the case may be, for the Common Safekeeper, and the applicable Registered Global Note will be delivered to (1) a Common Depositary in the case of Registered Global Notes not held under the NSS or (2) a Common Safekeeper for Euroclear and/or Clearstream, Luxembourg in the case of Registered Global Notes held under the NSS.

Depositing Notes with a Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life.

In the case of a Regulation S Global Note registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Notes represented by such Regulation S Global Note, interests in such Regulation S Global Note may only be held through accounts with Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. The Rule 144A Global Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the register of Notes maintained by the Registrar (the "**Register**") on the relevant Record Date (as defined below) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying and Transfer Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date immediately preceding the due date for payment in the manner provided in the Conditions.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for Registered Notes in definitive form without interest coupons or talons attached ("**Definitive Registered Notes**") only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system satisfactory to the Issuer is available or DTC has ceased to constitute a clearing agency registered under the U.S. Exchange Act of 1934, as amended, (the "**Exchange Act**") or (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no alternative clearing system satisfactory to the Issuer is available. The Issuer will promptly give notice to Noteholders in accordance with the Conditions if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Note) or the Issuer may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar. Regulation S Global Notes, Rule 144A Global Notes and Registered Notes in definitive form will be issued pursuant to the Agency Agreement.

Transfer of Interests

Interests in a Rule 144A Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in a Regulation S Global Note representing the same series and Tranche of Notes, and *vice versa*. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the Conditions and the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and in the Agency Agreement and will bear a legend regarding such restrictions (see "*Subscription and Sale*" and "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" below).

General

Pursuant to the Agency Agreement, the Fiscal Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall, to the extent issued after the Issue Date of the original Tranche, be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg and, where applicable, a CUSIP number, that are different from the common code, ISIN, CUSIP assigned to Notes of any other Tranche of the same Series until at least the Exchange Date applicable to the Notes of such first mentioned Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the relevant Dealer and the Fiscal Agent as specified in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions (the "**Conditions**") of Notes to be issued by the Issuer which will be incorporated by reference into each Global Note and which will be incorporated into (or, if permitted by the relevant stock exchange or other relevant authority and agreed between the Issuer and the relevant Dealer, incorporated by reference into) each Definitive Note. Part A of the Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Conditions, replace or modify the following Conditions for the purpose of such Notes. The Pricing Supplement will be incorporated into, or attached to, each Global Note and Definitive Note.*

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Conditions of the Notes herein, in which case supplementary listing particulars, if appropriate, will be made available which will describe the effect of such agreement reached in relation to such Notes.

This Note is one of a series of Notes issued by Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság (in English: Hungarian Export-Import Bank Private Limited Company) (the "**Issuer**") pursuant to the Agency Agreement (as defined below). References herein to the "**Notes**" shall be references to the Notes of this Series (as defined below) and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of the lowest denomination specified in the relevant Pricing Supplement ("**Specified Denomination**") in the currency specified in the relevant Pricing Supplement ("**Specified Currency**");

(ii) Notes in definitive form ("**Definitive Notes**") issued in exchange (or part exchange) for a Global Note; and

(iii) any Global Note.

The Notes and the Coupons (as defined below) have the benefit of a fiscal and paying agency agreement dated 4 December 2012 (such fiscal and paying agency agreement as from time to time modified, supplemented and/or restated, the "**Agency Agreement**") and made among the Issuer, Citibank, N.A., London Branch as fiscal agent, issuing, paying and transfer agent, and exchange agent (in each such capacity, the "**Fiscal Agent**", the "**Paying and Transfer Agent**" and the "**Exchange Agent**", each of which expressions shall include any successor fiscal agent, issuing, paying and transfer agent or exchange agent specified in the Pricing Supplement, respectively), Citigroup Global Markets Deutschland AG (the "**Registrar**", which expression shall include any successor registrar specified in the Pricing Supplement) and the other paying and transfer agents named therein (together with the Fiscal Agent, the "**Paying and Transfer Agents**", which expression shall include any additional or successor paying and transfer agents). Determinations with regard to Notes shall be made by the Calculation Agent (as defined in Condition 4.4 below) specified in the Pricing Supplement in the manner specified in the Pricing Supplement.

Interest-bearing Definitive Notes (unless otherwise indicated in the Pricing Supplement) have interest coupons ("**Coupons**") and, if indicated in the Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Any reference herein to "**Noteholders**" or "**holder**" shall mean (in the case of Bearer Notes (as defined below)) the holders of the Notes and (in the case of Registered Notes (as defined below)) the persons in whose names the Notes are registered, and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Couponholders**" shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue. These Conditions shall be construed accordingly.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement which are attached to or endorsed on this Note. Part A of the Pricing Supplement (or such relevant provisions thereof) must be read in conjunction with these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "Pricing Supplement" are to Part A of the Pricing Supplement (or the relevant provisions thereof) which are attached to or endorsed on this Note.

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

Zero Coupon Notes) and/or Issue Prices.

The Noteholders and the Couponholders are entitled to the benefit of the deed of covenant (the "**Deed of Covenant**") dated 4 December 2012, executed by the Issuer. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear and Clearstream, Luxembourg (each as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of each of the Fiscal Agent, the Registrar and the other Paying and Transfer Agents (such agents, together with the Exchange Agent, the "**Agents**"). Copies of the Pricing Supplement are available for inspection at and copies may be obtained from the specified offices of the Fiscal Agent, the Registrar and the other Paying and Transfer Agents save that where the Notes are not admitted to trading on a regulated market in the European Economic Area, the Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Fiscal Agent, Registrar and/or the Paying and Transfer Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Deed of Covenant, the Agency Agreement and the Pricing Supplement which are binding on them.

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

In the Conditions, "**Euro**" means the lawful currency of the Member States of the European Union that have adopted the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. **Form, Denomination And Title**

1.1 The Notes are issued in bearer form ("**Bearer Notes**") or registered form ("**Registered Notes**"), as specified in the Pricing Supplement and, in the case of Definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Bearer Notes may not be exchanged for any other form of Notes and vice versa. Registered Notes may not be exchanged for any other form of Notes and vice versa.

1.2 This Note may be a Fixed Rate Note, or a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the Pricing Supplement.

1.3 Bearer Notes may be issued in CGN or NGN form. If the Pricing Supplement indicates that the Global Note is not issued in NGN form, the nominal amount of Notes represented by the Global Note shall be determined by means of the annotations to the Global Note. If the Pricing Supplement indicates that the Global Note is issued in NGN form the nominal amount of Notes represented by the Global Note shall be the aggregate amount from time to time entered in the records of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**" and together with Euroclear, an "**ICSD**"). The records of Euroclear and/or Clearstream, Luxembourg shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and, for these purposes, a statement issued by Euroclear and/or Clearstream, Luxembourg stating the nominal amount of Notes represented by the Global Note at any time shall be conclusive evidence of the records of the relevant clearing system at that time. Payments due in respect of Notes for the time being represented by the Global Note shall be made to the bearer of the Global Note and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries referred to above shall not affect such discharge. The Global Note shall not be valid unless authenticated by the Fiscal Agent or the Registrar, as the case may be. If the Pricing Supplement indicates that the Global Note is intended to be held in a manner which would allow Eurosystem eligibility, the common safekeeper must be one of the ICSDs.

1.4 Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Fiscal Agent, the Registrar and any other Paying and Transfer Agent may deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph, and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

1.5 For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg or for so long as The Depository Trust Company ("**DTC**") or its nominee is the registered holder of a Registered Global Note, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or, as the case may be, DTC as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by such clearing system as to the nominal amount of such Notes standing to the account of any person shall, save in the case of manifest error, be conclusive and binding for all purposes, including any form of statement or print out of electronic records provided by the relevant clearing system in accordance with its usual procedures and in which the holder of a particular nominal amount of such Notes is clearly identified together with the amount of such holding) shall be treated by the Issuer, the Fiscal Agent, the Registrar and any other Paying and Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose, in the case of Notes represented by a Bearer Global Note, the bearer of the relevant Bearer Global Note or, in the case of a Registered Global Note the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Fiscal Agent, the Registrar and any other Paying and Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note; and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be.

1.6 References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the relevant Dealer and the Fiscal Agent.

1.7 Bearer Notes, once issued in definitive form in the Specified Currency and the Specified Denomination(s), may not be exchanged for Bearer Notes of another Specified Denomination.

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

1.9 In relation to any issue of Bearer Notes which have a minimum denomination and are tradable, so long as the Notes are represented by a temporary Global Note or a permanent Global Note and Euroclear and/or Clearstream, Luxembourg so permits, in denominations above such minimum denomination which are not integral multiples of the minimum denomination, should Definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with Euroclear or Clearstream, Luxembourg at the relevant time, may not receive all of his entitlement in the form of Definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

2. Provisions Relating to Registered Notes

2.1 *Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the Specified Denominations and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with these Conditions. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 *Transfers of Registered Notes in definitive form*

(a) Subject as provided in Conditions 2.5 and 2.6 below, a Registered Note in definitive form may be transferred in whole or in part (in the Specified Denominations). In order to effect any such transfer: (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Paying and Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Paying and Transfer Agent; and (ii) the Registrar or, as the case may be, the relevant Paying and Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

(b) Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Agency Agreement).

(c) Subject as provided above, the Registrar or, as the case may be, the relevant Paying and Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Paying and Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred.

(d) In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 *Registration of transfer upon partial redemption*

In the event of a partial redemption of Notes under Condition 5, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 *Cost of registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 *Transfers of interests in Regulation S Global Notes*

(a) Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the Registrar or any Paying and Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) otherwise pursuant to registration under the U.S. Securities Act of 1933 (as amended, the "**U.S. Securities Act**") or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable U.S. securities laws, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

(b) In the case of Condition 2.5(a)(i) above, such transferee may take delivery by means of a Rule 144A Note in global or definitive form.

(c) After expiry of the applicable Distribution Compliance Period, (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

2.6 *Transfers of interests in Rule 144A Notes*

(a) Transfers of Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A ("**Rule 144A Notes**") or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Rule 144A Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(iii) otherwise pursuant to the U.S. Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable U.S. securities laws,

and, in each case, in accordance with any applicable securities laws of any State of the U.S. or any other jurisdiction.

(b) Upon the transfer, exchange or replacement of Rule 144A Notes, or upon specific request for removal of the legend, the Registrar shall deliver only Rule 144A Notes or refuse to remove the legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act.

2.7 In this Condition 2, the following expressions shall have the following meanings:

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue);

"**QIB**" means a qualified institutional buyer within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Global Note**" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act; and

"**U.S.**" means the United States.

3. Status of the Notes

The Notes and any Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 9.1) unsecured obligations of the Issuer and rank *pari passu* and without preference among themselves and (except for certain debts required to be preferred by law) equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

4. Interest

4.1 *Interest on Fixed Rate Notes*

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

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

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

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

(i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

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

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

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

(i) if "Actual/Actual (ICMA)" is specified in the Pricing Supplement:

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

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

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

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

(ii) if "30/360", "360/360" or "Bond Basis" is specified in the Pricing Supplement, the number of days in the Interest Period (as defined in Condition 4.2(a)(ii) below) divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

(e) In these Conditions:

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

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

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

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

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

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

(g) In these Conditions, "**Business Day**" means a day which is both:

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

(ii) either:

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

(2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the "**TARGET 2 System**") is open.

4.2 *Interest on Floating Rate Notes*

(a) *Interest Payment Dates*

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

(1) the Specified Interest Payment Date(s) in each year specified in the Pricing Supplement; or

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

(ii) Such interest will be payable in respect of each Interest Period. "**Interest Period**" shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, unless otherwise specified in the Pricing Supplement.

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

(1) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(i)(2) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

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

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

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

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of the Floating Rate Notes will be determined in the manner specified in the Pricing Supplement.

(c) *ISDA Determination for Floating Rate Notes*

(i) Where ISDA Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Pricing Supplement) the Margin (if any). For the purposes of this Condition 4.2(c), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Definitions**")) and under which:

(1) the Floating Rate Option is as specified in the Pricing Supplement;

(2) the Designated Maturity is the period specified in the Pricing Supplement; and

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

(ii) For the purposes of this Condition 4.2(c), "**Floating Rate**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(iii) When this Condition 4.2(c) applies, in respect of each relevant Interest Period, the Fiscal Agent will be deemed to have discharged its obligations under Condition 4.2(d) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this Condition 4.2(c).

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

(i) Where Screen Rate Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

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

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

(ii) For determining the Rate of Interest pursuant to this Condition 4.2(d) in the event that the Relevant Screen Page is not available or if, in the case of Condition 4.2(d)(i)(1) above, no such offered quotation appears or, in the case of Condition 4.2(d)(i)(2) above, fewer than three such offered quotations appear, in each case as at the time specified (the "**Specified Time**") in the preceding paragraph (each a market disruption event) the following provisions shall apply:

(1) The Fiscal Agent shall request the principal London office of each of the Reference Banks (as defined below) to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

(2) If on any Interest Determination Date, one only or none of the Reference Banks provides the Fiscal Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Fiscal Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 4.2(d)(ii), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(iii) In this Condition 4.2(d), the expression "**Reference Banks**" means, in the case of Condition 4.2(d)(ii)(1) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 4.2(d)(ii)(2) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

(iv) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Pricing Supplement.

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

(i) If the Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Conditions 4.2(b), (c) and (d) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

(ii) If the Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Conditions 4.2(b), (c) and (d) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(f) *Determination of Rate of Interest and Calculation of Interest Amounts*

(i) The Fiscal Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

(ii) The Fiscal Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes in respect of the Calculation Amount for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to:

(1) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(2) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

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

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

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

(2) if "Actual/365 (Fixed)" is specified in the Pricing Supplement, the actual number of days in the Interest Period divided by 365;

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

(4) if "Actual/360" is specified in the Pricing Supplement, the actual number of days in the Interest Period divided by 360;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

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

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

(h) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, by the Fiscal Agent or, if applicable, the Calculation Agent (as defined below in Condition 4.4 and specified in the Pricing Supplement), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the Registrar, the other Paying and Transfer Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 *Accrual of Interest*

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

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

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

4.4 *Calculation Agent*

Certain determinations, calculations, quotations and/or decisions required under these Conditions in respect of the Notes will be made by the Fiscal Agent pursuant to the Agency Agreement or by such other person specified in the Pricing Supplement pursuant to a calculation agency agreement dated on or before the date of issue of the Notes (the Fiscal Agent or such other person acting in that capacity, the "**Calculation Agent**" which expression shall include any additional or successor calculation agents).

5. **Redemption and Purchase**

5.1 *At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the Pricing Supplement in the relevant Specified Currency on the Maturity Date.

5.2 *Redemption for Tax Reasons*

(a) Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes) or on any Interest Payment Date (in the case of Floating Rate Notes), on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Hungary or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue date of the first Tranche of the Notes; and

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

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

(b) Notes redeemed pursuant to this Condition 5.2 will be redeemed at their Early Redemption Amount referred to in Condition 5.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) For the avoidance of doubt, nothing in this Condition 5.2 shall allow the Issuer to redeem the Notes as a result of any withholding or deduction it may be required to make in respect of any payment of interest on the Notes arising as a result of Act CXVII of 1995 on the Personal Income Tax relating to the withholding tax on interest payments to private individuals as may be amended or implemented by subsequent legislation.

5.3 *Redemption at the Option of the Issuer (Issuer Call)*

(a) If Issuer Call is specified in the Pricing Supplement, the Issuer may, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders (or such other period of notice as is specified in the Pricing Supplement) in accordance with Condition 14; and

(ii) not less than two business days (being days when banks are open for business in the city in which the specified office of the relevant Agent is located) before the giving of the notice referred to in (i), notice to the Fiscal Agent (and, in the case of a redemption of Registered Notes, the Registrar),

(both of which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the

Optional Redemption Amount(s) specified in, or determined in the manner specified in, the Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. DTC requires a notice to holders at least 30 days prior to the Optional Redemption Date. A notice period of less than 30 days will be managed on a best effort basis by DTC.

(b) Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than a Maximum Redemption Amount, in each case as indicated in the Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg and/or DTC as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC, as the case may be, in the case of Redeemed Notes represented by a Global Note, in each case not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by Definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of Definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this Condition 5.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

5.4 *Redemption only at the Option of the Noteholders (Investor Put)*

(a) If Investor Put is specified in the Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the Pricing Supplement (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. DTC requires a notice to holders at least 30 days prior to the Optional Redemption Date. A notice period of less than 30 days will be managed on a best effort basis by DTC. Registered Notes may be redeemed under this Condition 5.4 in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the Pricing Supplement.

(b) To exercise the right to require redemption of such Note its holder must, if such Note is in definitive form and held outside of Euroclear and Clearstream, Luxembourg or any other agreed clearing system, deliver at the specified office of any Paying and Transfer Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying and Transfer Agent or, as the case may be, the Registrar, falling within the notice period, a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying and Transfer Agent or the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 5.4 and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If such Note is in definitive bearer form, the Put Notice must be accompanied by such Note or evidence satisfactory to the Paying and Transfer Agent or the Registrar concerned that such Note will, following delivery of the Put Notice, be held its order or under its control.

(c) If such Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg, DTC or any other agreed clearing system, to exercise the right to require redemption of this Note the holder of such Note must, within the notice period, give notice to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, DTC or such other agreed clearing system (which may include notice being given on its instruction by any clearing system or any common depositary or Common Safekeeper, as the case may be, for such clearing systems to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg, DTC or the additional or alternative clearing system from time to time and, if such Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Fiscal Agent or the Registrar for notation accordingly.

(d) Any Put Notice given by a holder of any Note pursuant to this Condition 5.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

5.5 *Early Redemption Amounts*

For the purpose of Condition 5.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated by the Issuer as follows:

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

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

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

Early Redemption Amount = RP x (1+AY)y

where:

"**RP**" means the Reference Price;

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

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

or on such other calculation basis as may be specified in the Pricing Supplement.

5.6 *Purchases*

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying and Transfer Agent or the Registrar for cancellation.

5.7 *Cancellation*

All Notes which are redeemed will (subject to Condition 5.6 above) forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 5.6 above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) and cannot be re-issued or resold.

5.8 *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 5.1, 5.2, 5.3 or 5.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5.5 (c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

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

5.9 *Business Day Convention*

If a Business Day Convention is specified in the Pricing Supplement in respect of the Maturity Date or the Optional Redemption Date and if (x) there is no numerically corresponding day in the calendar month in which the Maturity Date or Optional Redemption Date should occur or (y) the Maturity Date or Optional Redemption Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(a) the Following Business Day Convention, such Maturity Date or Optional Redemption Date shall be postponed to the next day which is a Business Day; or

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

(c) the Preceding Business Day Convention, such Maturity Date or Optional Redemption Date shall be brought forward to the immediately preceding Business Day.

6. **Payments**

6.1 *Method of Payment*

(a) Subject as provided below:

(i) payments in a Specified Currency other than Euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

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

(b) Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to "**Specified Currency**" will include any successor currency under applicable law.

6.2 *Presentation and Payment in respect of Notes and Coupons*

(a) *Bearer Notes*

(i) Payments of principal and interest in respect of definitive Bearer Notes shall be made in the manner provided in Condition 6.1 above only against presentation and surrender, or in the case of a part payment of any sum due, endorsement of the relevant:

(x) definitive Bearer Notes; or

(y) Coupons, as applicable,

in each case at the specified office of any Paying and Transfer Agent outside of the United States (which expression, as used herein, means the United States of America and its possessions).

(ii) If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, any accrued interest shall only be payable on redemption of the Note against presentation and surrender of the relevant definitive Bearer Note.

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

(b) *Registered Notes*

(i) Payments of principal in respect of Registered Notes (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Fiscal Agent. Such payments will be made by cheque or, if requested by the holder, by transfer to a bank account nominated by the holder, of the appropriate currency and maintained with a bank recognised by the relevant Paying and Transfer Agent, (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg and/or DTC, as the case may be, are open for business) before the relevant due date and (ii) where in definitive form, at the close of business on the fifteenth business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Fiscal Agent is located) (the "**Record Date**") before the relevant due date.

(ii) Payments of interest in respect of Registered Notes (whether or not in global form) shall be made to the person shown on the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg and/or DTC, as the case may be, are open for business) before the relevant due date and (ii) where in definitive form, at the close of business on the Record Date prior to such due date. Payment will be made by cheque in the Specified Currency and mailed by insured mail to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register on the Record Date and at its own risk. Upon application by the holder to the specified office of the Fiscal Agent or any of the Paying and Transfer Agents before the Record Date, such payment of interest may be made instead by transfer to a bank account nominated by the holder, of the appropriate currency and maintained with a bank recognised by the relevant Paying and Transfer Agent. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

(iii) If the due date for redemption is not an Interest Payment Date, accrued interest shall only be payable on redemption of the Note against presentation and surrender of the relevant certificate.

(iv) Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

(v) All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Fiscal Agent to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

(vi) None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.3 *Payments subject to fiscal laws*

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto. Details are set forth in Condition 7 below. Neither the Issuer nor any Paying and Transfer Agent shall be liable to any holder of a Note or other person for any commissions, costs, losses or expenses in relation to or resulting from such withholding or payment.

6.4 *Unmatured Coupons and unexchanged Talons*

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

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

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

6.5 *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any definitive Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 8).

6.6 *General Provisions Applicable to Payments*

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

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

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

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

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

6.7 *Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes (unless otherwise specified in the Pricing Supplement), "**Payment Day**" means any Business Day and (subject to Condition 8) is, in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City and, in the case of Definitive Notes, includes a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation.

6.8 *Interpretation of Principal and Interest*

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

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

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

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

(v) in relation to Zero Coupon Notes, the Amortised Face Amount; and

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

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

7. **Withholding Tax**

(a) All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Hungary or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

(i) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of its having some connection with Hungary other than the mere holding of such Note or Coupon or the receipt of principal or interest in respect thereof; or

(ii) presented for payment in Hungary; or

(iii) to, or to a third party on behalf of, a Noteholder who would not be liable or subject to the withholding or deduction by, to the extent that the Noteholder is able, making a declaration of non-residence or other similar claim for exemption to the tax authority; or

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

(v) presented for payment by or on behalf of a Noteholder or Couponholder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying and Transfer Agent in a Member State of the European Union; or

(vi) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.7).

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

8. **Prescription**

8.1 The Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

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

9. **Covenants**

9.1 *Negative Pledge*

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure either any Relevant Indebtedness or any guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing any such Security Interest for the Notes as may be approved by the Noteholders in accordance with the provisions of the Agency Agreement.

9.2 For the purposes of these Conditions:

"**Relevant Indebtedness**" means any indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market; and

"**Security Interest**" means any lien, pledge, hypothecation, mortgage, security interest, charge of any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

10. **Events of Default**

10.1 If any one or more of the following events shall have occurred and be continuing:

(a) the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 15 days of the due date for payment thereof;

(b) the Issuer defaults in the performance or observance of any of its obligations under or in respect of the Notes or the Agency Agreement other than as described in (i) above and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the specified office of the Fiscal Agent;

(c) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) subject to their official translation into the Hungarian language, to make the Notes and the Coupons admissible in evidence in the courts of Hungary is not taken, fulfilled or done within 30 days of receipt by the Issuer of written notice thereof;

(d) (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, or (ii) an administrator or liquidator of the Issuer is appointed, or (iii) the Issuer, as a result of financial difficulties, takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness for Borrowed Money or any guarantee of any Indebtedness for Borrowed Money given by it, or (iv) the Issuer ceases to carry on all or a substantial part of its business that it carries on at the date hereof;

(e) one or more non-appealable final judgement(s) or order(s) for the payment of any amount/an amount in excess of EUR 5,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer in Hungary and continues unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment;

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

(g) any event occurs which under the laws of Hungary has an analogous effect to any of the events referred to in paragraphs (d) to (f) above;

(h) there shall occur any default by Hungary or the NBH in the due and punctual payment of the principal of or premium or prepayment charge, if any, or in respect of, interest on, any other External Indebtedness (in the case of Hungary) or Public External Indebtedness incurred on or prior to 31 December 1998 (in the case of the NBH) when and as the same shall become due and payable, and such default shall continue for more than the original period of grace, if any, applicable thereto unless such payment is being contested in good faith by Hungary or the NBH, as the case may be, and reserves at least equal to the amount of the contested payment are being maintained by it, (the term "**original period of grace**" as used herein meaning that grace period fixed by the terms of the agreement or instrument under which such indebtedness was created, but specifically not including any extension in the time permitted for such payment or any waiver or delay in requirement for such payment) provided that the aggregate principal amount of the relevant External Indebtedness in respect of which any one or more of the events mentioned in this paragraph has occurred is at least equal to EUR 50,000,000 (or its equivalent in any other currency);

(i) any Indebtedness for Borrowed Money of the Issuer becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer (as a result of any default, howsoever described, of the Issuer);

(j) the Issuer fails to pay when due any amount payable by it under any guarantee of any Indebtedness for Borrowed Money or (as the case may be) within any originally applicable grace period;

(k) any Security Interest securing Indebtedness for Borrowed Money over any asset of the Issuer becomes enforceable by reason of default (howsoever described),

provided that there shall only be an Event of Default under paragraphs (h) to (k) above if the amount of Indebtedness for Borrowed Money which is not so paid and/or in respect of which such event has occurred and/or which becomes prematurely due and payable or is placed on demand and/or in respect of which a Security Interest becomes enforceable, equals or exceeds EUR 15,000,000 in aggregate (or equivalent in other currencies);

(l) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, and/or the Agency Agreement and such unlawfulness is not remedied within 30 days thereof;

(m) the Funding Guarantee ceases to exist or otherwise ceases to guarantee all of the Issuer's obligations under the Notes for whatever reason;

(n) Hungary ceases to own, directly or indirectly, 100 per cent. of the authorised and issued share capital of the Issuer; or

(o) Hungary shall cease to be a member in good standing of the IMF or shall be generally unable to pay its debts as they fall due or shall enter into any agreement or composition with or for the benefit of its creditors or shall declare or impose a moratorium on the payment of and Indebtedness for Borrowed Money of or assumed or guaranteed by it,

then all of the Notes (but not some only) may by written notice addressed and delivered by the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes to the specified office (as defined in the Agency Agreement) of the Fiscal Agent be declared immediately due and payable, whereupon, unless prior to such date the Issuer shall have cured or otherwise rectified the relevant event, all of the Notes shall become immediately due and payable at the Early Redemption Amount (as described in Condition 5.5), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. The Issuer shall ensure that it will use all reasonable endeavours to give prompt notice of any such declaration to all Noteholders.

10.2 *Rescission of the Declaration of Acceleration*

If the Fiscal Agent receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes and/or a resolution is passed at a meeting of the Noteholders duly convened and held in accordance with the Agency Agreement to the effect that the Event(s) of Default giving rise to a declaration of acceleration made pursuant to Condition 10.1 above is or are cured or is or waived by them following any such declaration and that such holders request the Fiscal Agent to rescind the relevant declaration, the Fiscal Agent shall notify the Issuer who shall, by notice in writing to the Noteholders, rescind the relevant declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

10.3 For the purposes of these Conditions:

"**Eximbank Act**" means Act XLII of 1994 on the Hungarian Export-Import Bank Private Limited Company and the Hungarian Export Credit Insurance Private Limited Company, as amended;

"**External Indebtedness**" means any obligation in respect of existing or future Indebtedness for Borrowed Money denominated or payable, or at the option of the holder thereof payable, in a currency other than Hungarian Forint;

"**Funding Guarantee**" means the first demand absolute direct suretyship in accordance with Paragraph (2) of Article 274 of the Civil Code ("*készfizető kezességvállalás*") by Hungary of the Issuer's obligations under the Notes pursuant to Paragraph (1)(a) of Article 6 of the Eximbank Act;

"**IMF**" means the International Monetary Fund;

"**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance of credit or acceptance similar thereto;

"**NBH**" means the Magyar Nemzeti Bank (National Bank of Hungary) or any other entity which, from time to time, acts as a central bank of Hungary, as the case may be; and

"**Public External Indebtedness**" means External Indebtedness which: (i) is in the form of, or represented by, bonds, notes or other similar securities; and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market.

11. Replacement of Notes, Coupons and Talons

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

12. Agents

12.1 The names of the initial Agents and their initial specified offices are set out below:

(a) **Fiscal Agent**:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

(b) **Registrar:**

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

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

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

(b) there will at all times be a Fiscal Agent and Registrar and, so long as any Registered Global Notes payable in a Specified Currency other than U.S. dollars are registered in the name of a nominee of DTC, an Exchange Agent;

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

(d) there will at all times be a Paying and Transfer Agent (which may be the Fiscal Agent) with a specified office in a principal financial centre in Europe other than Hungary; and

(e) there will at all times be a Paying and Transfer Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the Savings Tax Directive or any law implementing or complying with or introduced to confirm to such Directive.

12.3 Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

13. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any other Paying and Transfer Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

14. Notices

14.1 Notices to the holders of Registered Notes in definitive form will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth day after the date of mailing and will also be published in accordance with the requirements for notices to the holders of Bearer Notes and Registered Notes in global form set out below. Notices to holders of Bearer Notes and Registered Notes in global form shall be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) if and for so long as the Notes are admitted to trading on the London Stock Exchange, a daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

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

14.3 Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent (or any other Paying and Transfer Agent on its behalf) or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

15.1 *General*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including, without limitation, the modification of any provision of these Conditions. The following is a summary of selected provisions contained in the Agency Agreement.

For the purposes of this Condition 15:

(a) "**Debt Security**" means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Issuer in one or more Series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a Debt Security;

(b) "**Cross-Series Modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes (including the Agency Agreement), and (ii) the Debt Securities of one or more other Series or any agreement governing the issuance or administration of such other Debt Securities;

(c) "**Holder**" in relation to a Note means a Noteholder, and in relation to any other Debt Security means the person the Issuer is entitled to treat as the legal holder of the Debt Security under the law governing that Debt Security;

(d) "**Reserved Matter**" in relation to the Notes means any proposal in relation to a modification of these Conditions or of any agreement governing the issuance or administration of the Notes (including the Agency Agreement) that would:

   (i) change the date on which any amount is payable on the Notes;

   (ii) reduce any amount, including any overdue amount, payable on the Notes;

   (iii) change the method used to calculate any amount payable on the Notes;

   (iv) reduce the redemption price for the Notes or change any date on which the Notes may be redeemed;

   (v) change the currency or place of payment of any amount payable on the Notes;

   (vi) impose any condition on or otherwise modify the Issuer's obligation to make payments on the Notes under Condition 6;

(vii) if permitted by any related guarantee, release any guarantee issued in relation to the Notes or change the terms of that guarantee;

(viii) change any payment-related circumstance under which the Notes may be declared due and payable prior to their stated maturity;

(ix) change the seniority or any *pari passu* ranking provisions of the Notes;

(x) change the law governing the Notes;

(xi) change any court to whose jurisdiction the Issuer has submitted or any immunity waived by the Issuer in relation to any legal proceedings arising out of or in connection with the Notes;

(xii) change the principal amount of outstanding Notes or, in the case of a Cross-Series Modification, the principal amount of Debt Securities of any other Series required to approve a proposed modification in relation to the Notes, the principal amount of outstanding Notes required for a quorum to be present, or the rules for determining whether a Note is outstanding for these purposes; or

(xiii) change the definition of a Reserved Matter.

and has the same meaning in relation to the Debt Securities of any other Series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes (including the Agency Agreement) shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities; and

(e) "**Series**" means:

(i) in relation to the Notes, a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) are identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates (except in respect of Zero Coupon Notes) and/or Issue Prices; and

(ii) in relation to any Debt Securities, a tranche of Debt Securities, together with any further tranche or tranches of Debt Securities that in relation to each other and to the original tranche of Debt Securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series.

The definition of "outstanding" is contained in the Agency Agreement.

15.2 *Convening Meetings of Noteholders*

A meeting of Noteholders:

(a) may be convened by the Issuer at any time;

(b) will be convened by the Issuer if an Event of Default in relation to the Notes has occurred and is continuing and a meeting is requested in writing by the Holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding; and

(c) will be convened by the Issuer or the Fiscal Agent if a meeting is requested in writing by the Holders of not less than 10 per cent. of the aggregate principal amount of the Notes of any Series for the time being outstanding and, if the Issuer or the Fiscal Agent makes default for a period of seven days in convening such a meeting of the Noteholders, the same may be convened by the requisitionists.

15.3 *Quorum*

(a) The quorum at any meeting at which Noteholders will vote on a proposal in relation to, or a proposed modification of:

(i) a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding; and

(ii) a matter other than a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.

(b) The quorum for any adjourned meeting will be one or more persons present or represented at the meeting and holding:

(i) not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed Reserved Matter modification or a proposal relating to a Reserved Matter; and

(ii) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a non-Reserved Matter modification or any proposal relating to a matter other than a Reserved Matter.

15.4 *Non-Reserved Matters*

These Conditions and any agreement governing the issuance or administration of the Notes (including the Agency Agreement) may be modified, or a proposal may be approved, in relation to any matter other than a Reserved Matter with the consent of the Issuer and:

(a) the affirmative vote of Noteholders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(b) a Written Resolution signed by or on behalf of Noteholders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

15.5 *Reserved Matters*

Except as provided by Condition 15.6 below, the Conditions of the Notes and any agreement governing the issuance or administration of the Notes (including the Agency Agreement) may be modified, or a proposal may be approved, in relation to a Reserved Matter with the consent of the Issuer and:

(a) the affirmative vote of Noteholders of not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(b) a written resolution signed by or on behalf of Noteholders of not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding.

15.6 *Cross – Series Modifications*

In the case of a Cross-Series Modification (and/or a proposal in respect of a Cross-Series Modification), the Conditions of the Notes and the terms and conditions of the Debt Securities of any other Series, and any agreement (including the Agency Agreement) governing the issuance or administration of the Notes or Debt Securities of such other Series, may be modified, or a proposal may be approved, in relation to a Reserved Matter with the consent of the Issuer and:

(a)

(i) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the Holders of the Debt Securities of all the Series (taken in the aggregate) that would be affected by the proposed modification and/or proposal; or

(ii) a Written Resolution signed by or on behalf of the Holders of not less than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities of all the Series (taken in the aggregate) that would be affected by the proposed modification and/or proposal; and

(b)

(i) the affirmative vote of more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the Holders of each Series of Debt Securities (taken individually) that would be affected by the proposed modification and/or proposal; or

(ii) a Written Resolution signed by or on behalf of the Holders of more than 50 per cent. of the aggregate principal amount of the then outstanding Debt Securities of each Series (taken individually) that would be affected by the proposed modification and/or proposal.

15.7 *Written Resolutions*

A '"**Written Resolution**" is a resolution in writing signed by or on behalf of Noteholders of the requisite majority of the Notes and will be valid for all purposes as if it was a resolution passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions. A Written Resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Noteholders.

15.8 *Binding Effect*

A resolution duly passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions, and a Written Resolution duly signed by the requisite majority of Noteholders, will be binding on all Noteholders, whether or not the Noteholder was present at the meeting, voted for or against the resolution or signed the written resolution.

15.9 *Manifest Error, Technical Amendments, etc.*

The Fiscal Agent may agree without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement for the purpose of complying with mandatory provisions of law, curing any ambiguity or curing, correcting any manifest or proven error or any other defective provision contained herein or therein or modifying these Conditions or the Agency Agreement in a formal or technical manner or in a manner which is not, in the sole opinion of the Issuer, prejudicial to the interests of the Noteholders.

Any modification shall be binding on the Noteholders and the Couponholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Further Issues

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

18. Contracts (Rights of Third Parties) Act 1999

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

19. Governing Law and Submission to Jurisdiction

19.1 The Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, English law.

19.2 The Issuer irrevocably agrees for the benefit of the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes or the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

19.3 The Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Notes or the Coupons respectively (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

19.4 The Issuer hereby irrevocably and unconditionally appoints the Economic and Trade Commissioner, at such time and from time to time, at the Embassy of Hungary, Office of the Economic and Trade Commissioner, 46 Eaton Place, London SW1X 8BY, United Kingdom as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act or the appointment of such agent ceasing to be effective, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

19.5 The Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

19.6 The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above. In addition, the Issuer has, in such document, waived any rights to sovereign immunity and other similar defences which it may have.

BOOK-ENTRY CLEARING SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the clearing systems currently in effect. The information in this section concerning the clearing systems has been obtained from sources that the Issuer believes to be reliable but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the Fiscal Agent, nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-Entry Systems

DTC

DTC has advised the Issuer that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. The foregoing information about DTC has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by DTC, no facts have been omitted which would render the reproduced information inaccurate or misleading. The foregoing information about DTC was derived from, and additional information about DTC can be found, at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system ("**DTC Notes**") must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("**Beneficial Owner**") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

To the extent applicable, redemption proceeds on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

Under certain circumstances, DTC will exchange the DTC Notes for Definitive Registered Notes, which it will distribute to its participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*".

Because DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge the DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal, interest and any other amount in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, interest and any other amount on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a Direct Participant or an Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Paying and Transfer Agents and any custodian with whom the relevant Registered Global Notes have been deposited (the "**Custodian**").

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Paying and Transfer Agents Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

Ownership of Beneficial Interests in any Rule 144A Global Note or Regulation S Global Note

Ownership of beneficial interests in any Rule 144A Global Note or Regulation S Global Note will be limited to persons that have accounts with DTC or its nominee, Euroclear or Clearstream, Luxembourg ("**Participants**") or persons that may hold interests through Participants. Individual certificates will not be issued except in the limited circumstances set out in the Global Notes. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg (with respect to interests of Participants) and other direct and indirect Participants (with respect to interests of persons other than Participants). Owners of beneficial interests in the Global Note (other than Participants) will not receive written confirmation from DTC, Euroclear or Clearstream, Luxembourg of their purchases. Each beneficial owner is entitled to receive upon request written confirmation providing details of the transaction as well as periodic statements of its holdings from DTC, Euroclear or Clearstream, Luxembourg as the case may be (if such beneficial owner is a Participant) or such other direct or indirect participant through which such beneficial owner entered into the transaction (if such beneficial owner is not a Participant). The laws of some States of the United States require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the Rule 144A Global Note.

Payments of Interest and Payments at Maturity

Any payment of principal or interest due on any interest payment date or at maturity will be made available by the Issuer to any Paying and Transfer Agent on or before that date on which the holder of a Registered Note could claim the relevant payment. On the respective payment date, any Paying and Transfer Agent will make such payments to DTC or its nominee and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, in accordance with arrangements between any Paying and Transfer Agent and DTC or its nominee, Euroclear and Clearstream, Luxembourg. DTC or its nominee, Euroclear and Clearstream, Luxembourg, upon receipt of any payment of principal or interest, will credit their Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on their records, and such payments will be the responsibility of such clearing systems. Payments by Participants to owners of beneficial interests in the Global Notes held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants.

Arrangements for Initial Settlement and Trading

Initial settlement for the Notes will be made in immediately available funds (*i.e.*, for value on the date of delivery of the Notes). Investors electing to hold their Notes through DTC will follow the settlement practices applicable to U.S. corporate debt obligations. The securities custody accounts of investors will be credited with their holdings on the settlement date against payment in same-day funds within DTC. Investors electing to hold their Notes through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds.

Trading between Euroclear and/or Clearstream, Luxembourg Accountholders

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Participants and Euroclear/Clearstream, Luxembourg Accountholders

Secondary market sales of book-entry interests in the Notes between DTC participants on one hand and Euroclear/Clearstream, Luxembourg accountholders on the other will be conducted in accordance with the rules and procedures established for such sales by DTC, Euroclear and Clearstream, Luxembourg, as applicable, and will be settled using the procedures established for such sales by DTC, Euroclear and Clearstream, Luxembourg, as applicable.

Changes in Clearing and Settlement Procedures

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of the Issuer, any Agent or Dealer or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the U.S. Securities Act, will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective direct or indirect participants or accountholders or their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above, and none of them will have any liability for any aspect of the records relating to or payment made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Additional or Alternative Clearing Systems

The Issuer, the relevant Dealer and the Fiscal Agent may decide to issue a Series of Notes through an additional or alternative clearing system as specified in the relevant Pricing Supplement. Information concerning such additional or alternative clearing system will be provided in the relevant Pricing Supplement.

DESCRIPTION OF FUNDING GUARANTEE

Under the Eximbank Act, the Hungarian state is liable, as absolute guarantor, for the fulfilment of the Issuer's obligations to pay principal and interest arising from its borrowings, including debt instruments issued by the Issuer and loans from Hungarian and foreign credit institutions. The Hungarian state's obligations in respect of the statutory Funding Guarantee are subject to an upper limit set by the annual budget. Under the 2012 Budget Act Amendment, which was approved by Parliament on 19 November 2012 and came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), the upper limit of the Funding Guarantee under the 2012 Budget Act was increased from HUF 320 billion to HUF 1,200 billion

According to the Eximbank Act Amendment, which was passed by Parliament on 12 November 2012 and came into effect on 28 November 2012 following publication in the Hungarian Official Gazette (*Magyar Közlöny*), the Funding Guarantee is irrevocable and has been expanded to include payment obligations arising from the replacement costs of foreign exchange and interest rate swap transactions.

The Hungarian state does not charge any fee in respect of the Funding Guarantee.

In accordance with Hungarian law, if the Issuer fails to perform any of its payment obligations which are guaranteed by the Hungarian state, creditors may seek to recover directly from the Hungarian state by filing a petition with the minister responsible for public finances without first seeking to recover from the Issuer. Within 30 days of receipt of a valid petition, the minister responsible for public finances is required to arrange payment to the relevant creditor.

FORM OF PRICING SUPPLEMENT

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

PRICING SUPPLEMENT DATED [ ]

MAGYAR EXPORT-IMPORT BANK

ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the "Notes")
under the EUR 2,000,000,000
Global Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Offering Circular dated 4 December 2012 [and the supplementary Offering Circular dated [ ]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular [as so supplemented] and this pricing supplement dated [ ] relates only to the Notes described above and should only be read together with the Offering Circular. The Offering Circular [, the supplementary Offering Circular] and the documents incorporated therein by reference are available for viewing at and copies may be obtained from the offices of the Fiscal Agent, Citibank, N.A., London Branch at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

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

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

1. Issuer:	Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság
2. (i) Series Number:	[ ]
(ii) Tranche Number:	[ ]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies:	[ ]
4. Aggregate Nominal Amount:	
(i) Series:	[ ]
(ii) Tranche:	[ ]
5. Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6. (i) Specified Denominations: (*in the case of Registered Notes this means the minimum integral amount in which transfers can be made*)	[ ]
(ii) Calculation Amount:	[ ]
	(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations.)

7.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8.	Maturity Date:		[*Fixed Rate Notes – specify date/ Floating Rate Notes –* Interest Payment Date falling in or nearest to [*specify month*]] [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/– [ ] per cent. Floating Rate] [Zero Coupon] [Other *(specify)*] (further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at par] [Other *(specify)*]
11.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify details of any provision for convertibility of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/other *(specify)*] in arrear]
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date/[*specify other*][adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted] *(N.B. This will need to be amended in the case of long or short coupons)*
	(iii)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[ ] per Calculation Amount
	(iv)	Broken Amount(s): (*Applicable to Notes in definitive form*)	[ ] per Calculation Amount, payable on the Interest Payment date falling [in/on] [ ]
	(v)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or 360/360 or Bond Basis or 30E/360 (ISDA) or Eurobond Basis or *[specify other]*]
	(vi)	Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration.* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]

(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
15.	Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Interest Period(s):	[Condition 4 applies/[*specify other (give details)*]]
(ii)	Specified Interest Payment Dates:	[ ]
(iii)	First Interest Payment Date:	[ ]
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(v)	Business Centre(s):	[ ]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[*Give name and address of Calculation Agent*]
(viii)	Screen Rate Determination:	
	– Reference Rate:	[ ]
	– Interest Determination Date(s):	[ ]
	– Relevant Screen Page:	[ ]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[ ]
	– Designated Maturity:	[ ]
	– Reset Date:	[ ]
(x)	Margin(s):	[+/–] [ ] per cent. per annum
(xi)	Minimum Rate of Interest:	[ ] per cent. per annum
(xii)	Maximum Rate of Interest:	[ ] per cent. per annum
(xiii)	Day Count Fraction:	[Actual/Actual, Actual/Actual (ISDA) or Actual/365 (Fixed) or Actual/365 (Sterling) or Actual/360 or 30/360 or 360/360 or Bond Basis or 30E/360 or Eurobond Basis or 30E/360 (ISDA) or *Other (specify)*]
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
16.	Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	[Amortisation/Accrual] Yield:	[ ] per cent. per annum
(ii)	Reference Price:	[ ]
(iii)	Any other formula/basis of determining amount payable:	[ ]
(iv)	Day Count Fraction in relation to	[Conditions 5.5(c) and 5.8 apply/*specify other*]

Early Redemption Amounts and late payment:	*(Consider applicable day count fraction if not U.S. dollar denominated)*

PROVISIONS RELATING TO REDEMPTION

17. Issuer Call:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other/*see Appendix]
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[ ]
(b) Maximum Redemption Amount:	[ ]
(iv) Notice period:	[ ] *(N.B. If setting notice periods that are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*
18. Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub- paragraphs of this paragraph)*
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other/*see Appendix]
(iii) Notice period:	[ ] *(N.B. If setting notice periods that are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*
19. Final Redemption Amount of each Note:	[[ ] per Calculation Amount/*specify other*/see Appendix]
20. Early Redemption Amount	
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Condition 5.5):	[Condition 5.5 applies/[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:	[Bearer Notes/Registered Notes] *(Delete as appropriate)* [[Temporary Bearer Global Note which is exchangeable for a] Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event.][Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on

	and after the Exchange Date] *(Include if Notes are to be issued in definitive form)* [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.] (*Include for Notes that are to be offered in Belgium*) *(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The following Specified Denomination construction (or substantially similar construction) is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes: "[€50,000]/[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000].")* [[Rule 144A Global Note] [and Regulation S Global Note][each of] which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] *(Include if Notes are to be issued in permanent global form)* [Regulation S Global Note ([ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]] [Rule 144A Global Note ([ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
22. New Global Note:	[Yes/No]
23. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
24. Consolidation provisions:	[Condition 17 applies/Not Applicable/The provisions [in Condition [ ]] apply]
25. Other final terms:	[Not Applicable/*give details*] *(Consider including a term providing for tax certification if required to enable interest to be paid gross by the Issuer.)*

DISTRIBUTION

26. (i) If syndicated, names of Managers:	[Not Applicable/*give names*]
(ii) Date of [Syndication] Agreement:	[ ]
(iii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
27. If non-syndicated, name and address of relevant Dealer:	[Not Applicable/*give name and address*]
28. (i) U.S. Selling Restrictions:	[Regulation S; TEFRA D/TEFRA C/TEFRA not applicable]
[(ii) Whether Rule 144A and private placement sales in the United States are permitted to be made:]	[Yes/No]
29. Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE

This Pricing Supplement comprises the final terms required for issue [and] [admission to trading on [*specify relevant regulated market (for example the London Stock Exchange) and, if relevant, admission to an official list*] of the Notes described herein] pursuant to the EUR 2,000,000,000 Global Medium Term Note Programme of Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság:

By: ....
Duly authorised

PART B — OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING:

[(i)] Listing and admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange) and, if relevant, admission to an official list*] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange) and, if relevant, admission to an official list*] with effect from [ ].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
[(ii)] Estimate of total expenses relating to admission to trading:	[ ]

2. RATINGS:

[The Programme has received the ratings set forth in the Offering Circular (see "*General Information — Ratings*" in the Offering Circular). The Notes to be issued have not yet been rated.] [The Notes have been assigned the following ratings:

[S & P: [ ]]
[Fitch: [ ]]
[[Other]: [ ]]]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

The credit ratings included herein will be treated for the purposes of Regulation (EC) No. 1060/2009 on credit rating agencies, as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**") as having been issued by [Standard & Poor's Credit Market Services Europe Ltd] ("**S&P**"), and Fitch Ratings Limited ("**Fitch**") [and] [other], upon registration pursuant to the CRA Regulation. Each of S&P and Fitch [and] [other] is established in the European Union and is registered under the CRA Regulation. Reference is made to the list of credit rating agencies registered in accordance with the CRA Regulation published by the European Securities and Markets Authority on its website (www.esma.europa.eu), which is updated within five working days following the adoption of a decision under Articles 16, 17 or 20 of the CRA Regulation.]

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

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

[Save as discussed in "*Subscription and Sale*" in the Offering Circular, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the Offer.][*Amend as appropriate if there are other interests, including any conflicts of interest*]

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

[(i)] Reasons for the offer:	[See "*Use of Proceeds*" in the Offering Circular]
[(ii)] Estimated net proceeds:	[ ]
[(iii)] Estimated total expenses:	[/Not Applicable] [*Include breakdown of expenses.*]

5. YIELD: (Fixed Rate Notes only)

Indication of yield:	[ ]
	Calculated as [*Indicate details of method of calculation in summary form*] on the Issue Date.
	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. OPERATIONAL INFORMATION

ISIN Code:	[ ]
Common Code:	[ ]
CUSIP:	[ ]
Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)/*]
Delivery:	Delivery [against/free of] payment
Name and address of additional Paying and Transfer Agent(s) (if any):	[ ]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes/No] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] (*include this text for registered notes)*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.] (*Include this text if "yes" selected in which case Bearer Notes must be issued in NGN form*)

TAXATION

Hungary

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

Withholding tax (foreign resident individual Holders)

The payments of interest and capital gains realised upon the redemption or sale of publicly offered and traded Notes ("**Interest Income**") is taxed at 16 per cent. Notes listed on a regulated market of an EEA member state are considered publicly offered and traded Notes.

The proceeds paid on privately placed Notes are considered as other income ("**Other Income**") which is part of the individual's aggregated income and is taxed at 20.32 per cent (due to the applicable super-gross up mechanism which is expected to be repealed as of 1 January 2013). The capital gains realised on the sale of such Notes is considered, as a general rule, capital gains income ("**Capital Gains Income**"). The tax rate applicable to Capital Gains Income is 16 per cent.

Foreign resident individual Holders are subject to tax in Hungary if they realise Interest Income from Hungarian sources or income that is otherwise taxable in Hungary if an international treaty or reciprocity so requires. Interest Income should be treated as having a Hungarian source where:

(a) the Issuer is resident in Hungary for tax purposes;

(b) the Issuer has a permanent establishment in Hungary and Interest Income realised on the basis of the Notes is paid by the Hungarian permanent establishment of the Issuer;

(c) the foreign resident individual Holder has a permanent establishment in Hungary to which the Interest Income is attributable.

The tax on payments of the Interest Income is to be withheld by the "Payor" *(kifizető)* (as defined below).

Pursuant to Act XCII of 2003 on the Rules of Taxation ("**ART**") a "Payor" means a Hungarian resident legal person, organisation, or private entrepreneur who provides taxable income, irrespective of whether such payment is made directly or through an intermediary (post office, credit institution). In respect of interest, "Payor" shall mean the borrower of a loan or, the issuer of a note, including, the investment service provider or credit institution providing the interest instead of it. In respect of revenues originating from a transaction concluded with the involvement of a licensed stockbroker, "Payor" shall mean such stockbroker. The Hungarian permanent establishment of a foreign resident entity is also considered as a "Payor".

Interest, as defined by Schedule 7 of the ART (which implements the provisions of the Savings Directive), realised on the Notes by citizens of any other Member State of the European Union is not subject to Hungarian tax where a paying agent based in Hungary provides data to the Hungarian state tax authority on the basis of Schedule 7 of the ART.

A foreign resident individual Holder who does not have a permanent establishment in Hungary is not subject to tax in Hungary if he realises Capital Gains Income from Hungary since such income is not considered as Hungarian source income.

Please note that the provisions of the applicable double tax convention, if any, should be considered when assessing the Hungarian tax liabilities of a foreign resident individual Holder.

Withholding tax (foreign resident corporate Holders)

Interest on Notes paid to foreign resident corporate Holders, who do not have a permanent establishment in Hungary, by resident legal entities or other persons and any capital gains realised by such foreign resident Holders on the sale of the Notes is not subject to tax in Hungary.

The tax liability of a foreign resident corporate Holder, which has a permanent establishment in Hungary is limited, in general, to the income from business activities realised through its Hungarian permanent establishment.

Taxation of Hungarian resident individual Holders

The Act CXVII of 1995 on Personal Income Tax (the "**Personal Income Tax Act**") applies to the tax liability of Hungarian and foreign individuals. The tax liability of Hungarian resident individuals covers the worldwide income of such persons.

According to the provisions of the Personal Income Tax Act, in the case of individual Holders, Interest Income is the income paid as interest and the capital gains realised upon the redemption or the sale of publicly offered and publicly traded debt securities. The withholding tax on Interest Income is currently 16 per cent. Notes listed on a regulated market of an EEA member state are considered publicly offered and traded Notes.

The proceeds paid on privately placed Notes are considered as Other Income which is part of the individual's aggregated income and is taxed at 20.32 per cent (due to the applicable super-gross up mechanism which is expected to be repealed as of 1 January 2013). The Other Income is also be subject to a healthcare contribution of 27 per cent. The capital gains realised on the sale or redemption of such Notes is considered, as a general rule, Capital Gains Income. The tax rate applicable to Capital Gains Income is 16 per cent. Pursuant to Act LXVI of 1998 on Healthcare Contributions (the "**Healthcare Contribution Act**"), Capital Gains Income realised by Hungarian resident individuals (subject to further conditions) is generally subject to 14 per cent. healthcare contributions.

The rules of the Personal Income Tax Act in certain cases imposes a requirement upon the "Payor" (*kifizető)* (as defined above) to withhold tax on the interest payments to individual Holders.

Taxation of Hungarian resident corporate Holders

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the "**Corporation Tax Act**"), Hungarian resident taxpayers are subject to tax on their worldwide income. In general, resident taxpayers are entities established under the laws of Hungary (i.e. having a Hungarian registered seat). Foreign persons having their place of management in Hungary are also considered as Hungarian resident taxpayers.

In general, interest and capital gains realised by Hungarian resident corporate Holders on the Notes will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 10 to 19 per cent.

Pursuant to Act C of 1990 on Local Taxes (the "**Local Taxes Act**"), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Notes.

United Kingdom

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs practice relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

Payment of interest on the Notes

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

However, Noteholders may wish to note that, in certain circumstances, HM Revenue and Customs ("**HMRC**") has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder, or who either pays amounts payable on the redemption of Notes to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2013. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

EU Savings Directive

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

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

United States

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

*The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Notes. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Notes at their issue price (as defined below) that will hold the Notes as capital assets (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986 (the "**Code**"), final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect, as well as on the income tax treaty between the United States and Hungary as currently in force (the "**Treaty**").*

This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary does not discuss all aspects of US federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Notes through pass-through entities; (viii) holders that are not US Holders; (ix) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for US federal income tax purposes; (x) investors that have a functional currency other than the U.S. Dollar and (xi) US expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, or non-US, state or local tax considerations. This discussion applies only to holders of Registered Notes. Bearer Notes are not being offered to U.S. Holders. A U.S.

Holder who owns a Bearer Note may be subject to limitations under U.S. federal income tax laws, including the limitations provided in Section 165(j) and 1287 of the Code. Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term may be discussed in the applicable Pricing Supplement.

For the purposes of this summary, a "**US Holder**" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

This summary should be read in conjunction with any discussion of U.S. federal income tax consequences in the applicable Pricing Supplement. To the extent there is any inconsistency in the discussion of U.S. tax consequences to holders between this Offering Circular and the applicable Pricing Supplement, holders should rely on the tax consequences described in the applicable Pricing Supplement instead of this Offering Circular. The Issuer generally intends to treat Notes issued under the Program as debt, unless otherwise indicated in the applicable Pricing Supplement. Certain Notes, however, such as Notes with extremely long maturities, may be treated as equity for U.S. federal income tax purposes. The tax treatment of Notes to which a treatment other than as debt may apply may be discussed in the applicable Pricing Supplement. The following disclosure applies only to Notes that are treated as debt for U.S. federal income tax purposes.

Payments of Interest

General

Interest on a Note, including the payment of any additional amounts whether payable in U.S. Dollars or a currency other than U.S. Dollars (a "**foreign currency**"), other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "*Taxation – United States – Original Issue Discount - General*"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID (as defined below), if any, accrued with respect to the Notes (as described below under "*Taxation – United States – Original Issue Discount*") and payments of any additional amounts will generally constitute income from sources outside the United States, under the rules regarding the U.S. foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon). A U.S. Holder will not be subject to Hungarian withholding tax if the U.S. Holder is eligible for benefits under the Treaty.

Foreign Currency Denominated Interest

If a qualified stated interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. Dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. Dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount ("**OID**"). The following summary does not discuss Notes that are characterized as contingent payment debt instruments for U.S. federal income tax purposes. In the event that the Issuer issues contingent payment debt instruments, the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a "**Short-Term Note**"), will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's "stated redemption price at maturity" over its issue price is at least a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the "**issue price**" of a Note under the applicable Pricing Supplement will be the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The "**stated redemption price at maturity**" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". A "**qualified stated interest**" payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "*Taxation – United States - Variable Interest Rate Notes*"), applied to the outstanding principal amount of the Note. Solely for the purpose of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has *de minimis* OID, a U.S. Holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "*Taxation – United States - Election to Treat All Interest as Original Issue Discount*". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Discount Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The "**adjusted issue price**" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described below under "*Taxation – United States - Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Pre-Issuance Accrued Interest

A U.S. Holder may elect to exclude pre-issuance accrued interest from the issue price of the Note. In that event, a portion of the first interest payment will be treated as a non-taxable return of the pre-issuance accrued interest. If a U.S. Holder does not make this election, the U.S. federal income tax treatment of any pre-issuance accrued interest is not entirely clear. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax treatment of pre-issuance accrued interest.

Further Issuances

The Issuer may, from time to time, without notice to or the consent of the holders of the outstanding Notes, create and issue additional debt securities with identical terms and ranking *pari passu* with the Notes in all respects and may consolidate such additional debt securities with the outstanding Notes to form a single series. The Issuer may offer additional debt securities with OID for U.S. federal income tax purposes as part of a further issue. Purchasers of debt securities after the date of any further issue may not be able to differentiate between debt securities sold as part of the further issue and previously issued Notes. If the Issuer were to issue additional debt securities with OID, purchasers of debt securities after such further issue may be required to accrue OID (or greater amounts of OID than they would have otherwise accrued) with respect to their debt securities. This may affect the price of outstanding Notes following a further issuance.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "*Taxation – United States – Original Issue Discount – General*" with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, as adjusted by any acquisition premium. If a U.S. Holder makes this election for the Note, then, when the constant-yield method is applied, the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS.

Variable Interest Rate Notes

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") will generally bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under U.S. Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A "**qualified floating rate**" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note.

An "**objective rate**" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "**qualified inverse floating rate**" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "**current value**" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt may be more fully described in the applicable Pricing Supplement.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or other disposition of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Foreign Currency Notes

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "Payments of Interest". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or other disposition of a Note), a U.S. Holder will generally recognize exchange gain or loss, which will be ordinary gain or loss measured by the difference between the amount received (translated into U.S. Dollars at the exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Effect of Hungarian Withholding Taxes

As discussed in "*Taxation—Hungary*", under current law payments of interest on the Notes to foreign investors may become subject to Hungarian withholding taxes. The Issuer may become liable for the payment of additional amounts to U.S. Holders (see "*Terms and Conditions of the Notes – Withholding Tax*") so that U.S. Holders receive the same amounts they would have received had no Hungarian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Hungarian taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Hungarian tax authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a reduction in computing its U.S. federal taxable income, for Hungarian income taxes withheld by the Issuer. Since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Hungarian income taxes from payments attributable to the OID (which would generally occur when the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for these Hungarian income taxes in the year the OID is included in the U.S. Holder's gross income, and may be limited in its ability to credit or deduct in full the Hungarian taxes in the year those taxes are withheld by the Issuer.

Sale or Other Disposition of Notes

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID included in the U.S. Holder's income with respect to the Note, and reduced by the amount of any payments that are not qualified stated interest payments. A U.S. Holder's tax basis in a Foreign Currency Note will be determined by reference to the U.S. Dollar cost of the Notes. The U.S. Dollar cost of a Note purchased with a foreign currency will generally be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder will generally recognise gain or loss on the sale or other disposition of a Note equal to the difference between the amount realised on the sale or other disposition and the tax basis of the Note. The amount realised on a sale or other disposition for an amount in foreign currency will be the U.S. Dollar value of this amount on the date of sale or other disposition or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Except to the extent described above under "*Taxation – United States - Original Issue Discount – Short-Term Notes*" or attributable to accrued but unpaid interest or changes in exchange rates, gain or loss recognized on the sale or other disposition of a Note will be capital gain or loss and will generally be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognized by a U.S. Holder on the sale or other disposition of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or other disposition of a Note will have a tax basis equal to its U.S. Dollar value at the time the interest is received or at the time of the sale or other disposition. Foreign currency that is purchased will generally have a tax basis equal to the U.S. Dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or an exchange for U.S. Dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to backup withholding.

Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with a financial institution. Investors who fail to report required information could be subject to substantial penalties.

Disclosure Requirements

U.S. Treasury Regulations meant to require the reporting of certain tax shelter transactions ("**Reportable Transactions**") could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the U.S. Treasury Regulations, certain transactions with respect to the Notes may be characterized as Reportable Transactions including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note. Persons considering the purchase of such Notes should consult with their tax advisers to determine the tax return obligations, if any, with respect to an investment in such Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

CERTAIN ERISA CONSIDERATIONS

PURSUANT TO IRS CIRCULAR 230 THE ISSUER HEREBY INFORMS YOU THAT THE DISCUSSION HEREIN WITH RESPECT TO ERISA CONSIDERATIONS IS NOT INTENDED OR WRITTEN BY THE ISSUER, ITS COUNSEL OR THE U.S. TAX COUNSEL TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THIS DISCUSSION IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. THIS DISCUSSION IS LIMITED TO THE TAX ISSUES DESCRIBED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED UPON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER CONCERNING THE POTENTIAL TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES

The following description is general in nature, is not intended to be all-inclusive, and is based on the law and practice in force at the date of this document and is subject to any subsequent changes therein. In view of the individual nature of ERISA, the Code and Similar Law consequences, each potential investor that is a Benefit Plan (as defined below) or any plan subject to Similar Law is advised to consult its own legal adviser with respect to the specific ERISA, Code and any U.S. federal, state, local or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**") consequences of investing in the Notes and to make its own independent decision with respect to any such investment. The following is merely a summary and should not be construed as legal advice.

Subject to the following discussion, the Notes may be acquired by pension, profit-sharing or other employee benefit plans subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, as well as individual retirement accounts, Keogh plans and other plans covered by Section 4975 of the Code, as well as entities deemed to hold "plan assets" of any of the foregoing under ERISA and the U.S. Department of Labor Regulation 29 CFR Section 2510.3-101 promulgated under ERISA (as modified by Section 3(42) of ERISA) (the "**Plan Asset Regulation**") (each such entity, a "**Benefit Plan**"). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of the Benefit Plan. In addition, Title I of ERISA also requires fiduciaries of a Benefit Plan subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents.

If the assets of the Issuer were deemed to be plan assets of Benefit Plans that purchased Notes: (a) if any such Benefit Plans are subject to ERISA, ERISA's fiduciary standards would apply to the Issuer and might materially affect the operations of the Issuer, and (b) any transactions involving the Issuer could be deemed a transaction with each Benefit Plan and may cause certain transactions into which the Issuer might enter in the ordinary course of business to constitute prohibited transactions under ERISA and/or Section 4975 of the Code. Under the Plan Asset Regulation, the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquired an "equity interest" in the Issuer and none of the exceptions to holding plan assets contained in the Plan Asset Regulation were applicable. An equity interest is defined under the Plan Asset Regulation as an interest other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Under the Plan Asset Regulation, when a Benefit Plan acquires a significant equity interest (i.e., 25% or more of any class of equity in an entity), the underlying assets owned by that entity will be treated as if they were plan assets of such Benefit Plan, unless it is established that the entity is an "operating company" or another exception applies. Under the Plan Asset Regulation, an "operating company" is defined as "an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital." It should be noted that (i) the Issuer, which is actively engaged in rendering banking services, should be regarded as an "operating company" for purposes of the Plan Asset Regulation, and (ii) the Notes should be regarded as indebtedness for purposes of the Plan Asset Regulation (although no tax opinion is being obtained in this regard). Accordingly, the Issuer's assets are not likely to be treated as plan assets for purposes of the Plan Asset Regulation.

Without regard to whether the Notes are treated as an equity interest for purposes of the Plan Asset Regulation, the acquisition or holding of Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer, the Initial Purchasers, the Fiscal Agent or any of their respective affiliates or any other party involved in the transactions contemplated hereunder is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. Certain exemptions from the prohibited transaction rules could be applicable to the purchase and holding of Notes by a Benefit Plan depending on the type and circumstances of the plan fiduciary making the decision to acquire such Notes. Exemptions that may apply include, but are not limited to: Prohibited Transaction Class Exemption ("**PTCE**") 96-23, regarding transactions effected by "in-house asset managers"; PTCE

95-60, as modified, regarding investments by insurance company general accounts; PTCE 91-38, as modified, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, as modified, regarding transactions effected by "qualified professional asset managers." In addition to the class exemptions listed above, there are statutory exemptions under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for prohibited transactions between a Benefit Plan and a person or entity that is a party in interest to such Benefit Plan solely by reason of providing services to the Benefit Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Benefit Plan involved in the transaction for a fee, directly or indirectly), *provided* that there is adequate consideration for the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes and prospective purchasers that are Benefit Plans should consult with their advisers regarding the applicability of any such exemption.

Accordingly, by acquiring a Note (or a beneficial interest therein), each purchaser and transferee will be deemed to represent and warrant that: (a) either: (i) it is not and for as long as it holds the Notes (or any beneficial interest therein) will not be, and is not acting on behalf of (and for so long as it holds any Note or beneficial interest therein will not be acting on behalf of), an "employee benefit plan" as defined in Section 3(3) of ERISA, that is subject to the provisions of part 4 of Subtitle B of Title I of ERISA, any "plan" as defined in and to which Section 4975 of the Code applies, any entity whose underlying assets are deemed to include "plan assets" of any of the foregoing under ERISA and the Plan Asset Regulation, or a governmental, church or non-U.S. plan subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note (or a beneficial interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of a governmental, church, or non-U.S. plan, a violation of any Similar Laws), and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and employee benefit plans subject to non-U.S. law are not subject to ERISA's requirements, although they may be subject to similar provisions under Similar Law. Accordingly, assets of such plans may be invested in the Notes without regard to the ERISA considerations discussed above, subject to satisfaction of the provisions of Similar Law.

EACH INVESTOR CONSIDERING THE PURCHASE OF NOTES (OR A BENEFICIAL INTEREST THEREIN) SHOULD CONSULT ITS LEGAL AND OTHER ADVISERS REGARDING WHETHER THE NOTES WOULD BE AN APPROPRIATE INVESTMENT, TAKING INTO ACCOUNT ERISA AND THE CODE AND OTHER ISSUES DISCUSSED ABOVE. A FIDUCIARY OF A PLAN SUBJECT TO SIMILAR LAW CONSIDERING THE PURCHASE OF NOTES (OR A BENEFICIAL INTEREST THEREIN) SHOULD CONSULT ITS LEGAL ADVISERS REGARDING THE APPLICABILITY OF THE PROVISIONS OF SIMILAR LAW AND WHETHER THE NOTES WOULD BE AN APPROPRIATE INVESTMENT FOR THE PLAN UNDER SIMILAR LAW. THE SALE OF NOTES (OR ANY BENEFICIAL INTEREST THEREIN) TO A BENEFIT PLAN OR TO A PLAN SUBJECT TO SIMILAR LAW IS IN NO RESPECT A REPRESENTATION BY THE ISSUER THAT THIS INVESTMENT MEETS ALL THE RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENT BY BENEFIT PLANS OR PLANS SUBJECT TO SIMILAR LAW GENERALLY OR BY ANY PARTICULAR BENEFIT PLAN OR PLAN SUBJECT TO SIMILAR LAW, OR THAT THIS INVESTMENT IS APPROPRIATE FOR BENEFIT PLANS OR PLANS SUBJECT TO SIMILAR LAW GENERALLY OR FOR ANY PARTICULAR BENEFIT PLAN OR PLAN SUBJECT TO SIMILAR LAW.

SUBSCRIPTION AND SALE

Subject to the terms and on the conditions contained in the programme agreement dated 4 December 2012 (the "**Programme Agreement**") between the Issuer, the Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Dealers under the Programme Agreement. One or more Dealers may purchase the Notes, as principal or agent, from the Issuer from time to time for their own account or for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by any Dealer or, if so specified in the relevant Pricing Supplement, for resale at a fixed offering price. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that may be jointly and severally, or severally, underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Notes will constitute a new class of securities of the Issuer with no established trading market. The Issuer cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Dealers have advised the Issuer that they currently intend to make a market in the Notes. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Issuer cannot assure you as to the liquidity of or the trading market for the Notes.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the relevant Pricing Supplement may purchase and sell Notes in the open market, over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail.

Overallotment involves the sale of Notes in excess of the principal amount of Notes to be purchased by the Dealers in this offering, which creates a short position for the Dealers. Covering transactions involve the purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Dealers may conduct these transactions in the over-the-counter market or otherwise. If the Dealers commence any of these transactions, they may discontinue them at any time.

However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular. With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

Neither the Issuer nor any Dealer has made any representation that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

United States of America

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Until the termination of the 40 day distribution compliance period (as defined in Regulation S), an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the U.S. Securities Act.

Notwithstanding the foregoing, each Dealer may arrange for the offer and sale of Notes in the United States pursuant to Rule 144A under the U.S. Securities Act. Each purchaser of Notes is hereby notified that the offer and sale of such Notes may be made in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A (see "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*"). Offers and sales of the Notes in the United States will be made by those Dealers or their affiliates that are registered broker-dealers under the Exchange Act or in accordance with Rule 15a-6 thereunder.

In addition, with respect to Notes where TEFRA D is specified in the applicable Pricing Supplement, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (a) except to the extent permitted under U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**TEFRA D Rules**") (i) it has not offered or sold, and during the restricted period will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and (ii) it has not delivered and will not deliver within the United States or its possessions definitive notes in bearer form that are sold during the restricted period; (b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the TEFRA D Rules; (c) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulation §1.163-5(c)(2)(i)(D)(6) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code; (d) with respect to each affiliate (if any) that acquires from such Dealer Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, such Dealer either (i) repeats and confirms the representations contained in sub-clauses (a), (b) and (c) on behalf of such affiliate or (ii) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations contained in sub-clauses (a), (b) and (c); and (e) each Dealer agrees that it will obtain from any distributor (within the meaning of U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(4)(ii) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code) that purchases any Notes in bearer form from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of subclauses (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the TEFRA D Rules.

Alternatively, with respect to Notes where TEFRA C is specified in the applicable Pricing Supplement, under U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**TEFRA C Rules**"), Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such issue, each relevant dealer will be required to represent and agree that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with the original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the TEFRA C Rules.

Each Note in bearer form and any Coupon and Talon relating thereto will bear a legend to the following effect: THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES (EACH AS DEFINED IN REGULATION S OF THE SECURITIES ACT) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT), EXCEPT IN COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

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

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) pursuant to the exemption from the requirement to publish a prospectus under Article 1(2)(d) of the Prospectus Directive;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hungary

The Offering Circular has not been and will not be submitted for approval to the Hungarian Financial Supervisory Authority and the Notes will not be offered in Hungary in a public offer as defined in Act CXX of 2001 on the Capital Markets. Each Dealer has confirmed its awareness of the above and has represented that it has not offered or sold and will not offer or sell the Notes in Hungary in a public offer.

If the Notes are offered in a private placement in Hungary, the Issuer must report such private placement to the Hungarian Financial Supervisory Authority within 15 days from the closing date of the private placement.

Each Dealer has represented and agreed that if the Notes are offered in a private placement in Hungary, (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement; (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial or legal situation and its expected development, including that which was discussed in any personal consultation with an investor; and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS [NAME OF DOCUMENT] WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY.".

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act (Law No.25 of 1948, as amended; the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Law (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Republic of Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than: (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

NOTICE TO PURCHASERS AND HOLDERS OF NOTES AND TRANSFER RESTRICTIONS

Rule 144A Notes

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Notes issued under the Programme may, in certain cases, be offered and sold in the United States to QIBs in reliance on Rule 144A under the U.S. Securities Act. The Pricing Supplement relating to such an issue (a "**Rule 144A Issue**") will state that the issue (or a portion thereof) is a Rule 144A Issue.

Each purchaser and subsequent transferee of a Note (or any beneficial interest therein) will be deemed to have represented and warranted that (a) either: (i) it is not and for as long as it holds the Notes (or any beneficial interest therein) will not be, and is not acting on behalf of (and for so long as it holds any Note or beneficial interest therein will not be acting on behalf of), an "employee benefit plan" as defined in Section 3(3) of ERISA, that is subject to the provisions of part 4 of Subtitle B of Title I of ERISA, any "plan" as defined in and to which Section 4975 of the Code applies, any entity whose underlying assets are deemed to include "plan assets" of any of the foregoing under ERISA and the Plan Asset Regulation, or a governmental, church or non-U.S. plan subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note (or a beneficial interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of a governmental, church, or non-U.S. plan, a violation of any Similar Laws), and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes.

In relation to Rule 144A Issues the following provisions will apply. Where these provisions are inconsistent with provisions contained elsewhere in this offering circular, these provisions will prevail. The applicable Pricing Supplement may set forth provisions which differ in certain respects from those set forth below. Because of the following provisions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Initial Issue of the Notes

The Notes in registered form offered and sold pursuant to Rule 144A will initially be represented by a Rule 144A Global Note registered in the name of a nominee of DTC and the Notes in registered form offered and sold pursuant to Regulation S will initially be represented by a Regulation S Global Note. The Rule 144A Global Note will be deposited with a custodian for DTC as note depositary. Any Regulation S Global Note will be deposited with, and registered in the name of a nominee of a common depository or common safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg as specified in the applicable pricing supplement. Beneficial interests in any global note will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC and/or Euroclear and/or Clearstream, Luxembourg. If an issuance of Notes includes a Rule 144A Issue, all such Notes will be required to be in registered form, represented initially by a Rule 144A Global Note (or, if applicable, by a Regulation S Global Note).

Upon the issuance of a Global Note, the Issuer expects that each of DTC or its nominee and/or Euroclear and/or Clearstream, Luxembourg will credit on its book-entry registration and transfer system the respective principal amounts of the Notes represented by the Global Note to the accounts of persons that have accounts with them. The accounts to be credited shall be designated by the relevant dealer(s).

Transfer Restrictions

Each prospective purchaser of Registered Notes in the United States or who is a U.S. Person, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged with respect to such Notes that:

(A) It acknowledges that this Offering Circular is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes other than pursuant to Rule 144A or another available exemption from registration, or in offshore transactions in accordance with Regulation S. Distribution of this Offering Circular, or disclosure of any of its contents, to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto, and other persons meeting the definition of a QIB under Rule 144A or outside the United States and not U.S. persons, is unauthorised, and any disclosure of its contents, without the prior written consent of the Issuer, is prohibited; and

(B) It agrees to make no photocopies of this Offering Circular or any documents referred to herein.

Each purchaser of an interest in Registered Notes in the United States will be deemed to have represented and agreed that (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(A) It is (a) a QIB within the meaning of Rule 144A, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it may be being made in reliance on Rule 144A.

(B) It understands that such Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that such Notes have not been and will not be registered under the U.S. Securities Act or any other applicable securities law and may not be offered, sold, pledged or otherwise transferred except (a) to the Issuer or any affiliate thereof, (b) in the United States, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (c) outside the United States in accordance with Rule 903 or Rule 904 under the U.S. Securities Act, (d) pursuant to any other available exemption from registration under the U.S. Securities Act, or (e) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and any other jurisdiction. It also understands that the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in this section (B).

(C) It understands that such Notes (and Rule 144A Global Notes evidencing the Notes and each certificate issued in exchange for a beneficial interest in a Rule 144A Global Note), unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following effect:

THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE OR OF ANY BENEFICIAL INTEREST OR PARTICIPATION THEREIN, THE HOLDER ON ITS OWN BEHALF AND ON BEHALF OF ANY ACCOUNT FOR WHICH IT IS PURCHASING SUCH NOTES OR ANY BENEFICIAL INTEREST OR PARTICIPATION THEREIN (A) REPRESENTS THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (A "**QUALIFIED INSTITUTIONAL BUYER**") PURCHASING THE NOTES REPRESENTED BY THIS GLOBAL NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE NOTES REPRESENTED HEREBY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE ISSUE DATE OF THE MOST RECENTLY ISSUED TRANCHE OF THIS SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE NOTES REPRESENTED BY THIS GLOBAL NOTE ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE NOTES REPRESENTED BY THIS GLOBAL NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE REGISTERED HOLDERS OF SUCH NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE

RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF SUCH NOTES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE OR OF ANY BENEFICIAL INTEREST OR PARTICIPATION THEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE THEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON SUCH HOLDER AND ALL FUTURE HOLDERS OF THE NOTES REPRESENTED HEREBY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY BENEFICIAL INTEREST THEREIN), EACH PURCHASER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT (A) EITHER THAT (1) IT IS NOT AND FOR AS LONG AS IT HOLDS THE NOTE (OR ANY BENEFICIAL INTEREST THEREIN) WILL NOT BE, AND IS NOT ACTING ON BEHALF OF (AND FOR AS LONG AS IT HOLDS THE NOTE OR BENEFICIAL INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF), AN "**EMPLOYEE BENEFIT PLAN**" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, OR A "**PLAN**" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE TO INCLUDE "**PLAN ASSETS**" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, OR ANY GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (2) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY BENEFICIAL INTEREST THEREIN) DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW), AND (B) IT AGREES NOT TO SELL OR OTHERWISE TRANSFER ANY INTEREST IN THE NOTES OTHERWISE THAN TO AN ACQUIRER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THE NOTES.

(D) It is aware that the Issuer, the Registrar, the Paying and Transfer Agents, the Exchange Agent and the dealers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealers. If it is acquiring any Notes for the account of one or more QIBs, it represents that is has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(E) It understands that the Notes offered in reliance on Rule 144A will be initially represented by one or more Rule 144A Global Notes. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Agency Agreement) as to compliance with the transfer restrictions referred to above.

The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act and within the United States to QIB in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy of the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

Provision of information under Rule 144A(d)(4)

The Issuer has agreed that, for so long as any Notes issued by it are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, nor treated by the U.S.

Securities and Exchange Commission as a foreign government as defined in Rule 405 under the U.S. Securities Act eligible to register securities under Schedule B of the U.S. Securities Act, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

Regulation S Notes

Each purchaser of an interest in Registered Notes outside the United States will be deemed to have represented and agreed that (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

(A) It acknowledges that until the expiration of the Distribution Compliance Period, any offer or sale of the Notes shall not be made to a U.S. person or for the account or benefit of a U.S. person.

(B) It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the Notes as well as to holders of the Notes.

(C) It acknowledges that the registrar will not be required to accept for registration of transfer any Notes it acquires, except upon presentation of evidence satisfactory to the Issuer and the registrar that the restrictions set forth herein have been complied with.

(D) It acknowledges that:

(1) the Issuer, the Dealers and others will rely upon the truth and accuracy of its acknowledgements, representations and agreements set forth herein and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealers; and

(2) if it is acquiring any Notes as fiduciary or agent for one or more investor accounts, it represents with respect to each such account that:

(a) it has sole investment discretion; and

(b) it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Notes.

(E) It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on the transfer of the Notes.

(F) It understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Dealers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required.

(G) It represents and agrees that, (a) it is not and for as long as it holds the Notes (or any beneficial interest therein) will not be, and is not acting on behalf of (and for as long as it holds the note or beneficial interest therein will not be acting on behalf of), an "employee benefit plan" as defined in section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") that is subject to the provisions of part 4 of Subtitle B of Title I of ERISA, or a "Plan" as defined in and subject to section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), an entity whose underlying assets are deemed for purposes of Section 406 of ERISA or Section 4975 of the Code to include "**plan assets**" by reason of such employee benefit plan's or plan's investment in the entity, or any governmental, church or non-U.S. plan subject to any U.S. federal, state, local or non-U.S. law that is substantially similar to the provisions of section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations and agreements with respect to its acquisition, holding and disposition of the Notes

GENERAL INFORMATION

Responsibility

Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság (the "**Responsible Person**") accepts responsibility for the information contained in this Offering Circular. Its registered office is located at Nagymező utca 46-48, 1065 Budapest, Hungary. To the best knowledge of Magyar Export-Import Bank Zártkörűen Működő Részvénytársaság, the information contained in this Offering Circular is in accordance with the facts and no material circumstances are omitted.

Authorisation

The Programme and the issue of Notes under the Programme have been duly authorised by resolutions of the Founder of the Issuer dated 22 November 2012. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of Hungary or otherwise have been given for the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Agreement, the Agency Agreement and the Notes.

Listing

Application may be made to the UKLA for the Notes to be issued under the Programme to be admitted to listing on the Official List, and admitted to trading on, the London Stock Exchange's regulated market. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

Ratings

The Programme and the Issuer have received the following ratings:

	Short-Term Issues/Short-Term Rating	Long-Term Issues/Long-Term Rating
S&P	B	BB
Fitch	B	BB+

Short-term issues are obligations with an original maturity of less than 365 days. Long-term issues are obligations with an original maturity of one year or more.

The foregoing are ratings in respect of the Programme in general. The ratings of the Programme address the ability of the Issuer to make payments due in respect of Notes in the event that an Event of Default occurs. They do not address the probability of an Event of Default actually occurring. The ratings of the Programme may be lowered or withdrawn entirely at any time by the relevant rating agency.

Each of S&P and Fitch is established in the European Union and is registered under the CRA Regulation. A list of credit rating agencies registered in accordance with the CRA Regulation is published by the European Securities and Markets Authority on its website (www.esma.europa.eu), which is updated within five working days following the adoption of a decision under Articles 16, 17 or 20 of the CRA Regulation.

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the Programme's or Issuer's rating. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Pricing Supplement.

A credit rating is not a recommendation to buy, sell or hold Notes and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

Documents on Display

For the period of 12 months following the date of publication of this Offering Circular, copies of the following documents will, when published, be available for inspection during normal business hours from the registered office of the Issuer and from the specified offices of the Fiscal Agent, the Registrar and the other Paying and Transfer Agents for the time being in London and Frankfurt:

(i) the Deed of Foundation of the Issuer (in Hungarian and English);

(ii) the Interim Financial Statements and the Financial Statements;

(iii) the 2009 annual report prepared by the Issuer, the 2010 annual report prepared by the Issuer and the 2011 annual report prepared by the Issuer;

(iv) the Programme Agreement, the Agency Agreement (which contains the forms of the Temporary and Permanent Global Notes, the Definitive Notes, the Coupons and the Talons) and the Deed of Covenant;

(v) a copy of this Offering Circular;

(vi) any future offering circulars, supplementary listing particulars, information memoranda and supplements including the Pricing Supplements relating to this Offering Circular and any other documents incorporated herein or therein by reference; and

(vii) in the case of a syndicated issue of listed Notes, the syndication agreement (or equivalent document),

save that in respect of any Series of Notes which is not admitted to trading on a regulated market in the European Economic Area, the relevant Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Fiscal Agent, Registrar and/or the Paying and Transfer Agent as to its holding of such Notes and identity.

No Delivery of Bearer Notes Inside the United States

No Bearer Notes can be delivered to any address in the United States or its possessions. Paying and Transfer Agents for the Bearer Notes will have their specified office outside of the United States and no payment in respect of the Bearer Notes can be made either by mail to an address in the United States or its possessions or by transfer to an account maintained in the United States. The Bearer Notes can only be delivered to a custodian or depository outside the United States for Euroclear and Clearstream, Luxembourg (or any other clearing system outside the United States agreed by the Issuer).

Clearing Systems

The Bearer Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate common code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Pricing Supplement. In addition, application will be made for any Rule 144A Global Notes and Regulation S Global Notes to be accepted for trading in book-entry form by DTC. Acceptance of each Series of Registered Notes will be confirmed in the relevant Pricing Supplement related thereto. The CUSIP and/or ISIN numbers for each Series of Registered Notes will be contained in the Pricing Supplement relating thereto. Transactions will normally be effected for settlement not earlier than 3 days after the date of the transaction. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the relevant Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B.1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg. The address of the DTC is 55 Water Street, 22nd Floor, New York, NY 10041-0099, United States of America.

Conditions for Determining Price

Notes may be issued at an issue price which is at par or at a discount to, or premium over, par. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

No Significant or Material Adverse Change in the Issuer's Financial Position

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since 30 September 2012 being the date of the last published reviewed interim accounts.

Litigation

Save as disclosed in this Offering Circular, the Issuer is not and has not been engaged in any governmental, legal, arbitration, administrative or other proceedings, the results of which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position or profitability of the Issuer, nor is the Issuer aware of any such proceedings being threatened or pending.

Auditors

KPMG are certified public accountants and have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Hungary for the financial periods ending 31 December, 2011, 31 December 2010 and 31 December 2009.

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INDEX TO THE FINANCIAL STATEMENTS

Condensed interim financial report of Hungarian Export-Import Bank Limited Private Company for the nine months ended 30 September 2012

Audited financial statements of Hungarian Export-Import Bank Limited Private Company for the year ended 31 December 2011

Audited financial statements of Hungarian Export-Import Bank Limited Private Company for the year ended 31 December 2010

Audited financial statements of Hungarian Export-Import Bank Limited Private Company for the year ended 31 December 2009

HUNGARIAN EXPORT-IMPORT BANK
PRIVATE LIMITED COMPANY

CONDENSED INTERIM
FINANCIAL REPORT
AND
INDEPENDENT AUDITORS' REPORT

FOR THE 9 MONTHS ENDED

30 SEPTEMBER 2012

prepared under International Financial Reporting Standards as adopted by the EU

CONTENTS

Independent Auditor's Report

To the Shareholder of Hungarian Export-Import Bank Ltd.:

KPMG Hungária Kft.
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H-1139 Budapest
Hungary

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Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

Independent Auditors' Report on Review of Interim Financial Information

To the shareholder of Magyar Export-Import Bank Zrt.

We have reviewed the accompanying Condensed Interim Financial Report of Magyar Export-Import Bank Zrt., which comprise the condensed statement of financial position as at 30 September 2012, the condensed statement of profit or loss and other comprehensive income for the nine months ended 30 September 2012, and the condensed statement of cash flows for the nine months period ended 30 September 2012, and notes to the interim financial information.

Management is responsible for the preparation and presentation of this Condensed Interim Financial Report in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU. Our responsibility is to express a conclusion on this Condensed Interim Financial Report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the Condensed Interim Financial Report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Report of Magyar Export-Import Bank Zrt. as at 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Budapest, 22 November 2012

KPMG Hungária Kft.
Registration number: 000202

Gábor Agócs
Partner

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

	Note	**30.09.2012**	**31.12.2011**	**30.09.2011**
Cash, due from banks and balances with the National Bank of Hungary	4	98	162	1,278
Loans and advances to other banks, net of impairment losses	5	140,058	128,893	88,585
Loans and advances to customers, net of impairment losses	6	48,381	54,589	49,298
Financial assets at fair value through profit or loss	7	487	47	441
Available-for-sale financial assets, net of impairment loss	8	12,135	11,088	51,388
Intangibles, property and equipment, net	9	196	176	174
Other assets, net	10	665	826	467
Total Assets		**202,020**	**195,781**	**191,631**
Loans and deposits from other banks	12	182,232	175,696	171,503
Financial liabilities at fair value through profit or loss	7	403	1,407	572
Provision for guarantees and contingencies	11	271	21	76
Other liabilities	13	902	992	2,429
Total Liabilities		**183,808**	**178,116**	**174,580**
Share capital	14	10,100	10,100	10,100
Reserves	14	8,112	7,565	6,951
Total Shareholder's Equity		**18,212**	**17,665**	**17,051**
Total Liabilities and Equity		**202,020**	**195,781**	**191,631**

22 November 2012

Authorised for issue by

Roland Nátrán
Chief Executive Officer

The accompanying notes to the condensed interim financial statements on pages 7-66 form an integral part of this financial report.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

	Note	30.09.2012	31.12.2011	30.09.2011
Interest income	17	7,592	10,849	7,599
Interest expense	17	(4,143)	(6,230)	(4,496)
Net interest income		**3,449**	**4,619**	**3,103**
Net income from fees and commissions	18	147	186	110
Provisions and impairment (losses)/reversal	11	(966)	(452)	(311)
Gains and losses from trading and investment activities, net	19.1	372	(756)	(620)
Operating expenses	19.2	(2,467)	(3,027)	(2,338)
Profit/(loss) before income tax		**535**	**570**	**(56)**
Income taxes	16	(26)	(36)	(48)
Profit /(loss) for the period		**509**	**534**	**(104)**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Fair value adjustment of available-for-sale securities, net of tax	20	38	45	69
Other comprehensive income for the period, net of income tax		**38**	**45**	**69**
Total comprehensive income for the period		**547**	**579**	**(35)**

22 November 2012

Authorised for issue by

Roland Nátrán
Chief Executive Officer

The accompanying notes to the condensed interim financial report on pages 7-66 form an integral part of this financial report.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

CONDENSED STATEMENT OF CASH FLOWS
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

	Note	30.09.2012	31.12.2011	30.09.2011
OPERATING ACTIVITIES				
Profit/(loss) before income taxes		535	570	(56)
djustments to reconcile net income to net cash provided by operating ctivities				
Depreciation and amortisation	19.2	74	99	73
Provision charged /(released) for impairment losses	11	716	1,552	1,356
(Profit)/loss from revaluation to fair value	7	(1,443)	315	(914)
Net interest income		(3,449)	(4,619)	(3,103)
Interest received		6,666	11,632	8,349
Interest paid		(5,038)	(6,994)	(5,339)
Income taxes	16	(26)	(36)	(48)
Dividend paid		-	-	-
'hanges in operating assets and liabilities:				
Net (increase)/decrease in loans and advances to other banks, before impairment losses	5	(10,985)	(21,104)	19,397
Net (increase)/decrease in loans and advances to customers, before impairment losses	6	6,646	12,527	17,390
Net (increase)/decrease in financial assets at fair value through profit or loss	7	-	589	589
Net (increase)/decrease in available-for-sale financial assets	8	(999)	5,422	(34,593)
Net (increase)/decrease in other assets, before impairment losses	10	2	(838)	(445)
Net increase/(decrease) other liabilities	13	242	(645)	836
Net cash provided by/(used in) operating activities		**(7,059)**	**(1,530)**	**3,492**
INVESTING ACTIVITIES				
Net (increase)/decrease in held-to-maturity securities		-	-	-
Purchases of intangibles, property and equipment	9	(94)	(87)	(59)
Net cash used in investing activities		**(94)**	**(87)**	**(59)**
FINANCING ACTIVITIES:				
Proceeds from due to banks and deposits from banks	12	1,024,026	414,378	258,452
Repayment of due to banks and deposits from banks	12	(1,016,937)	(412,666)	(260,674)
Net cash provided by financing activities		**7,089**	**1,712**	**(2,222)**
Net increase/(decrease) in cash and cash equivalents		**(64)**	**95**	**1,211**
Cash and cash equivalents at the beginning of the year	4	**162**	**67**	**67**
Cash and cash equivalents at the end of the year	4	**98**	**162**	**1,278**

The accompanying notes to the condensed interim financial report on pages 7-66 form an integral part of this financial report.

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012

(All amounts stated in HUF million unless otherwise noted)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2011	**10,100**	**400**	**1,536**	**5,129**	**(79)**	**17,086**
Total comprehensive income for the period						
Profit or loss			(104)			(104)
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss					69	69
Net change in fair value of available-for-sale financial assets, net of tax						
Total comprehensive income for the period			***(104)***		***69***	***(35)***
Other transactions, recorded directly in equity						
Release of Statutory reserves			(17)	17		
Reclassification (Note 3.10)			(1,005)	1,005		
Total other transactions			(1,022)	1,022		
Balance as at 30 September 2011	**10,100**	**400**	**410**	**6,151**	**(10)**	**17,051**

The accompanying notes to the condensed interim financial report on pages 7-66 form an integral part of this financial report.

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012

(All amounts stated in HUF million unless otherwise noted)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2012	**10,100**	**400**	**1,052**	**6,147**	**(34)**	**17,665**
Total comprehensive income for the period						
Profit or loss			509			509
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss					38	38
Net change in fair value of available-for-sale financial assets, net of tax						
Total comprehensive income for the period			***509***		***38***	***547***
Other transactions, recorded directly in equity						
Release of Statutory reserves			(24)	24		
Reclassification (Note 3.10)			(300)	300		
Total other transactions			(324)	324		
Balance as at 30 September 2012	**10,100**	**400**	**1,237**	**6,471**	**4**	**18,212**

The accompanying notes to the condensed interim financial report on pages 7-66 form an integral part of this financial report.

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012
(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 had 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 – was the Bank's parent company. The Bank was 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 was the Hungarian State.

On 12 April 2012 the Hungarian Government had announced that Hungarian State acquired the shares in Eximbank owned by the Hungarian Development Bank Ltd. and all the shareholders' rights exercised by Ministry of National Economy. The relating modification of the Act on Eximbank is effective from 10 May 2012.

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed interim financial report of the Bank is prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Bank since the last annual financial statements as at and for the year ended 31 December 2011. This condensed interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

This financial report was authorised for issue by the Chief Executive Officer on 22 November 2012. This financial report is not intended to be used for statutory filing purposes.

NOTE 2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

The condensed interim financial report has 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 the condensed interim financial report 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.

In preparing this condensed interim financial report, significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2011.

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

The condensed interim financial report is 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.

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 this condensed interim financial report.

3.1 Financial statement presentation

This condensed interim financial report for the 9 months ended 2012 and 2011 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).

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’.

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.

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 reporting 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

Loans deemed uncollectible 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 reporting 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

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 % (2011: 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 2012 the Bank reclassified HUF 300 million retained earnings into the general reserve (2011: HUF 1,005 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.

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 9 months ended , 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).

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 reporting 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

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.

(All amounts stated in HUF million unless otherwise noted)

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

	30.90.2012	30.09.2011
Balances with NBH in HUF	3	-
Due from banks in HUF	3	1
Due from banks in foreign currency	92	1,277
Total	**98**	**1,278**

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 3 million and less than HUF 1 million as at 30 September 2012 and 30 September 2011, respectively. These reserves earn interest at below market rates.

NOTE 5. LOANS AND ADVANCES TO OTHER BANKS

	30.09.2012	30.09.2011
Short-term placements		
- in foreign currency	43,439	31,105
- in HUF	-	2,000
Sub-total	43,439	33,105
Long-term placements, in foreign currency	97,068	55,931
Sub-total	97,068	55,931
Total	140,507	89,036
Less: impairment losses (see Note 11)	(449)	(451)
Total	**140,058**	**88,585**

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 30 September 2011 the balance of the claim (including relating accrued interest) against MEHIB was HUF 13,553 million (EUR 46,394,966), while as of 30 September 2012 it was HUF 10,773 million (EUR 37,970,978).
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.

(All amounts stated in HUF million unless otherwise noted)

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

Remaining maturity of Loans and advances to other banks as at 30 September 2012 is as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
1 to 7 days	1,381	0.5 % - 5.2 %	4.30 %
8 to 30 days	1,601	0.5 % - 5.79 %	5.02 %
31 to 90 days	8,097	0.5 % - 5.79 %	5.15 %
91 to 180 days	11,947	0.5 % - 8.87 %	5.12 %
181 to 365 days	20,413	0.5 % - 8.87 %	5.09%
1 to 2 years	32,090	0.5 % - 8.87 %	5.07 %
2 to 5 years	60,260	0.5 % - 8.87 %	5.09 %
Over 5 years	4,718	2.25 % - 5.79 %	4.89 %
Sub-total	140,507		
Placements in HUF			
	-	-	-
Sub-total	-		
Total	**140,507**		

Remaining maturity of Loans and advances to other banks as at 30 September 2011 is as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
1 to 7 days	448	1.41 % - 5.63 %	2.84 %
8 to 30 days	694	0.56 % - 5.63 %	5.48 %
31 to 90 days	6,087	0.5 % - 5.63 %	5.39 %
91 to 180 days	9,366	0.5 % - 9.63 %	5.33 %
181 to 365 days	14,510	0.5 % - 9.63 %	5.38 %
1 to 2 years	21,603	0.5 % - 9.63 %	5.48 %
2 to 5 years	27,155	0.5 % - 9.63 %	5.56 %
Over 5 years	7,173	2.25 % - 5.63 %	5.58 %
Sub-total	87,036		
Placements in HUF			
31 to 90 days	2,000	6.25 % - 6.25 %	6.25 %
Sub-total	2,000		
Total	**89,036**		

(All amounts stated in HUF million unless otherwise noted)

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

	30.09.2012	30.09.2011
Short-term:		
- in foreign currency	21,692	17,765
- in HUF	4,028	4,189
Sub-total	25,720	21,954
Long-term:		
- in foreign currency	27,788	32,438
- in HUF	109	151
Sub-total	27,897	32,589
Total	53,617	54,543
Less: impairment losses (see Note 11)	(5,236)	(5,245)
Total	**48,381**	**49,298**

The remaining maturity of loans and advances to customers as at 30 September 2012 are as follows:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
1 to 7 days	2,098	0.00 % - 10.26%	3.16 %
8 to 30 days	1	0.00%	0.00 %
31 to 90 days	1,397	0.00 % - 5.00 %	2.50 %
91 to 180 days	8	0.00 % - 7.76 %	5.79 %
181 to 365 days	524	0.00 % - 10.04 %	9.86 %
1 to 2 years	35	0.00 % - 7.76 %	6.01 %
2 to 5 years	60	0.00 % - 7.76 %	5.27 %
Over 5 years	14	0.00 % - 4.26 %	2.13 %
Sub-total	4,137		
In foreign currency:			
1 to 7 days	2,280	1.41 % - 7.18 %	4.32 %
8 to 30 days	385	3.84 % - 7.18 %	5.89 %
31 to 90 days	3,472	0.88% - 9.46 %	5.42 %
91 to 180 days	8,048	0.67 % - 9.46 %	4.37 %
181 to 365 days	7,507	0.67% - 9.46 %	5.56 %
1 to 2 years	7,180	0.67% - 9.46 %	6.51 %
2 to 5 years	12,278	0.67% - 8.87 %	6.31 %
Over 5 years	8,330	0.67% - 6.76 %	4.41 %
Sub-total	49,480		
Total	**53,617**		

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

(All amounts stated in HUF million unless otherwise noted)

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

The remaining maturity of loans and advances to customers as at 30 September 2011 are as follows:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
1 to 7 days	2,318	0.00 % - 10.26%	4.34 %
8 to 30 days	112	9.76% - 9.76 %	9.76 %
31 to 90 days	1,041	0.00 % - 9.76 %	9.69 %
91 to 180 days	204	0.00 % - 9.76 %	9.62 %
181 to 365 days	514	0.00 % - 9.79 %	9.64 %
1 to 2 years	42	0.00 % - 6.60 %	5.42 %
2 to 5 years	88	0.00 % - 6.06 %	5.20 %
Over 5 years	21	0.00 % - 4.26 %	2.13 %
Sub-total	4,340		
In foreign currency:			
1 to 7 days	4,772	1.41 % - 6.67 %	4.35 %
8 to 30 days	2,497	3.77 % - 6.30 %	4.96 %
31 to 90 days	2,607	2.15% - 9.63 %	6.20 %
91 to 180 days	2,224	0.67 % - 9.63 %	6.59 %
181 to 365 days	5,665	0.67% - 9.63 %	5.74 %
1 to 2 years	9,187	0.67% - 9.63 %	6.13%
2 to 5 years	14,289	0.67% - 9.63 %	6.85 %
Over 5 years	8,962	0.00% - 7.52 %	4.74 %
Sub-total	50,203		
Total	**54,543**		

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

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

Financial assets at fair value through profit or loss as at 30 September 2012 and 30 September 2011 are as follows:

	30.09.2012	30.09.2011
Short-term derivative assets (trading):		
Foreign exchange swap	487	441
Total	**487**	**441**

Financial liabilities at fair value through profit or loss as at 30 September 2012 and 30 September 2011 are as follows:

	30.09.2012	30.09.2011
Short-term derivative liabilities (trading):		
Cross currency interest rate swap	285	394
Foreign exchange swap	118	178
Total	**403**	**572**

The details of the cross currency interest rate swap for the 9 months ended 30 September 2012 – 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	13,806,777 EUR	3,917	19,150,000 USD	4,197

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 Bank has fulfilled all of the payments arising from the above contract until the issuance of this report.

(All amounts stated in HUF million unless otherwise noted)

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 30 September 2012 and 2011 are as follows.

Remaining Maturity	**30.09.2012**	**30.09.2011**
1-30 days	460	418
31-365 days	27	23
1 to 2 years	-	-
2 to 5 years	-	-
Over 5 years	-	-
Total	**487**	**441**

(All amounts stated in HUF million unless otherwise noted)

NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30.09.2012	30.09.2011
Discounted bonds issued by National Bank of Hungary in HUF	10,972	50,383
Hungarian Government bonds in HUF	788	392
Fair value adjustment	5	(13)
	11,765	50,762
Senior Notes	1,151	1,151
Subordinated Notes	182	182
Recovery Units	131	131
Global Depository Receipts	59	59
Fair value adjustment	-	-
Impairment loss (Note 11)	(1,165)	(909)
Securities acquired in exchange for loan	358	614
HUF shares	12	12
Fair value adjustment	-	-
	12	12
Total	**12,135**	**51,388**

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. Since 1 January 2012 the bank has not paid any interests on the above securities.
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 2012 and 2011 no such payments were settled.
Global Depositary 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

(All amounts stated in HUF million unless otherwise noted)

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 each reporting date are presented below:

	30.09.2012	30.09.2011	At inception date
Senior Notes	206	471	1,151
Subordinated Notes	13	53	182
Recovery Units	135	63	131
Global Depository Receipts	4	27	59
	358	**614**	**1,523**

The difference between the fair values at inception date and the current fair value in amount of HUF 1,165 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 30 September 2012 are detailed below:

Remaining Maturity	**30.09.2012**	**30.09.2011**
1-7 days	5,485	24,938
8-30 days	5,485	25,437
31-90 days	-	-
91 to 180 days	-	-
181 to 365 days	-	-
1 to 2 years	-	-
2 to 5 years	795	387
Over 5 years	-	-
Total	**11,765**	**50,762**

Shares as at 30 September 2012 are detailed below.

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

NOTE 9. INTANGIBLES, PROPERTY AND EQUIPMENT

Movement table of intangible and tangible assets as at 30 September 2012 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2011	152	366	-	1,175	6	1,699
Additions	-	31	31	68	64	194
Disposals	-	-	(31)	-	(69)	(100)
30 September 2012	152	397	-	1,243	1	1,793
Accumulated depreciation and amortisation						
31 December 2011	148	313	-	1,062	-	1,523
Charge for year	3	16	-	55	-	74
Disposals	-	-	-	-	-	-
30 September 2012	151	329	-	1,117	-	1,597
Net book value						
31 December 2011	**4**	**53**	**-**	**113**	**6**	**176**
30 September2012	**1**	**68**	**-**	**126**	**1**	**196**

Movement table of intangible and tangible assets as at 30 September 2011 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2010	152	364	-	1,101	6	1,623
Additions	-	13	13	51	50	127
Disposals	-	-	(13)	-	(55)	(68)
30 September 2011	152	377	-	1,152	1	1,682
Accumulated depreciation and amortisation						
31 December 2010	144	299	-	992	-	1,435
Charge for year	3	19	-	51	-	73
Disposals	-	-	-	-	-	-
30 September 2011	147	318	-	1,043	-	1,508
Net book value						
31 December 2010	**8**	**65**	**-**	**109**	**6**	**188**
30 September2011	**5**	**59**	**-**	**109**	**1**	**174**

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

NOTE 10. OTHER ASSETS

	30.09.2012	30.09.2011
Accrued interest receivable on debt securities	56	90
Accrued interest receivable re CCIR	174	150
Prepaid expenses	125	118
Taxation recoverable	295	78
Other	157	31
Sub-total	807	467
Less: impairment loss (see Note 11)	(142)	-
Total	**665**	**467**

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

NOTE 11. PROVISIONS AND IMPAIRMENT LOSSES

	Loans and advances to other banks	Loans and advances to customers	Available-for-sale securities	Other assets	Guarantees and contingencies	**Total**
As at 31 December 2010	872	4,377	-	-	1,121	6,370
Write-offs	-	-	-	-	-	**-**
Charge/ (release)	(421)	868	909*	-	(1,045)	**311**
As at 30 September 2011	**451**	**5,245**	**909**	**-**	**76**	**6,681**
As at 31 December 2011	489	4,850	1,167	-	21	6,527
Write-offs	-	(230)**	-	-	-	**(230)**
Charge/ (release)	(40)	616	(2)*	142	250	**966**
As at 30 September 2012	**449**	**5,236**	**1,165**	**142**	**271**	**7,263**

* In the first 9 months in 2011 impairment loss was recognised on the available-for-sale securities in the amount of HUF 909 million while the first 9 months in 2012 the impairment loss in the amount of HUF 2 million was released. (Note 8).
** A bad debts in the amount of HUF 230 was written off until the end of September 2012.

(All amounts stated in HUF million unless otherwise noted)

NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS

	30.09.2012	30.09.2011
Short-term		
- in foreign currency	96,787	77,471
- in HUF	18,240	2,420
Sub-total	115,027	79,891
Long-term		
- in foreign currency	62,205	91,612
- in HUF	5,000	-
Sub-total	67,205	91,612
Total	**182,232**	**171,503**

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. The Bank has fulfilled all of the payments arising from the above contract until the issuance of this report.

Remaining maturity of loans and deposits from other banks as at 30 September 2012 is as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
1 to 7 days	13,391	0.15 % - 1.00 %	0.40 %
8 to 30 days	64,981	1.10 % - 3.15 %	3.02 %
31 to 90 days	5,405	2.90 % - 2.99 %	2.90 %
91 to 180 days	809	3.17 % - 3.17 %	3.17 %
181 to 365 days	12,201	2.12 % - 3.17 %	2.53 %
1 to 2 years	30,077	2.92 % - 3.22 %	3.21 %
2 to 5 years	32,128	0.48 % - 3.17 %	0.79. %
Over 5 years	-	-	-
Sub-total	158,992		

(All amounts stated in HUF million unless otherwise noted)

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

In HUF			
1 to 7 days	18,190	5.60 % - 6.85 %	6.32 %
8 to 30 days	50	5.60 % - 6.85 %	6.32 %
2 to 5 years	5,000	8.94 % - 8.94 %	8.94 %
Sub-total	23,240		
Total	**182,232**		

Remaining maturity of loans and deposits from other banks as at 30 September 2011 is as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
1 to 7 days	190	1.60 % - 1.60 %	1.60 %
8 to 30 days	547	0.75 % - 0.75 %	0.75 %
31 to 90 days	6,565	3.68 % - 4.11 %	4.07 %
91 to 180 days	5,933	3.73 % - 4.11 %	4.06 %
181 to 365 days	64,236	3.68 % - 4.42 %	4.36 %
1 to 2 years	19,811	3.44 % - 4.13 %	3.88 %
2 to 5 years	36,870	3.68 % - 4.10 %	4.06 %
Over 5 years	34,931	1.76 % - 4.01 %	2.10 %
Sub-total	169,083		
In HUF			
1 to 7 days	2,420	5.20 % - 5.20 %	5.20 %
Sub-total	2,420		
Total	**171,503**		

(All amounts stated in HUF million unless otherwise noted)

NOTE 13. OTHER LIABILITIES

	30.09.2012	30.09.2011
Accrued interest payable re CCIR	29	124
Accrued interest payable re FX swap	-	37
Accrued expenses	-	-
Accrued revenue	346	384
Tax liability	431	487
Other	96	1,397
Total	**902**	**2,429**

NOTE 14. SHAREHOLDER' S EQUITY

	30.09.2012	30.09.2011
Share capital	10,100	10,100
Share premium	400	400
Retained earnings	1,138	410
Fair value reserve, net of tax	4	(10)
Statutory reserves	6,471	6,151
Total	**18,113**	**17,051**

As at 30 September 2012 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 1,005 million).

As at 30 September 2011 the shareholders' rights were the following:

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

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

As at 30 September 2012 the shareholders' rights are solely owned by the Hungarian State represented by Ministry of National Economy (Note 1).

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

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 30 September 2012 and 2011 are summarised as follows:

	30.09.2012	**30.09.2011**
Guarantees counter-guaranteed by the Republic of Hungary	25,365	33,455
Unutilised part of credit lines	49.833	86,848
Guarantees provided	3,088	2,125
Total	**78,286**	**122,428**

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

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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE

	09.30.2012	30.09.2011
Interest income:		
Loans and advances to customers	1,485	1,691
Loans and advances to other banks	1,799	1,943
Cross currency interest rate swap	-	182
Interest compensation*	3,296	2,227
Securities	1,012	1,556
Total	**7,592**	**7,599**
Interest expense:		
Loans and deposits from other banks	4,138	4,496
Cross currency interest rate swap	5	
Total	**4,143**	**4,496**

* 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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 18. NET INCOME FROM FEES AND COMMISSIONS

	09.30.2012	30.09.2011
Income from fees and commissions:		
Guarantees covered by the state	92	143
Insurance fees devolved by MEHIB	24	12
Refund of MEHIB insurance fees	-	-
Guarantees	68	37
Other	1	1
	185	**193**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	23	58
Transfer of refunded MEHIB insurance fees	-	-
Guarantees	13	22
Other	2	3
	38	**83**
Total	**147**	**110**

(All amounts stated in HUF million unless otherwise noted)

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

	09.30.2012	30.09.2011
Trading securities gains and losses, net *	2	(5)
Gain and losses on foreign currency swap deals, net	703	3,215
Other foreign currency gains and losses, net	(329)	(3,830)
Foreign currency gains and losses, net *	374	(615)
Total	**372**	**(620)**

* - 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

	09.30.2012	30.09.2011
Personnel expenses	952	940
Material expenses	407	362
Depreciation and amortisation	74	73
Other administration expenses	35	18
Special tax of credit institution*	264	221
Local government taxes	101	129
Tax on financial institutions	340	340
Tax of credit institutions	262	241
Other expenses/ (income), net	32	14
Total	**2,467**	**2,338**

(All amounts stated in HUF million unless otherwise noted)

NOTE 19.2 OTHER OPERATING EXPENSES (CONTINUED)

*The Hungarian Parliament introduced a new type of tax effective from 1st 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 for the 9 months ended 2012 was 105 (2011: 107).

NOTE 20.1 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	30.09.2012	30.09.2011
Available for sale financial assets		
Gains (losses) arising during the year	6	(13)
Less: Reclassification adjustments for gains included in P&L	41	97
Other comprehensive income	47	84
Income tax relating to components	(9)	(15)
Other comprehensive income for the year	38	69

All the components of other comprehensive income for the 9 months ended 30 September 2012 and 2011 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

	30.09.2012			30.09.2011		
	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	47	(9)	38	84	(15)	69
Total comprehensive income	47	(9)	38	84	(15)	69

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS

21.1 Companies

All transactions with the Hungarian Development Bank Ltd. ("MFB") as one of the most significant related parties and MFB's subsidiaries, associates and jointly controlled entities and other state-owned companies are conducted at market rates. MEHIB is also solely owned by Hungarian State like the Bank since May 2012 (it was owned by Hungarian Development Bank Ltd earlier). Balances as at 30 September 2012, representing 12.19 % of total assets (2011: 34.37 %), 61.74 % of total liabilities (2011: 79.08 %) and 0.09 % of total commitments and contingent liabilities (2011: 0.14 %), and are presented below:

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	30.09.2012	30.09.2011
Balances with NBH	3	-
Short-term placement to MFB incl. interest receivable	-	-
Loans to MEHIB incl. interest receivable	10,773	13,553
Loans to MFB's associates incl. interest receivable	501	503
- less impairment losses	-	(5)
Advances to the State from interest compensation systems	1,395	838
Total loans and advances to related parties, net of impairment losses	12,669	14,889
Hungarian Government bonds	-	-
Total financial assets at fair value to related parties	-	-
Hungarian discounted treasury bills	-	-
Discounted bonds issued by NBH	10,970	50,375
Hungarian Government bonds	796	387
Total available for sale financial assets to related parties	10,766	50,762
Other assets to the State	23	57
Other assets to MFB	174	150
Total other assets to related parties	197	207
Total Assets	**24,635**	**65,858**
Loans and deposits from MFB incl. accrued int.payables	113,168	137,539
Cross currency interest rate swap with MFB	285	394
Total financial liabilities at fair value to related parties	285	394
Other liabilities to MFB	29	124
Other liabilities to MFB's subsidiaries	-	-
Total other liabilities to related parties	29	124
Total Liabilities	**113,482**	**138,057**
Guarantees provided on behalf of other state-owned company	105	161
Other commitments and contingent liabilities	-	-
Total commitments and contingent liabilities	**105**	**161**

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	30.09.2012	30.09.2011
Interest income:		
Short-term placements to MFB	23	9
Loans to MEHIB	475	557
Loans to MFB's associates	45	28
State interest compensation	3,296	2,227
Net interest on cross currency interest rate swap	(5)	182
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	912	1,471
Total	**4,746**	**4,474**
Interest expense:		
Loans and deposits from MFB	2,907	3,682
Total	**2,907**	**3,682**
Income from fees and commissions:		
Guarantee collection commissions from the State	1	-
Refund of MEHIB insurance fees	-	-
Total	**1**	**-**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	23	58
Total	**23**	**58**
Net interest income and net income from fees and commissions	**1,816**	**734**

Other related party transactions have no significant impact on the profit or loss account for the 9 months ended 2012 or 2011.

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

21.2 Management and employees

The honorarium of the Board of Directors and the Supervisory Board added up HUF 10 million in the first 9 months 2012, while it was nil in 2011. The Board of Directors had been terminated in June 2010 by the modification of the Act on Eximbank and the rights of the former Board of Directors were exercised by the Chief Executive Officer, however after the change in the ownership in May 2012 (Note 1) the Board of Directors was reformed by the modification of the Act on Eximbank as well. There are no any share-based payments to the Boards or the key management personnel.
In January 2012 the General Meeting recalled the Chief Executive Officer from his position. The nomination of the new CEO was effective from 22 March 2012 until 15 June 2012, when the new owner nominated another CEO.

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 SEPTEMBER 2012

	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	98	98	98	-	-	-	-
Loans and advances to other banks, net of impairment losses	140,058	146,094	2,560	8,263	33,675	96,164	5,432
Loans and advances to customers, net of impairment losses	48,381	54,158	3,885	3,625	16,703	21,377	8,568
Financial assets at fair value through profit or loss	487	487	460	27	-	-	-
Available-for sale financial assets	12,135	14,043	11,129	-	191	2,092	631
Financial assets	**201,159**	**214,880**	**18,132**	**11,915**	**50,569**	**119,633**	**14,631**
Loans and deposits from other banks	182,232	186,458	96,667	5,534	14,093	70,164	-
Derivative financial liabilities							
Foreign exchange contracts	118	118	23	95	-	-	-
Cross currency interest rate swaps	285	285	-	285	-	-	-
Financial liabilities	**182,635**	**186,861**	**96,690**	**5,914**	**14,093**	**70,164**	**-**
Liquidity (deficiency)/excess	**18,524**	**28,019**	**(78,558)**	**6,001**	**36,476**	**49,469**	**14,631**
Unutilised loan commitments		**49,833**	**49,833**	**-**	**-**	**-**	**-**
Financial guarantee contracts		**28,453**	**28,453**	**-**	**-**	**-**	**-**

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 SEPTEMBER 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	1,278	1,278	1,278	-	-	-	-
Loans and advances to other banks, net of impairment losses	88,585	94,296	1,133	10,116	23,337	52,215	7,495
Loans and advances to customers, net of impairment losses	49,298	57,145	8,883	3,049	9,246	26,518	9,449
Financial assets at fair value through profit or loss	441	441	418	23	-	-	-
Available-for sale financial assets	51,388	53,081	50,500	-	153	1,478	950
Financial assets	**190,990**	**206,241**	**62,212**	**13,188**	**32,736**	**80,211**	**17,894**
Loans and deposits from other banks	171,503	184,070	3,169	7,439	73,585	63,953	35,924
Derivative financial liabilities							
Foreign exchange contracts	178	178	170	8	-	-	-
Cross currency interest rate swaps	394	394	-	67	327	-	-
Financial liabilities	**172,075**	**184,642**	**3,339**	**7,514**	**73,912**	**63,953**	**35,924**
Liquidity (deficiency)/excess	**18,915**	**21,599**	**58,873**	**5,674**	**(41,176)**	**16,258**	**(18,030)**
Unutilised loan commitments		**86,848**	**86,848**	-	-	-	-
Financial guarantee contracts		**35,580**	**35,580**	-	-	-	-

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 Hungarian State. 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 until the change in the ownership. 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.

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.

(All amounts stated in HUF million unless otherwise noted)

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**	
	30.09.2012	**30.09.2011**	**30.09.2012**	**30.09.2011**
Carrying amount	140,058	88,585	48,381	49,298
Individually impaired:				
1-10 %	-	-	7,518	11,798
11-30%	48	99	-	94
31-70 %	-	-	677	175
71-100 %	161	151	2,471	2,622
Gross amount	209	250	10,666	14,689
Allowance for impairment	(175)	(181)	(2,977)	(2,945)
Carrying amount	34	1,926	7,689	11,744
Collectively impaired:	-	-	-	-
Past due but not impaired:	-	236	118	739
Neither past due nor impaired:	140,024	88,280	30,621	27,543
Accounts with renegotiated terms:				
Gross amount	274	270	12,212	11,572
Allowance for impairment	(274)	(270)	(2,259)	(2,300)
Carrying amount	-	-	9,953	9,272
Total carrying amount	**140,058**	**88,585**	**48,381**	**49,298**

In the 9 months ended 2012 financial assets at fair value through profit or loss in amount of HUF 487 million (2011: 441 million) and available-for-sale financial assets in amount of HUF 11.777 million (2011: HUF 50,762 million) are neither past due nor impaired, however the securities acquired in exchange for loan in amount of HUF 358 million presented among available-for-sale financial assets are individually impaired in 2011 (Note 8).

Impaired loans and securities

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

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 collaterised 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.

(All amounts stated in HUF million unless otherwise noted)

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	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Against individually impaired:				
Insured by MEHIB	-	-	5,706	9,760
Cash Collateral	-	-	3	6
Bank guarantees	-	-	1,361	1,372
Property	-	-	378	196
Other	-	-	37	94
Against past due but not impaired:				
Insured by MEHIB	-	224	57	702
Cash Collateral	-	12	-	37
Bank guarantees	-	-	91	-
Property	-	-	-	-
Other	-	-	-	-
Against neither past due nor impaired:				
Insured by MEHIB	423	552	23,140	21,510
Cash Collateral	8	-	484	562
Bank guarantees	-	-	31	191
Property	-	-	632	448
Other	-	-	7,692	7,556
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	5,939	3,772
Cash Collateral	-	-	-	-
Bank guarantees	-	-	-	465
Property	-	-	1,058	1,310
Other	-	-	748	1,278
Total	**431**	**788**	**47,357**	**49,259**

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.

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 9 months ended in 2012 and 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.

(All amounts stated in HUF million unless otherwise noted)

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 30 September 2012 and 2011:

	30.09.2012	30.09.2011
Capital requirement of the trading book	-	-
Solvency margin	33,566	32,958
Capital requirement of the trading book as a percentage of solvency margin	-	-

(All amounts stated in HUF million unless otherwise noted)

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:

	2012	2011
Fixed rate financial instruments		
Financial assets	17,424	71,846
Financial liabilities	48,900	14,969
Total fixed rate instruments	**66,324**	**86,815**
Variable rate financial instruments		
Financial assets	6,011	9,210
Financial liabilities	133,362	156,320
Total variable rate instruments	**139,373**	**165,530**
Financial assets under interest compensation system	**157,363**	**101,157**
Tied-aid credits	**6,263**	**6,817**

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 200 million (2011: HUF 213 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.

(All amounts stated in HUF million unless otherwise noted)

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 30 September 2012 are as follows:

	EUR	**USD**	**GBP**	**HUF**	**Total**
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	128,326	11,732	-	-	140,058
Loans and advances to customers, net of impairment losses	40,539	5,761	-	2,081	48,381
Other	121	42	3	13,415	13,581
Total foreign currency Assets	168,986	17,535	3	15,496	202,020
Foreign currency liabilities	157,838	1,797	-	24,173	183,808
Foreign currency assets and liabilities, net	**11,148**	**15,798**	**3**	**(8,677)**	**18,212**
Effect of derivatives	(11,346)	(15,682)	-	27,118	90
Net exposure	**(198)**	**56**	**3**	**18,441**	**18,302**
Foreign currency off-balance sheet assets	3,956	539	-	25,364	29,859
Foreign currency off-balance sheet liabilities	69,345	8,407	-	534	78,286

(All amounts stated in HUF million unless otherwise noted)

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 30 September 2011 are as follows:

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	69,280	17,305	-	2,000	88,585
Loans and advances to customers, net of impairment losses	39,278	7,955	-	2,065	49,298
Other	1,449	651	2	51,646	53,748
Total foreign currency Assets	110,007	25,911	2	55,711	191,631
Foreign currency liabilities	169,861	969	-	3,750	174,580
Foreign currency assets and liabilities, net	**(59,854)**	**24,942**	**2**	**51,961**	**17,051**
Effect of derivatives	60,333	(25,237)	-	(35,317)	(221)
Net exposure	**479**	**(295)**	**2**	**16,644**	**16,830**
Foreign currency off-balance sheet assets	4,683	1,512	-	33,455	39,650
Foreign currency off-balance sheet liabilities	109,006	13,387	-	36	122,429

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

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 30 September 2012 and 2011 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 30 September 2012

	EUR	**USD**	**Total**
Foreign currency exchange rate as at 30 September 2012	283.71	219.17	
Exchange rates at strong HUF (minimum of historical rates in first 9 months 2012)	276.07	215,.33	
Effect on profit or (loss)	(5)	1	(4)
Exchange rates at weak HUF (maximum of historical rates in the first 9 months 2012)	321.9	250.3	
Effect on profit or (loss)	27	(8)	19

Extreme foreign currency risk calculation as at 30 September 2011

	EUR	**USD**	**Total**
Foreign currency exchange rate as at 30 September 2011	292.12	215.65	
Exchange rates at strong HUF (minimum of historical rates in first 9 months 2011)	262.70	177.69	
Effect on profit or (loss)	48	(52)	(4)
Exchange rates at weak HUF (maximum of historical rates in the first 9 months 2011)	292.15	216.37	
Effect on profit or (loss)	-	1	1

(All amounts stated in HUF million unless otherwise noted)

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 12th 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. As at 30 September 2012 and 2011 the amount of the long-term liability arising from the loan agreement is HUF 28,371 million and HUF 29,212 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 first 9 months of 2012 and 2011, 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.

	30.09.2012	**30.09.2011**
Core capital	16,783	16,479
Supplementary capital	16,783	16,479
Solvency margin	33,566	32,958
Total risk-weighted exposure to credit risk	173,214	117,805
Solvency ratio	16.45 %	23.20 %

NOTE 24. CONCENTRATION OF ASSETS AND LIABILITES 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 30 SEPTEMBER 2012

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	95	-	-	3	-	98
Loans and advances to other banks, net of impairment losses	140,058	-	-	-	-	140,058
Loans and advances to customers, net of impairment losses	1,147	47,169	2	-	63	48,381
Financial assets at fair value through profit or loss	-	-	-	487	-	487
Available-for-sale financial assets	358	-	-	11,765	12	12,135
Intangibles, property and equipment	-	-	-	-	196	196
Other assets	35	-	-	197	433	665
Total Assets	**141,693**	**47,169**	**2**	**12,452**	**704**	**202,020**
Loans and deposits from other banks	135,369	46,863	-	-	-	182,232
Financial liabilities at fair value through profit or loss	-	-	-	403	-	403
Other liabilities incl. provision	-	307	346	29	491	1,172
Total Liabilities	**135,369**	**47,170**	**346**	**432**	**491**	**183,808**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	8,112	-	8,112
Total Shareholder's Equity	**-**	**-**	**-**	**18,212**	**-**	**18,212**
Total Liabilities and Equity	**135,369**	**47,170**	**346**	**18,644**	**491**	**202,020**

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
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NOTE 24. FINANCIAL POSITION SEGMENTED BY BUSINESSES AS AT 30 SEPTEMBER 2011

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	1,278	-	-	-	-	1,278
Loans and advances to other banks, net of impairment losses	86,585	-	-	2,000	-	88,858
Loans and advances to customers, net of impairment losses	587	48,634	-	-	77	49,298
Financial assets at fair value through profit or loss	-	-	-	441	-	441
Available-for-sale financial assets	614	-	-	50,762	12	51,388
Intangibles, property and equipment	-	-	-	-	174	174
Other assets	65	-	-	174	228	467
Total Assets	**89,129**	**48,634**	**-**	**53,377**	**491**	**191,631**
Loans and deposits from other banks	89,062	48,535	-	33,906	-	171,503
Financial liabilities at fair value through profit or loss	-	-	-	572	-	572
Other liabilities incl. provision	66	99	384	160	1,796	2,505
Total Liabilities	**89,128**	**48,634**	**384**	**34,638**	**1,796**	**174,580**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,951	-	6,951
Total Shareholder's Equity	**-**	**-**	**-**	**17,051**	**-**	**17,051**
Total Liabilities and Equity	**89,128**	**48,634**	**384**	**51,689**	**1,796**	**191,631**

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	4,693	1,974	-	924	1	7,592
Interest expense	(2,116)	(1,627)	-	(400)	-	(4,143)
Net interest income	**2,577**	**347**	**-**	**524**	**1**	**3,449**
Net income from fees and commissions	-	1	148	(2)	-	147
Provisions and impairment (losses)/reversal	(91)	(616)	(259)	-	-	(966)
Gains and losses from trading and investment activities, net	-	-	-	372	-	372
Operating expenses, net	(862)	(1,028)	(249)	(328)	-	(2,467)
Profit/(loss) before income tax	**1,624**	**(1,296)**	**(360)**	**566**	**1**	**535**
Income taxes	(79)	63	17	(27)	-	(26)
Net profit/(loss)	**1,545**	**(1,233)**	**(343)**	**539**	**1**	**509**
Additional information						
Depreciation and amortisation	26	30	8	10	-	74
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	33	40	9	12	-	94

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT
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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2011

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	3,663	2,459	-	1,476	1	7,599
Interest expense	(2,524)	(1,931)	-	(41)	-	(4,496)
Net interest income	**1,139**	**528**	**-**	**1,435**	**1**	**3,103**
Net income from fees and commissions	-	(45)	158	(3)	-	110
Provisions and impairment losses	(488)	(868)	1,045	-	-	(311)
Gains and losses from trading and investment activities, net	-	-	-	(620)	-	(620)
Operating expenses, net	(810)	(974)	(239)	(315)	-	(2,338)
Profit/(loss) before income tax	**(159)**	**(1,359)**	**964**	**497**	**1**	**(56)**
Income taxes	(140)	1,187	843	435	1	(48)
Net profit/(loss)	**(299)**	**(2,546)**	**1,807**	**932**	**2**	**(104)**
Additional information						
Depreciation and amortisation	26	30	7	10	-	73
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	20	25	6	8	-	59

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012 (All amounts stated in HUF million unless otherwise noted)

NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	12	66	14	6	98
Loans and advances to other banks net of impairment losses	139,252	-	625	181	140,058
Loans and advances to customers, net of impairment losses	10,824	255	33,255	4,047	48,381
Financial assets at fair value through profit or loss	487	-	-	-	487
Available-for-sale financial assets	11,777	-	-	358	12,135
Intangibles, property and equipment, net	196	-	-	-	196
Other assets, net	619	-	13	33	665
Total Assets	**163,167**	**321**	**33,907**	**4,625**	**202,020**
Loans and deposits from other banks	160,683	21,549	-	-	182,232
Financial liabilities at fair value through profit or loss	403	-	-	-	403
Other liabilities incl. provision	835	8	13	317	1,173
Total liabilities	161,921	21,557	13	317	183,808
Share capital	10,100	-	-	-	10,100
Reserves	8,112	-	-	-	8,112
Total Shareholder's Equity	18,212	-	-	-	18,212
Total Liabilities and Equity	**180,133**	**21,557**	**13**	**317**	**202,020**
Off-balance sheet financial instruments					
Guarantees insured by the state	18,609	717	6,039	-	25,365
Unutilised part of credit lines	45,262	-	4,493	78	49,833
Letter of Credit	-	-	-	-	-
Guarantees	2,851	38	199	-	3,088
Total	**66,722**	**755**	**10,731**	**78**	**78,286**

(All amounts stated in HUF million unless otherwise noted)

NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2011

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	8	1,254	15	1	1,278
Loans and advances to other banks net of impairment losses	87,129	-	1,218	238	88,585
Loans and advances to customers, net of impairment losses	11,027	3,874	30,096	4,301	49,298
Financial assets at fair value through profit or loss	441	-	-	-	441
Available-for-sale financial assets	50,774	-	-	614	51,388
Intangibles, property and equipment, net	174	-	-	-	174
Other assets, net	405	1	28	33	467
Total Assets	**149,958**	**5,129**	**31,357**	**5,187**	**191,631**
Loans and deposits from other banks	159,808	11,695	-	-	171,503
Financial liabilities at fair value through profit or loss	511	61	-	-	572
Other liabilities incl. provision	913	-	50	1,542	2,505
Total liabilities	161,232	11,756	50	1,542	174,580
Share capital	10,100	-	-	-	10,100
Reserves	6,951	-	-	-	6,951
Total Shareholder's Equity	17,051	-	-	-	17,051
Total Liabilities and Equity	**178,283**	**11,756**	**50**	**1,542**	**191,631**
Off-balance sheet financial instruments					
Guarantees insured by the state	25,265	705	7,485	-	33,455
Unutilised part of credit lines	69,098	25	17,523	202	86,848
Letter of Credit	-	-	-	-	-
Guarantees	1,885	37	203	-	2,125
Total	**96,248**	**767**	**25,211**	**202**	**122,428**

(All amounts stated in HUF million unless otherwise noted)

NOTE 25. SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2012

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans	902	21	441	121	1,485
Loans and advances to other banks	1,757	-	31	11	1,799
Other interest income	4,208	-	-	100	4,308
Total interest income	6,867	21	472	232	7,592
Income from fees and commissions:					
Guarantees covered by the state	80	-	-	12	92
Insurance fees devolved by MEHIB	-	-	4	20	24
Refund of MEHIB insurance fee	-	-	-	-	-
Guarantees	67	-	-	1	68
Other	1	-	-	-	1
Total income from fees and commissions	148	-	4	33	185
Total Income	**7,015**	**21**	**476**	**265**	**7,777**

SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2011

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans	1,004	98	489	100	1,691
Loans and advances to other banks	1,858	11	61	13	1,943
Other interest income	3,880	-	-	85	3,965
Total interest income	6,742	109	550	198	7,599
Income from fees and commissions:					
Guarantees covered by the state	113	-	-	30	143
Insurance fees devolved by MEHIB	-	-	12	-	12
Refund of MEHIB insurance fee	-	-	-	-	-
Guarantees	35	-	1	1	37
Other	1	-	-	-	1
Total income from fees and commissions	149	-	13	31	193
Total Income	**6,891**	**109**	**563**	**229**	**7,792**

NOTE 26. EVENTS AFTER THE REPORTING DATE

The owner of the Bank, Ministry of National Economy granted loan in the amount of HUF 70,000 million in the form of Hungarian Government Bonds at market value in October. The maturity date of loan is 31 December 2012.
The Bank repaid one of the loans to the prior owner, Hungarian Development Bank Ltd in amount of EUR 180 million in October.
There were no events after the reporting date, which have any significant effect on figures in the condensed interim financial report for the 9 months ended 30 September 2012.

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.).

<u>Key sources of estimation uncertainty</u>

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:

(All amounts stated in HUF million unless otherwise noted)

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:

30 September 2012	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Debt and equity instruments	-	-	-
Derivative instruments	-	487	487
	-	487	487
Available-for-sale financial assets	12,135	-	12,135
	12,135	-	12,135
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	403	403
	-	403	403
30 September 2011			
Financial assets at fair value through profit or loss			
Debt and equity instruments	-	-	-
Derivative instruments	-	441	441
	-	441	441
Available-for-sale financial assets	51,388	-	51,388
	51,388	-	51,388
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	572	572
	-	572	572

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

(All amounts stated in HUF million unless otherwise noted)

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 30 September 2012, 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	-	98	-	-	98	98
Loans and advances to other banks	-	140,058	-	-	140,058	140,058
Loans and advances to customers	-	48,381	-	-	48,381	48,381
Financial assets at fair value through profit or loss	487	-	-	-	487	487
Available-for-sale financial assets	-	-	12,135	-	12,135	12,135
Total	487	188,537	12,135	-	201,159	201,159
Loans and deposits from other banks	-	-	-	182,232	182,232	182,232
Financial liabilities at fair value through profit or loss	403	-	-	-	403	403
Total	403	-	-	182,232	182,635	182,635

(All amounts stated in HUF million unless otherwise noted)

NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

As at 30 September 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	-	1,278	-	-	1,278	1,278
Loans and advances to other banks	-	88,585	-	-	88,585	88,585
Loans and advances to customers	-	49,298	-	-	49,298	49,298
Financial assets at fair value through profit or loss	441	-	-	-	441	441
Available-for-sale financial assets	-	-	51,388	-	51,388	51,388
Total	441	139,161	51,388	-	190,990	192,687
Loans and deposits from other banks	-	-	-	171,503	171,503	171,503
Financial liabilities at fair value through profit or loss	572	-	-	-	572	572
Total	572	-	-	171,503	172,075	172,075

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-prised every quarter according to market conditions (such as costs of acquiring funds, operating spread, risk premium) thus their carrying values approximate the fair value.

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.

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

CONTENTS

Independent Auditor's Report

To the Shareholder of Hungarian Export-Import Bank Ltd.:

KPMG Hungária Kft.
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

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.

Gábor Agócs
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
Total Assets		**195,781**	**193,779**
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
Total Liabilities		**178,116**	**176,693**
Share capital	14	10,100	10,100
Reserves	14	7,565	6,986
Total Shareholder's Equity		**17,665**	**17,086**
Total Liabilities and Equity		**195,781**	**193,779**

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)
Net interest income		**4,619**	**5,825**
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)
Profit/(loss) before income tax		**570**	**1,445**
Income taxes	16	(36)	(235)
Profit /(loss) for the period		**534**	**1,210**
Other comprehensive income			
Fair value adjustment of available-for-sale securities, net of tax	20	45	(279)
Other comprehensive income for the period, net of income tax		**45**	**(279)**
Total comprehensive income for the period		**579**	**931**

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
OPERATING ACTIVITIES			
Profit/(loss) before income taxes		570	1,445
Adjustments to reconcile net income to net cash provided by operating activities:			
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		-	-
Changes in operating assets and liabilities:			
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
Net cash provided by/(used in) operating activities		**(1,530)**	**24,450**
INVESTING ACTIVITIES			
Net (increase)/decrease in held-to-maturity securities		-	-
Purchases of intangibles, property and equipment	9	(87)	(61)
Net cash used in investing activities		**(87)**	**(61)**
FINANCING ACTIVITIES:			
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)
Net cash provided by financing activities		**1,712**	**(24,359)**
Net increase/(decrease) in cash and cash equivalents		**95**	**30**
Cash and cash equivalents at the beginning of the year	4	**67**	**37**
Cash and cash equivalents at the end of the year	4	**162**	**67**

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

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts stated in HUF million unless otherwise noted)

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

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

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts stated in HUF million unless otherwise noted)

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

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

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 precedessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its precedessor 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.

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.

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).

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’.

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.

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

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 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.

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).

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

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.

(All amounts stated in HUF million unless otherwise noted)

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
Total	**162**	**67**

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
Total	129,382	108,341
Less: impairment losses (see Note 11)	(489)	(872)
Total	**128,893**	**107,469**

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.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
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	123,180		
Placements in HUF			
1 to 7 days	6,202	6.0 % - 6.15 %	6.12 %
Sub-total	6,202		
Total	**129,382**		

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

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
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	108,341		
Placements in HUF			
	-	-	-
Sub-total	-		
Total	**108,341**		

(All amounts stated in HUF million unless otherwise noted)

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.

Country	2011	2010
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
Total	**129,382**	**108,341**

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.

(All amounts stated in HUF million unless otherwise noted)

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	23,780	39,056
Long-term:		
- in foreign currency	35,518	32,050
- in HUF	141	183
Sub-total	35,659	32,233
Total	59,439	71,289
Less: impairment losses (see Note 11)	(4,850)	(4,377)
Total	**54,589**	**66,912**

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

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
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	4,218		
In foreign currency:			
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	55,221		
Total	**59,439**		

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

(All amounts stated in HUF million unless otherwise noted)

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:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
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	3,362		
In foreign currency:			
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	67,927		
Total	**71,289**		

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

(All amounts stated in HUF million unless otherwise noted)

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.

Country	2011	2010
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
Total	**59,439**	**71,289**

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.

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
Total	**47**	**618**

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	
Total	**1,407**	**1,074**

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)
Book value	**-**	**553**

(All amounts stated in HUF million unless otherwise noted)

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.

Remaining Maturity	2011	2010
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	-	-
Total	**47**	**618**

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:

Remaining Maturity	Amount	Minimum and Maximum Interest Rates	Effective Interest Rate
31-90 days	553	7.50%	7.50 %
Total	**553**		

(All amounts stated in HUF million unless otherwise noted)

NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011	**2010**
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)
	10,720	16,152
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	356	1,457
HUF shares	12	12
Fair value adjustment	-	-
	12	12
Total	**11,088**	**17,621**

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 Depositary 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

(All amounts stated in HUF million unless otherwise noted)

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:

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

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:

Remaining Maturity	**2011**	**2010**
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	-	-
Total	**10,720**	**16,152**

Shares as at 31 December 2011 are detailed below.

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

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

(All amounts stated in HUF million unless otherwise noted)

NOTE 9. INTANGIBLES, PROPERTY AND EQUIPMENT

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

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
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
Accumulated depreciation and amortisation						
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
Net book value						
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:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
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
Accumulated depreciation and amortisation						
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
Net book value						
31 December 2009	**9**	**106**	**3**	**188**	**18**	**324**
31 December 2010	**8**	**65**	**-**	**109**	**6**	**188**

(All amounts stated in HUF million unless otherwise noted)

NOTE 10. OTHER ASSETS

	2011	2010
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)	-	-
Total	**826**	**904**

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

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**
As at 31 December 2011	**489**	**4,850**	**1,167**	**21**	**6,527**

* 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)

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS

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

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.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
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	175,696		
In HUF			
	-	-	-
Sub-total	-		
Total	**176,696**		

(All amounts stated in HUF million unless otherwise noted)

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.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
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	170,977		
In HUF			
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	2,907		
Total	**173,884**		

(All amounts stated in HUF million unless otherwise noted)

NOTE 13. OTHER LIABILITIES

	2011	2010
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
Total	**992**	**614**

NOTE 14. SHAREHOLDER' S EQUITY

	2011	2010
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
Total	**17,665**	**17,086**

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:

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

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

(All amounts stated in HUF million unless otherwise noted)

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:

	2011	2010
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
Total	**114,925**	**59,510**

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

	2011		2010	
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
Adjustments:				
(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)
Effective tax	**6 %**	**36**	**16 %**	**235**

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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE

	2011	2010
Interest income:		
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
Total	**10,849**	**10,348**
Interest expense:		
Loans and deposits from other banks	6,230	4,523
Total	**4,619**	**5,825**

***** 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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

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

	2011				2010			
Country	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Loans**	**Invest-ment**	**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
Total	**8,612**	**2,114**	**123**	**10,849**	**9,526**	**821**	**1**	**10,348**

NOTE 18. NET INCOME FROM FEES AND COMMISSIONS

	2011	2010
Income from fees and commissions:		
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
	292	**1,190**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	58	4
Transfer of refunded MEHIB insurance fees	-	8
Guarantees	44	407
Other	4	4
	106	**423**
Total	**186**	**767**

(All amounts stated in HUF million unless otherwise noted)

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:

	2011				2010			
Country	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Loans**	**Invest-ment**	**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	-	-	-	-
Total	**14**	**-**	**278**	**292**	**65**	**-**	**1,125**	**1,190**

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)
Total	**(756)**	**30**

* - 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)
Total	**3,027**	**3,322**

(All amounts stated in HUF million unless otherwise noted)

NOTE 19.2 OTHER OPERATING EXPENSES (CONTINUED)

*The Hungarian Parliament introduced a new type of tax effective from 1st 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

	2011	2010
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

	2011			2010		
	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)

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:

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2011	2010
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	34,304	22,108
Hungarian Government bonds	-	553
Total financial assets at fair value to related parties	-	553
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	10,720	16,152
Other assets to the State	41	452
Other assets to MFB	124	215
Total other assets to related parties	165	667
Total Assets	**45,195**	**39,481**
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	1,211	1,074
Other liabilities to MFB	112	191
Other liabilities to MFB's subsidiaries	-	1
Total other liabilities to related parties	112	192
Total Liabilities	**142,576**	**147,626**
Guarantees provided on behalf of other state-owned company	169	153
Other commitments and contingent liabilities	-	20,000
Total commitments and contingent liabilities	**169**	**20,153**

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2011	2010
Interest income:		
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
Total	**6,316**	**4,507**
Interest expense:		
Loans and deposits from MFB	5,057	3,548
Total	**5,057**	**3,548**
Income from fees and commissions:		
Refund of MEHIB insurance fees	-	8
Total	**-**	**8**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	58	4
Total	**58**	**4**
Net interest income and net income from fees and commissions	**1,201**	**963**
Provision and impairment losses Charge/ (release):		
Loans and credit lines to MFB's associates	5	(3)
Total	**5**	**(3)**
Gains and losses from trading activities, net :		
Hungarian discounted treasury bills and Hungarian Government bonds	(6)	218
Total	**(6)**	**218**
Operating income/(expenses):		
MFB	-	2
MFB's subsidiaries	19	12
Other state-owned companies	(10)	(12)
Total	**9**	**2**

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.

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

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
Financial assets	**194,779**	**210,713**	**44,857**	**7,942**	**46,088**	**93,980**	**17,846**
Loans and deposits from other banks	175,696	187,525	870	7,412	78,055	62,320	38,868
Derivative financial liabilities							
Foreign exchange contracts	196	196	196	-	-	-	-
Cross currency interest rate swaps	1,211	1,211	-	296	915	-	-
Financial liabilities	**177,103**	**188,932**	**1,066**	**7,708**	**78,970**	**62,320**	**38,868**
Liquidity (deficiency)/excess	**17,676**	**21,781**	**43,791**	**234**	**(32,882)**	**31,660**	**(21,022)**
Unutilised loan commitments		**78,019**	**78,019**	**-**	**-**	**-**	**-**
Financial guarantee contracts		**36,906**	**36,906**	**-**	**-**	**-**	**-**

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

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	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
Financial assets	**192,687**	**206,537**	**37,347**	**15,576**	**56,706**	**80,655**	**16,253**
Loans and deposits from other banks	173,884	186,450	4,021	6,773	20,366	125,139	30,151
Derivative financial liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Cross currency interest rate swaps	1,074	1,074	-	125	392	557	-
Financial liabilities	**174,958**	**187,524**	**4,021**	**6,898**	**20,758**	**125,696**	**30,151**
Liquidity (deficiency)/excess	**17,729**	**19,013**	**33,326**	**8,678**	**35,948**	**(45,041)**	**(13,898)**
Unutilised loan commitments		**21,445**	**21,445**	-	-	-	-
Financial guarantee contracts		**38,065**	**38,065**	-	-	-	-

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.

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.

(All amounts stated in HUF million unless otherwise noted)

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
Individually impaired:				
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
Collectively impaired:	-	-	-	-
Past due but not impaired:	251	-	787	4,322
Neither past due nor impaired:	128,586	104,917	28,456	34,819
Accounts with renegotiated terms:				
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
Total carrying amount	**128,893**	**107,469**	**54,589**	**66,912**

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.

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 collaterised 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.

(All amounts stated in HUF million unless otherwise noted)

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**
Against individually impaired:				
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
Against past due but not impaired:				
Insured by MEHIB	239	-	748	2,651
Cash Collateral	13	-	39	44
Property	-	-	-	744
Other	-	-	-	194
Against neither past due nor impaired:				
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
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	6,798	4,199
Cash Collateral	-	-	-	221
Bank guarantees	-	-	290	-
Property	-	-	920	332
Other	-	-	891	939
Total	**840**	**1,323**	**54,735**	**72,060**

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.

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.

(All amounts stated in HUF million unless otherwise noted)

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	-	-

(All amounts stated in HUF million unless otherwise noted)

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

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.

(All amounts stated in HUF million unless otherwise noted)

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
Foreign currency assets and liabilities, net	**(26,499**	**26,230**	**3**	**17,931**	**17,665**
Effect of derivatives	26,735	(26,224)	-	(1,913)	(1,402)
Net exposure	**236**	**6**	**3**	**16,018**	**16,263**
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

(All amounts stated in HUF million unless otherwise noted)

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:

	EUR	USD	GBP	HUF	Total
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
Foreign currency assets and liabilities, net	**(34,688)**	**36,703**	**2**	**15,069**	**17,086**
Effect of derivatives	35,138	(36,248)	-	-	(1,110)
Net exposure	**450**	**455**	**2**	**15,069**	**15,976**
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

(All amounts stated in HUF million unless otherwise noted)

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

	EUR	USD	Total
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

	EUR	USD	Total
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

(All amounts stated in HUF million unless otherwise noted)

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 12th 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 31st 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 %

NOTE 24. CONCENTRATION OF ASSETS AND LIABILITES 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
Total Assets	**104,200**	**52,753**	**956**	**37,050**	**822**	**195,781**
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
Total Liabilities	**104,200**	**52,753**	**420**	**20,287**	**456**	**178,116**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	7,565	-	7,565
Total Shareholder's Equity	**-**	**-**	**-**	**17,665**	**-**	**17,665**
Total Liabilities and Equity	**104,200**	**52,753**	**420**	**37,952**	**456**	**195,781**

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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
Total Assets	**90,304**	**66,115**	**65**	**36,837**	**458**	**193,779**
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
Total Liabilities	**90,305**	**66,115**	**248**	**19,850**	**175**	**176,693**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,986	-	6,986
Total Shareholder's Equity	**-**	**-**	**-**	**17,086**	**-**	**17,086**
Total Liabilities and Equity	**90,305**	**66,115**	**248**	**36,936**	**175**	**193,779**

NOTES TO THE FINANCIAL STATEMENTS
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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)
Net interest income	**1,617**	**921**	**-**	**2,080**	**1**	**4,619**
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)
Profit/(loss) before income tax	**(219)**	**(1,150)**	**1,025**	**913**	**1**	**570**
Income taxes	14	73	(65)	(58)	-	(36)
Net profit/(loss)	**(205)**	**(1,077)**	**960**	**855**	**1**	**534**
Additional information						
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)
Net interest income	**2,639**	**2,463**	**-**	**722**	**1**	**5,825**
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)
Profit/(loss) before income tax	**2,781**	**(990)**	**(626)**	**292**	**(12)**	**1,445**
Income taxes	(453)	161	102	(47)	2	(235)
Net profit/(loss)	**2,328**	**(829)**	**(524)**	**245**	**(10)**	**1,210**
Additional information						
Depreciation and amortisation	69	82	20	26	-	197
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	22	25	6	8	-	61

NOTES TO THE FINANCIAL STATEMENTS
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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
Total Assets	**150,408**	**3,861**	**35,987**	**5,525**	**195,781**
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
Total liabilities	165,075	12,657	14	370	178,116
Share capital	10,100	-	-	-	10,100
Reserves	7,565	-	-	-	7,565
Total Shareholder's Equity	17,665	-	-	-	17,665
Total Liabilities and Equity	**182,639**	**12,657**	**14**	**370**	**195,680**
Off-balance sheet financial instruments					
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
Total	**94,006**	**828**	**20,091**	**-**	**114,925**

(All amounts stated in HUF million unless otherwise noted)

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
Total Assets	**132,456**	**4,653**	**51,273**	**5,397**	**193,779**
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
Total liabilities	165,120	11,205	63	305	176,693
Share capital	10,100	-	-	-	10,100
Reserves	6,986	-	-	-	6,986
Total Shareholder's Equity	17,086	-	-	-	17,086
Total Liabilities and Equity	**182,206**	**11,205**	**63**	**305**	**193,779**
Off-balance sheet financial instruments					
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
Total	**34,420**	**931**	**22,950**	**1,209**	**59,510**

(All amounts stated in HUF million unless otherwise noted)

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

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
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
Total interest income	9,673	247	651	278	10,849
Income from fees and commissions:					
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
Total income from fees and commissions	224	-	13	55	292
Total Income	**9,897**	**247**	**664**	**333**	**11,141**

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

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
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
Total interest income	8,685	219	1,361	83	10,348
Income from fees and commissions:					
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
Total income from fees and commissions	1,096	2	49	43	1,190
Total Income	**9,781**	**221**	**1,410**	**126**	**11,538**

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.).

<u>Key sources of estimation uncertainty</u>

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:

(All amounts stated in HUF million unless otherwise noted)

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:

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

(All amounts stated in HUF million unless otherwise noted)

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
Total	47	183,643	11,088	-	194,778	194,778
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
Total	1,407	-	-	175,696	177,103	177,103

(All amounts stated in HUF million unless otherwise noted)

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
Total	618	174,448	17,621	-	192,687	192,687
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
Total	1,074	-	-	173,884	174,958	174,958

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-prised every quarter according to market conditions (such as costs of acquiring funds, operating spread, risk premium) thus their carrying values approximate the fair value.

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.

HUNGARIAN EXPORT-IMPORT BANK
LIMITED PRIVATE COMPANY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED

31 DECEMBER 2010

prepared under International Financial Reporting Standards as adopted by the EU

CONTENTS

Independent Auditor’s Report

To the Shareholder of Hungarian Export-Import Bank Ltd.:

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Hungary

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E-mail: info@kpmg.hu
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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 2010, 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 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 the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Budapest, 28 February 2011
KPMG Hungária Kft.

Agócs Gábor
Partner

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

	Note	2010	2009
Cash, due from banks and balances with the National Bank of Hungary	4	67	37
Loans and advances to other banks, net of impairment losses	5	107,469	121,376
Loans and advances to customers, net of impairment losses	6	66,912	78,727
Financial assets at fair value through profit or loss	7	618	4,870
Available-for-sale financial assets	8	17,621	8,840
Intangibles, property and equipment, net	9	188	324
Other assets, net	10	904	731
Total Assets		**193,779**	**214,905**
Loans and deposits from other banks	12	173,884	197,713
Financial liabilities at fair value through profit or loss	7	1,074	-
Provision for guarantees and contingencies	11	1,121	119
Other liabilities	13	614	918
Total Liabilities		**176,693**	**198,750**
Share capital	14	10,100	10,100
Reserves	14	6,986	6,055
Total Shareholder's Equity		**17,086**	**16,155**
Total Liabilities and Equity		**193,779**	**214,905**

28 February 2011

Authorised for issue by

Peter Adamecz
Chief Executive Officer

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

	Note	2010	2009
Interest income	17	10,348	11,384
Interest expense	17	(4,523)	(5,774)
Net interest income		**5,825**	**5,610**
Net income from fees and commissions	18	767	206
Provisions and impairment losses	11	(1,855)	(3,898)
Gains and losses from trading and investment activities, net	19.1	30	1,784
Operating expenses	19.2	(3,322)	(3,209)
Profit/(loss) before income tax		**1,445**	**493**
Income taxes	16	(235)	(19)
Profit /(loss) for the period		**1,210**	**474**
Other comprehensive income			
Fair value adjustment of available-for-sale securities, net of tax	20	(279)	205
Other comprehensive income for the period, net of income tax		**(279)**	**205**
Total comprehensive income for the period		**931**	**679**

28 February 2011

Authorised for issue by

Peter Adamecz
Chief Executive Officer

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

	Note	2010	2009
OPERATING ACTIVITIES			
Profit/(loss) before income taxes		1,445	493
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	19.2	197	191
Provision charged /(released) for impairment losses	11	853	4,277
(Profit)/loss from revaluation to fair value	7	2,276	2,092
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		(5,825)	(5,609)
Interest received		10,418	10,336
Interest paid		(5,109)	(6,171)
Income taxes	16	(235)	(19)
Dividend paid		-	-
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to other banks, before impairment losses	5	16,076	(2,307)
Net (increase)/decrease in loans and advances to customers, before impairment losses	6	11,240	(16,268)
Net (increase)/decrease in financial assets at fair value through profit or loss	7	3,051	-
Net (increase)/decrease in available-for-sale financial assets	8	(9,118)	(4,231)
Net (increase)/decrease in other assets	10	304	138
Net increase/(decrease) other liabilities	13	675	(180)
Net cash provided by/(used in) operating activities		**24,450**	**(17,259)**
INVESTING ACTIVITIES			
Net (increase)/decrease in held-to-maturity securities		-	-
Purchases of intangibles, property and equipment	9	(61)	(137)
Net cash used in investing activities		**(61)**	**(137)**
FINANCING ACTIVITIES:			
Proceeds from due to banks and deposits from banks	12	307,882	809,859
Repayment of due to banks and deposits from banks	12	(332,241)	(792,510)
Net cash provided by financing activities		**(24,359)**	**17,349**
Net increase/(decrease) in cash and cash equivalents		**30**	**(47)**
Cash and cash equivalents at the beginning of the year	4	**37**	**84**
Cash and cash equivalents at the end of the year	4	**67**	**37**

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

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2009	**10,100**	**400**	**689**	**4,292**	**(5)**	**15,476**
Total comprehensive income for the period						
Profit or loss			474			474
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax					205	205
Total comprehensive income for the period			***474***		***205***	***679***
Other transactions, recorded directly in equity						
Release of Statutory reserves			124	(124)		
Reclassification (Note 3.10)			(654)	654		
Total other transactions			(530)	530		
Balance as at 31 December 2009	**10,100**	**400**	**633**	**4,822**	**200**	**16,155**

The accompanying notes to the financial statements on pages 6-68 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

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

The accompanying notes to the financial statements on pages 6-68 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

NOTE 1. GENERAL INFORMATION

Hungarian Export-Import Bank Limited Private 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 2004 on the Hungarian Export-Import Bank Ltd. and the Hungarian Export Credit Insurance Ltd. 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 2010 and 31 December 2009. 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 precedessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its precedessor body.

These financial statements were authorised for issue by the Chief Executive Officer on 28 February 2011.

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.

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 2010 and 2009 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).

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’.

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.

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

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 % (2009: 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 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 2010 the Bank reclassified HUF 273 million retained earnings into the general reserve (2009: HUF 654 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.

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 Group 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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and the general risk reserve (due to uncertainty of reversal).

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts stated in HUF million unless otherwise noted)

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

	2010	2009
Balances with NBH in HUF	1	6
Due from banks in HUF	2	2
Due from banks in foreign currency	64	29
Total	**67**	**37**

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 1 million and HUF 6 million as at 31 December 2010 and 2009, respectively. These reserves earn interest at below market rates.

NOTE 5. LOANS AND ADVANCES TO OTHER BANKS

	2010	2009
Short-term placements		
- in foreign currency	52,916	62,471
- in HUF	-	240
Sub-total	52,916	62,711
Long-term placements, in foreign currency	55,425	63,422
Sub-total	55,425	63,422
Total	108,341	126,133
Less: impairment losses (see Note 11)	(872)	(4,757)
Total	**107,469**	**121,376**

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).
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. 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 2010 are as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
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	108,341		
Placements in HUF			
	-	-	-
Sub-total	-		
Total	**108,341**		

Remaining maturity of Loans and advances to other banks as at 31 December 2009 are detailed below.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
1 to 7 days	23,447	0.18 % - 5.00 %	0.88 %
8 to 30 days	3,728	2.71 % - 5.00 %	4.27 %
31 to 90 days	6,470	2.57 % - 6.30 %	4.76 %
91 to 180 days	9,418	2.71 % - 9.00 %	5.03 %
181 to 365 days	19,408	2.57 % - 9.00 %	4.74 %
1 to 2 years	26,155	2.57 % - 9.00 %	5.11 %
2 to 5 years	29,448	3.31 % - 9.00 %	5.71 %
Over 5 years	7,819	5.00 % - 9.00 %	7.36 %
Sub-total	125,893		
Placements in HUF			
1 to 7 days	240	5.25 %	5.25 %
Sub-total	240		
Total	**126,133**		

(All amounts stated in HUF million unless otherwise noted)

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

The geographical breakdown of Loans and advances to other banks as at 31 December 2010 and 2009 are as follows.

Country	2010	2009
Hungary	103,830	93,477
Russia	2,744	5,663
Austria	780	307
Ukraine	515	643
Tajikistan	296	307
Belarus	118	160
Iran	58	-
Kazakhstan	-	20,819
United Kingdom	-	2,633
France	-	2,106
Germany	-	18
Total	**108,341**	**126,133**

As at 31 December 2010 and 2009, placement with other banks insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 1,349 million and 18,246 million, respectively.

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

	2010	2009
Short-term:		
- in foreign currency	35,877	33,976
- in HUF	3,179	2,970
Sub-total	39,056	36,946
Long-term:		
- in foreign currency	32,050	42,238
- in HUF	183	1,876
Sub-total	32,233	44,114
Total	71,289	81,060
Less: impairment losses (see Note 11)	(4,377)	(2,333)
Total	**66,912**	**78,727**

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

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
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	3,362		
In foreign currency:			
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	67,927		
Total	**71,289**		

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 2009 are as follows:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
1 to 7 days	775	0.00 % - 10.26%	7.96 %
8 to 30 days	222	0.00 % - 7.26 %	6.93 %
31 to 90 days	1,530	0.00 % - 8.68 %	4.52 %
91 to 180 days	4	0.00 % - 5.00 %	2.50 %
181 to 365 days	439	0.00 % - 11.43 %	9.40 %
1 to 2 years	465	0.00 % - 11.43 %	11.14 %
2 to 5 years	1,350	0.00 % - 7.26 %	6.58 %
Over 5 years	61	0.00 % - 7.26 %	4.90 %
Sub-total	4,846		
In foreign currency:			
1 to 7 days	4,298	1.92 % - 7.32 %	5.12 %
8 to 30 days	301	4.67 % - 6.30 %	6.05 %
31 to 90 days	6,901	1.36 % - 9.00 %	3.07 %
91 to 180 days	3,672	1.27 % - 9.00 %	5.52 %
181 to 365 days	18,804	0.67% - 9.00 %	4.63 %
1 to 2 years	22,250	0.67% - 9.00 %	3.82 %
2 to 5 years	12,657	0.67% - 9.00 %	5.89 %
Over 5 years	7,331	0.67% - 9.00 %	4.84 %
Sub-total	76,214		
Total	**81,060**		

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

(All amounts stated in HUF million unless otherwise noted)

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 2010 and 2009 are as follows.

Country	2010	2009
Russia	40,012	51,566
Hungary	13,555	14,376
Montenegro	3,982	3,505
Poland	3,745	2,161
Turkey	1,836	2,117
Laos	1,647	931
Ukraine	1,561	2,004
Tajikistan	1,372	1,468
Bosnia and Herzegovina	1,300	1,421
Romania	779	648
China	658	609
Egypt	618	-
Brazil	105	243
Serbia	104	-
Italy	15	-
Cyprus	-	11
Total	**71,289**	**81,060**

As at 31 December 2010 and 2009, the loans insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 54,100 million and HUF 64,851 million respectively.

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 2010 and 31 December 2009 are as follows:

	2010	2009
Short-term derivative assets (trading):		
Cross currency interest rate swap	-	1,456
Foreign exchange swap	65	-
Sub-total	65	1,456
Long-term trading assets:		
Hungarian Government bonds in HUF	553	3,414
Sub-total	553	3,414
Total	**618**	**4,870**

Financial liabilities at fair value through profit or loss as at 31 December 2010 and 31 December 2009 are as follows:

	2010	2009
Short-term derivative liabilities (trading):		
Cross currency interest rate swap	1,074	-
Total	**1,074**	**-**

The details of the cross currency interest rate swap – 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	110,454,217 EUR	30,789	153,200,000 USD	31,965

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' (2010: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The notional amounts will be 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 2010 and 2009 are as follows:

	2010	2009
Cost	589	3,640
Fair value adjustment	(36)	(226)
Book value	**553**	**3,414**

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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 2010 and 2009 are as follows.

Remaining Maturity	2010	2009
1-7 days	65	-
8-30 days	-	-
31-90 days	553	-
91 to 180 days	-	-
181 to 365 days	-	-
1 to 2 years	-	558
2 to 5 years	-	3,136
Over 5 years	-	1,176
Total	**618**	**4,870**

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

Remaining Maturity	Amount	Minimum and Maximum Interest Rates	Effective Interest Rate
31-90 days	553	7.50%	7.50 %
Total	**553**		

Remaining maturity of Hungarian Government bonds as at 31 December 2009 are detailed below:

Remaining Maturity	Amount	Minimum and Maximum Interest Rates	Effective Interest Rate
1 to 2 years	558	7.50%	7.50 %
2 to 5 years	1,680	6.75 %	6.75 %
Over 5 years	1,176	6.75 %	6.75 %
Total	**3,414**		

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NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2009
Hungarian discounted treasury bills in HUF	16,182	4,809
Hungarian Government bonds in HUF	-	3,780
Fair value adjustment	(30)	239
	16,152	8,828
Senior Notes	1,151	-
Subordinated Notes	182	-
Recovery Units	131	-
Global Depository Receipts	59	-
Fair value adjustment	(66)	-
Securities acquired in exchange for loan	1,457	-
HUF shares	12	12
Fair value adjustment	-	-
	12	12
Total	**17,621**	**8,840**

Details of the securities acquired in exchange for the loan mentioned in Note 5 are stated below:
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 are 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 2010 no such payments were settled.
Global Depositary 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

(All amounts stated in HUF million unless otherwise noted)

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 are presented below:

	At year end	At inception date
Senior Notes	1,075	1,151
Subordinated Notes	162	182
Recovery Units	163	131
Global Depository Receipts	57	59
	1,457	**1,523**

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 Hungarian discounted treasury bills and Hungarian Government bonds as at 31 December 2010 are detailed below:

Remaining Maturity	2010	2009
1-7 days	-	-
8-30 days	5,090	-
31-90 days	-	4,066
91 to 180 days	3,601	96
181 to 365 days	7,461	4,666
Total	**16,152**	**8,828**

Shares as at 31 December 2010 are detailed below.

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

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 2010 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
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
Accumulated depreciation and amortisation						
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
Net book value						
31 December 2009	**9**	**106**	**3**	**188**	**18**	**324**
31 December 2010	**8**	**65**	**-**	**109**	**6**	**188**

Movement table of intangible and tangible assets as at 31 December 2009 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2008	143	417	6	934	10	1,510
Additions	8	24	30	105	113	280
Disposals	(2)	(20)	(33)	(10)	(105)	(170)
31 December 2009	149	421	3	1,029	18	1,620
Accumulated depreciation and amortisation						
31 December 2008	139	274	-	719	-	1,132
Charge for year	3	56	-	132	-	191
Disposals	(2)	(15)	-	(10)	-	(27)
31 December 2009	140	315	-	841	-	1,296
Net book value						
31 December 2008	**4**	**143**	**6**	**215**	**10**	**378**
31 December 2009	**9**	**106**	**3**	**188**	**18**	**324**

(All amounts stated in HUF million unless otherwise noted)

NOTE 10. OTHER ASSETS

	2010	2009
Accrued interest receivable on debt securities	513	382
Accrued interest receivable re CCIR	213	194
Prepaid expenses	35	40
Taxation recoverable	135	111
Other	8	4
Sub-total	904	731
Less: impairment loss (see Note 11)	-	-
Total	**904**	**731**

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NOTE 11. PROVISIONS AND IMPAIRMENT LOSSES

	Loans and advances to other banks	Loans and advances to customers	Other assets	Guarantees and contingencies	**Total**
As at 31 December 2008	653	2,836	-	498	3,987
Write-offs	(6)*	(670)**	-	-	**(676)**
Charge/ (release)	4,110	167	-	(379)	**3,898**
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**

* In 2009, Eximbank assigned one of its loans to MEHIB. The book value of the unsecured part of the loan, net of impairment losses was HUF 1 million and an impairment loss of HUF 6 million was released.
** In 2009 Eximbank sold two of its loans to a third party. The sales price was HUF 24 million in total. The book value of one of the loans, net of impairment losses was nil and HUF 16 million, respectively and an impairment loss of HUF 106 million and HUF 557 million was released. Furthermore, bad debts in amount of HUF 7 million were written off.
*** 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.

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NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS

	2010	2009
Short-term		
- in foreign currency	24,970	126,051
- in HUF	2,907	-
Sub-total	27,877	126,051
Long-term		
- in foreign currency	146,007	71,662
Sub-total	146,007	71,662
Total	**173,884**	**197,713**

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’ (2009: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The loan will be 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 2010 are as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
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	170,977		
In HUF			
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	2,907		
Total	**173,884**		

(All amounts stated in HUF million unless otherwise noted)

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

Remaining maturity of loans and deposits from other banks as at 31 December 2009 are as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
1 to 7 days	-	-	-
8 to 30 days	24	-	-
31 to 90 days	47,680	0.5 % - 3.04 %	0.77%
91 to 180 days	453	2.89 % - 2.99 %	2.92 %
181 to 365 days	77,894	0.35 % - 3.44 %	1.15 %
1 to 2 years	22,908	2.89 % - 3.44 %	3.19 %
2 to 5 years	20,875	2.99 % - 3.44 %	3.22 %
Over 5 years	27,879	0.94 % - 3.44 %	1.01 %
Sub-total	197,713		
Total	**197,713**		

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NOTE 13. OTHER LIABILITIES

	2010	2009
Accrued interest payable re CCIR	191	168
Accrued expenses	21	13
Accrued revenue	248	416
Tax liability	63	216
Other	91	105
Total	**614**	**918**

NOTE 14. SHAREHOLDER' S EQUITY

	2010	2009
Share capital	10,100	10,100
Share premium	400	400
Retained earnings	1,536	633
Fair value reserve, net of tax	(79)	200
Statutory reserves	5,129	4,822
Total	**17,086**	**16,155**

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 2010 under Hungarian Law amount to HUF 1,005 million (2009: HUF 273 million).

As at 31 December 2010 and 31 December 2009, the shareholders' rights were the following:

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

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

(All amounts stated in HUF million unless otherwise noted)

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 2010 and 2009 are summarised as follows:

	2010	2009
Guarantees counter-guaranteed by the Republic of Hungary	34,576	35,871
Unutilised part of credit lines	21,445	16,719
Guarantees provided	3,489	4,108
Letter of Credit	-	23
Total	**59,510**	**56,721**

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

	2010		2009	
Profit (loss) before income tax		1,445		493
Applicable tax rate up to MHUF 250	10 %	25	16 %	79
Applicable tax rate above MHUF250	19 %	227		
Average tax rate	17 %	252	16 %	79
Adjustments:				
(Charge)/Release of General risk reserve	1%	15	5%	25
Fair values not recognised by tax rules	29%	416	(10%)	(52)
Fair values in equity recognised by tax rules	(31%)	(448)	-	-
Non deductible expenses	0%	-	(7 %)	(33)
Total adjustments	(1%)	(17)	(12 %)	(60)
Effective tax	**16 %**	**235**	**4 %**	**19**

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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE

	2010	2009
Interest income:		
Loans and advances to customers	3,436	3,376
Loans and advances to other banks	3,375	4,469
Cross currency interest rate swap	64	83
Interest compensation*	2,591	2,533
Securities	882	918
Placements with the NBH	-	5
Total	**10,348**	**11,384**
Interest expense:		
Loans and deposits from other banks	4,523	5,774
Total	**5,825**	**5,610**

* In accordance with the rules and conditions of the Government Decree 185/1998 (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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(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

Interest income by country and activity for the year ended 2010 and 2009 are detailed below:

	2010				2009			
Country	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**
Hungary	7,862	821	1	8,684	7,590	918	1	8,509
Austria	9	-	-	9	9	-	-	9
United Kingdom	1	-	-	1	4	-	-	4
Germany	1	-	-	1	2	-	-	2
Romania	43	-	-	43	24	-	-	24
Poland	165	-	-	165	28	-	-	28
Belarus	9	-	-	9	11	-	-	11
Bosnia and Herzegovina	19	-	-	19	22	-	-	22
Serbia	2	-	-	2	-	-	-	-
Montenegro	27	-	-	27	23	-	-	23
Russia	1,194	-	-	1,194	1,230	-	-	1,230
Turkey	30	-	-	30	116	-	-	116
Ukraine	81	-	-	81	68	-	-	68
Brazil	8	-	-	8	33	-	-	33
Kazakhstan	(44)	-	-	(44)	1,195	-	-	1,195
Egypt	3	-	-	3	-	-	-	-
China	49	-	-	49	31	-	-	31
Tajikistan	67	-	-	67	79	-	-	79
Total	**9,526**	**821**	**1**	**10,348**	**10,465**	**918**	**1**	**11,384**

NOTE 18. NET INCOME FROM FEES AND COMMISSIONS

	2010	2009
Income from fees and commissions:		
Guarantees covered by the state	1,048	198
Insurance fees devolved by MEHIB	51	785
Refund of MEHIB insurance fees	8	736
Guarantees	78	62
Other	5	27
	1,190	**1,808**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	4	795
Transfer of refunded MEHIB insurance fees	8	736
Guarantees	407	65
Other	4	6
	423	**1,602**
Total	**767**	**206**

(All amounts stated in HUF million unless otherwise noted)

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

Income from fees and commissions by country and activity for the year ended 2010 and 2009 are detailed below:

	2010				2009			
Country	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Loans**	**Invest-ment**	**Non-Allocated**	**Total**
Hungary	14	-	1,082	1,096	773	-	216	989
Poland	2	-	-	2	178	-	-	178
Russia	49	-	-	49	151	-	-	151
Ukraine	-	-	-	-	46	-	-	46
USA	-	-	43	43	-	-	17	17
China	-	-	-	-	6	-	-	6
Kazakhstan	-	-	-	-	11	-	-	11
Laos	-	-	-	-	326	-	-	326
Tajikistan	-	-	-	-	84	-	-	84
Total	**65**	**-**	**1,125**	**1,190**	**1,575**	**-**	**233**	**1,808**

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

	2010	**2009**
Trading securities gains and losses, net *	434	197
Foreign currency gains and losses, net *	(404)	1,587
Total	**30**	**1,784**

* - 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

	2010	**2009**
Personnel expenses	1,637	1,694
Material expenses	604	652
Depreciation and amortisation	197	191
Other administration expenses	51	63
Special tax of credit institution*	301	369
Local government taxes	150	197
Tax on financial institutions	433	-
Other expenses/ (income), net	(51)	43
Total	**3,322**	**3,209**

(All amounts stated in HUF million unless otherwise noted)

NOTE 19.2 OTHER OPERATING EXPENSES (CONTINUED)

*The Hungarian Parliament introduced a new type of tax effective from 1st 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.

The average number of employees as at 2010 was 114 (2009: 118).

NOTE 20.1 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2010	2009
Available for sale financial assets		
Gains (losses) arising during the year	(97)	239
Less: Reclassification adjustments for gains included in P&L	(239)	5
Other comprehensive income	(336)	244
Income tax relating to components	57	(39)
Other comprehensive income for the year	(279)	205

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

	2010			2009		
	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	(336)	57	(279)	244	(39)	205
Total comprehensive income	(336)	57	(279)	244	(39)	205

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 2010, representing 20.34 % of total assets (2009: 7.19 %), 83.55 % of total liabilities (2009: 67.20 %) and 33.87 % of total commitments and contingent liabilities (2009: 0.26 %), and are presented below:

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NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2010	2009
Balances with NBH	1	6
Short-term placement to MFB incl. interest receivable	6,972	-
Loans to MFB's subsidiaries incl. interest receivable	13,914	
Loans to MFB's associates incl. interest receivable	454	513
- less impairment losses	-	(3)
Advances to the State from interest compensation systems	768	652
Total loans and advances to related parties, net of impairment losses	22,108	1,162
Hungarian Government bonds	553	3,414
Cross currency interest rate swap with MFB	-	1,456
Total financial assets at fair value to related parties	553	4,870
Hungarian discounted treasury bills	16,152	4,826
Hungarian Government bonds	-	4,002
Total available for sale financial assets to related parties	16,152	8,828
Other assets to the State	452	382
Other assets to MFB	215	195
Total other assets to related parties	667	577
Total Assets	**39,481**	**15,443**
Loans and deposits from MFB incl. accrued int.payables	146,360	133,399
Cross currency interest rate swap with MFB	1,074	-
Total financial liabilities at fair value to related parties	1,074	-
Other liabilities to MFB	191	168
Other liabilities to MFB's subsidiaries	1	-
Total other liabilities to related parties	192	168
Total Liabilities	**147,626**	**133,567**
Guarantees provided on behalf of MFB's associates	-	-
Guarantees provided on behalf of other state-owned company	153	149
Other commitments and contingent liabilities	20,000	-
Total commitments and contingent liabilities	**20,153**	**149**

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NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2010	2009
Interest income:		
Short-term placements to MFB	7	1
Loans to MFB's subsidiaries	977	1
Loans to MFB's associates	47	56
State interest compensation	2,591	2,533
Placements with NBH	-	5
Interest on cross currency interest rate swap	64	84
Hungarian discounted treasury bills and Hungarian Government bonds	821	918
Total	**4,507**	**3,598**
Interest expense:		
Loans and deposits from MFB	3,548	3,477
Total	**3,548**	**3,477**
Income from fees and commissions:		
MEHIB insurance fees from the State related to tied-aid credits	-	334
Refund of MEHIB insurance fees	8	736
Total	**8**	**1,070**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	4	795
Total	**4**	**795**
Net interest income and net income from fees and commissions	**963**	**396**
Provision and impairment losses Charge/ (release):		
Loans and credit lines to MFB's associates	(3)	(47)
Total	**(3)**	**(47)**
Gains and losses from trading activities, net :		
Hungarian discounted treasury bills and Hungarian Government bonds	218	194
Total	**218**	**194**
Operating income/(expenses):		
MFB	2	-
MFB's subsidiaries	12	(1)
Other state-owned companies	(12)	(11)
Total	**2**	**(12)**

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

21.2 Management and employees

Loans to the management and employees of the Bank amounted to HUF 105 million and HUF 91 million as at 31 December 2010 and 2009, respectively. Interest rates vary between 0 % and 5.00 %, and averages at 1.21 %. The remuneration of the management amounted to HUF 330 million and HUF 335 million in 2010 and 2009, respectively. The remuneration of the management mentioned above includes the termination benefits paid to the management, which amounted to HUF 119 million in 2010 (2009: nil).
The honorarium of the Board of Directors and the Supervisory Board added up HUF 8 million and HUF 34 million in 2010 and 2009, respectively. 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.

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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	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
Financial assets	**192,687**	**206,537**	**37,347**	**15,756**	**56,706**	**80,655**	**16,253**
Loans and deposits from other banks	173,884	186,450	4,021	6,773	20,366	125,139	30,151
Derivative financial liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Cross currency interest rate swaps	1,074	1,074	-	125	392	557	-
Financial liabilities	**174,958**	**187,524**	**4,021**	**6,898**	**20,758**	**125,696**	**30,151**
Liquidity (deficiency)/excess	**17,729**	**19,013**	**33,326**	**8,858**	**35,948**	**(45,041)**	**(13,898)**
Unutilised loan commitments		**21,445**	**21,445**	-	-	-	-
Financial guarantee contracts		**38,065**	**38,065**	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 31 DECEMBER 2009

	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	37	37	37	-	-	-	-
Loans and advances to other banks, net of impairment losses	121,376	129,685	26,087	23,661	25,603	50,050	4,284
Loans and advances to customers, net of impairment losses	78,727	87,675	5,784	8,746	23,532	39,829	9,784
Financial assets at fair value through profit or loss	4,870	6,190	-	178	344	4,141	1,527
Available-for sale financial assets	8,840	9,071	-	4,053	5,006	-	12
Financial assets	**213,850**	**232,658**	**31,908**	**36,638**	**54,485**	**94,020**	**15,607**
Loans and deposits from other banks	197,713	203,330	29	48,099	79,082	47,490	28,630
Derivative financial liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Cross currency interest rate swaps	-	-	-	-	-	-	-
Financial liabilities	**197,713**	**203,330**	**29**	**48,099**	**79,082**	**47,490**	**28,630**
Liquidity (deficiency)/excess	**16,137**	**29,328**	**31,879**	**(11,461)**	**(24,597)**	**46,530**	**(13,023)**
Unutilised loan commitments		**16,719**	**16,719**	-	-	-	-
Financial guarantee contracts		**39,979**	**39,979**	-	-	-	-

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, state-backed guarantees. 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.

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.

(All amounts stated in HUF million unless otherwise noted)

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**	
	2010	**2009**	**2010**	**2009**
Carrying amount	107,469	121,376	66,912	78,727
Individually impaired:				
1-10 %	2,031	20,111	22,267	30,764
11-30%	-	-	111	370
31-70 %	-	3,595	172	-
71-100 %	141	299	1,736	980
Gross amount	2,172	24,005	24,286	32,114
Allowance for impairment	(246)	(3,424)	(2,148)	(1,236)
Carrying amount	1,926	20,581	22,138	30,878
Collectively impaired:	-	-	-	-
Past due but not impaired:	-	-	4,322	2,570
Neither past due nor impaired:	104,917	99,461	34,819	42,197
Accounts with renegotiated terms:				
Gross amount	1,252	2,667	7,862	4,179
Allowance for impairment	(626)	(1,333)	(2,229)	(1,097)
Carrying amount	626	1,334	5,633	3,082
Total carrying amount	**107,469**	**121,376**	**66,912**	**78,727**

In the year ended 2010 financial assets at fair value through profit or loss in amount of HUF 618 million (2009: 4,870 million) and available-for-sale financial assets in amount of HUF 17,621 million (2009: HUF 8,840 million) are neither past due nor impaired.

Impaired loans and securities

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

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 collaterised 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.

(All amounts stated in HUF million unless otherwise noted)

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	
	2010	**2009**	**2010**	**2009**
Against individually impaired:				
Insured by MEHIB	1,035	17,958	17,224	24,682
Cash Collateral	-	-	6	7
Bank guarantees	-	-	649	125
Property	-	-	1,573	1,791
Other	-	-	1,122	2,282
Against past due but not impaired:				
Insured by MEHIB	-	-	2,651	2,287
Cash Collateral	-	-	44	120
Property	-	-	744	287
Other	-	-	194	-
Against neither past due nor impaired:				
Insured by MEHIB	274	288	30,026	37,322
Cash Collateral	14	15	662	920
Bank guarantees	-	-	944	220
Property	-	-	1,127	4,485
Other	-	-	9,403	7,437
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	4,199	560
Cash Collateral	-	-	221	-
Property	-	-	332	315
Other	-	-	939	1,451
Total	**1,323**	**18,261**	**72,060**	**84,291**

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.

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 2010 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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3. Market risk

Eximbank does not undertake speculative positions.
The Bank calculated the market risks arising from its trading book according to Sections 14-25 of Government Decree 244/2000. 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 Bank has not kept positions in the trading book since 1 January 2008.
The following table shows the capital requirement covering risks from the trading book as at 31 December 2010 and 2009:

	2010	**2009**
Capital requirement of the trading book	-	-
Solvency margin	44,351	42,418
Capital requirement of the trading book as a percentage of solvency margin	-	-

(All amounts stated in HUF million unless otherwise noted)

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:

	2010	2009
Fixed rate financial instruments		
Financial assets	63,646	46,893
Financial liabilities	14,635	37,968
Total fixed rate instruments	**78,281**	**84,861**
Variable rate financial instruments		
Financial assets	25,314	44,183
Financial liabilities	159,376	159,328
Total variable rate instruments	**184,690**	**203,511**
Financial assets under interest compensation system	**96,412**	**116,603**
Tied-aid credits	**6,852**	**5,847**

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 sensitivity analysis regarding 1 % parallel shift for the entire statement of financial position. A 1 % increase in the market interest rate would affect net interest income for the next twelve months by HUF 524 million (2009: HUF 187 million). The calculation assumes that other conditions (including foreign exchange rates) are unchanged during the period. 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 quarterly.

(All amounts stated in HUF million unless otherwise noted)

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 10% of the solvency margin, and 35% of it in case of extraordinary financial situation declared by ALCO. 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 2010 are as follows:

	EUR	USD	GBP	HUF	Total
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	1,719	75	2	17,602	19,398
Total foreign currency Assets	138,895	35,651	2	19,231	193,779
Foreign currency liabilities	172,126	405	-	4,162	176,693
Foreign currency assets and liabilities, net	**(33,231)**	**35,246**	**2**	**15,069**	**17,086**
Effect of derivatives	35,138	(36,248)	-	-	(1,110)
Net exposure	**1,907**	**(1,002)**	**2**	**15,069**	**15,976**
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

(All amounts stated in HUF million unless otherwise noted)

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 2009 are as follows.

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	71,692	49,444	-	240	121,376
Loans and advances to customers, net of impairment losses	65,796	9,004	-	3,927	78,727
Other	214	8	1	14,579	14,802
Total foreign currency Assets	137,702	58,456	1	18,746	214,905
Foreign currency liabilities	168,199	30,073	-	478	198,750
Foreign currency assets and liabilities, net	**(30,497)**	**28,383**	**1**	**18,268**	**16,155**
Effect of derivatives	29,915	(28,812)	-	-	1,103
Net exposure	**(582)**	**(429)**	**1**	**18,268**	**17,258**
Foreign currency off-balance sheet assets	2,575	2,093	-	35,887	40,555
Foreign currency off-balance sheet liabilities	42,811	13,896	-	14	56,721

(All amounts stated in HUF million unless otherwise noted)

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 2010 and as at 31 December 2009 resulting in profit or loss. The calculation assumes that other conditions are unchanged during the period.

Extreme foreign currency risk calculation as at 31 December 2010

	EUR	**USD**	**Total**
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	
Affect on profit or (loss)	117	(118)	(1)
Exchange rates at weak HUF (maximum of historical rates in 2010)	290.03	240.57	
Affect on profit or (loss)	(77)	153	76

Extreme foreign currency risk calculation as at 31 December 2009

	EUR	**USD**	**Total**
Foreign currency exchange rate as at 31 December 2009	270.84	188.07	
Exchange rates at strong HUF (minimum of historical rates in 2009)	264.17	176.67	
Affect on profit or (loss)	(14)	(26)	(40)
Exchange rates at weak HUF (maximum of historical rates in 2009)	316.00	249.29	
Affect on profit or (loss)	97	140	237

(All amounts stated in HUF million unless otherwise noted)

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 the Act CXII of 1996 on Credit Institutions and Financial Enterprises, of the Act XLII of 1994 on the Hungarian Export-Import Bank Corporation and the Hungarian Export Credit Insurance Corporation 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 the year of 2007 - according to provisions of Article 20. of Act XLII of 1994 (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 12th 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 31st of December 2010 and 2009 the amount of the long-term liability arising from the loan agreement is HUF 27,875 million and HUF 27,084 million, respectively.

The Bank fulfilled the legal and prudential requirements in the year of 2010 and 2009, 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.

	2010	**2009**
Core capital	16,476	15,334
Supplementary capital	27,875	27,084
Solvency margin	44,351	42,418
Total risk-weighted assets	108,639	131,782
Solvency ratio	37.31 %	30.32 %

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 XLII of 1994) 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.

NOTE 24. CONCENTRATION OF ASSETS AND LIABILITES 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 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
Total Assets	**90,304**	**66,115**	**65**	**36,837**	**458**	**193,779**
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
Total Liabilities	**90,305**	**66,115**	**248**	**19,850**	**175**	**176,693**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,986	-	6,986
Total Shareholder's Equity	**-**	**-**	**-**	**17,086**	**-**	**17,086**
Total Liabilities and Equity	**90,305**	**66,115**	**248**	**36,936**	**175**	**193,779**

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NOTE 24. FINANCIAL POSITION SEGMENTED BY BUSINESSES AS AT 31 DECEMBER 2009

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	31	-	-	6	-	37
Loans and advances to other banks, net of impairment losses	101,571	-	2	19,803	-	121,376
Loans and advances to customers, net of impairment losses	546	78,027	63	-	91	78,727
Financial assets at fair value through profit or loss	-	-	-	4,870	-	4,870
Available-for-sale financial assets	-	-	-	8,828	12	8,840
Intangibles, property and equipment	-	-	-	-	324	324
Other assets	5	1	-	576	149	731
Total Assets	**102,153**	**78,028**	**65**	**34,083**	**576**	**214,905**
Loans and deposits from other banks	102,128	77,895	-	17,690	-	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities incl. provision	25	133	416	168	295	1,037
Total Liabilities	**102,153**	**78,028**	**416**	**17,858**	**295**	**198,750**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,055	-	6,055
Total Shareholder's Equity	**-**	**-**	**-**	**16,155**	**-**	**16,155**
Total Liabilities and Equity	**102,153**	**78,028**	**416**	**34,013**	**295**	**214,905**

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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	(2,738)	(1,785)	-	-	-	(4,523)
Net interest income	**2,569**	**2,418**	**-**	**837**	**1**	**5,825**
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)
Profit/(loss) before income tax	**2,711**	**(1,035)**	**(626)**	**407**	**(12)**	**1,445**
Income taxes	(441)	168	102	(66)	2	(235)
Net profit/(loss)	**2,270**	**(867)**	**(524)**	**341**	**(10)**	**1,210**
Additional information						
Depreciation and amortisation	69	82	20	26	-	197
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	21	25	6	8	-	61

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FOR THE YEAR ENDED 31 DECEMBER 2010
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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE YEAR ENDED 31 DECEMBER 2009

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	6,390	3,930	-	1,063	1	11,384
Interest expense	(3,490)	(2,284)	-	-	-	(5,774)
Net interest income	**2,900**	**1,646**	**-**	**1,063**	**1**	**5,610**
Net income from fees and commissions	-	(719)	195	(5)	735	206
Provisions and impairment losses	(4,110)	(157)	369	-	-	(3,898)
Gains and losses from trading and investment activities, net	-	-	-	1,784	-	1,784
Operating expenses, net	(1,125)	(1,302)	(324)	(442)	(16)	(3,209)
Profit/(loss) before income tax	**(2,335)**	**(532)**	**240**	**2,400**	**720**	**493**
Income taxes	89	20	(8)	(92)	(28)	(19)
Net profit/(loss)	**(2,246)**	**(512)**	**232**	**2,308**	**692**	**474**
Additional information						
Depreciation and amortisation	67	80	19	25	-	191
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	48	55	14	19	1	137

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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
Total Assets	**132,456**	**4,653**	**51,273**	**5,397**	**193,779**
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
Total liabilities	165,120	11,205	63	305	176,693
Share capital	10,100	-	-	-	10,100
Reserves	6,986	-	-	-	6,986
Total Shareholder's Equity	17,086	-	-	-	17,086
Total Liabilities and Equity	**182,206**	**11,205**	**63**	**305**	**193,779**
Off-balance sheet financial instruments					
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
Total	**34,420**	**931**	**22,950**	**1,209**	**59,510**

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NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	12	17	-	8	37
Loans and advances to other banks net of impairment losses	93,476	5,064	4,841	17,995	121,376
Loans and advances to customers, net of impairment losses	12,921	2,173	60,420	3,213	78,727
Financial assets at fair value through profit or loss	4,870	-	-	-	4,870
Available-for-sale financial assets	8,840	-	-	-	8,840
Intangibles, property and equipment, net	324	-	-	-	324
Other assets, net	731	-	-	-	731
Total Assets	**121,174**	**7,254**	**65,261**	**21,216**	**214,905**
Loans and deposits from other banks	147,542	50,171	-	-	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Other liabilities incl. provision	743	-	285	9	1,037
Total liabilities	148,285	50,171	285	9	198,750
Share capital	10,100	-	-	-	10,100
Reserves	6,055	-	-	-	6,055
Total Shareholder’s Equity	16,155	-	-	-	16,155
Total Liabilities and Equity	**164,440**	**50,171**	**285**	**9**	**214,905**
Off-balance sheet financial instruments					
Guarantees insured by the state	29,471	-	6,400	-	35,871
Unutilised part of credit lines	7,863	1,655	6,488	713	16,719
Letter of Credit	23	-	-	-	23
Guarantees	3,755	-	353	-	4,108
Total	**41,112**	**1,655**	**13,241**	**713**	**56,721**

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NOTE 25. SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
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
Total interest income	8,686	219	1,361	83	10,348
Income from fees and commissions:					
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
Total income from fees and commissions	1,096	2	49	43	1,190
Total Income	**9,780**	**221**	**1,411**	**126**	**11,538**

SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans	1,923	52	1,271	130	3,376
Loans and advances to other banks	3,047	15	199	1,208	4,469
Other interest income	3,539	-	-	-	3,539
Total interest income	8,509	67	1,470	1,338	11,384
Income from fees and commissions:					
Guarantees covered by the state	164	-	6	28	198
Insurance fees devolved by MEHIB	-	178	191	416	785
Refund of MEHIB insurance fee	736	-	-	-	736
Guarantees	62	-	-	-	62
Other	27	-	-	-	27
Total income from fees and commissions	989	178	197	444	1,808
Total Income	**9,498**	**245**	**1,667**	**1,782**	**13,192**

NOTE 26. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date which have any significant effect on financial statements for the year 2010.

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.).

<u>Key sources of estimation uncertainty</u>

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:

- Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

- 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:

31 December 2010	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Debt and equity instruments	553	-	553
Derivative instruments	-	65	65
	553	65	618
Available-for-sale financial assets	17,621	-	17,621
	17,621	-	17,621
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	1,074	1,074
	-	1,074	1,074
31 December 2009			
Financial assets at fair value through profit or loss			
Debt and equity instruments	3,414	-	3,414
Derivative instruments	-	1,456	1,456
	3,414	1,456	4,870
Available-for-sale financial assets	8,840	-	8,840
	8,840	-	8,840
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	-	-
	-	-	-

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

(All amounts stated in HUF million unless otherwise noted)

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 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
Total	618	174,448	17,621	-	192,687	192,687
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
Total	1,074	-	-	173,884	174,958	174,958

(All amounts stated in HUF million unless otherwise noted)

NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

As at 31 December 2009, 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	-	37	-	-	37	37
Loans and advances to other banks	-	121,376	-	-	121,376	121,376
Loans and advances to customers	-	78,727	-	-	78,727	78,727
Financial assets at fair value through profit or loss	4,870	-	-	-	4,870	4,870
Available-for-sale financial assets	-	-	8,840	-	8,840	8,840
Total	4,870	200,140	8,840	-	213,850	213,850
Loans and deposits from other banks	-	-	-	197,713	197,713	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Total	-	-	-	197,713	197,713	197,713

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-prised every quarter according to market conditions (such as costs of acquiring funds, operating spread, risk premium) thus their carrying values approximate the fair value.

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 2010, and have not been applied in preparing these financial statements:

Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011) exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Although the Bank does not early adopt revised IAS 24, it is expected that the new Standard will reduce the current level of disclosure of related parties and of the balances and transactions with other government-controlled entities.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011) addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010) clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Bank's financial statements as the Bank has not issued such instruments at any time in the past.

HUNGARIAN EXPORT-IMPORT BANK
LIMITED PRIVATE COMPANY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED

31 DECEMBER 2009

prepared under International Financial Reporting Standards as adopted by the EU

CONTENTS

Independent Auditor's Report

To the Shareholder of Hungarian Export-Import Bank Ltd.:

KPMG Hungária Kft.
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

Independent Auditors' Report

To the shareholders of Hungarian Export-Import Bank Limited Private Company
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 2009, 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 EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Budapest, 11 March 2010
KPMG Hungária Kft.

Agócs Gábor
Partne

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

	Note	2009	2008
Cash, due from banks and balances with the National Bank of Hungary	4	37	84
Loans and advances to other banks, net of impairment losses	5	121,376	122,953
Loans and advances to customers, net of impairment losses	6	78,727	61,739
Financial assets at fair value through profit or loss	7	4,870	10,015
Available-for-sale financial assets	8	8,840	4,366
Intangibles, property and equipment, net	9	324	378
Other assets, net	10	731	422
Total Assets		**214,905**	**199,957**
Loans and deposits from other banks	12	197,713	180,378
Financial liabilities at fair value through profit or loss	7	-	3,053
Provision for guarantees and contingencies	11	119	498
Other liabilities	13	918	552
Total Liabilities		**198,750**	**184,481**
Share capital	14	10,100	10,100
Reserves	14	6,055	5,376
Total Shareholder's Equity		**16,155**	**15,476**
Total Liabilities and Equity		**214,905**	**199,957**

11 March 2010

Authorised for issue by

Dr. Zoltán Bodnár
Chief Executive Officer

The accompanying notes to the financial statements on pages 7-69 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

	Note	2009	2008
Interest income	17	11,384	11,579
Interest expense	17	(5,774)	(6,747)
Net interest income		**5,610**	**4,832**
Net income from fees and commissions	18	206	246
Provisions and impairment losses	11	(3,898)	(1,035)
Gains and losses from trading and investment activities, net	19.1	1,784	(61)
Operating expenses	19.2	(3,209)	(3,162)
Profit/(loss) before income tax		**493**	**820**
Income taxes	16	(19)	(112)
Profit /(loss) for the period		**474**	**708**
Other comprehensive income			
Fair value adjustment of available-for-sale securities, net of tax	20	205	(5)
Other comprehensive income for the period, net of income tax		**205**	**(5)**
Total comprehensive income for the period		**679**	**703**

11 March 2010

Authorised for issue by

Dr. Zoltán Bodnár
Chief Executive Officer

The accompanying notes to the financial statements on pages 7-69 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

	Note	2009	2008
OPERATING ACTIVITIES			
Profit/(loss) before income taxes		493	820
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	19.2	191	159
Provision charged /(released) for impairment losses	11	4,277	682
(Profit)/loss from revaluation to fair value	7	2,092	(3,436)
Income taxes	16	(19)	(112)
Dividend paid		-	-
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to other banks, before impairment losses	5	(2,532)	(33,733)
Net (increase)/decrease in loans and advances to customers, before impairment losses	6	(17,155)	(10,245)
Net (increase)/decrease in financial assets at fair value through profit or loss	7	-	9,720
Net (increase)/decrease in available-for-sale financial assets	8	(4,231)	(4,358)
Net (increase)/decrease in other assets	10	(348)	1,150
Net increase/(decrease) other liabilities	13	(13)	(764)
Net cash provided by/(used in) operating activities		**(17,245)**	**(40,117)**
INVESTING ACTIVITIES			
Net (increase)/decrease in held-to-maturity securities		-	-
Purchases of intangibles, property and equipment	9	(137)	(213)
Net cash used in investing activities		**(137)**	**(213)**
FINANCING ACTIVITIES:			
Proceeds from due to banks and deposits from banks	12	810,277	818,193
Repayment of due to banks and deposits from banks	12	(792,942)	(777,877)
Net cash provided by financing activities		**17,335**	**40,316**
Net increase/(decrease) in cash and cash equivalents		**(47)**	**(14)**
Cash and cash equivalents at the beginning of the year	4	**84**	**98**
Cash and cash equivalents at the end of the year	4	**37**	**84**

The accompanying notes to the financial statements on pages 7-69 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2008	**10,100**	**400**	**1,027**	**3,246**	**-**	**14,773**
Total comprehensive income for the period						
Profit or loss			708			708
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax					(5)	(5)
Total comprehensive income for the period			***708***		***(5)***	***703***
Other transactions, recorded directly in equity						
Release of Statutory reserves			(104)	104		
Reclassification (Note 2.9)			(942)	942		
Total other transactions			***(1,046)***	***1,046***		
Balance as at 31 December 2008	**10,100**	**400**	**689**	**4,292**	**(5)**	**15,476**

The accompanying notes to the financial statements on pages 6-69 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 2009
(All amounts stated in HUF million unless otherwise noted)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2009	**10,100**	**400**	**689**	**4,292**	**(5)**	**15,476**
Total comprehensive income for the period						
Profit or loss			474			474
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax					205	205
Total comprehensive income for the period			***474***		***205***	***679***
Other transactions, recorded directly in equity						
Release of Statutory reserves			124	(124)		
Reclassification (Note 2.9)			(654)	654		
Total other transactions			(530)	530		
Balance as at 31 December 2009	**10,100**	**400**	**633**	**4,822**	**200**	**16,155**

The accompanying notes to the financial statements on pages 6-69 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

NOTE 1. GENERAL INFORMATION

Hungarian Export-Import Bank Limited Private 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 2004 on the Hungarian Export-Import Bank Ltd. and the Hungarian Export Credit Insurance Ltd. 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.).

Therefore the Hungarian Development Bank Pte Ltd. – having its registered office at Nádor St. 31., H-1051 Budapest, Hungary – became 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 2009 and 31 December 2008. 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 precedessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its precedessor body.

These financial statements were authorised for issue by the Chief Executive Officer.

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 26.

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 Changes in accounting policies

Starting as of 1 January 2009, the Bank has changed its accounting policies in the following areas:

- determination and presentation of operating segments
- presentation of financial statements

2.4.1 Determination and presentation of operating segments

In November 2006, the IASB issued IFRS 8, “Operating Segments” (“IFRS 8”), which defines requirements for the disclosure of financial information of an entity’s operating segments. IFRS 8 replaces IAS 14, “Segment Reporting”. It follows the management approach which requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision-maker, in order to allocate resources to a segment and to assess its performance. IFRS 8 is effective for financial periods beginning on or after 1 January 2009.

NOTE 2. BASIS OF PREPARATION (CONTINUED)

The Bank adopted IFRS 8 from 1 January 2009, therefore, comparative information for operating segments contained in the Bank's financial statements for the year ending 31 December 2008 has been presented under the IFRS 8 requirements.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses. An operating segment's operating results are reviewed regularly by Asset and Liability Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. Unallocated items comprise mainly administrative expenses, income tax assets and liabilities, and equity.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Please find further details on segment reporting in Note 24.

2.4.2 Presentation of financial statements

The Bank applies revised IAS 1 *Presentation of Financial statements* (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in shareholder's equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

2.5 Reclassifications

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

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 2009 and 2008 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).

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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 27.

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.

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 ‘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’.

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 obtainable 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 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 accrual method for all loans other than impaired loans. Accrued interest is included in these balances from 2009 (See Note 2.5). Remaining maturity of short-term loans are within one year, and remaining maturity of long-term loans are more than one year.

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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 balance sheet 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 2009 there were no any assets acquired in exchange for loans.

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 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 % (2008: 1.00 %) of risk-weighted assets and off-balance sheet exposures as at balance sheet 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 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 2009 the Bank reclassified HUF 654 million retained earnings into the general reserve (2008: HUF 942 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 monetary 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 are not revalued.

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 Group 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 26.51 %
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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and the general risk reserve (due to uncertainty of reversal).

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 and kept in trading book 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

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.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4. CASH, DUE FROM BANKS AND BALANCES WITH NATIONAL BANK OF HUNGARY

	2009	**2008**
Balances with NBH in HUF	6	6
Due from banks in HUF	2	2
Due from banks in foreign currency	29	76
Total	**37**	**84**

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 6 million as at 31 December 2009 and 2008, respectively. These reserves earn interest at below market rates.

NOTE 5. LOANS AND ADVANCES TO OTHER BANKS

	2009	**2008**
Short-term placements		
- in foreign currency	62,471	38,442
- in HUF	240	900
Sub-total	62,711	39,342
Long-term placements, in foreign currency	63,422	84,264
Sub-total	63,422	84,264
Total	126,133	123,606
Less: impairment losses (see Note 11)	(4,757)	(653)
Total	**121,376**	**122,953**

Loans and advances to other banks include refinancing loans disbursed.

NOTES TO THE FINANCIAL STATEMENTS
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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 2009 are as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
1 to 7 days	23,447	0.18 % - 5.00 %	0.88 %
8 to 30 days	3,728	2.71 % - 5.00 %	4.27 %
31 to 90 days	6,470	2.57 % - 6.30 %	4.76 %
91 to 180 days	9,418	2.71 % - 9.00 %	5.03 %
181 to 365 days	19,408	2.57 % - 9.00 %	4.74 %
1 to 2 years	26,155	2.57 % - 9.00 %	5.11 %
2 to 5 years	29,448	3.31 % - 9.00 %	5.71 %
Over 5 years	7,819	5.00 % - 9.00 %	7.36 %
Sub-total	125,893		
Placements in HUF			
1 to 7 days	240	5.25 %	5.25 %
Sub-total	240		
Total	**126,133**		

Remaining maturity of Loans and advances to other banks as at 31 December 2008 are detailed below.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
Placements in foreign currency:			
1 to 7 days	1,588	7.14 %	7.14 %
8 to 30 days	3,638	4.35 % -8.44 %	6.10 %
31 to 90 days	5,528	5.86 % - 8.14 %	6.65 %
91 to 180 days	7,638	5.86 % - 8.84 %	6.85 %
181 to 365 days	20,050	4.35 % - 8.43 %	6.57 %
1 to 2 years	32,542	4.35 % - 8.43 %	6.71 %
2 to 5 years	43,212	5.86 % - 8.43 %	6.66 %
Over 5 years	8,510	5.86 % - 8.43 %	7.52 %
Sub-total	122,706		
Placements in HUF			
1 to 7 days	900	9.55 %	9.55 %
Sub-total	900		
Total	**123,606**		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts stated in HUF million unless otherwise noted)

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

The geographical breakdown of Loans and advances to other banks as at 31 December 2009 and 2008 are as follows.

Country	2009	2008
Hungary	93,477	99,255
Kazakhstan	20,819	16,140
Russia	5,663	7,310
United Kingdom	2,633	-
France	2,106	-
Ukraine	643	400
Tajikistan	307	195
Austria	307	-
Belarus	160	249
Germany	18	-
Iran	-	39
USA	-	18
Total	**126,133**	**123,606**

As at 31 December 2009 and 2008, placement with other banks insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 18,246 million and 14,748 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6. LOANS AND ADVANCES TO CUSTOMERS, NET OF IMPAIRMENT LOSSES

	2009	2008
Short-term:		
- in foreign currency	33,976	15,509
- in HUF	2,970	3,782
Sub-total	36,946	19,291
Long-term:		
- in foreign currency	42,238	43,516
- in HUF	1,876	1,768
Sub-total	44,114	45,284
Total	81,060	64,575
Less: impairment losses (see Note 11)	(2,333)	(2,836)
Total	**78,727**	**61,739**

The remaining maturity of loans and advances to customers as at 31 December 2009 are as follows:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
1 to 7 days	775	0.00 % - 10.26%	7.96 %
8 to 30 days	222	0.00 % - 7.26 %	6.93 %
31 to 90 days	1,530	0.00 % - 8.68 %	4.52 %
91 to 180 days	4	0.00 % - 5.00 %	2.50 %
181 to 365 days	439	0.00 % - 11.43 %	9.40 %
1 to 2 years	465	0.00 % - 11.43 %	11.14 %
2 to 5 years	1,350	0.00 % - 7.26 %	6.58 %
Over 5 years	61	0.00 % - 7.26 %	4.90 %
Sub-total	4,846		
In foreign currency:			
1 to 7 days	4,298	1.92 % - 7.32 %	5.12 %
8 to 30 days	301	4.67 % - 6.30 %	6.05 %
31 to 90 days	6,901	1.36 % - 9.00 %	3.07 %
91 to 180 days	3,672	1.27 % - 9.00 %	5.52 %
181 to 365 days	18,804	0.67% - 9.00 %	4.63 %
1 to 2 years	22,250	0.67% - 9.00 %	3.82 %
2 to 5 years	12,657	0.67% - 9.00 %	5.89 %
Over 5 years	7,331	0.67% - 9.00 %	4.84 %
Sub-total	76,214		
Total	**81,060**		

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
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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 2008 were as follows:

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rates	Effective Interest Rate
In HUF:			
1 to 7 days	1,555	0.00 % - 10.26%	8.81 %
8 to 30 days	16	-	-
31 to 90 days	1,332	0.00 % - 10.46 %	1.28 %
91 to 180 days	545	0.00 % - 12.03 %	10.40 %
181 to 365 days	334	0.00 % - 12.48 %	12.11 %
1 to 2 years	405	0.00 % - 13.48 %	10.27 %
2 to 5 years	1,312	0.00 % - 12.41 %	10.34 %
Over 5 years	51	0.00 % - 12.41 %	7.43 %
Sub-total	5,550		
In foreign currency:			
1 to 7 days	1,384	0.00 % - 8.21 %	4.93 %
8 to 30 days	227	5.32 % - 8.22 %	5.94 %
31 to 90 days	3,217	1.36 % - 11.14 %	5.75 %
91 to 180 days	5,771	3.61 % - 9.03 %	5.73 %
181 to 365 days	4,910	1.36 % - 11.14 %	6.25 %
1 to 2 years	19,062	0.67 % - 11.14 %	6.35 %
2 to 5 years	18,160	0.67 % - 11.14 %	6.74 %
Over 5 years	6,294	0.67 % - 11.14%	5.47 %
Sub-total	59,025		
Total	**64,575**		

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 2009 and 2008 are as follows.

Country	2009	2008
Russia	51,566	40,582
Hungary	14,376	12,153
Montenegro	3,505	3,127
Poland	2,161	-
Turkey	2,117	3,013
Ukraine	2,004	1,578
Tajikistan	1,468	641
Bosnia and Herzegovina	1,421	1,542
Laos	931	-
Romania	648	612
China	609	510
Brazil	243	713
Cyprus	11	-
Italy	-	104
Total	**81,060**	**64,575**

As at 31 December 2009 and 2008, the loans insured by the Hungarian Export Credit Insurance Ltd. (MEHIB) amounted to HUF 64,851 million and HUF 51,483 million respectively.

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 2009 and 31 December 2008 are as follows:

	2009	2008
Short-term derivative assets:		
Cross currency interest rate swap	1,456	-
Foreign exchange swap	-	6,797
Sub-total	1,456	6,797
Long-term:		
Hungarian Government bonds in HUF	3,414	3,218
Sub-total	3,414	3,218
Total	**4,870**	**10,015**

The details of the cross currency interest rate swap – 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	110,454,217 EUR	29,915	153,200,000 USD	28,812

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' (2009: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The notional amounts will be decreased quarterly by 8 equal instalments from 11 February 2011.

Financial liabilities at fair value through profit or loss as at 31 December 2009 and 31 December 2008 are as follows:

	2009	2008
Short-term derivative liabilities		
Foreign exchange swap	-	3,053
Total	**-**	**3,053**

The fair value adjustments of Hungarian Government bonds and treasury bills as at 31 December 2009 and 2008 are as follows:

	2009	2008
Cost	3,640	3,640
Fair value adjustment	(226)	(422)
Book value	**3,414**	**3,218**

(All amounts stated in HUF million unless otherwise noted)

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 2009 and 2008 are as follows.

Remaining Maturity	2009	2008
1-7 days	-	3,712
8-30 days	-	3,085
31-90 days	-	-
91 to 180 days	-	-
181 to 365 days	-	-
1 to 2 years	558	-
2 to 5 years	3,136	531
Over 5 years	1,176	2,687
Total	**4,870**	**10,015**

The remaining maturity of financial liabilities at fair value through profit or loss as at 31 December 2009 and 2008 are as follows.

Remaining Maturity	2009	2008
8-30 days	-	3,053
Total	**-**	**3,053**

Remaining maturity of Hungarian Government bonds as at 31 December 2009 are detailed below:

Remaining Maturity	Amount	Minimum and Maximum Interest Rates	Effective Interest Rate
1 to 2 years	558	7.50%	7.50 %
2 to 5 years	1,680	6.75 %	6.75 %
Over 5 years	1,176	6.75 %	6.75 %
Total	**3,414**		

Remaining maturity of Hungarian Government bonds as at 31 December 2008 are detailed below:

Remaining Maturity	Amount	Minimum and Maximum Interest Rates	Effective Interest Rate
1 to 2 years	-	-	-
2 to 5 years	531	6.75 % - 7.50 %	6.94 %
Over 5 years	2,687	6.75 %	6.75 %
Total	**3,218**		

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NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	**2008**
Hungarian discounted treasury bills in HUF	4,809	3,861
Hungarian Government bonds in HUF	3,780	497
Fair value adjustment	239	(5)
	8,828	4,353
Shares in HUF	12	13
Fair value adjustment	-	-
	12	13
Total	**8,840**	**4,366**

Remaining maturity of Hungarian discounted treasury bills and Hungarian Government bonds as at 31 December 2009 are detailed below:

Remaining Maturity	**2009**	**2008**
1-7 days	-	-
8-30 days	-	1,356
31-90 days	4,066	1,614
91 to 180 days	96	466
181 to 365 days	4,666	917
Total	**8,828**	**4,353**

Shares as at 31 December 2009 are detailed below.

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

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

(All amounts stated in HUF million unless otherwise noted)

NOTE 9. INTANGIBLES, PROPERTY AND EQUIPMENT

Movement table of intangible and tangible assets as at 31 December 2009 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2008	143	417	6	934	10	1,510
Additions	8	24	30	105	113	280
Disposals	(2)	(20)	(33)	(10)	(105)	(170)
31 December 2009	149	421	3	1,029	18	1,620
Accumulated deprecation and amortisation						
31 December 2008	139	274	-	719	-	1,132
Charge for year	3	56	-	132	-	191
Disposals	(2)	(15)	-	(10)	-	(27)
31 December 2009	140	315	-	841	-	1,296
Net book value						
31 December 2008	**4**	**143**	**6**	**215**	**10**	**378**
31 December 2009	**9**	**106**	**3**	**188**	**18**	**324**

Movement table of intangible and tangible assets as at 31 December 2008 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2007	142	390	-	841	10	1,383
Additions	1	110	6	121	10	248
Disposals	-	(83)	-	(28)	(10)	(121)
31 December 2008	143	417	6	934	10	1,510
Accumulated deprecation and amortisation						
31 December 2007	139	267	-	653	-	1,059
Charge for year	-	65	-	94	-	159
Disposals	-	(58)	-	(28)	-	(86)
31 December 2008	139	274	-	719	-	1,132
Net book value						
31 December 2007	**3**	**123**	**-**	**188**	**10**	**324**
31 December 2008	**4**	**143**	**6**	**215**	**10**	**378**

(All amounts stated in HUF million unless otherwise noted)

NOTE 10. OTHER ASSETS

	2009	2008
Accrued interest receivable	382	196
Accrued interest receivable re CCIR	194	-
Prepaid expenses	40	43
Taxation recoverable	111	177
Other	4	6
Sub-total	731	422
Less: impairment loss (see Note 11)	-	-
Total	**731**	**422**

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11. PROVISIONS AND IMPAIRMENT LOSSES

	Loans and advances to other banks	Loans and advances to customers	Other assets	Guarantees and contingencies	**Total**
As at 31 December 2007	56	2,751	-	145	2,952
Write-offs	-	-	-	-	**-**
Charge/ (release)	597*	85	-	353**	**1,035**
As at 31 December 2008	**653**	**2,836**	**-**	**498**	**3,987**
Write-offs	(6)***	(670)****	-	-	**(676)**
Charge/ (release)	4,110	167	-	(379)	**3,898**
As at 31 December 2009	**4,757**	**2,333**	**-**	**119**	**7,209**

* Charged due to the increased foreign country risk (e.g. Ukrainian, Russian) in 2008
** Including provision recognised in amount of HUF 10 million for legal cases in 2008.
***In 2009, Eximbank assigned one of its loans to MEHIB. The book value of the unsecured part of the loan, net of impairment losses was HUF 1 million and an impairment loss of HUF 6 million was released.
**** In 2009 Eximbank sold two of its loans to a third party. The sales price was HUF 24 million in total. The book value of one of the loans, net of impairment losses was nil and HUF 16 million, respectively, and an impairment loss of HUF 106 million and HUF 557 million was released. Furthermore, bad debts in amount of HUF 7 million were written off.

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NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS

	2009	2008
Short-term		
- in foreign currency	126,051	392
- in HUF	-	33,166
Sub-total	126,051	33,558
Long-term		
- in foreign currency	71,662	146,820
Sub-total	71,662	146,820
Total	**197,713**	**180,378**

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' (2009: 100 basis points). The higher one of the interest rates calculated based on the two methods is to be paid. The loan will be 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 2009 are as follows.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In foreign currency:			
1 to 7 days	-	-	-
8 to 30 days	24	-	-
31 to 90 days	47,680	0.5 % - 3.04 %	0.77%
91 to 180 days	453	2.89 % - 2.99 %	2.92 %
181 to 365 days	77,894	0.35 % - 3.44 %	1.15 %
1 to 2 years	22,908	2.89 % - 3.44 %	3.19 %
2 to 5 years	20,875	2.99 % - 3.44 %	3.22 %
Over 5 years	27,879	0.94 % - 3.44 %	1.01 %
Sub-total	197,713		
Total	**197,713**		

NOTES TO THE FINANCIAL STATEMENTS
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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 2008 are detailed below.

Remaining Maturity	Amount	Minimum and Maximum Fixed Interest Rate	Effective Interest Rate
In HUF:			
1 to 7 days	66	-	-
8 to 30 days	33,100	10.00 % - 11.25 %	10.86 %
31 to 90 days	-	-	-
Sub-total	33,166		
In foreign currency:			
1 to 7 days	26	2.65 %	2.65 %
8 to 30 days	-	-	-
31 to 90 days	154	-	-
91 to 180 days	212	-	-
181 to 365 days	-	-	-
1 to 2 years	120,342	2.24 % - 3.98%	3.47 %
2 to 5 years	-	-	-
Over 5 years	26,478	3.56 %	3.56 %
Sub-total	147,212		
Total	**180,378**		

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13. OTHER LIABILITIES

	2009	2008
Accrued interest payable re CCIR	168	-
Accrued expenses	13	15
Accrued revenue	416	248
Tax liability	216	240
Other	105	49
Total	**918**	**552**

NOTE 14. SHAREHOLDER' S EQUITY

	2009	2008
Share capital	10,100	10,100
Share premium	400	400
Retained earnings	633	689
Fair value reserve, net of tax	200	(5)
Statutory reserves	4,822	4,292
Total	**16,155**	**15,476**

As at 31 December 2009, the Bank's share capital is comprised of 2020 fully paid dematerialised shares, respectively, each with a nominal value of HUF 5 million. Reserves available for distribution as at 31 December 2009 under Hungarian Law amount to HUF 273 million (2008: HUF 654 million).

As at 31 December 2009 and 31 December 2008, the shareholders' rights were the following:

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

(All amounts stated in HUF million unless otherwise noted)

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 2009 and 2008 are summarised as follows:

	2009	2008
Guarantees counter-guaranteed by the Republic of Hungary	35,871	37,959
Unutilised part of credit lines	16,719	45,992
Guarantees provided	4,108	6,599
Letter of Credit	23	-
Total	**56,721**	**90,550**

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

	2009		2008	
Profit (loss) before income tax		493		820
Applicable tax rate	16 %	79	16 %	131
Adjustments:				
(Charge)/Release of General risk reserve	5 %	25	(0.6 %)	(5)
Fair values not recognised by tax rules	(10 %)	(52)	1%	8
Non deductible expenses	(7 %)	(33)	(3 %)	(22)
Total adjustments	(12 %)	(60)	(2 %)	(19)
Effective tax	**4 %**	**19**	**14 %**	**112**

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.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 17. INTEREST INCOME AND INTEREST EXPENSE

	2009	**2008**
Interest income:		
Loans	3,376	3,141
Loans and advances to other banks	4,469	3,739
Cross currency interest rate swap	83	-
Interest compensation*	2,533	3,835
Trading securities	918	849
Placements with the NBH	5	15
Total	**11,384**	**11,579**
Interest expense:		
Loans and deposits from other banks	5,774	6,747
Total	**5,610**	**4,832**

* In accordance with the rules and conditions of the Government Decree 185/1998 (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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

Interest income by country and activity for the year ended 2009 and 2008 are detailed below:

	2009				2008			
Country	**Granting loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Granting loans**	**Invest-ment**	**Non-Allocated**	**Total**
Hungary	7,590	918	1	8,509	9,086	849	1	9,936
Austria	9	-	-	9	4	-	-	4
United Kingdom	4	-	-	4	1	-	-	1
Ireland	-	-	-	-	8	-	-	8
Germany	2	-	-	2	-	-	-	-
Romania	24	-	-	24	41	-	-	41
Poland	28	-	-	28	-	-	-	-
Belarus	11	-	-	11	14	-	-	14
Bosnia and Herzegovina	22	-	-	22	20	-	-	20
Montenegro	23	-	-	23	18	-	-	18
Russia	1,230	-	-	1,230	932	-	-	932
Turkey	116	-	-	116	216	-	-	216
Ukraine	68	-	-	68	29	-	-	29
Brazil	33	-	-	33	58	-	-	58
Kazakhstan	1,195	-	-	1,195	255	-	-	255
China	31	-	-	31	26	-	-	26
Tajikistan	79	-	-	79	21	-	-	21
Total	**10,465**	**918**	**1**	**11,384**	**10,729**	**849**	**1**	**10,579**

NOTE 18. NET INCOME FROM FEES AND COMMISSIONS

	2009	2008
Income from fees and commissions:		
Guarantees covered by the state	198	202
Insurance fees devolved by MEHIB	785	2,188
Refund of MEHIB insurance fees	736	-
Guarantees	62	47
Other	27	41
	1,808	**2,478**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	795	2,189
Transfer of refunded MEHIB insurance fees	736	-
Other	71	43
	1,602	**2,232**
Total	**206**	**246**

(All amounts stated in HUF million unless otherwise noted)

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

Income from fees and commissions by country and activity for the year ended 2009 and 2008 are detailed below:

	2009				2008			
Country	**Granting loans**	**Invest-ment**	**Non-Allocated**	**Total**	**Granting loans**	**Invest-ment**	**Non-Allocated**	**Total**
Hungary	773	-	216	989	38	-	233	271
Poland	178	-	-	178	-	-	-	-
Montenegro	-	-	-	-	167	-	-	167
Russia	151	-	-	151	225	-	-	225
Ukraine	46	-	-	46	71	-	-	71
USA	-	-	17	17	-	-	14	14
China	6	-	-	6	-	-	-	-
Kazakhstan	11	-	-	11	1,682	-	-	1,682
Laos	326	-	-	326	-	-	-	-
Tajikistan	84	-	-	84	48	-	-	48
Total	**1,575**	**-**	**233**	**1,808**	**2,231**	**-**	**247**	**2,478**

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

	2009	**2008**
Trading securities gains and losses, net *	197	(223)
Foreign currency gains and losses, net *	1,587	162
Total	**1,784**	**(61)**

* - 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

	2009	**2008**
Personnel expenses	1,694	1,732
Material expenses	652	605
Depreciation and amortisation	191	159
Other administration expenses	63	52
Interest tax of credit institution*	369	408
Local government taxes	197	155
Other expenses, net	43	51
Total	**3,209**	**3,162**

(All amounts stated in HUF million unless otherwise noted)

NOTE 19.2 OTHER OPERATING EXPENSES (CONTINUED)

*The Hungarian Parliament introduced a new type of tax effective from 1st 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.

The average number of employees as at 2009 was 118 (2008: 115).

NOTE 20.1 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2009	2008
Available for sale financial assets		
Gains (losses) arising during the year	239	(5)
Less: Reclassification adjustments for gains included in P&L	5	-
Other comprehensive income	244	(5)
Income tax relating to components	(39)	-
Other comprehensive income for the year	205	(5)

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

	2009			2008		
	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	244	(39)	205	(5)	0	(5)
Total comprehensive income	244	(39)	205	(5)	0	(5)

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 2009, representing 7.19 % of total assets (2008: 8.01 %), 62.15 % of total liabilities (2008: 61.34 %) and 0.26 % of total commitments and contingent liabilities (2008: 0.09 %), and are presented below:

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NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2009	2008
Balances with NBH	6	6
Loans to MFB's associates	500	500
- less impairment losses	(3)	(50)
+ accrued interest receivable	13	3
Loans to other state-owned companies	-	-
- less impairment losses	-	-
Advances to the State from interest compensation systems	652	1,141
Total loans and advances to related parties, net of impairment losses	1,162	1,594
Hungarian discounted treasury bills	-	-
Hungarian Government bonds	3,414	3,218
Cross currency interest rate swap with MFB	1,456	-
Foreign exchange swap with NBH	-	6,643
Total financial assets at fair value to related parties	4,870	9,861
Hungarian discounted treasury bills	4,826	3,857
Hungarian Government bonds	4,002	496
Total available for sale financial assets to related parties	8,828	4,353
Other assets to the State	382	196
Other assets to MFB	195	-
Other assets to MFB's associates	-	-
Total other assets to related parties	577	196
Total Assets	**15,443**	**16,010**
Loans and deposits from MFB incl. accrued int.payables	133,399	110,099
Foreign exchange swap with NBH	-	3,053
Total financial liabilities at fair value to related parties	-	3,053
Other liabilities to MFB	168	-
Other liabilities to MFB's subsidiaries	-	-
Other liabilities to MFB's associates	-	-
Other liabilities to other state-owned companies	-	-
Total other liabilities to related parties	168	-
Total Liabilities	**133,567**	**113,152**
Guarantees provided on behalf of MFB's associates	-	-
Guarantees provided on behalf of other state-owned company	149	80
Other commitments and contingent liabilities	-	-
Total commitments and contingent liabilities	**149**	**80**

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2009	2008
Interest income:		
Short-term placements to MFB	1	-
Loans to MFB's subsidiaries	1	-
Loans to MFB's associates	56	62
Loans to other state-owned companies	-	-
State interest compensation	2,533	3,835
Placements with NBH	5	15
Interest on cross currency interest rate swap	84	
Hungarian discounted treasury bills and Hungarian Government bonds	918	849
Total	**3,598**	**4,761**
Interest expense:		
Loans and deposits from MFB	3,477	2,933
Total	**3,477**	**2,933**
Income from fees and commissions:		
Guarantees provided on behalf of MFB's associates	-	-
Guarantee collection commissions from the State	-	-
MEHIB insurance fees from the State related to tied-aid credits	334	172
Refund of MEHIB insurance fees	736	-
Total	**1,070**	**172**
Expenses from fees and commissions:		
Insurance fees paid to MEHIB	795	2,189
Total	**795**	**2,189**
Net interest income and net income from fees and commissions	**396**	**(189)**
Provision and impairment losses Charge/ (release):		
Loans and credit lines to MFB's associates	(47)	(246)
Total	**(47)**	**(246)**
Gains and losses from trading activities, net :		
Hungarian discounted treasury bills and Hungarian Government bonds	194	(224)
Total	**194**	**(224)**
Operating expenses:		
MFB's subsidiaries	1	-
MFB's associates	-	13
Other state-owned companies	11	11
Total	**12**	**24**

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

21.2 Management and employees

Loans to the management and employees of the Bank amounted to HUF 91 million and HUF 83 million as at 31 December 2009 and 2008, respectively. Interest rates vary between 0 % and 5.00 %, and averages at 1.61 %. The remuneration of the management amounted to HUF 330 million and HUF 308 million in 2009 and 2008, respectively. The honorarium of the Board of Directors and the Supervisory Board added up HUF 34 million and HUF 54 million in 2009 and 2008, respectively.

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NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 31 DECEMBER 2009

	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	37	37	37	-	-	-	-
Loans and advances to other banks, net of impairment losses	121,376	129,685	26,087	23,661	25,603	50,050	4,284
Loans and advances to customers, net of impairment losses	78,727	87,675	5,784	8,746	23,532	39,829	9,784
Financial assets at fair value through profit or loss	4,870	6,190	-	178	344	4,141	1,527
Available-for sale financial assets	8,840	9,071	-	4,053	5,006	-	12
Financial assets	**213,850**	**232,658**	**31,908**	**36,638**	**54,485**	**94,020**	**15,607**
Loans and deposits from other banks	197,713	203,330	29	48,099	79,082	47,490	28,630
Derivative financial liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Cross currency interest rate swaps	-	-	-	-	-	-	-
Financial liabilities	**197,713**	**203,330**	**29**	**48,099**	**79,082**	**47,490**	**28,630**
Liquidity (deficiency)/excess	**16,137**	**29,328**	**31,879**	**(11,461)**	**(24,597)**	**46,530**	**(13,023)**
Unutilised loan commitments		**16,719**	**16,719**	**-**	**-**	**-**	**-**
Financial guarantee contracts		**39,979**	**39,979**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 22. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AS AT 31 DECEMBER 2008

	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	84	84	84	-	-	-	-
Loans and advances to other banks, net of impairment losses	122,953	141,194	6,147	5,750	31,166	86,236	11,895
Loans and advances to customers, net of impairment losses	61,739	77,538	3,496	2,483	11,740	52,190	7,629
Financial assets at fair value through profit or loss	10,015	13,188	6,797	136	229	4,413	1,613
Available-for sale financial assets	4,366	4,556	1,402	1,650	1,491	-	13
Financial assets	**199,157**	**236,560**	**17,926**	**10,019**	**44,626**	**142,839**	**21,150**
Loans and deposits from other banks	180,378	194,785	33,494	1,289	2,482	127,466	30,054
Derivative financial liabilities				-	-	-	-
Foreign exchange contracts	3,053	3,053	3,053				
Basis swaps							
Financial liabilities	**183,431**	**197,838**	**36,547**	**1,289**	**2,482**	**127,466**	**30,054**
Liquidity (deficiency)/excess	**155,726**	**38,722**	**(18,621)**	**8,730**	**42,144**	**15,373**	**(8,904)**
Unutilised loan commitments		**45,990**	**45,990**	**-**	**-**	**-**	**-**
Financial guarantee contracts		**44,560**	**44,560**	**-**	**-**	**-**	**-**

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 Board of Directors, the Asset and Liability Committee (ALCO) and the Central Credit Committee. 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 the Board of Directors. 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 Board of Directors, the Asset and Liability Committee and the Board of Directors and the Central 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 consist of products with lower risk level: products carrying risk exposure to domestic banks, state-backed guarantees. 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.

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.

(All amounts stated in HUF million unless otherwise noted)

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	
	2009	**2008**	**2009**	**2008**
Carrying amount	121,376	122,953	78,727	61,739
Individually impaired:				
1-10 %	20,111	23,748	30,764	20,708
11-30%	-	-	370	1
31-70 %	3,595	-	-	2
71-100 %	299	124	980	1,797
Gross amount	24,005	23,872	32,114	22,508
Allowance for impairment	(3,424)	(653)	(1,236)	(1,930)
Carrying amount	20,581	23,219	30,878	20,578
Collectively impaired:	-	-	-	-
Past due but not impaired:	-	-	2,570	-
Neither past due nor impaired:	99,461	99,734	42,197	40,527
Accounts with renegotiated terms:				
Gross amount	2,667	-	4,179	1,540
Allowance for impairment	(1,333)	-	(1,097)	(906)
Carrying amount	1,334	-	3,082	634
Total carrying amount	**121,376**	**122,953**	**78,727**	**61,739**

In the year ended 2009 financial assets at fair value through profit or loss in amount of HUF 4,870 million (2008: 10,015 million) and available-for-sale financial assets in amount of HUF 8,840 million (2008: HUF 4,366 million) are neither past due nor impaired.

Impaired loans and securities

The Bank does not apply the collective impairment.

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 collaterised loan, when the proceeds from realising the security have been received.

Collaterals

The Bank actively uses collateral and guarantee to reduce its credit risk. Often used collateral type for loans include guarantee from the consumer's main bank. 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 risk are insured by Mehib Ltd., and these insurances are also state-backed.

(All amounts stated in HUF million unless otherwise noted)

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	
	2009	**2008**	**2009**	**2008**
Against individually impaired:				
Insured by MEHIB	17,958	14,520	24,682	18,564
Cash Collateral	-	-	7	-
Bank guarantees	-	-	125	201
Property	-	-	1,791	11
Other	-	-	2,282	494
Against past due but not impaired:				
Insured by MEHIB	-	-	2,287	-
Cash Collateral	-	-	120	-
Property	-	-	287	-
Other	-	-	-	-
Against neither past due nor impaired:				
Insured by MEHIB	288	228	37,322	32,919
Cash Collateral	15	10	920	1,138
Bank guarantees	-	-	220	847
Property	-	-	4,485	2,561
Other	-	-	7,437	10,749
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	560	-
Cash Collateral	-	-	-	28
Property	-	-	315	179
Other	-	-	1,451	420
Total	**18,261**	**14,758**	**84,291**	**68,111**

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.

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 2009 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 medium term bilateral, club or syndicated inter-bank loans, and from funds given by its main shareholder with increasing importance from the year 2007. Some loan agreements define maturity extension option in favor of the Bank. 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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3. Market risk

Eximbank does not undertake speculative positions. Up to 1 January 2008 positions in the trading book consist of open FX position and government bonds held for the purpose of liquidity management. The intention of keeping positions in the trading book was to calculate the capital requirement of the market risk of investment services.
The Bank calculated the market risks arising from its trading book according to Sections 14-25 of Government Decree 244/2000. The capital requirement for trading book risk was very low, comprising 0.34 % and 1.25 % of the solvency margin as of 31st December 2007 and 31st December 2006, respectively. These capital requirements were fully attributable to bond position risk. 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 - it posed no capital requirement. The Bank has not kept positions in the trading book since 1 January 2008.
The following table shows the capital requirement covering risks from the trading book as at 31 December 2009 and 2008:

	2009	**2008**
Capital requirement of the trading book	-	-
Solvency margin	42,418	41,619
Capital requirement of the trading book as a percentage of solvency margin	-	-

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.
Net interest income risk is assessed using a sensitivity analysis regarding 1 % parallel shift for the entire statement of financical position. A 1 % increase in the market interest rate would affect net interest income for the coming twelve months by HUF 187 million. The calculation assumes that other conditions are unchanged during the period.

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 10% of the solvency margin, and 35% of it in case of extraordinary financial situation declared by ALCO. 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.

(All amounts stated in HUF million unless otherwise noted)

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 2009 are as follows:

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	71,692	49,444	-	240	121,376
Loans and advances to customers, net of impairment losses	65,796	9,004	-	3,927	78,727
Other	214	8	1	14,579	14,802
Total foreign currency Assets	137,702	58,456	1	18,746	214,905
Foreign currency liabilities	168,199	30,073	-	478	198,750
Foreign currency assets and liabilities, net	**(30,497)**	**28,383**	**1**	**18,268**	**16,155**
Effect of derivatives	29,915	(28,812)	-	-	1,103
Net exposure	**(582)**	**(429)**	**1**	**18,268**	**17,258**
Foreign currency off-balance sheet assets	2,575	2,093	-	35,887	40,555
Foreign currency off-balance sheet liabilities	42,811	13,896	-	14	56,721

(All amounts stated in HUF million unless otherwise noted)

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 2008 are as follows.

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks, net of impairment losses	73,249	48,804	-	900	122,953
Loans and advances to customers, net of impairment losses	48,794	8,995	-	3,950	61,739
Other	64	12	1	15,188	15,265
Total foreign currency Assets	122,107	57,811	1	20,038	199,957
Foreign currency liabilities	117,199	30,654	-	36,628	184,481
Foreign currency assets and liabilities, net	**4,908**	**27,157**	**1**	**(16,590)**	**15,476**
Effect of derivatives	(4,898)	(26,858)	-	35,502	3,746
Net exposure	**10**	**299**	**1**	**18,912**	**19,222**
Foreign currency off-balance sheet assets	3,304	2,327	-	37,977	43,608
Foreign currency off-balance sheet liabilities	70,361	19,615	-	574	90,550

The Bank's net currency exposure was subject to a stress test examining how it would react to extreme exchange rates.

As of 26 February 2008, the Hungarian Forint's flotation band against the Euro was abolished and Hungary switched to floating exchange rate regime. The net foreign currency exposure was calculated taking the maximum (weakest) and the minimum (strongest) historic exchange rates of the HUF in 2008 against the EUR and the USD. This calculation presupposes that no market transaction take place during the period. The following table shows 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 2009, resulting in profit or loss. The calculation assumes that other conditions are unchanged during the period.

(All amounts stated in HUF million unless otherwise noted)

NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3.2. Foreign currency risk (Continued)

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 2009 and as at 31 December 2008 resulting in profit or loss.

Extreme foreign currency risk calculation as at 31 December 2009

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2009	270.84	188.07	
Exchange rates at strong HUF (at the strong end of the flotation band in 2009)	264.17	176.67	
Affect on profit or (loss)	(14)	(26)	(40)
Exchange rates at weak HUF (at the weak end of the flotation band in 2009)	316.00	249.29	
Affect on profit or (loss)	97	140	237

Extreme foreign currency risk calculation as at 31 December 2008

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2008	264.78	187.91	
Exchange rates at strong HUF (at the strong end of the flotation band in 2008)	229.11	144.11	
Affect on profit or (loss)	1	70	71
Exchange rates at weak HUF (at the weak end of the flotation band in 2008)	275.79	218.76	
Affect on profit or (loss)	0	(50)	(50)

(All amounts stated in HUF million unless otherwise noted)

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 the Act CXII of 1996 on Credit Institutions and Financial Enterprises, of the Act XLII of 1994 on the Hungarian Export-Import Bank Corporation and the Hungarian Export Credit Insurance Corporation 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 provisions of capital handling is controlled by the Hungarian Financial Supervisory Authority.
In the year of 2007 - according to provisions of Article 20. of Act XLII of 1994 (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 the said loan is 12th 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 31st of December 2009 and 2008 the amount of the long-term liability arising from the loan agreement is HUF 27,084 million and HUF 26,478 million, respectively.
The Bank fulfilled the legal and prudential requirements in the year of 2009 and 2008, 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.

	2009	**2008**
Core capital	15,334	15,141
Supplementary capital	27,084	26,478
Solvency margin	42,418	41,619
Total risk-weighted assets	131,782	108,805
Solvency ratio	30.32 %	35.80 %

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. The Board of Directors has been informed about the consequences of the amendment and asked to make the necessary steps in order that the Bank complies with the rules relating to Solvency margin, Solvency ratio and limit of the large exposure after the year 2010 as well.

NOTE 24. CONCENTRATION OF ASSETS AND LIABILITES 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 2009

	Banks	**Corporate**	**Guarantees**	**Treasury**	**Other**	**Total**
Cash, due from banks and balances with NBH	31	-	-	6	-	37
Loans and advances to other banks, net of impairment losses	101,571	-	2	19,803	-	121,376
Loans and advances to customers, net of impairment losses	546	78,027	63	-	91	78,727
Financial assets at fair value through profit or loss	-	-	-	4,870	-	4,870
Available-for-sale financial assets	-	-	-	8,828	12	8,840
Intangibles, property and equipment	-	-	-	-	324	324
Other assets	5	1	-	576	149	731
Total Assets	**102,153**	**78,028**	**65**	**34,083**	**576**	**214,905**
Loans and deposits from other banks	102,128	77,895	-	17,690	-	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities incl. provision	25	133	416	168	295	1,037
Total Liabilities	**102,153**	**78,028**	**416**	**17,858**	**295**	**198,750**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	6,055	-	6,055
Total Shareholder's Equity	**-**	**-**	**-**	**16,155**	**-**	**16,155**
Total Liabilities and Equity	**102,153**	**78,028**	**416**	**34,013**	**295**	**214,905**

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NOTE 24. FINANCIAL POSITION SEGMENTED BY BUSINESSES AS AT 31 DECEMBER 2008

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	78	-	-	6	-	84
Loans and advances to other banks, net of impairment losses	122,032	-	3	918	-	122,953
Loans and advances to customers, net of impairment losses	957	60,635	64	-	83	61,739
Financial assets at fair value through profit or loss	-	-	-	10,015	-	10,015
Available-for-sale financial assets	-	-	-	4,353	13	4,366
Intangibles, property and equipment	-	-	-	-	378	378
Other assets	38	4	-	196	184	422
Total Assets	**123,105**	**60,639**	**67**	**15,488**	**658**	**199,957**
Loans and deposits from other banks	120,120	60,258	-	-	-	180,378
Financial liabilities at fair value through profit or loss	-	-	-	3,053	-	3,053
Other liabilities incl. provision	119	381	248	-	302	1,050
Total Liabilities	**120,239**	**60,639**	**248**	**3,053**	**302**	**184,481**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	5,376	-	5,376
Total Shareholder's Equity	**-**	**-**	**-**	**15,476**	**-**	**15,476**
Total Liabilities and Equity	**120,239**	**60,639**	**248**	**18,529**	**302**	**199,957**

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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE YEAR ENDED 31 DECEMBER 2009

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	6,390	3,930	-	1,063	1	11,384
Interest expense	(3,490)	(2,284)	-	-	-	(5,774)
Net interest income	**2,900**	**1,646**	**-**	**1,063**	**1**	**5,610**
Net income from fees and commissions	-	(719)	195	(5)	735	206
Provisions and impairment losses	(4,110)	(157)	369	-	-	(3,898)
Gains and losses from trading and investment activities, net	-	-	-	1,784	-	1,784
Operating expenses, net	(1,125)	(1,302)	(324)	(442)	(16)	(3,209)
Profit/(loss) before income tax	**(2,335)**	**(532)**	**240**	**2,400**	**720**	**493**
Income taxes	89	20	(8)	(92)	(28)	(19)
Net profit/(loss)	**(2,246)**	**(512)**	**232**	**2,308**	**692**	**474**
Additional information						
Depreciation and amortisation	67	80	19	25	-	191
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	48	55	14	19	1	137

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NOTE 24. PROFIT OR LOSS SEGMENTED BY BUSINESSES FOR THE YEAR ENDED 31 DECEMBER 2008

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	6,995	3,645	-	938	1	11,579
Interest expense	(3,265)	(3,358)	-	(124)	-	(6,747)
Net interest income	**3,730**	**287**	**-**	**814**	**1**	**4,832**
Net income from fees and commissions	1,769	(1,727)	208	(4)	-	246
Provisions and impairment losses	(597)	(95)	(343)	-	-	(1,035)
Gains and losses from trading and investment activities, net	-	-	-	(63)	2	(61)
Operating expenses, net	(1,102)	(1,288)	(318)	(419)	(35)	(3,162)
Profit/(loss) before income tax	**3,800**	**(2,823)**	**(453)**	**328**	**(32)**	**820**
Income taxes	(519)	386	62	(45)	4	(112)
Net profit/(loss)	**3,281**	**(2,437)**	**(391)**	**283**	**(28)**	**708**
Additional information						
Depreciation and amortisation	57	65	16	21	-	159
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	74	88	21	28	2	213

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NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	12	17	-	8	37
Loans and advances to other banks net of impairment losses	93,476	5,064	4,841	17,995	121,376
Loans and advances to customers, net of impairment losses	12,921	2,173	60,420	3,213	78,727
Financial assets at fair value through profit or loss	4,870	-	-	-	4,870
Available-for-sale financial assets	8,840	-	-	-	8,840
Intangibles, property and equipment, net	324	-	-	-	324
Other assets, net	731	-	-	-	731
Total Assets	**121,174**	**7,254**	**65,261**	**21,216**	**214,905**
Loans and deposits from other banks	147,542	50,171	-	-	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Other liabilities incl. provision	743	-	285	9	1,037
Total liabilities	148,285	50,171	285	9	198,750
Share capital	10,100	-	-	-	10,100
Reserves	6,055	-	-	-	6,055
Total Shareholder's Equity	16,155	-	-	-	16,155
Total Liabilities and Equity	**164,440**	**50,171**	**285**	**9**	**214,905**
Off-balance sheet financial instruments					
Guarantees insured by the state	29,471	-	6,400	-	35,871
Unutilised part of credit lines	7,863	1,655	6,488	713	16,719
Letter of Credit	23	-	-	-	23
Guarantees	3,755	-	353	-	4,108
Total	**41,112**	**1,655**	**13,241**	**713**	**56,721**

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NOTE 25. CONCENTRATION OF ASSETS AND LIABILITIES BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	15	58	-	11	84
Loans and advances to other banks net of impairment losses	99,254	-	7,572	16,127	122,953
Loans and advances to customers, net of impairment losses	10,214	119	49,556	1,850	61,739
Financial assets at fair value through profit or loss	9,860	155	-	-	10,015
Available-for-sale financial assets	4,366	-	-	-	4,366
Intangibles, property and equipment, net	378	-	-	-	378
Other assets, net	422	-	-	-	422
Total Assets	**124,509**	**332**	**57,128**	**17,988**	**199,957**
Loans and deposits from other banks	132,444	47,934	-	-	180,378
Financial liabilities at fair value through profit or loss	3,053	-	-	-	3,053
Other liabilities	425	1	580	44	1,050
Total liabilities	135,922	47,935	580	44	184,481
Share capital	10,100	-	-	-	10,100
Reserves	5,376	-	-	-	5,376
Total Shareholder's Equity	15,476	-	-	-	15,476
Total Liabilities and Equity	**151,398**	**47,935**	**580**	**44**	**199,957**
Off-balance sheet financial instruments					
Guarantees insured by the state	30,180	-	7,779	-	37,959
Unutilised part of credit lines	3,486	152	24,459	17,895	45,992
Guarantees	6,174	-	425	-	6,599
Total	**39,840**	**152**	**32,663**	**17,895**	**90,550**

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NOTE 25. SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans	1,923	52	1,271	130	3,376
Loans and advances to other banks	3,047	15	199	1,208	4,469
Other interest income	3,539	-	-	-	3,539
Total interest income	8,509	67	1,470	1,338	11,384
Income from fees and commissions:					
Guarantees covered by the state	164	-	6	28	198
Insurance fees devolved by MEHIB	-	178	191	416	785
Refund of MEHIB insurance fee	736	-	-	-	736
Guarantees	62	-	-	-	62
Other	27	-	-	-	27
Total income from fees and commissions	989	178	197	444	1,808
Total Income	**9,498**	**245**	**1,667**	**1,782**	**13,192**

SEGMENT REVENUE BY GEOGRAPHICAL SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans	2,027	40	970	104	3,141
Loans and advances to other banks	3,210	14	259	256	3,739
Other interest income	4,699	-	-	-	4,699
Total interest income	9,936	54	1,229	360	11,579
Income from fees and commissions:					
Guarantees covered by the state	185	-	3	14	202
Insurance fees devolved by MEHIB	-	-	458	1,730	2,188
Guarantees	47	-	-	-	47
Other	39	-	2	-	41
Total income from fees and commissions	271	-	463	1,744	2,478
Total Income	**10,207**	**54**	**1,692**	**2,104**	**14,057**

NOTE 26. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date which have any significant effect on financial statements for the year 2009.

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.

This 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:

- Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

- 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:

31 December 2009	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Debt and equity instruments	3,414	-	3,414
Derivative instruments	-	1,456	1,456
	3,414	1,456	4,870
Available-for-sale financial assets	8,840	-	8,840
	8,840	-	8,840
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	-	-
	-	-	-
31 December 2008			
Financial assets at fair value through profit or loss			
Debt and equity instruments	3,218	-	3,218
Derivative instruments	-	6,797	6,797
	3,218	6,797	10,015
Available-for-sale financial assets	4,366	-	4,366
	4,366	-	4,366
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	3,053	3,053
	-	3,053	3,053

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 2009, 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	-	37	-	-	37	37
Loans and advances to other banks	-	121,376	-	-	121,376	121,376
Loans and advances to customers	-	78,727	-	-	78,727	78,727
Financial assets at fair value through profit or loss	4,870	-	-	-	4,870	4,870
Available-for-sale financial assets	-	-	8,840	-	8,840	8,840
Total	4,870	200,140	8,840	-	213,850	213,850
Loans and deposits from other banks	-	-	-	197,713	197,713	197,713
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Total	-	-	-	197,713	197,713	197,713

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NOTE 28. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

As at 31 December 2008, 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	-	84	-	-	84	84
Loans and advances to other banks	-	122,953	-	-	122,953	122,953
Loans and advances to customers	-	61,739	-	-	61,739	61,739
Financial assets at fair value through profit or loss	10,015	-	-	-	10,015	10,015
Available-for-sale financial assets	-	-	4,366	-	4,366	4,366
Total	10,015	184,776	4,366	-	199,157	199,157
Loans and deposits from other banks	-	-	-	180,378	180,378	180,378
Financial liabilities at fair value through profit or loss	3,053	-	-	-	3,053	3,053
Total	3,053	-	-	180,378	183,431	183,431

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.

Held-to-maturity securities The carrying values of held-to-maturity securities are measured at amortised cost using the effective rate method. These are assumed to approximate the market price.

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-prised every quarter according to market conditions (such as costs of acquiring funds, operating spread, risk premium) thus their carrying values approximate the fair value.

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 historical cost The fair value of amounts Loans and deposits from other banks is assumed to approximate the historical cost carrying amount.

Derivative financial instruments Derivative financial instruments are carried at their fair values in the statement of financial position.

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 2009, and have not been applied in preparing these financial statements:

The scope of the **revised IFRS 3 Business Combinations** (effective for annual periods beginning on or after 1 July 2009) has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 is not relevant to the Bank's financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

In the revised **revised IAS 27 Consolidated and Separate Financial Statements** (effective for annual periods beginning on or after 1 July 2009) the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank's financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

The amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own

NOTE 29. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Bank's financial statements as the Bank has not issued such instruments at any time in the past.

The amended IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Bank's financial statements as the Bank does not apply hedge accounting.

IFRIC 12 Service Concession Arrangements (effective for first annual reporting period beginning on or after 1 April 2009) provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Bank's operations as the Bank does not enter into any service concession arrangements.

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010) clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's financial statements as the Bank does not provide real estate construction services or develop real estate for sale.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009) explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Bank's financial statements as the Bank does not have any investments in a foreign operation.

NOTE 29. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 November 2009) applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual period beginning on or after 1 November 2009) requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement. IFRIC 18 is not relevant to the Bank's financial statements as the Bank does normally receive contributions from customers.

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