HUNGARIAN EXPORT-IMPORT BANK
PRIVATE LIMITED COMPANY

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2012

WITH THE INDEPENDENT AUDITORS' REPORT

CONTENTS

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 shareholder of Magyar Export-Import Bank Private Limited Company

Report on the Financial Statements

We have audited the accompanying financial statements of Magyar Export-Import Bank Private Limited Company ("the Company"), which comprise the statement of financial position as at 31 December 2012, 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 Unconsolidated 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 the financial position of the Company as at 31 December 2012, 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, 17 May 2013

KPMG Hungária Kft.

Gábor Agócs
Partner

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

	Note	2012	2011
Cash, due from banks and balances with the National Bank of Hungary	4	2,505	162
Loans and advances to other banks and insurance companies, net of impairment losses	5	165,380	128,893
Loans and advances to customers, net of impairment losses	6	63,282	54,589
Financial assets at fair value through profit or loss	7	130	47
Available-for-sale financial assets, net of impairment loss	8	25,840	11,088
Intangibles, property and equipment, net	9	214	176
Other assets, net	10	1,218	826
Total Assets		**258,569**	**195,781**
Loans and deposits from other banks	12	128,855	175,696
Financial liabilities at fair value through profit or loss	7	856	1,407
Debt securities issued	13	109,148	-
Provision for guarantees and contingencies	11	246	21
Deferred tax liabilities	17	76	-
Other liabilities	14	875	992
Total Liabilities		**240,056**	**178,116**
Share capital	15	10,100	10,100
Reserves	15	8,413	7,565
Total Shareholder's Equity		**18,513**	**17,665**
Total Liabilities and Equity		**258,569**	**195,781**

17 May 2013

Authorised for issue by

MAGYAR EXPORT-IMPORT BANK Zrt.
1065 Budapest, Nagymező u. 46-48.
1.

Roland Nátrán
Chief Executive Officer

The accompanying notes to the financial statements on pages 7-70 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

	Note	2012	2011
Interest income	18	10,399	10,849
Interest expense	18	(6,148)	(6,230)
Net interest income		**4,251**	**4,619**
Fee and commission income	19	266	292
Fee and commission expense	19	(60)	(106)
Net income from fees and commissions		**206**	**186**
Provisions and impairment (losses)/reversal	11	15	(452)
Gains and (losses) from trading and investment activities, net	20	840	(756)
Operating expenses	21	(3,991)	(2,795)
Profit/(loss) before income tax		**1,321**	**802**
Income taxes	17	(522)	(268)
Profit for the period		**799**	**534**
Other comprehensive income			
Fair value adjustment of available-for-sale securities, net of tax	22	49	45
Other comprehensive income for the period, net of income tax		**49**	**45**
Total comprehensive income for the period		**848**	**579**

17 May 2013

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1065 Budapest, Nagymező u. 46-48.
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Roland Nátrán
Chief Executive Officer

The accompanying notes to the financial statements on pages 7-70 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PTE LTD.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

	Note	2012	2011
OPERATING ACTIVITIES			
Profit/(loss) before income taxes		1,321	802
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	21	105	99
Impairment loss/(release)	11	(255)	1,552
(Profit)/loss from revaluation to fair value	7	(694)	315
Other non-cash items		49	-
Net interest income		(4,251)	(4,619)
Interest received		8,659	11,632
Interest paid		(5,932)	(6,994)
Income taxes	17	(522)	(268)
Dividend paid		-	-
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to other banks and insurance companies, before impairment losses	5	(36,437)	(21,104)
Net (increase)/decrease in loans and advances to customers, before impairment losses	6	(7,853)	12,527
Net (increase)/decrease in financial assets at fair value through profit or loss		-	589
Net (increase)/decrease in available-for-sale financial assets	8	(13,587)	5,422
Net (increase)/decrease in other assets	10	(390)	(838)
Net increase/(decrease) in other liabilities including provision and deferred tax liabilities	11, 14	184	(645)
Net cash provided by/(used in) operating activities		(59,603)	**(1,530)**
INVESTING ACTIVITIES			
Purchases of intangibles, property and equipment	9	(143)	(87)
Net cash used in investing activities		(143)	**(87)**
FINANCING ACTIVITIES:			
Proceeds from due to banks and deposits from banks	12	1,665,360	414,378
Repayment of due to banks and deposits from banks	12	(1,712,277)	(412,666)
Proceeds from issuance of debt securities	13	109,011	-
Net cash provided by financing activities		**62,094**	**1,712**
Net increase/(decrease) in cash and cash equivalents		**2,348**	**95**
Net foreign exchange difference		(5)	-
Cash and cash equivalents at the beginning of the year	4	162	67
Cash and cash equivalents at the end of the year	4	**2,505**	**162**

The accompanying notes to the financial statements on pages 7-70 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 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			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 3.12)			(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 7-70 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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			799			799
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax					49	49
Total comprehensive income for the period			***799***		***49***	***848***
Other transactions, recorded directly in equity						
Release of Statutory reserves			(293)	293		
Reclassification (Note 3.12)			(300)	300		
Total other transactions			(593)	593		
Balance as at 31 December 2012	**10,100**	**400**	**1,259**	**6,739**	**15**	**18,513**

The accompanying notes to the financial statements on pages 7-70 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 is a limited liability company incorporated and domiciled in Hungary. The Bank's registered office is at 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 for National Economy. The relating modification of the Act on Eximbank is effective from 10 May 2012.
In December under the 2 billion EUR Medium Term Note Programme the Bank initiated the issuance of USD 500 million at nominal value of USD 1,000 per bond. Those bonds are listed on London Stock Exchange from December 2012.

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

These financial statements were authorised for issue by the Chief Executive Officer on 17 May 2013. These financial statements are not intended to be used for statutory filing purposes.

NOTE 2. BASIS OF PREPARATION (CONTINUED)

The Bank presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date and more that 12 months after statement of financial position date is presented in Note 23.

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 30.

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 Going concern

The management of the Bank has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. The management is not aware of any material uncertainties that may cast doubt on the Bank's ability to continue as going concern. The financial statements continue to be prepared on going concern basis.

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 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). The Bank derecognises financial liabilities when its contractual obligations are discharged, cancelled or expired.

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 30.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Available-for-sale debt and equity instruments (continued)

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. Realised gains and losses generated from sales of securities are reported in 'Gains and losses from trading and investment activities' 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, insurance companies and customers

Loans and advances to banks, insurance companies 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.

3.9 Loans and deposit form other banks, issued debt securities

Loans and deposit from other banks and issued debt securities are the Bank's source of debt funding.
Loans and deposit from other banks and issued debt securities are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.
An analysis of the Bank issued debt is disclosed in Note 13.

3.10 Financial guarantees

In the ordinary course of business, the Bank gives guarantees, consisting of letters of credit and credit related guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.
Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the profit or loss in 'Net income from fees and commissions' on a straight-line basis over the life of the guarantee.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of financial assets

3.11.1 Impairment of loans and advances to banks, insurance companies 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 and 2012 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 insurance companies and Note 8 on Available for sale financial assets, respectively.

3.11.2 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11.2 Impairment of available-for-sale financial assets (continued)

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.

3.12 Statutory reserves

3.12.1 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.

3.12.2 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.

3.13 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)

3.14 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.

3.15 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).
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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 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.

3.17 Fee and commission income and expense

The Bank earns fees and commissions income from a diverse range of services it provides to its clients and also pays fees and commissions related to these services.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate method.
Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees that are expensed when the services are received.

(All amounts stated in HUF million unless otherwise noted)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 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 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.

3.19 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.

3.20 Reclassification

The Bank has changed its accounting policy to reflect Hungarian local business tax and innovation contribution as part of income tax. In previous years these taxes were presented among operating expenses. The reason for the change is that management believes these taxes are rather income tax in nature than operating expense.
As a result of the above-noted changes the operating expenses decreased and the income taxes increased with the same amount. This change does not affect the net income and the equity. The amounts reported in the previous years have been adjusted accordingly for comparison purposes as follows:

	As previously reported 2011	**Reclassification**	**Reclassified 2011**
Operating expenses	(3,027)	232	(2,795)
Income taxes	(36)	(232)	(268)

(All amounts stated in HUF million unless otherwise noted)

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

	2012	2011
Balances with NBH in HUF	1,313	6
Due from banks in HUF	5	1
Due from banks in foreign currency	1,187	155
Total	**2,505**	**162**

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 1,313 million and HUF 6 million as at 31 December 2012 and 2011, respectively. These reserves earn interest at below market rates.

NOTE 5. LOANS AND ADVANCES TO OTHER BANKS AND INSURANCE COMPANIES

	2012	2011
Short-term placements		
- in foreign currency	49,813	54,175
- in HUF	11,808	6,202
Sub-total	**61,621**	**60,377**
Long-term placements, in foreign currency	104,198	69,005
Sub-total	**104,198**	**69,005**
Total	**165,818**	**129,382**
Less: impairment losses (see Note 11)	(438)	(489)
Total	**165,380**	**128,893**

Loans and advances to other banks and insurance companies 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) 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 2011 the balance of the claim (including relating accrued interest) against MEHIB was HUF 12,944 million (EUR 41,604,224), while as of 31 December 2012 it was HUF 9,695 million (EUR 33,283,379).

Under a restructuring program due to financial difficulties, a loan – not insured by MEHIB – and the interest due in the total amount of HUF 3,923 million (EUR 13,906,353) 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.

Under a new restructuring program previously issued securities were cancelled and in exchange for them new securities were issued and cash were paid to the Bank in December 2012. The details of the securities are presented in Note 8.

(All amounts stated in HUF million unless otherwise noted)

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

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

The table below shows an analysis of Loans and advances to other banks and insurance companies by remaining maturity as at 31 December 2012 and 2011.

	2012	2011
Remaining Maturity	Gross value	Gross value
Placements in foreign currency:		
Up to 1 month	8,349	23,690
1 to 3 months	6,847	5,878
3 months to 1 year	34,616	24,607
1 to 5 years	99,299	61,999
Over 5 years	4,899	7,006
Sub-total	**154,010**	**123,180**
Placements in HUF		
Up to 1 month	11,808	6,202
Sub-total	**11,808**	**6,202**
Total	**165,818**	**129,382**

(All amounts stated in HUF million unless otherwise noted)

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

	2012	2011
Short-term:		
- in foreign currency	27,865	19,703
- in HUF	4,965	4,077
Sub-total	**32,830**	**23,780**
Long-term:		
- in foreign currency	34,931	35,518
- in HUF	58	141
Sub-total	**34,989**	**35,659**
Total	**67,819**	**59,439**
Less: impairment losses (see Note 11)	(4,537)	(4,850)
Total	**63,282**	**54,589**

The table below shows an analysis of loans and advances to customers by remaining maturity as at 31 December 2012 and 2011.

	2012	2011
Remaining Maturity	Gross value	Gross value
In foreign currency:		
Up to 1 month	4,400	2,790
1 to 3 months	3,848	2,079
3 months to 1 year	19,618	14,834
1 to 5 years	27,670	26,497
Over 5 years	7,260	9,021
Sub-total	**62,796**	**55,221**
In HUF		
Up to 1 month	2,598	2,505
1 to 3 months	1,850	1,049
3 months to 1 year	517	523
1 to 5 years	58	122
Over 5 years	-	19
Sub-total	**5,023**	**4,218**
Total	**67,819**	**59,439**

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 31 December 2012 and 31 December 2011 are as follows:

	2012	2011
Short-term derivative assets (trading):		
Foreign exchange swap	130	47
Total	**130**	**47**

Financial liabilities at fair value through profit or loss as at 31 December 2012 and 31 December 2011 are as follows:

	2012	2011
Short-term derivative liabilities (trading):		
Cross currency interest rate swap	603	1,211
Foreign exchange swap	253	196
Total	**856**	**1,407**

The details of the cross currency interest rate swap for the year ended 31 December 2012 – with Deutsche Bank AG London - are shown below:

Contractual maturity	Receive notional	Receive notional in HUF million	Pay notional	Pay notional in HUF million
11.02.2018	250,000,000 USD	55,232	191,659,000 EUR	55,828

The interest rate is fixed 5.5% p.a. in case of USD and is fixed 5.35% p.a. in case of EUR part. Interest is payable and receivable semi-annually on 12th of February and August commencing 12 August 2013.

(All amounts stated in HUF million unless otherwise noted)

NOTE 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
Discounted bonds issued by National Bank of Hungary in HUF	24,968	9,973
Hungarian Government bonds in HUF	807	788
Fair value adjustment	19	(41)
	25,794	10,720
Senior Notes	67	1,151
Subordinated Notes	-	182
Recovery Units	-	131
Global Depository Receipts	68	59
Impairment loss (Note 11)	(101)	(1,167)
Securities acquired in exchange for loan	34	356
HUF shares	12	12
	12	12
Total	**25,840**	**11,088**

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

Securities acquired in 2010:
All securities were issued by a bank in Kazakhstan. Principal amount of the *Senior Notes* at inception date as well as at 2011 year end was USD 4,753,250. Senior Notes were 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 was payable on the outstanding principal amount in arrears on 1 January and 1 July in each year. Notes would 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 2011 year end was USD 1,077,004. Subordinated Notes were interest bearing debt instruments at the rate of 7.20 % p.a. Interest was payable on the outstanding principal amount in arrears on 1 January and 1 July in each year. Notes would 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 2011 year end were USD 9,819,745. Initial settlement date was 30 June 2020 and the deferred settlement date was 30 June 2022. The issuer should have made 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, 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

(All amounts stated in HUF million unless otherwise noted)

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

entitled to receive an amount of equivalent to any dividends or other proceeds payable on 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.

Securities acquired in 2012:
Due to further payment difficulties the Kazak bank announced the need to organise a new restructuring process.
Under the new restructuring program as at 27 December 2012

- previously issued securities were cancelled excluding GDRs
- Eximbank received cash in amount of USD 3,291,498
- Eximbank received new debt securities and global depository receipts issued by the Kazak bank:
  - o New Senior Notes: principal amount of the note received by Eximbank is USD 305,108. Senior Notes are interest bearing debt instruments at the rate of 5.5%% p.a. Maturity date is 22 December 2022. Interest is payable on the outstanding principal amount in arrears on 1 January and 1 July in each year.
  - o GDRs: Eximbank received 26,565 units of further GDRs.

The difference between the fair values at inception date and the current fair value at the end 2012 in amount of HUF 101 million (2011: HUF 1,167 million) was recognised as impairment loss on available-for-sale securities acquired in exchange for loan.
Due to the above restructuring transactions prior year impairment on available-for-sale securities were released in amount of HUF 1,113 million and classified as "Provision for impairment losses, charge (+), release (-) " in the statement of comprehensive income. The gross book value of the cancelled securities was written off in amount of HUF 736 million and was classified as other expense in the statement of comprehensive income.

Remaining maturity of discounted bonds issued by National Bank of Hungary and Hungarian Government bonds as at 31 December 2012 and 2011 are detailed below:

Remaining Maturity	2012	2011
Up to 1 month	24,967	9,970
1 to 3 months	-	-
3 months to 1 year	-	-
1 to 5 years	827	750
Over 5 years	-	-
Total	**25,794**	**10,720**

Shares as at 31 December 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.

(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 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	33	86	111	261
Disposals	-	-	(31)	-	(87)	(118)
31 December 2012	152	397	2	1,261	30	1,842
Accumulated depreciation and amortisation						
31 December 2011	148	313	-	1,062	-	1,523
Charge for year	4	22	-	79	-	105
Disposals	-	-	-	-	-	-
31 December 2012	152	335	-	1,141	-	1,628
Net book value						
31 December 2011	**4**	**53**	**-**	**113**	**6**	**176**
31 December 2012	**-**	**62**	**2**	**120**	**30**	**214**

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**

(All amounts stated in HUF million unless otherwise noted)

NOTE 10. OTHER ASSETS

	2012	2011
Accrued interest receivable on debt securities	-	111
Accrued interest receivable re CCIR	-	124
Prepaid expenses	82	16
Current tax assets	383	537
Other	768	38
Sub-total	1,233	826
Less: impairment loss (see Note 11)	(15)	-
Total	**1,218**	**826**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts stated in HUF million unless otherwise noted)

NOTE 11. PROVISIONS AND IMPAIRMENT LOSSES

	Loans and advances to other banks and insurance companies	Loans and advances to customers	Available-for-sale securities	Guarantees and contingencies	Other asset	**Total**
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**
Write-offs	(8)	(1,167)	-	-	-	**(1,175)**
Net charge/ (release)	(43)	854	(1,066)	225	15	**(15)**
As at 31 December 2012	**438**	**4,537**	**101**	**246**	**15**	**5,337**

(All amounts stated in HUF million unless otherwise noted)

NOTE 12. LOANS AND DEPOSITS FROM OTHER BANKS

	2012	2011
Short-term		
- in foreign currency	21,552	81,687
- in HUF	411	-
Sub-total	**21,963**	**81,687**
Long-term		
- in foreign currency	86,953	94,009
- in HUF	19,939	-
Sub-total	**106,892**	**94,009**
Total	**128,855**	**175,696**

The table below shows an analysis of loans and deposits from other banks by remaining maturity as at 31 December 2012 and 2011.

	2012	2011
Remaining Maturity	Gross value	Gross value
In foreign currency:		
Up to 1 month	3,659	839
1 to 3 months	8	6,599
3 months to 1 year	17,885	74,249
1 to 5 years	82,159	56,097
Over 5 years	4,794	37,912
Sub-total	**108,505**	**175,696**
In HUF		
Up to 1 month	411	-
1 to 5 years	19,939	-
Sub-total	**20,350**	**-**
Total	**128,855**	**175,696**

(All amounts stated in HUF million unless otherwise noted)

NOTE 13. DEBT SECURITIES ISSUED

On 12 December 2012 under the 2 billion EUR Medium Term Note Programme the Bank issued USD 500 million 5.5% at a nominal value of USD 1,000 per bond. The issue price was 98.879% of the aggregated nominal amount.

The bonds mature 5 years from the issue date at the nominal value. The bonds will be redeemed on the maturity date. Interest payment dates are 12 February and 12 December in each year up to and including Maturity date. There will be a long first coupon from and including 12 December 2012 up to but excluding 12 August 2013.
The effective interest on the bond recorded in Interest expense was HUF 135 million using effective rate of 5.9%.

Bonds are listed on London Stock Exchange's regulated market with effect from the issue date. Bank has not repurchased any of its own debt during the year.

NOTE 14. OTHER LIABILITIES

	2012	2011
Accrued interest payable re CCIR	-	112
Accrued expenses	325	13
Accrued revenue	233	420
Current tax liabilities	259	367
Other	134	80
Total	**951**	**992**

NOTE 15. SHAREHOLDER' S EQUITY

	2012	2011
Share capital	10,100	10,100
Share premium	400	400
Retained earnings	1,259	1,052
Fair value reserve, net of tax	15	(34)
Statutory reserves	6,739	6,147
Total	**18,513**	**17,665**

As at 31 December 2012 the Bank's share capital is comprised of 2,020 fully paid dematerialised shares, each with a nominal value of HUF 5 million. Reserves available for distribution as at 31 December 2012 under Hungarian Law amount to HUF 983 million (2011: HUF 300 million).

(All amounts stated in HUF million unless otherwise noted)

NOTE 15. SHAREHOLDER'S EQUITY (CONTINUED)

As at 31 December 2012 the shareholder's rights were the following:

Shareholder	Number of shares	Face value of shares	Equity owned	Votes owned
Hungarian State represented by Ministry for National Economy	2,020	10,100	100 %	100 %
Total	2,020	10,100	100 %	100 %

As at 31 December 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 were represented by Hungarian Development Bank Ltd.

NOTE 16. 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 2012 and 2011 are summarised as follows:

	2012	**2011**
Guarantees counter-guaranteed by the Republic of Hungary	25,407	34,795
Unutilised part of credit lines	59,939	78,019
Guarantees not counter-guaranteed by the Republic of Hungary	2,932	2,111
Total	**88,278**	**114,925**

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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. TAXATION

The components of income tax expense for the years ended December 31, 2012 and December 31, 2011 are as follows:

	2012	**2011**
Corporate income tax expense	200	36
Local tax expense	217	197
Innovation contribution expense	33	35
Current income tax	**450**	**268**
Deferred tax expense	**72**	**-**
Total income tax	**522**	**268**
Net profit before income tax	1,321	802
Effective tax rate after adjustments	**40%**	**33%**

The corporate income tax was 10 % of the positive tax base up to HUF 500 million thereafter 19% both in 2012 and 2011.
Considered their non-turnover character, local business tax and innovation contribution expenses are presented as an income tax expense for IFRS purposes.
In 2012 and 2011 local business tax an innovation contributions are payable 2% and 0.3% respectively on statutory net interest and fee income modified by certain cost elements.

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. TAXATION (CONTINUED)

Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit multiplied by the Bank's domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

	2012		2011	
Profit (loss) before income tax		**1,321**		**802**
Corporate income tax up to MHUF 500	10%	50	10%	50
Corporate income tax from MHUF 500	19%	156	19%	57
Average tax rate	16%	206	13%	107
Adjustments:				
Local business tax and innovation contribution		249		232
Effect of local tax and innovation contribution on income tax		(48)		(45)
(Charge)/Release of General risk reserve		(35)		4
Tax base increasing items		150		19
Tax base decreasing items		-		(50)
Total adjustments		**316**		**161**
Income tax reported in the Statement of Comprehensive Income		**522**		**268**
Effective tax		**40%**		**33%**

(All amounts stated in HUF million unless otherwise noted)

NOTE 17. TAXATION (CONTINUED)

Deferred tax

The deferred tax included in the statement of financial position and changes recorded in the statement of comprehensive income are as follows:

	2012				
	Deferred Tax Assets	Deferred Tax Liabilities	Net	Recognised in profit or loss	Recognised in other comprehensive income
Impairment allowance for loans and advances to customers	-	(23)	(23)	(23)	-
Financial instruments held at amortised cost	-	(48)	(48)	(48)	-
Fair value adjustments of financial assets at fair value through profit or loss	-	1	1	1	-
Available-for-sale financial assets	-	(4)	(4)	-	(11)
Other temporary differences	-	(2)	(2)	(2)	-
	-	**(76)**	**(76)**	**(72)**	**(11)**

	2011				
	Deferred Tax Assets	Deferred Tax Liabilities	Net	Recognised in profit or loss	Recognised in other comprehensive income
Impairment allowance for loans and advances to customers	-	-	-	-	-
Financial instruments held at amortised cost	-	-	-	-	-
Fair value adjustments of financial assets at fair value through profit or loss	-	-	-	-	-
Available-for-sale financial assets	7	-	7	-	(11)
Other temporary differences	-	-	-	-	-
	7	-	7	-	**(11)**

(All amounts stated in HUF million unless otherwise noted)

NOTE 18. INTEREST INCOME AND INTEREST EXPENSE

	2012	2011
Interest income:		
Loans and advances to customers	1,822	2,564
Loans and advances to other banks and insurance companies	2,447	2,663
Interest compensation*	5,093	3,171
Securities	1,034	2,237
Other	3	214
Total	**10,399**	**10,849**
Interest expense:		
Loans and deposits from other banks	6,013	6,230
Debt securities issued	135	-
Total	**6,148**	**6,230**
Net interest income	**4,251**	**4,619**

* 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.

NOTE 19. NET INCOME FROM FEES AND COMMISSIONS

	2012	2011
Fee and commission income:		
Guarantees counter-guaranteed by the state	129	222
Insurance fees devolved by MEHIB	24	12
Guarantees not counter-guaranteed by the state	112	56
Other	1	2
	266	**292**
Fee and commission expense:		
Insurance fees paid to MEHIB	23	58
Guarantees	31	44
Other	6	4
	60	**106**
Total	**206**	**186**

(All amounts stated in HUF million unless otherwise noted)

NOTE 20. GAINS AND LOSSES FROM TRADING AND INVESTMENT ACTIVITIES, NET

	2012	2011
Gain and losses on foreign currency swap deals, net	(493)	3,561
Other foreign currency gains and losses, net	1,337	(4,310)
Foreign currency gains and losses, net *	844	(749)
Other gains and losses, net	(4)	(7)
Total	**840**	**(756)**

* 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 21. OTHER OPERATING EXPENSES

	2012	2011
Personnel expenses	1,398	1,344
Material expenses	809	546
Bank tax *	454	454
Special tax of credit institution**	396	321
Depreciation and amortisation	105	99
Other administration expenses	83	48
Other expenses/ (income), net***	746	(17)
Total	**3,991**	**2,795**

*The Hungarian Parliament approved a new Act in August 2010 which provided a framework for the levying of a "bank tax" on financial institutions. According to this act each financial institution - that already had a closed financial year and related financial statements on 1 July 2010 - would be subject to assessment and payment of the bank tax for 2010. The basis and the rate of the bank tax that is payable differs depending on the type of financial institutions.

Tax rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

For credit institutions the tax base is adjusted total assets for the year ended 31 December 2009. The tax rate is 0.15% up to HUF 50,000 million and 0.53% above HUF 50,000 million. The bank tax is recorded as an expense in the financial period in which it is legally payable. As the bank tax is payable based on prior year non net income measures it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the statement of comprehensive income.

According to the passed law the bank tax will remain in effect in 2013.

(All amounts stated in HUF million unless otherwise noted)

NOTE 21. 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.

*** Other expenses contain the book value of cancelled available for sale securities written off in amount of HUF 736 million. See Note 8.

The average number of employees in 2012 was 106 (2011: 107).

NOTE 22. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2012	2011
Available for sale financial assets		
Gains (losses) arising during the year	58	(41)
Reclassification adjustments for (gains)/losses included in P&L	2	97
Other comprehensive income	60	56
Income tax	(11)	(11)
Other comprehensive income for the year	49	45

All the components of other comprehensive income for the year ended 31 December 2012 and 31 December 2011 stated above are items that may be reclassified subsequently to profit or loss.

(All amounts stated in HUF million unless otherwise noted)

NOTE 22. COMPONENTS OF OTHER COMPREHENSIVE INCOME (CONTINUED)

Tax recognised in Other comprehensive income

Deferred tax related to items charged or credited directly to equity during 2012 and 2011 is as follows:

	2012			2011		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Available for sale securities	60	(11)	49	56	(11)	45
Total	**60**	**(11)**	**49**	**56**	**(11)**	**45**

(All amounts stated in HUF million unless otherwise noted)

NOTE 23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2012	Within 12 months	After 12 months	Total
Assets			
Cash, due from banks and balances with the National Bank of Hungary	2,505	-	2,505
Loans and advances to other banks and insurance companies, net of impairment losses	61,182	104,198	165,380
Loans and advances to customers, net of impairment losses	28,494	34,788	63,282
Financial assets at fair value through profit or loss	130	-	130
Available-for-sale financial assets, net of impairment loss	24,967	873	25,840
Intangibles, property and equipment, net	-	214	214
Other assets, net	1,218	-	1,218
Total Assets	**118,496**	**140,073**	**258,569**
Liabilities			
Loans and deposits from other banks	21,963	106,892	128,855
Financial liabilities at fair value through profit or loss	856	-	856
Debt securities issued	-	109,148	109,148
Provision for guarantees and contingencies	246	-	246
Other liabilities	560	315	875
Deferred tax liabilities	76	-	76
Total Liabilities	**23,701**	**216,355**	**240,056**
Net	**94,795**	**(76,282)**	**18,513**

(All amounts stated in HUF million unless otherwise noted)

NOTE 23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2011	Within 12 months	After 12 months	Total
Assets			
Cash, due from banks and balances with the National Bank of Hungary	162	-	162
Loans and advances to other banks and insurance companies, net of impairment losses	59,904	68,989	128,893
Loans and advances to customers, net of impairment losses	18,898	35,691	54,589
Financial assets at fair value through profit or loss	47	-	47
Available-for-sale financial assets, net of impairment loss	9,970	1,118	11,088
Intangibles, property and equipment, net	-	176	176
Other assets, net	826	-	826
Total Assets	**89,807**	**105,974**	**195,781**
Liabilities			
Loans and deposits from other banks	81,687	94,009	175,696
Financial liabilities at fair value through profit or loss	1,407	-	1,407
Debt securities issued	-	-	-
Provision for guarantees and contingencies	21	-	21
Other liabilities	586	406	992
Deferred tax liabilities	-	-	-
Total Liabilities	**83,701**	**94,415**	**178,116**
Net	**6,106**	**11,559**	**17,665**

NOTE 24. RELATED PARTY TRANSACTIONS

24.1 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 31 December 2012, representing 18.41 % of total assets (2011: 23.1 %), 26.67 % of total liabilities (2011: 80.05 %) and 1.76 % of total commitments and contingent liabilities (2011: 0.15 %), and are presented below:

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NOTE 24. RELATED PARTY TRANSACTIONS (CONTINUED)

	2012	2011
Balances with NBH	1,313	6
Short-term placement to MFB incl. interest receivable	6,099	19,916
Loans to MFB's subsidiaries incl. interest receivable	10,744	12,944
Loans to MFB's associates incl. interest receivable	501	503
- less impairment losses	-	(5)
Advances to the State from interest compensation systems	3,148	946
Total loans and advances to related parties, net of impairment losses	20,492	34,304
Discounted bonds issued by NBH	24,967	9,970
Hungarian Government bonds	827	750
Total available for sale financial assets to related parties	25,794	10,720
Other assets to the State	-	41
Other assets to MFB	-	124
Total other assets to related parties	-	165
Total Assets	**47,599**	**45,195**
Loans and deposits from MFB incl. accrued int.payables	58,714	141,253
Loans and deposits from MFB's subsidiaries incl. accrued int.payables	5,306	-
Total loans and deposits from related parties	64,020	141,253
Cross currency interest rate swap with MFB	-	1,211
Total financial liabilities at fair value to related parties	-	1,211
Other liabilities to MFB	-	112
Total other liabilities to related parties	-	112
Total Liabilities	**64,020**	**142,576**
Guarantees provided on behalf of other state-owned company	99	169
Other commitments and contingent liabilities	1,456	-
Total commitments and contingent liabilities	**1,555**	**169**

(All amounts stated in HUF million unless otherwise noted)

NOTE 24. RELATED PARTY TRANSACTIONS (CONTINUED)

	2012	2011
Interest income:		
Short-term placements to MFB	39	14
Loans to MFB's subsidiaries	972	763
Loans to MFB's associates	59	40
State interest compensation	5,093	3,171
Interest on cross currency interest rate swap	-	214
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	1,027	2,114
Total	**7,190**	**6,316**
Interest expense:		
Loans and deposits from MFB	3,251	5,057
Loans and deposits from MFB's subsidiaries	352	-
Securities lending fee paid to Hungarian State	337	-
Total	**3,940**	**5,057**
Fee and commission expense:		
Insurance fees paid to MEHIB	23	58
Total	**23**	**58**
Net interest income and net income from fees and commissions	**3,227**	**1,201**
Provision and impairment losses Charge/ (release):		
Loans and credit lines to MFB's associates	(5)	5
Total	**(5)**	**5**
Gains and losses from trading activities, net :		
Hungarian discounted treasury bills and Hungarian Government bonds	-	(6)
Total	**-**	**(6)**
Operating income/(expenses):		
MFB's subsidiaries	1	19
Other state-owned companies	-	(10)
Total	**1**	**9**

NOTE 24. RELATED PARTY TRANSACTIONS (CONTINUED)

24.2 Management and employees

Loans to employees of the Bank amounted to HUF 59 million and HUF 72 million as at 31 December 2012 and 2011, respectively. Interest rates vary between 0 % and 5.00 %, and average at 1.18 %. Out of the total amount HUF 2 million was granted to the management as at 31 December 2012 (2011: HUF 3 million).

The honorarium of the Board of Directors and the Supervisory Board added up HUF 25 million in 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.

The remuneration of the key management personnel amounted to HUF 122 million and HUF 138 million in 2012 and 2011, respectively. The remuneration of the management mentioned above includes the termination benefits paid to the management, which amounted to HUF 12 million in 2012 (2011: 19).

NOTE 25. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012 and 2011. Trading derivatives are shown at fair value in a separate column.
Repayments which are subject to notice are treated as if notice were to be given immediately. The table also contain the contractual expiry by maturity of the Bank's contingent liabilities and commitments.
The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of them.

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NOTE 25. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2012	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Trading derivatives**	**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	2,505	2,505	-	2,505	-	-	-	-
Loans and advances to other banks and insurance companies, net of impairment losses	165,380	170,322	-	20,022	6,634	36,147	102,442	5,077
Loans and advances to customers, net of impairment losses	63,282	67,495	-	2,810	5,635	21,203	29,980	7,867
Financial assets at fair value through profit or loss	130	130	130	-	-	-	-	-
Available-for sale financial assets	25,840	25,943	-	25,000	-	53	844	46
Financial assets	**257,137**	**266,395**	**130**	**50,337**	**12,269**	**57,403**	**133,266**	**12,990**
Loans and deposits from other banks	128,855	137,389	-	4,133	116	20,310	107,844	4,986
Debt securities issued	109,148	141,856	-	-	-	4,051	24,302	113,503
Derivative financial liabilities								
Foreign exchange contracts	253	253	253	-	-	-	-	-
Cross currency interest rate swaps	603	603	603	-	-	-	-	-
Financial liabilities	**238,859**	**280,101**	**856**	**4,133**	**116**	**24,361**	**132,146**	**118,489**
Liquidity (deficiency)/excess	**18,278**	**(13,706)**	**(726)**	**46,204**	**12,153**	**33,042**	**1,120**	**(105,499)**
Unutilised loan commitments		**59,938**	-	**59,938**	-	-	-	-
Financial guarantee contracts		**28,339**	-	**28,339**	-	-	-	-

(All amounts stated in HUF million unless otherwise noted)

NOTE 25. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2011	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Trading derivatives**	**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 and insurance companies, 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**	**47**	**44,810**	**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	1,211	-	-	-	-	-
Financial liabilities	**177,103**	**188,932**	**1,407**	**870**	**7,412**	**78,055**	**62,320**	**38,868**
Liquidity (deficiency)/excess	**17,676**	**21,781**	**(1,360)**	**43,940**	**530**	**(31,967)**	**31,660**	**(21,022)**
Unutilised loan commitments		**78,019**	-	**78,019**	-	-	-	-
Financial guarantee contracts		**36,906**	-	**36,906**	-	-	-	-

NOTE 26. 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 100% direct shareholding and it operates under the governance of the Ministry for National Economy. 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.
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 Directors. 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, the Credit Committee and the Board of Directors. These principles are determined within the prescriptions established by the National Bank of Hungary and the Hungarian Financial Institutions Supervision. The Asset and Liability Committee, the Credit Committee and the Board of Directors 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.

Risk strategy and risk profile

The Bank's risk strategy includes the exploration, identification and separation of risks, furthermore the assessment of the risk level and weight of them. The risk identification process 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. Each of the relevant risk factors is evaluated by the Risk Management Department in cooperation with the Controlling Department. The overall risk level of an individual risk category is determined by the risk assessment of the appropriate risk type weighted by its significance in line with Eximbank's operational characteristics. Most of the weighted rates point to the fact that the majority of the risks are low or represent moderate risk level. The risk profile report takes 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 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 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. 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 the Bank's own risk.

(All amounts stated in HUF million unless otherwise noted)

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. 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 and insurance companies		**Loans and advances to customers**	
	2012	**2011**	**2012**	**2011**
Carrying amount	165,380	128,893	63,282	54,589
Individually impaired:				
1-10 %	-	-	7,363	12,806
11-30%	49	79	-	1,841
31-70 %	-	-	693	187
71-100 %	131	165	1,352	2,358
Gross amount	180	244	9,408	17,192
Allowance for impairment	(146)	(188)	(1,812)	(2,939)
Carrying amount	34	56	7,596	14,253
Collectively impaired:	-	-	-	-
Past due but not impaired:	-	251	60	787
Neither past due nor impaired:	165,346	128,586	42,993	28,456
Accounts with renegotiated terms:				
Gross amount	276	301	15,358	13,004
Allowance for impairment	(276)	(301)	(2,725)	(1,911)
Carrying amount	-	-	12,633	11,093
Total carrying amount	**165,380**	**128,893**	**63,282**	**54,589**

At 31 December 2012 *Financial assets at fair value through profit or loss* with a carrying value of HUF 130 million (2011: 47 million), *Cash, due from banks and balances with National Bank of Hungary*" with a carrying value of HUF 2,505 million (2011: HUF 162 million) and *Available-for-sale financial assets* with a carrying value of HUF 25,806 million (2011: HUF 10,732 million) are neither past due nor impaired, however the securities acquired in exchange for a loan with a carrying value of 34 million (2011: HUF 356 million) presented among available-for-sale financial assets are individually impaired in 2012 (Note 8).

Impaired loans and securities

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

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. Credit risk (continued)

Loans with renegotiated terms

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

Write-off policy

Loan together with the associated allowance are written off, either partially or in full, when there is no realistic prospect of future recovery of the principal amount and all collaterals has been realised or has been transferred to the Bank.

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 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. 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 and insurance companies		Loans and advances to customers	
	2012	**2011**	**2012**	**2011**
Against individually impaired:				
Insured by MEHIB	-	-	5,521	10,406
Cash Collateral	-	-	3	4
Bank guarantees	-	-	1,397	1,457
Property	-	-	373	522
Other	-	-	9	470
Against past due but not impaired:				
Insured by MEHIB	-	239	-	748
Cash Collateral	-	13	-	39
Bank guarantees	-	-	93	-
Property	-	-	-	-
Other	-	-	-	-
Against neither past due nor impaired:				
Insured by MEHIB	435	588	21,900	22,252
Cash Collateral	8	-	418	581
Bank guarantees	-	-	8,905	175
Property	-	-	1,398	450
Other	-	-	9,895	8,732
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	8,953	6,798
Cash Collateral	-	-	32	-
Bank guarantees	-	-	-	290
Property	-	-	1,039	920
Other	-	-	758	891
Total	**443**	**840**	**60,694**	**54,735**

As described in Note 5 a loan originally granted to a foreign bank insured by MEHIB was assigned to MEHIB due to default in 2010. The carrying value of the loan amounted to HUF 9,695 million as at 31 December 2012 (in 2011: HUF 12,944 million). The total amount of the loan is guaranteed by the Hungarian State. This amount is not included in the table above.

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2. 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.

The maturity analysis table set out in Note 25 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. Trading derivatives are shown at fair value in a separate column. 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 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 year 2012 and also 2011 there were no any significant maturity gaps.

As a specialized governmental credit institution Eximbank does not collect deposits either from corporate clients or from individuals. Loans borrowed from domestic and foreign banks and the global medium-term notes issued in December 2012 are secured by the general guarantee of the Government of Hungary as defined in the Act on the Budget of Hungary with respect to the maximum amount of guarantee. 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 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 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 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3. 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 2012 and 2011:

	2012	2011
Capital requirement of the trading book	-	-
Solvency margin	47,162	33,606
Capital requirement of the trading book as a percentage of solvency margin	-	-

(All amounts stated in HUF million unless otherwise noted)

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3.1. 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	58,435	58,473
Financial liabilities	142,501	12,719
Total fixed rate instruments	**200,936**	**71,192**
Variable rate financial instruments		
Financial assets	6,756	8,769
Financial liabilities	96,358	163,338
Total variable rate instruments	**103,114**	**172,107**
Financial assets under interest compensation system	**179,877**	**119,056**
Tied-aid credits	**6,352**	**7,399**

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 based estimation of changes in interest rates of different currencies. The VAR based estimation of decrease in the market interest rates using a confidence level of 99 % would affect negatively the net interest income for the next twelve months by HUF 135 million (224 in previous year). 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 monthly.

(All amounts stated in HUF million unless otherwise noted)

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3.2. 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.

Foreign currency exposure and foreign currency risk (including HUF exposures) as at 31 December 2012 are as follows:

	EUR	USD	GBP	HUF	Total
Foreign currency assets:					
Loans and advances to other banks and insurance companies, net of impairment losses	140,996	12,576	-	11,808	165,380
Loans and advances to customers, net of impairment losses	54,265	5,263	-	3,754	63,282
Other	1,195	766	3	27,943	29,907
Total foreign currency Assets	196,456	18,605	3	43,505	258,569
Foreign currency liabilities	108,910	109,505	4	21,637	240,056
Foreign currency assets and liabilities, net	**87,546**	**(90,900)**	**(1)**	**21,868**	**18,513**
Effect of derivatives	(87,492)	91,642	-	(4,869)	(719)
Net exposure	54	742	(1)	16,999	17,794
Foreign currency off-balance sheet assets	12,819	422	-	25,407	38,648
Foreign currency off-balance sheet liabilities	78,813	8,297	-	1,168	88,278

(All amounts stated in HUF million unless otherwise noted)

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3.2. 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 and insurance companies, 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 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.3.2. 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 2012 and as at 31 December 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 31 December 2012

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2012	291.29	220.93	
Exchange rates at strong HUF (minimum of historical rates in 2012)	276.07	211.36	
Effect on profit or (loss)	3	32	35
Exchange rates at weak HUF (maximum of historical rates in 2012)	321.93	250.28	
Effect on profit or (loss)	(5)	(99)	(104)

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)

(All amounts stated in HUF million unless otherwise noted)

NOTE 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4. 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 2012 and 2011 the amount of the long-term liability arising from the loan agreement is HUF 29,129 million and HUF 31,113 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 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.

	2012	**2011**
Core capital	18,033	16,803
Supplementary capital	29,129	16,803
Solvency margin	47,162	33,606
Total risk-weighted exposure to credit risk	201,707	145,098
Solvency ratio	22.39 %	21.65 %

NOTE 27. SEGMENT INFORNMATION

The Bank's segment reporting is based on the following operating segments: Banks, Corporate, Guarantees, Treasury and Other.

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.

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

Financial position segmented by businesses as at 31 December 2012

	Banks	Corporate	Guarantees	Treasury	Other	Total
Cash, due from banks and balances with NBH	1,193	-	-	1,312	-	2,505
Loans and advances to other banks and insurance companies, net of impairment losses	151,491	-	-	13,889	-	165,380
Loans and advances to customers, net of impairment losses	2,366	60,858	-	-	58	63,282
Financial assets at fair value through profit or loss	-	-	-	130	-	130
Available-for-sale financial assets	34	-	-	25,774	32	25,840
Intangibles, property and equipment	-	-	-	-	214	214
Other assets	-	-	-	-	1,218	1,218
Total Assets	**155,084**	**60,858**	**-**	**41,105**	**1,522**	**258,569**
Loans and deposits from other banks	128,855	-	-	-	-	128,855
Financial liabilities at fair value through profit or loss	-	-	-	856	-	856
Debt securities issued	-	-	-	109,148	-	109,148
Other liabilities incl. provision and deferred tax liabilities	-	252	325	-	620	1,197
Total Liabilities	**128,855**	**252**	**325**	**110,004**	**620**	**240,056**
Share capital	-	-	-	10,100	-	10,100
Reserves	-	-	-	8,413	-	8,413
Total Shareholder's Equity	**-**	**-**	**-**	**18,513**	**-**	**18,513**
Total Liabilities and Equity	**128,855**	**252**	**325**	**128,517**	**620**	**258,569**

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

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 and insurance companies, 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 and deferred tax liabilities	-	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**

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

Profit or Loss segmented by businesses for the year ended 31 December 2012

	Banks	Corporate	Guarantees	Treasury	Other	Total
Interest income	6,217	3,108	-	1,073	1	10,399
Interest expense	(4,033)	(1,993)	-	(122)	-	(6,148)
Net interest income	**2,184**	**1,115**	**-**	**951**	**1**	**4,251**
Net income from fees and commissions	-	1	211	(4)	(2)	206
Provisions and impairment (losses)/reversal	1,094	(854)	(225)	-	-	15
Gains and losses from trading and investment activities, net	-	-	-	840	-	840
Operating expenses, net	(1,403)	(1,652)	(404)	(531)	-	(3,991)
Profit/(loss) before income tax	1,875	(1,391)	(418)	1,257	(2)	1,321
Income taxes	(726)	609	167	(571)	(1)	(522)
Net profit/(loss)	1,149	(782)	(251)	686	(3)	799
Additional information						
Depreciation and amortisation	37	43	11	14	-	105
Non cash expenses	-	-	-	-	-	-
Cost to acquires intangible, property and equipment	50	59	14	19	-	143

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

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

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

Concentration of assets and liabilities by geographical segments as at 31 December 2012

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	1,811	661	15	18	2,505
Loans and advances to other banks and insurance companies net of impairment losses	164,650	-	558	172	165,380
Loans and advances to customers, net of impairment losses	25,629	-	33,595	4,058	63,282
Financial assets at fair value through profit or loss	130	-	-	-	130
Available-for-sale financial assets	25,806	-	-	34	25,840
Intangibles, property and equipment, net	214	-	-	-	214
Other assets, net	1,189	2	27	-	1,218
Total Assets	**219,429**	**663**	**34,195**	**4,282**	**258,569**
Loans and deposits from other banks	117,203	11,652	-	-	128,855
Financial liabilities at fair value through profit or loss	253	603	-	-	856
Debt securities issued *	-	-	-	109,148	109,148
Other liabilities incl. provision and deferred tax liabilities	630	174	37	356	1,197
Total liabilities	118,086	12,429	37	109,504	240,056
Share capital	10,100	-	-	-	10,100
Reserves	8,413	-	-	-	8,413
Total Shareholder's Equity	18,513	-	-	-	18,513
Total Liabilities and Equity	**136,599**	**12,429**	**37**	**109,504**	**258,569**
Off-balance sheet financial instruments					
Guarantees counter-guaranteed by the state	18,599	722	6,085	-	25,407
Unutilised part of credit lines	55,470	-	4,388	81	59,939
Guarantees not counter-guaranteed by the state	2,694	38	200	-	2,932
Total	**76,763**	**760**	**10,674**	**81**	**88,278**

* Issued bonds are actively traded on London Stock Exchange and on OTC markets. The Bank has no detailed information about the breakdown of investors by geographical segments as at 31 December 2012. As a result the Bank classified debt securities issued into Other Countries segment.

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

Concentration of assets and liabilities by geographical segments as at 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 and insurance companies 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 and deferred tax liabilities	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	**182,740**	**12,657**	**14**	**370**	**195,781**
Off-balance sheet financial instruments					
Guarantees counter-guaranteed 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 not counter-guaranteed by the state	1,844	41	226	-	2,111
Total	**94,006**	**828**	**20,091**	**-**	**114,925**

(All amounts stated in HUF million unless otherwise noted)

NOTE 27. SEGMENT INFORMATION (CONTINUED)

Segmented revenue by geographical segments for the year ended 31 December 2012

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans to customers	1,128	77	519	97	1,821
Loans and advances to other banks and insurance companies	1,786	-	35	9	1,830
Other interest income	6,741	-	-	7	6,748
Total interest income	9,655	77	553	113	10,399
Income from fees and commissions:					
Guarantees counter-guaranteed by the state	108	-	-	19	128
Insurance fees devolved by MEHIB	-	-	4	19	24
Guarantees not counter-guaranteed by the state	110	-	-	1	112
Other	1	-	1	-	2
Total income from fees and commissions	220	-	5	40	266
Total Income	**9,875**	**77**	**559**	**153**	**10,665**

Segmented revenue by geographical segments for the year ended 31 December 2011

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans to customers	1,618	236	568	142	2,564
Loans and advances to other banks and insurance companies	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 counter-guaranteed by the state	169	-	-	53	222
Insurance fees devolved by MEHIB	-	-	12	-	12
Guarantees not counter-guaranteed by the state	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**

NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date, which have any significant effect on figures in financial statements for the year 2012.

NOTE 29. 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 26.).

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 3.11.1).

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 29. 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 2012	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Derivative instruments	-	130	130
	-	130	130
Available-for-sale financial assets	873	24,967	25,840
	873	24,967	25,840
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	856	856
	-	856	856
31 December 2011			
Financial assets at fair value through profit or loss			
Derivative instruments	-	47	47
	-	47	47
Available-for-sale financial assets	1,118	9,970	11,088
	1,118	9,970	11,088
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	1,407	1,407
	-	1,407	1,407

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 30. 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 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	-	2,505	-	-	2,505	2,505
Loans and advances to other banks and insurance companies	-	165,380	-	-	165,380	165,380
Loans and advances to customers	-	63,282	-	-	63,282	63,282
Financial assets at fair value through profit or loss	130	-	-	-	130	130
Available-for-sale financial assets	-	-	25,840	-	25,840	25,840
Total	130	231,167	25,840	-	257,137	257,137
Loans and deposits from other banks	-	-	-	128,855	128,855	128,855
Debt securities issued	-	-	-	109,148	109,148	112,518
Financial liabilities at fair value through profit or loss	856	-	-	-	856	856
Total	856	-	-	238,003	238,859	242,229

(All amounts stated in HUF million unless otherwise noted)

NOTE 30. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

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 and insurance companies	-	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

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 insurance companies and Loans and advances to customers
The carrying values of Loans and advances to other banks and insurance companies 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 30. 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.

Debt securities issued
The bonds issued by the Bank are actively traded on London Stock Exchange and on OTC markets. Fair value of the bonds as at 31 December 2012 are determined based on the observable market prices.

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 31. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.
The IFRS 9 (2009) requirements represent a significant change from the exciting requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the exciting IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date.

NOTE 31. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.
The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.
IFRS 9 (2012) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.
IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

Amendment to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments of IFRS 7) introduces disclosures about the impact of netting arrangement on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.
Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.
Based on our initial assessment, the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated.

NOTE 31. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

IFRS 11 is not expected to have any impact on the Bank because the Bank does not have interests in joint ventures. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 early adoption permitted.

These standards are not relevant to the Bank's financial statements as the Bank does not prepare consolidated financial statements, the Bank has no subsidiaries, significant interest in other entities.

IFRS 13 Fair Value Measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by the other IFRSs. The Bank is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities. IFRS 13 is effective for annual periods beginning or after 1 January 2013 with early adoption permitted.

IAS 19 Employee Benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.
This standard is not relevant to the Bank's financial statements as the Bank does not have benefit plan assets.

Annual Improvements May 2012

These improvements will not have an impact on the Bank, but include:

IFRS 1 First-time Adoption if International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

NOTE 31. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plan and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.