



Hungarian Development Bank
Private Limited Company

Presentation

December 2011

Overview

- **Foundation in 1991**
- **Banking license received in 1993**
- **Status**
 - Specialised credit institution
 - 100 % of shares owned by the State
 - Statutory repayment guarantee provided by the State
- **The ownership rights exercised by a minister appointed by the Government (currently the Minister for National Development) called Founder**
- **MFB Act: Act XX of 2001 (as amended and revised last in 2010)**
- **Other relevant acts:**
 - Banking Act (Act CXII of 1996)
 - Companies Act (Act IV of 2006)
 - Annual Budget Act
 - Capital Market Act (Act CXX of 2001)
 - Act on State Property (Act CVI of 2007 – amended by Act LII of 2010)

Mission of MFB

- **The strategic mission of MFB is to provide development funds necessary to realise the economic development goals determined by the medium- and long term economic strategy of the Hungarian Government**
- **MFB shall become the engine of the Hungarian economy and to be an active participant in the renewal and development process of the Hungarian economy**
- **Main drivers of the activity:**
 - Governance
 - Strategy
 - Innovation
 - Corporate social responsibility

MFB Group (according to the stipulations of the MFB Act) – breakdown by control position

Ownership

FINANCIAL SERVICES:

- Hungarian Export-Import Bank Pte. Ltd
- Hungarian Export Insurance Pte. Ltd..
- Hungarian Claim Work-out Pte. Ltd.

INVESTMENT SERVICES:

- Corvinus Venture Capital Fund Management Pte. Ltd.
- MFB Invest Investment and Holding Company
- Small Enterprise Development Finance Pte. Ltd
- Supplier Investment Pte. Ltd.

EU and GOVERNMENT RELATED FUNDS INTERMEDIATION:

- Corvinus Subsidy Intermediation Pte. Ltd.
- MAG – Hungarian Economic Development and Subsidies Center Pte. Ltd.

INFRASTRUCTURE:

- KIKSZ Transport Development Pte. Ltd.
- South Stream Hungary Ltd.

OWNERSHIP IN FUNDS:

- Corvinus First Innovation Venture Capital Fund
- MFB Development Capital Fund

Exercising of State ownership rights

FINANCIAL SERVICES:

- Garantiqa Creditguarantee Co. Ltd.
- Student Loan Centre Ltd.

INFRASTRUCTURE:

- Hungarian Roads Management Company
- National Infrastructure Development Pte. Ltd.
- State Motorway Management Co. Ltd.

TRADE, TOURISM AND SPORT:

- Hungarian Tourism Pte. Ltd.
- Hungarofest Non-profit Ltd.
- National Horse Race Ltd.
- Hungarian Horse Race Bet Organisation Ltd.

REGIONAL DEVELOPMENT:

- Regional Development Holding Pte. Ltd.

AGRICULTURE AND FORESTRY:

- Agricultural Property Management Ltd.
- Bábolna National Stud Farm
- State Stud of Mezőhegyes
- 22 state forestry companies

Strong government support

■ Statutory repayment guarantee (liabilities):

- Fulfilment of payment obligations deriving from credits and loans taken and from bonds issued by MFB with the aim of fundraising
- Limit amount for aggregate volume of the funds with a term in excess of one year approved for 2011 by the annual Budget Act: HUF 1,400 billion (approx. EUR 5.2 billion) – utilisation level as 30 September 2011: 65.6%

■ Counter guarantee (assets):

- Fulfilment of obligations under loans granted by MFB and absolute suretyships or bank guarantees undertaken in favour of third parties by MFB on the basis of a Government resolution
- Limit amount approved for 2011 by the annual Budget Act: HUF 600 billion (approx. EUR 2.2 billion) – utilisation level as 30 September 2011: 21.0%

■ FX risk guarantee:

- Exchange rate guarantee for the total HUF counter-value of euro funds deriving from credits and loans taken and bonds issued by MFB for a term in excess of one year.
- Limit amount approved for 2011 by the annual Budget Act: HUF 1,600 billion (approx. EUR 5.9 billion) – utilisation level as 30 September 2011: 79.4%



Statutory guarantee explained

- Fulfilment of all payment obligations under credits and loans taken and from bonds issued by MFB with the aim of fundraising
- Limit amount for the aggregate volume of the funds for a term in excess of one year approved for 2011 by the annual Budget Act: HUF 1,400 billion (approx. EUR 5.2 billion)
- According to §5 (4) of the MFB Act, funding transactions denominated in foreign currency having a term of more than one year can only be performed in consultation with the minister responsible for state finances and the minister exercising the ownership rights over MFB.
- The Guarantee
 - Unconditionally secures the payment obligations of MFB
 - Direct, Explicit, Irrevocable
- Enforcement: written claim against the State represented by the minister responsible for state finances



- **New medium-term economic development plan of Hungary: New Széchenyi Plan**
- **Restructuring of existing loan programmes of MFB – 6 main programmes (enterprise development, agrarian development, municipality, private individuals, working capital, agrarian working capital)**
- **New loan sub-programmes in line with the objectives of the New Széchenyi Plan:**
 - **health industry (remedial and preventive healthcare, rehabilitation, R&D, biotechnology, medical equipment manufacturing, spas, etc.)**
 - **green economy (renewable and geothermal energy, biotech R&D, etc.)**
 - **improvement of the business environment**
 - **science and innovation**
 - **increasing employment (job creation, productivity)**
 - **transport and logistics**
 - **housing programme**

Balance sheet and income statement

(million HUF)

	Audited 31-Dec-10	Non-Audited 30-June-11		Audited 2010	Non-Audited H1-2011
Cash and balances with the National Bank of Hungary	23,064	11,219	Interest and similar income	53,064	26,697
Placements with other banks	468,140	516,888	Interest expense and similar charges	(32,964)	(18,101)
Loans and advances to customers, net of allowance for impairment losses	326,740	321,052	Net interest income	20,100	8,596
Available for sale securities	213,032	234,708	Allowance for impairment losses of loans and advances	(25,495)	(6,493)
Investments	62,158	62,321	Allowance for impairment losses of inventories	(6)	(422)
Financial assets at fair value through profit or loss	9,609	2,381	Fee and commission income	820	524
Property, plant and equipment	3,612	3,459	Fee and commission expenses	(1,425)	(607)
Intangible assets	2,649	2,394	Net fee and commission expenses	(605)	(83)
Current tax assets	660	1,130	Allowance for impairment losses of investments	(3,577)	(133)
Other assets	79,629	51,775	Net gain from financial instruments at fair value through profit or loss	398	345
Total assets	1,189,293	1,207,322	Dividend income	15	15
Placements and loans from other banks	477,932	541,398	Net gain on foreign currency transactions	-	1,568
Deposits from customers, loans from Hungarian State	68,677	83,743	Other provision releases	-	1,208
Issued securities	390,208	371,492	Other income	1,052	377
Derivative liabilities held for risk management	85	307	Other operating income	1,067	3,168
Financial liabilities at fair value through profit or loss	109,448	73,562	General and administrative expenses	(12,779)	(6,088)
Provisions	5,540	3,174	Net loss on foreign currency transactions	(499)	-
Deferred tax liabilities	154	154	Other provision charges	(4,359)	-
Other liabilities	13,918	10,617	Other expenses	(959)	(287)
Total liabilities	1,065,962	1,084,447	Other operating expenses	(18,596)	(6,375)
Share capital	100,000	102,500	Loss before tax	(26,708)	(1,131)
Share capital called but unpaid	-	(2,500)	Taxation	(139)	(54)
Capital reserve	25,652	25,652	Net loss for the year	(26,847)	(1,185)
Statutory reserves	2,192	2,192	Other comprehensive income		
Retained earnings	(4,771)	(5,637)	Revaluation of available for sale financial assets	484	371
Valuation reserve	258	673	Net amount transferred to profit or loss	-	44
Total shareholder's equity	123,331	122,880	Net other comprehensive income	484	415
Total liabilities and shareholder's equity	1,189,293	1,207,327	Total comprehensive expenses	(26,363)	770
Commitments and contingencies	213,782	230,123			



Capital structure

Equity of the Bank	31/12/2006 Audited IFRS (HUFbn)	31/12/2007 Audited IFRS (HUFbn)	31/12/2008 Audited IFRS (HUFbn)	31/12/2009 Audited IFRS (HUFbn)	31/12/2010 Audited IFRS (HUFbn)	31/12/2011 Plan IFRS (HUFbn)
Share capital	87,570	87,570	87,570	87,570	100,000	115,000
Capital reserve	18,082	18,082	18,082	18,082	25,652	26,625
Statutory reserves	5,908	6,438	6,452	9,079	2,192	2,066
Retained earnings	4,221	10,241	19,784	22,932	22,076	(2,080)
Valuation reserve	(1,754)	(634)	(215)	(226)	258	53
Profit or loss for the financial year	8,516	9,557	5,775	4,257	(26,847)	(2,859)
Total Shareholder's equity according to IFRS	122,543	131,254	137,448	141,694	123,331	138,805
Profit or loss before income tax	11,407	11,510	7,145	4,756	(26,708)	(2,859)
ROE 1 (Profit or loss after tax/Total Shareholder's equity)	6.95%	7.28%	4.20%	3.00%	n.a.	n.a.
ROE 2 (Profit or loss before tax/Total Shareholder's equity)	9.31%	8.77%	5.20%	3.36%	n.a.	n.a.
CAR	34.22%	21.65%	19.41%	12.99%	13.91%	15.18%

Public policy roles – lending activities

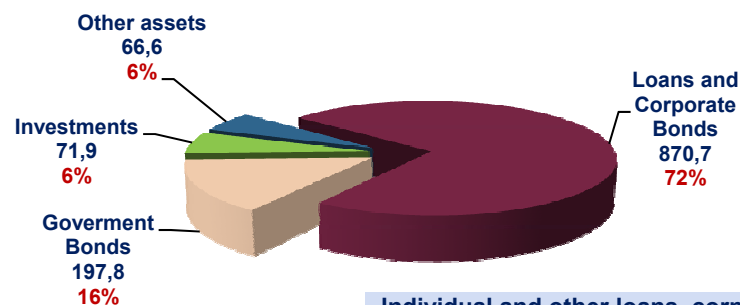
- **SME lending**
- **Municipality financing**
- **Micro-credit funds**
- **Infrastructure financing**
- **Environment protection**
- **Regional development**
- **Renewable energies & "green banking"**
- **Agrarian financing**
- **Others: healthcare, education, sport facilities, social housing**

Main features of lending activities

- **Clients: SME sector, municipalities, enterprises based in Hungary, state-owned companies, commercial banks**
- **Target: providing long term facilities**
- **Conditions of lending**
 - **Maturity: preferably 5-15 years**
 - **Interest rate: preferential for SMEs and municipalities**
- **No competition with commercial banks: besides lending no usual commercial banking services are offered to clients (account keeping, etc.)**
- **Two types: direct (all risks taken by MFB) and indirect (commercial and client risks taken by commercial banks) financing**

Asset portfolio (as of 30 June 2011)

Total Assets: HUF 1,207.3 billion



**Loans and corporate bonds:
HUF 870.6 billion**



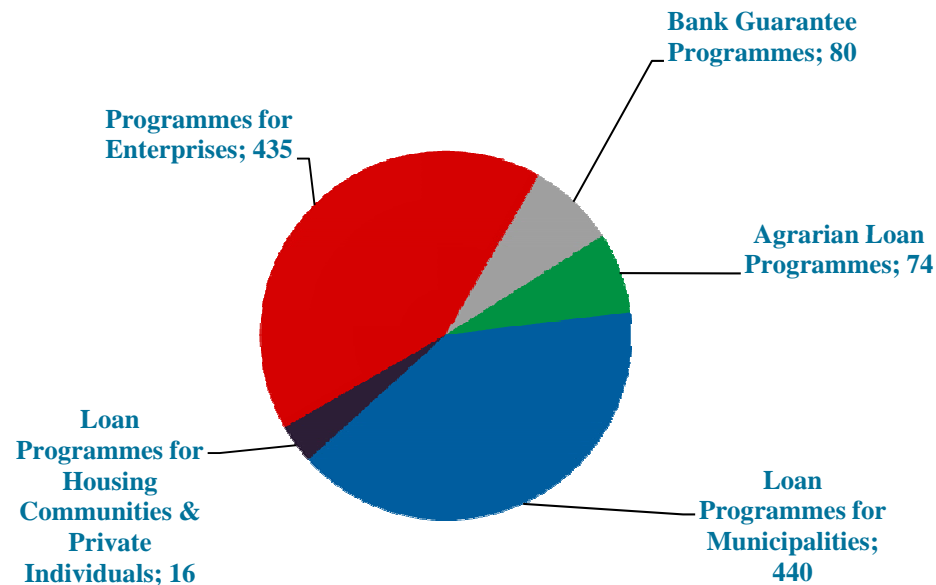
Individual and other loans, corporate bonds (as of 30 June.2011)	Billion HUF
Direct loans to Group members	200.6
Direct loans to other clients	254.2
Corporate bonds	35.0
Direct loans placed via agent	19.2
Total	509

Programme loans (as of 30 June 2011)	Billion HUF
Refinancing programme loans	328.5
Direct programme loans	33.1
-Via agent	9.7
Total	361.6

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Financing programmes by industry (total amount: HUF 1,045 bn / EUR 4 bn)

in billion HUF



Successful Hungary Energy Saving Loan Programme for Citizens 16

Successful Hungary Municipal Infrastructure Development Loan Programme	310
Panel Plus (Block-house Renovation) Loan Programme	40
Successful Hungary Social Housing Loan Programme	30
New Hungary Municipal Infrastructure Development Bond-Financing Programme	60

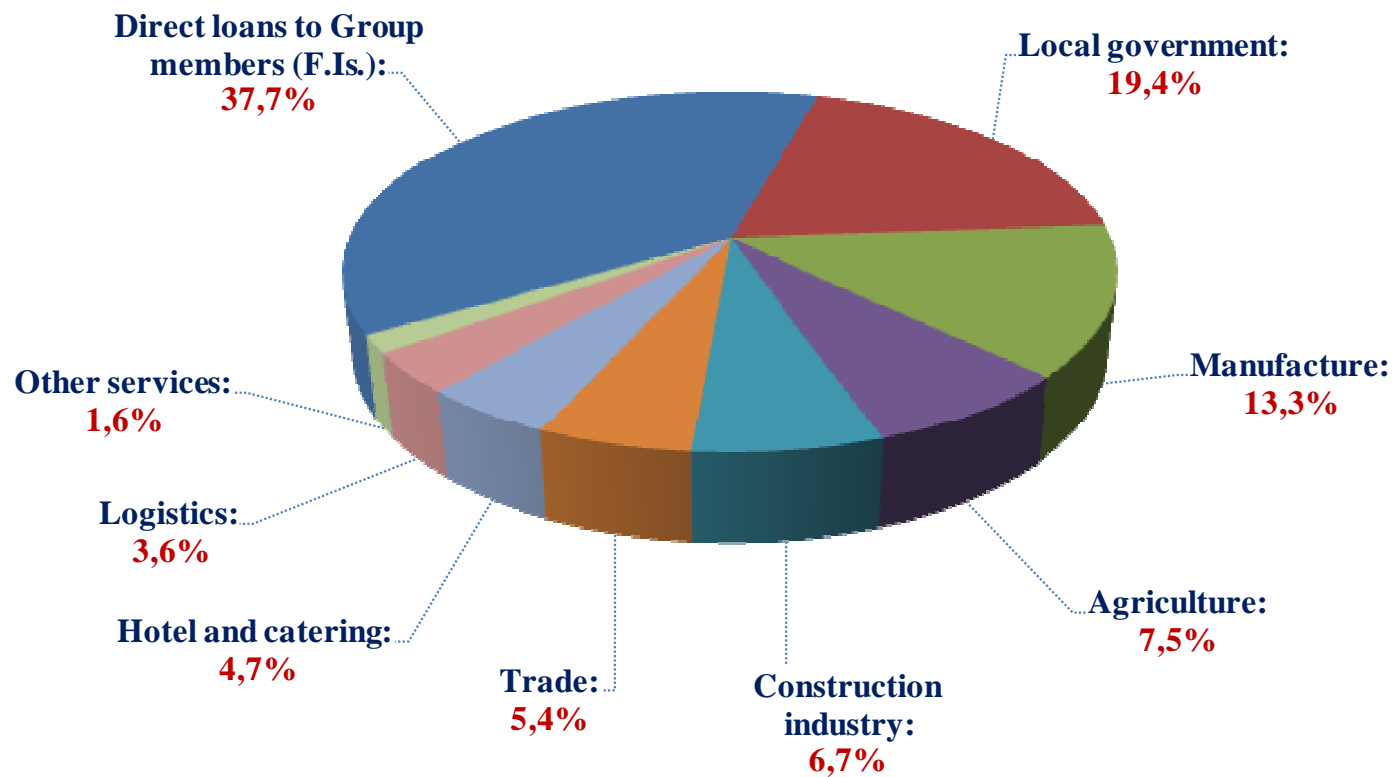
MFB Food Industry Bank Guarantee Programme	30
MFB Economic Stimulation Bank Guarantee Programme	50

Agrarian Working Capital Loan Programme (Vis Major)	11
MFB Agrarian Working Capital Loan Programme	15
New Hungary Agrarian Development Loan Programme	25
New Hungary Agrarian Working Capital Loan Programme	15
New Hungary Working Capital Loan Programme for (Agrarian) Producer Organisations	8

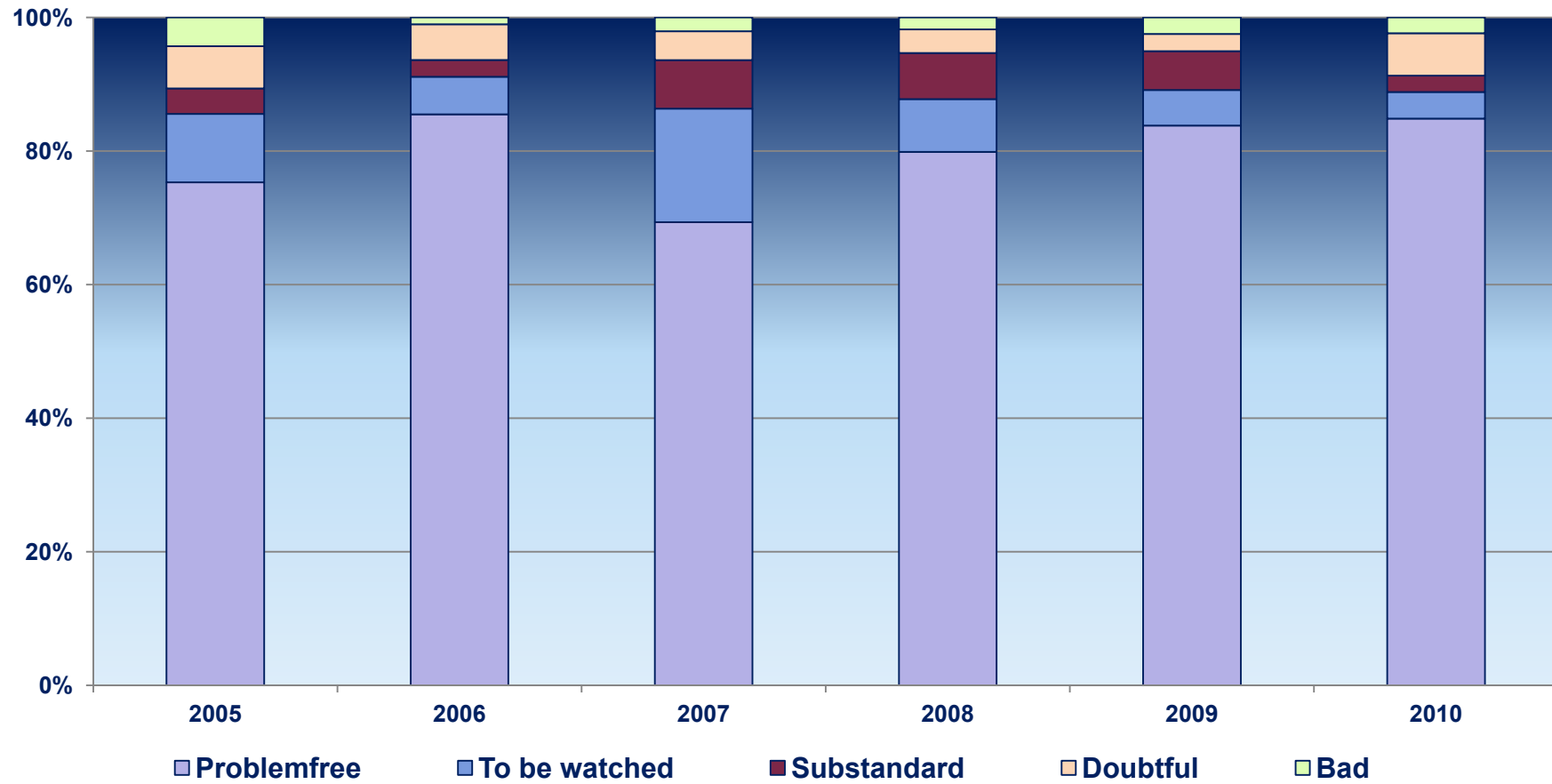
MFB Public Transport Development Loan Programme	50
New Hungary Loan Programme for Small and Medium Sized Enterprises	25
New Hungary Loan Programme for Small Enterprises	10
New Hungary Enterprise Development Loan Programme	350

MFB

Breakdown of loans by industry (as of 30 June 2011)



Asset quality



Funding

- **Basis: Annual Business Plan approved by the Founder**
- **Annual funding volume in the next 3-4 years: EUR 1-1.5 billion**
- **Main types of funds used by MFB**
 - Special purpose funds from foreign development institutions and agencies
 - Medium- and long-term funds from the domestic and international financial markets
- **Targeted instruments: Public bonds, Syndicated loans, Private placements and bilateral transactions, Loans from IFIs**
- **Statutory guarantee by the Republic of Hungary**
- **Strong capital base: capital adequacy ratio (calculated according to Basel II) in excess of 12%**
- **Rating in line with that of the Republic of Hungary**

Ratings from *Moody's Investors Service* since May 19, 2003
Current ratings

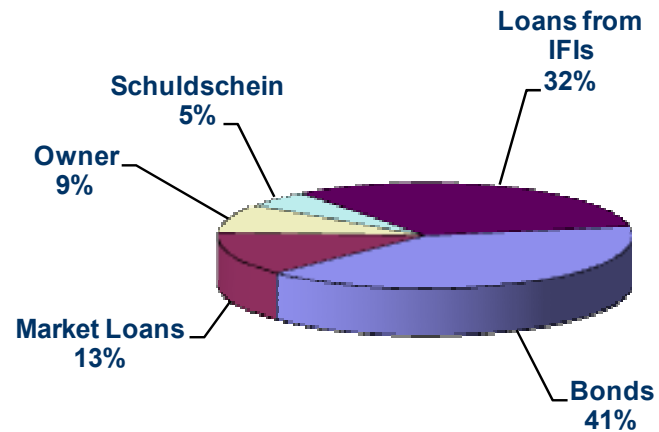
Category	Rating	Assigned
Bank Deposits (long/short)	Ba2/Not-Prime	November 2011
Senior Unsecured Debt (foreign currency)	Ba1	November 2011
Outlook	Negative	November 2011

The logo for MFB (Magyar Nemzeti Bank) consists of the letters 'MFB' in a bold, blue, sans-serif font. To the left of the letters are three vertical bars of increasing height, also in blue, creating a stylized graphic element.

Medium and long-term liabilities

(as of 31 November 2011)

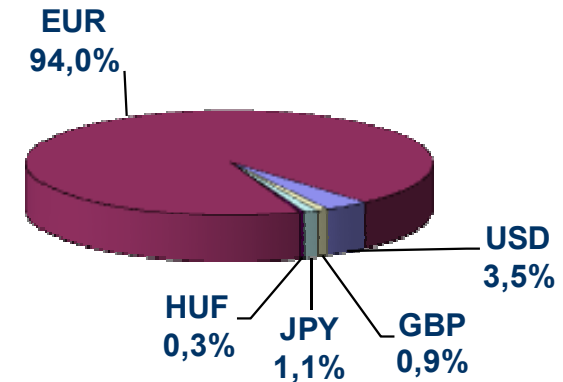
Instruments



- Bonds: 3 outstanding EUR public issues
- Loans from IFI's: EIB, CEB, KfW, NIB, NRW.BANK
- Schudschein, bilateral: 5 outstanding transactions
- Loan from the Owner in 2009

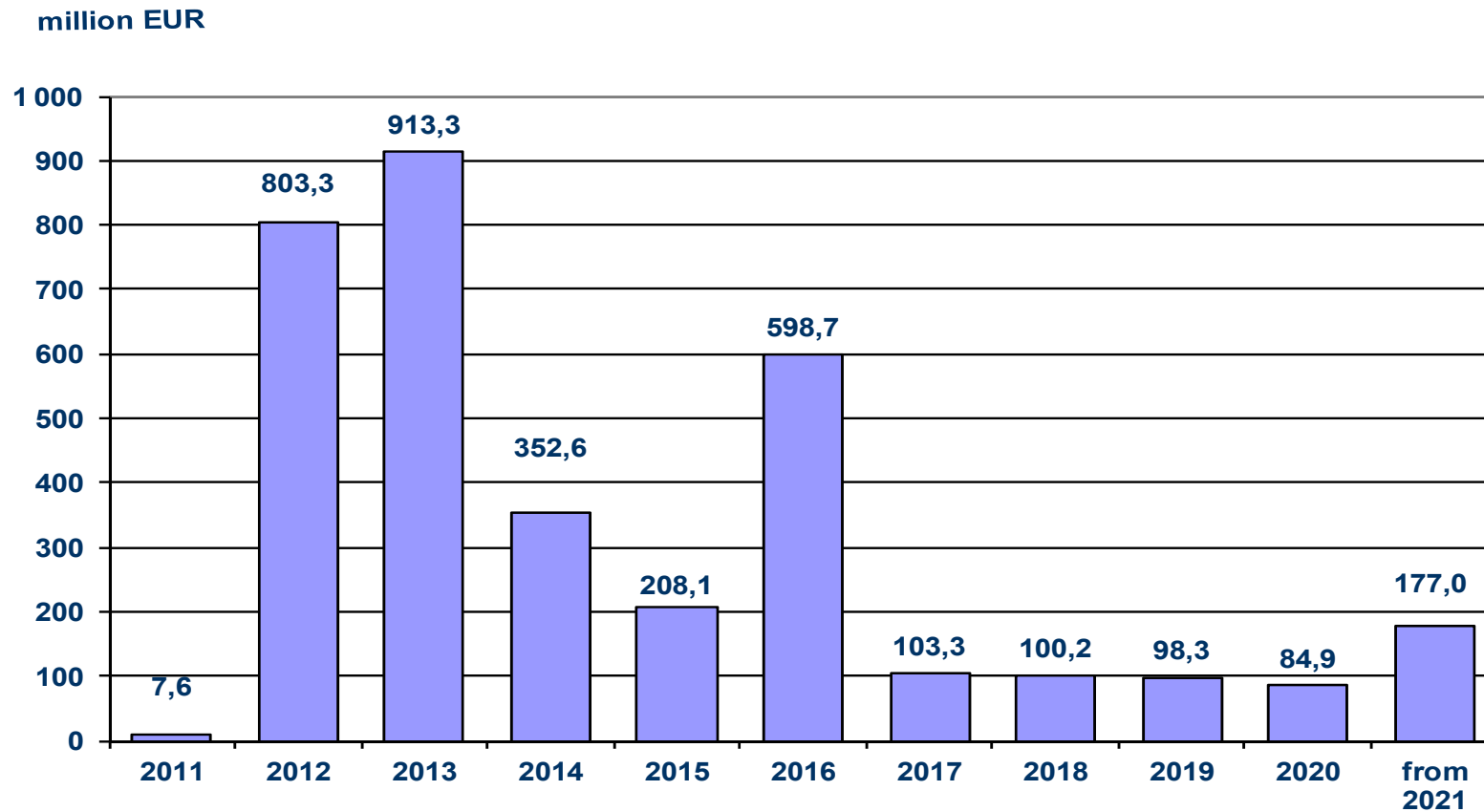
- Market & IFI funding in EUR
- Loan from the Owner: according to SDR basket

Currency composition (primary market)



Maturity profile

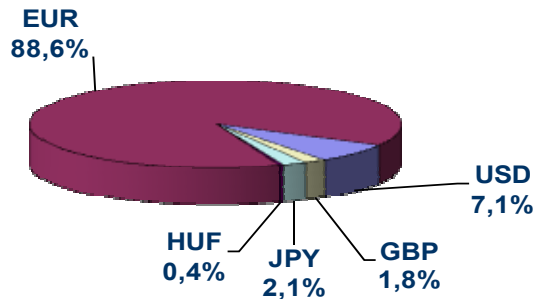
(as of 31 November 2011)



Management of FX risks

Total external medium- and long term funds (3.5 billion EUR) and their placement

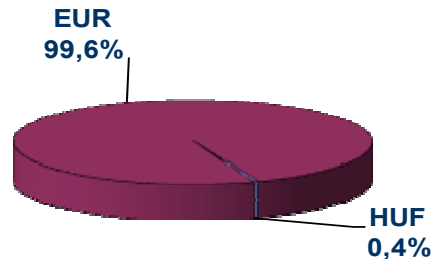
Currency composition of liabilities
(primary market)
as of 31 December 2010



Swap



Currency composition of liabilities
(after swaps)
as of 31 December 2010

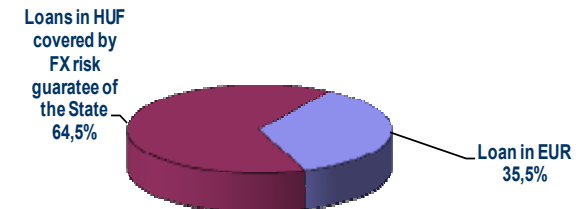


Hedging



1. Natural hedge: loans in EUR
2. FX risk guarantee from the State: loans in HUF

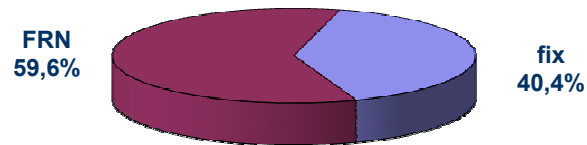
Currency composition of loan portfolio
as of 31 December 2010



Management of interest rate risks

Total external medium- and long term funds (3.5 billion EUR) and their placement

Interest composition of liabilities
(primary market)
as of 31 December 2010

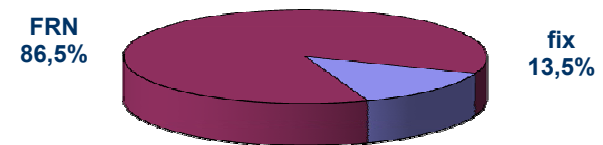


Hedging



**IR swap: 950
million EUR**

Interest composition of assets
as of 31 December 2010

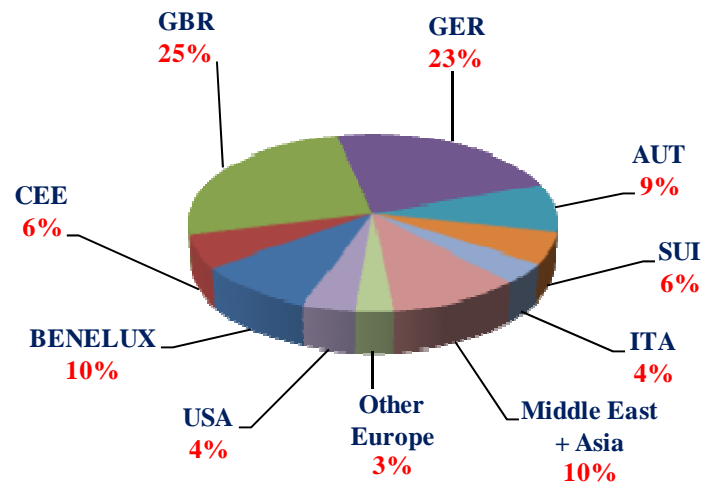


2011 funding transactions

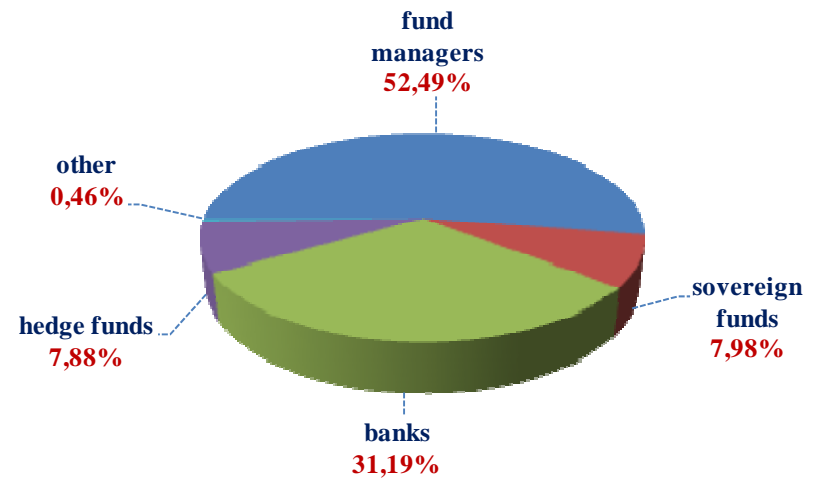
- **International public bond issue: EUR 500 million**
 - Issues date: 31 May 2011
 - Maturity: 31 May 2016
 - Interest: 5.875% p.a.
 - Reoffer spread: REPHUN+75 bps, MS+320 bps, Bund: 366.4 bps
- **Draw-downs from bilateral facilities: EUR 180 million**
- **Draw-downs from IFI loans: EUR 120 million**
- **New framework loan agreement: EUR 125 million signed with CEB**
- **Remaining financing need is to be covered by IFI draw-downs, money- and capital markets transactions.**

EUR 500 million international public bond in 2011

Geographical distribution



Institutional distribution



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