



Diákhitel Központ Zártkörűen Működő Részvénytársaság
[Student Loan Centre Private Limited Company by Shares]

**Financial statements prepared in accordance with the
International Financial Reporting Standards
as adopted by the EU
31 December 2016**

CONTENTS

Financial Statements prepared in accordance with the International Financial Reporting Standards

- Independent Auditor's Report
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Cash Flow Statement
- Notes to the Financial Statements

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of
Diákhitel Központ Zrt.

Opinion

We have audited the accompanying 2016 financial statements of Diákhitel Központ Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2016 - showing a balance sheet total of HUF 234,929 million and a total comprehensive loss for the year of HUF 4,234 million - , the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of Diákhitel Központ Zrt. as at 31 December 2016 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Calculation of the credit impairment losses

The balance of credit impairment losses is HUF 41,669 million in the financial statements of the Company as at 31 December 2016. Calculation of the impairment losses related to student loan portfolio is performed by an external actuary service provider and it involves significant degree of assumptions and complex judgements, and uses models including stochastic approach. The calculation method was changed this year, with the introduction of a new stochastic approach, which includes a number of explicit or implicit assumptions as disclosed in the notes 3.13 and 4.1.2 of the supplementary notes to the financial statements.

The underlying significant assumptions and change in approach together with the size of the credit impairment losses led us to consider this topic as a key audit matter.

Audit procedures included understanding of the process established for calculation of credit impairment losses. With the involvement of actuarial specialists we understood the methodology, the model, and the assumptions used by the Company for the calculation of credit impairment losses.

We obtained the student loan portfolio as an underlying basis for credit impairment losses calculation and reconciled to the general ledger to assess its completeness.

We tested the model used for the calculation, assessed the development of the cash-flows separated by the key variables included in the model and asked for explanations for unusual changes or trends.

We assessed whether the annual movement in credit impairment losses is in line with our understanding of developments in the Company's business and changes in the assumptions.

We tested the current year calculation by obtaining back-testing of the main outputs of the model which was prepared by the external actuarial expert and we compared the projected results to the actually observed values of the model.

We assessed the adequacy of the Company's disclosures in the notes 3.13 and 4.1.2 of the financial statements to the requirements of EU IFRSs.

Calculation of the insurance technical provisions

Under IFRS rules the insurance component of the student loans is separately valued and presented in the financial statements of the Company. The balance of the insurance risk related insurance technical provisions is HUF 2,318 million in the financial statements of the Company as at 31 December 2016. Calculation of insurance technical provisions related to student loan portfolio is performed by an external actuary service provider and it involves significant degree of assumptions and complex judgements, and uses models including stochastic approach. The calculation method was changed this year, with the introduction of a new stochastic approach, which includes a number of explicit or implicit assumptions as disclosed in the note 24 of the supplementary notes to the financial statements.

The underlying significant assumptions and change in approach led us to consider this topic as a key audit matter.

Audit procedures included understanding of the process established for calculation of insurance technical provisions. With the involvement of actuarial specialists we understood the methodology, the model, and the assumptions used by the Company for the calculation of insurance technical provisions.

We obtained the student loan portfolio as an underlying basis for insurance technical provisions calculation and reconciled to the general ledger to assess its completeness.

We tested the model used for the calculation, assessed the development of the cash-flows separated by the key variables included in the model and asked for explanations for unusual changes or trends.

We assessed whether the annual movement in insurance technical provisions is in line with our understanding of developments in the Company's business and changes in the assumptions.

We tested the current year calculation by obtaining back-testing of the main outputs of the model which was prepared by the external actuarial expert and we compared the projected results to the actually observed values of the model.

We assessed the adequacy of the Company's disclosures in the note 24 of the financial statements to the requirements of EU IFRSs.

Strong dependence on information technology (IT) systems

A significant part of the Company's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial

component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

Due to the complexity of IT systems and nature of application controls we consider this topic as a key audit matter.

significance of the system and whether there were automated procedures supported by that system. As audit procedures over the IT systems and application controls require specific expertise, we also involved IT audit specialists in the audit procedures.

We tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

Fair value of financial liabilities

As part of its financing activities the Company issues corporate bonds and also finances its activities from bank loans, which are disclosed among the financial liabilities in the financial statements. The balance of the financial liabilities represents HUF 225,341 million in the statement of financial position of the Company as at 31 December 2016. The issued bonds and loans are held at amortized costs, but in line with the requirement of IAS 32 their fair values are disclosed in the note 6 of the financial statements.

As the balance of these financial liabilities represents significant amount in the financial statements of the Company and their fair valuation includes a number of assumptions, we consider this topic a key audit matter.

Audit procedures included understanding of the process established for calculation of fair values of the financial liabilities.

We involved our internal valuation specialists in the audit of the fair valuation of the issued bonds and the bank loans. We re-performed the valuations on a sample basis.

We also assessed the adequacy of disclosures in the note 6 of the financial statements, including valuation sensitivity and fair value hierarchy, to the requirements of EU IFRSs.

Other matters

Diákhitel Központ Zrt. has prepared financial statements as at 31 December 2016 in accordance with the Hungarian Accounting Law, we have issued a separate auditors' report on those financial statements to the shareholder of the Company on 26 April 2017.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 3 August 2017

(The original Hungarian language version has been signed.)

Virágh Gabriella
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

Table of Contents

I. Statement of Comprehensive Income	11
II. Statement of Financial Position	12
III. Statement of Changes in Equity	13
IV. Cash flow statement	14
V. Notes to the financial statements	15
1. Brief introduction to the company	15
2. Basis of preparation	16
2.1. Statement of compliance with standards	16
2.2. Basis of measurement	16
2.3. Functional and presentation currency	16
2.4. Use of estimates and assumptions	16
2.5. Reclassifications and errors	17
3. Summary of key accounting policies	18
3.1. Recognition of student loan products	18
3.2. Net interest income	18
3.3. Insurance premium earned, claims paid	19
3.4. Net profit or loss from trading	19
3.5. Movements in insurance technical reserves	19
3.6. Credit loss expense	20
3.7. Other operating income and expense	20
3.8. Tax expense, tax income	20
3.9. Financial assets and liabilities	20
3.9.1. <i>Available-for-sale financial assets</i>	21
3.9.2. <i>Cash and cash equivalents</i>	21
3.9.3. <i>Loans and receivables</i>	21
a) <i>Student loans</i>	21
b) <i>Insurance premium receivables</i>	22
c) <i>Other receivables</i>	22
3.9.4. <i>Other financial liabilities</i>	22
a) <i>Amounts payable to banks</i>	22
b) <i>Issued bonds</i>	22
c) <i>Other financial liabilities</i>	23
3.10. Other assets	23
3.11. Property, plant and equipment	23
3.12. Intangible assets	23
3.13. Impairment loss	24
3.13.1. <i>Impairment loss of financial assets</i>	24
a) <i>Impairment loss of student loans and insurance premium receivables</i>	24
b) <i>Impairment loss of available-for-sale securities and other financial assets</i>	25
3.13.2. <i>Impairment loss of non-financial assets</i>	26
3.14. Provisions	26
3.15. Share capital and other reserves	26
3.15.1. <i>Capital reserve</i>	26
3.15.2. <i>Retained earnings</i>	27

3.15.3.	<i>Other reserves</i>	27
3.16.	Government grants	27
3.17.	Segment information	27
3.18.	New IFRS standards applicable from 1 January 2016	27
	Early application of new standards	29
3.19.	New IFRS standards and interpretations not yet adopted	29
4.	Financial and insurance risk management	30
4.1.	General introduction of financial and insurance risks	30
4.1.1.	<i>Risk management framework</i>	30
4.1.2.	<i>Credit risk</i>	32
4.1.3.	<i>Insurance risk</i>	37
4.1.4.	<i>Liquidity risk</i>	43
4.1.5.	<i>Market risk</i>	44
4.1.6.	<i>Early repayment risk</i>	45
5.	Capital management	46
6.	Fair value of financial instruments	46
8.	Insurance premium earned	51
9.	Damages paid	51
10.	Net trading profit or loss	52
12.	Tax expense, tax income	53
14.	Cash and cash equivalents	56
15.	Student loans and insurance premium receivables	56
16.	Other receivables	58
17.	Other assets	58
18.	Tangible assets	59
19.	Intangible assets	60
20.	Deferred tax assets and tax liabilities	61
21.	Amounts payable to banks	62
22.	Other liabilities	63
23.	Issued bonds	63
24.	Technical reserves	64
25.	Share capital, capital reserve and other reserves	66
26.	Contingent assets and liabilities	66
27.	Operating leasing commitments	66
28.	Transactions with related parties	67
29.	Subsequent events	69

I. Statement of Comprehensive Income

	Note	31 Dec 2016	data in M HUF 31 Dec 2015 restated
Interest income	7	10 163	14 354
Interest expense	7	-6 933	-8 723
Net interest income		3 230	5 631
Insurance premium earned	8	960	1 047
Claims paid	9	-157	-130
Net trading profit	10	-176	-119
Other operating income	11	48	89
Movements in insurance technical reserves	24	351	-255
Net operating profit before impairment loss on loans		4 256	6 263
Impairment loss on loans	4.1.2	-4 363	-3 667
Credit loss expense	3.6	-2 011	-13
Operating profit (loss), net		-2 118	2 583
Other operating expenses	11	-2 637	-2 355
Pre-tax profit (loss)		-4 755	228
Taxes paid/received	12	520	-27
Profit (loss) for the year		-4 235	201
Profit (loss) for the year (attributable to the shareholders)		-4 235	201
 Profit (loss) for the year		 -4 235	 201
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Measurement difference due to fair valuation of available for sale financial assets		1	-12
Taxes received/paid from other comprehensive income items		0	1
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Other comprehensive income for the period including deferred tax		-4 234	190
Comprehensive profit (loss) for the year		-4 234	190
Comprehensive profit (loss) for the year (attributable to the shareholders)		-4 234	190

Budapest, 3 August 2017

DIÁKHITEL KÖZPONT Zrt.
 1027 Budapest, Kacsó u. 15-23.
 Adószám: 12657331-2-41
 Bugár Csaba
 CEO

II. Statement of Financial Position

				Data in M HUF
	Notes	31 Dec 2016	31 Dec 2015 restated	1 Jan 2015 restated
Assets				
Cash and cash equivalents	14	211	559	19 814
Student loans	15	232 236	244 121	245 991
Insurance premium receivable	15	1 951	2 355	2 530
Current income tax assets		0	0	3
Other receivables	16	199	195	198
Other assets	17	2	3	3
Properties, plant and equipment	18	160	196	177
Intangible assets	19	170	257	269
Total assets:		234 929	247 686	268 985
Liabilities				
Amounts payable to banks	21	174 989	158 464	153 710
Other liabilities	22	579	549	622
Bonds issued	23	50 211	74 417	100 865
Insurance technical reserves	24	2 318	2 669	2 414
Deferred tax liability	20	411	932	909
Total liabilities:		228 508	237 031	258 520
Equity				
Issued capital and capital reserve	25	2 500	2 500	2 500
Retained earnings	25	-6 112	-1 877	-2 078
Other reserves	25	10 033	10 032	10 043
Total equity:		6 421	10 655	10 465
Equity attributable to the shareholders		6 421	10 655	10 465
Total equity and liabilities:		234 929	247 686	268 985

Budapest, 3 August 2017

DIÁKHITEL KÖZPONT Zrt.
1027 Budapest, Kacsó u. 15-23.
Adószám: 12657331-2-41
Bugár Csaba
CEO

III. Statement of Changes in Equity

Data in MHUF							
Item	Notes	Issued Capital	Capital reserve	Retained losses	Other reserves	Valuation reserve	Total
					Other capital contribution		
Opening at 01 Jan 2015 restated		300	2 200	-2 078	10 033	10	10 465
Other capital contribution	21	0	0	0	0	0	0
Deferred tax for other capital contribution	20	0	0	0	0	0	0
Fair value recognised in equity	14 ; 20	0	0	0	0	-11	-11
Loss for the year		0	0	201	0	0	201
Closing at 31 Dec 2015 restated		300	2 200	-1 877	10 033	-1	10 655
Other capital contribution	21	0	0	0	0	0	0
Deferred tax for other capital contribution	20	0	0	0	0	0	0
Fair value recognised in equity	14 ; 20	0	0	0	0	1	1
Loss for the year		0	0	-4 235	0	0	-4 235
Closing at 31 Dec 2016		300	2 200	-6 112	10 033	0	6 421

Data in M HUF

Budapest, 3 August 2017

DIÁKHITEL KÖZPONT Zrt.
1027 Budapest, Kacsai u. 15-23.
Adószám: 12657331-2-41
2.

Bugár Csaba
CEO

IV. Cash flow statement

	Notes	31 Dec 2016	31 Dec 2015 restated
Operating cash flows			
Pre-tax profit (loss)		-4 755	228
Adjustments			
Amortisation of intangible assets/depreciation of tangible assets	11	165	179
Gains/losses on the disposal of tangible/intangible assets	11	0	0
Impairment loss on financial assets	4.1.2	4 363	3 667
Damages paid	9,11	2 168	143
Interest income, net	7	-3 230	-5 631
Movements in insurance technical reserves	24	-351	255
Corporate tax received	12	520	-27
Student loans disbursed		-14 084	-16 534
Student loans repaid		22 460	20 007
Interest received		7 181	8 980
Interest paid		-7 049	-10 708
Net trading result		176	119
Movements in insurance premium receivable		363	142
Movements in other assets		-3	2
Movements in other liabilities		-491	-50
Operating cash flows, net		12 188	544
Investing cash-flows			
Tangible assets acquisitions		-22	-98
Tangible assets disposals		0	2
Intangible asset acquisitions		-20	-90
Investing cash flows, net		-42	-186
Financing cash flows			
Proceeds of bonds issued		15 751	21 230
Repayment of bonds issued		-39 164	-44 841
Amounts borrowed from banks		26 480	14 535
Repayment of amounts borrowed from banks		-10 806	-10 754
Shareholders contribution		0	0
Financing cash flows, net		-7 739	-19 830
Net changes in cash and cash equivalents		-348	-19 244
Cash and cash equivalents as of 1 January	14	559	19 814
Change in fair value of cash equivalents		0	-11
Deferred tax on equity contribution		0	0
Cash and cash equivalents at 31 December	14	211	559

DIÁKHITEL KÖZPONT Zrt.
1027 Budapest, Kacsá u. 15-23.
Adószám: 12657331-2-41

Bugar Csaba
CEO

Budapest, 3 August 2017

V. Notes to the financial statements

1. Brief introduction to the company

Diákhitel Központ Zrt. (hereafter: "Company" or "Student Loan Centre") is a company limited by shares and registered in Hungary at 1027 Budapest, Kacsai út 15-23.

The shares of Diákhitel Központ Zrt. are held by the Hungarian government.

The shareholder rights over the Company are exercised by the Hungarian Development Bank (MFB) from 17 June 2010 based on Act LII of 2010 on the amendment of acts required for the responsible management of state-owned assets and on the stipulation of certain legal provisions.

On 20 October 2014 MFB in its capacity as Owner of the company founded the Board of Directors by approving the modified Deed of Foundation. The Board of Directors is the governing body of the entity, the business activities and the operative execution of the organisation is conducted by the Chief Executive Officer. The operation of Diákhitel Központ Zrt is overseen by the Supervisory Board which also carries out the tasks of the Audit Committee.

Diákhitel Központ Zrt. operates the student loan system as well as disbursing and recording student loans. The funds required for the loan disbursements are provided with the help of the Government Debt Management Agency (ÁKK) in accordance with Government Decree 1/2012 (I. 20.) on the student loan system (hereinafter referred to as: "Government Decree"). The Student Loan Centre entered into a contract with ÁKK Zrt. for the latter to transact on the money and capital market and participate in securing the funds guaranteed by the government.

According to section 51 of act C of 2015 on the Budget of the Republic of Hungary for 2016, "The State of Hungary shall undertake a guarantee in respect of payment obligations of Diákhitel Központ Zrt., which have been incurred on account of loans drawn and bonds issued in and outside Hungary in order to finance the student loan scheme."

The unconditional government guarantee for the funds raised by the Company is secured for 2017 based on section 52 of act XC of 2016 on the budget of Hungary for 2017.

The Company has no interests in subsidiaries, associates or jointly-managed companies.

The Company has prepared separate financial statements on 26 April 2017 for the balance sheet date 31 December 2016, in accordance with the Hungarian Accounting Law, which has been disclosed according to the C. Law on Accounting 2000.

2. Basis of preparation

2.1. Statement of compliance with standards

The Company prepared the attached financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. The new IFRS standards and interpretations – which were not yet used during the preparation of the financial statements are shown in note 3.20.

The publication of these financial statements was approved by the Board of Directors on the 3rd of August 2017.

2.2. Basis of measurement

Measurements in the financial statements are based on amortised cost, apart from available-for-sale financial assets, which were measured at fair value in accordance with IAS 39.

2.3. Functional and presentation currency

The functional currency of Diákhitel Központ Zrt. is the Hungarian forint (HUF). The Company is not required by legislation to prepare financial statements in accordance with IFRS. In the previous periods, the financial statements were prepared for the international financial markets and therefore the Company chose the euro (EUR) as its presentation currency. In 2015, the Company changed its accounting policies so that the Company returned to the HUF as its presentation currency. The figures in the financial statements are presented in HUF millions. The Company decided to changes its presentation currency as, according to the amendment of the Hungarian accounting law (act C of 2000) in 2015, it will be mandatory for the Company to prepare IFRS financial statements for reporting periods starting in 2018 instead of Hungarian statutory financial statements.

2.4. Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make professional judgements, estimates and assumptions that affect the accounting policies applied as well as the reported amounts of assets and liabilities and revenues and expenses in the financial statements. These estimates and related assumptions are based on past experience and on various other factors which are believed to be reasonable under the circumstances, and the results of which form the basis for estimating the fair values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a regular basis. Amendments to accounting estimates are recognised in the period the estimate was amended if the amendment only affects the given year, or in the period of the amendment and in subsequent periods if the amendment affects both the current and subsequent years.

The Company used estimates with respect to the following:

- **Going concern**

Management assessed the Company's ability to continue operating as a going concern and concluded that the Company has the necessary resources to continue its operations in the foreseeable future. Management is not aware of any material uncertainty that would cast significant doubt on the validity of the going concern basis. For the purposes of its going concern assessment the Company took into consideration the unconditional government guarantee for the funds raised.

- **Fair valuation of financial assets and liabilities**

If the fair value of financial assets and liabilities is identified on a basis other than an active arm's length price (market price?), a measurement model needs to be applied. The fair value measurement of financial instruments is set out in note 6 to the financial statements in detail.

- **Impairment loss of assets**

The impairment of assets is presented in note 3.13 in detail.

- **Technical reserves**

The estimates applied by the Company with regard to the actuarial model are detailed in note 4.1.3 to the financial statements.

- **Deferred tax assets**

The Company presents deferred tax assets to the extent to which it is probable that enough taxable income will be available in the future to offset the deferred tax assets. Deferred tax assets are revised by the Company at the end of each reporting period and are reduced according to the probability realising related tax benefits. The accounting treatment of deferred tax is presented in note 3.8 in detail.

2.5. Reclassifications and errors

The Company publishes a set of restated financial statements for the year 2015.

The reasons for the restatement were as follows:

- The initial fair value difference on a long-term loan granted by Hungarian Development Bank (MFB) had been recognised as capital contribution. While MFB exercises the ownership rights of Diákhitel Zrt., it is not its de facto owner, hence the initial fair value difference should have been recognised in profit or loss.
In the restated financial statements, the initial fair value difference of HUF 4,131 million was reclassified from other reserves to retained earnings.
- Unpaid late payment interest on student loans and the related impairment loss were not presented in the pre-restated financial statements. Both amounts are now presented in the restated financial statements. The restatement does not affect the balance sheet total, profit or loss or the equity presented for previous periods.
As a result of the restatement, interest income for 2015 and the impairment loss on loans increased by HUF 487 million.
- The expenses paid by the Company in connection with the replacement of its information system was recorded among other assets and intended to capitalise these as part of the new system.
However, according to the interpretation of the definition in IAS38.21, such expenses cannot be capitalised. As a result, the related HUF 56 million recorded among other assets was posted to retained earnings.

3. Summary of key accounting policies

Below is a summary of the main accounting policies employed during the preparation of the financial statements. The accounting policies were applied consistently for the periods in these financial statements.

3.1. Recognition of student loan products

The student loan agreements provided by the Company comprise a loan component and an insurance component. The purpose of the insurance component is that the entire debt is forgiven in accordance with subsection 19 (1) of Government Decree 1/2012 (I. 20.) on the Student Loan Scheme if the borrower retires, becomes irreversibly disabled or passes away. The forgiving of a loan debt upon retirement or death is equivalent to a financial benefit upon retirement or death, and therefore disbursed student loans partially qualify as insurance contracts that fall under the scope of IFRS 4.

The Company accounts and presents the loan component and the insurance component of student loans separately in the statement of comprehensive income, the statement of financial position and in the cash-flow statement.

The interest income on student loan agreements consists of three parts: basic interest, operating premium and risk premium. The basic interest covers the interest of the original funds, the operating premium covers the operating costs, and the risk interest premium covers the non-payment risk of student loans. The risk interest premium and the operating interest premium can be broken down further into elements relating to financial risk (loan component) and insurance risk (insurance component). The risk interest premium and the operating interest premium are broken down into the elements associated with the individual components using actuarial models applied by the Company.

The amounts disbursed on the basis of student loan agreements and the interest elements assigned to the loan component are recognised in the statement of financial position as student loans (see note 3.9.3.a) and in the statement of comprehensive income as interest income (see note 3.3). The interest elements assigned to the insurance component are recognised in the statement of financial position as insurance premium receivables (see note 3.9.3.b) and in the statement of comprehensive income as insurance premium income (see note 3.4).

Details on how the actuarial model works are contained in notes 4.1.2 and 4.1.3 to the financial statements.

3.2. Net interest income

Under interest income the Company uses the effective interest method to recognise the part of the interest income for student loan contracts that relates to the loan component, as well as the interest income on available-for-sale securities.

In accordance with the Company's general rules of business, a penalty interest is charged, as set out in the Civil Code, in case of default or non-performance by a debtor. Penalty interest is presented among interest income and is charged as follows:

- a) for student loan contracts signed before 1 May 2004, the initial interest rate plus 4%,
- b) for student loan contracts signed after 30 April 2004 the interest rate is based on section 6:48 of the Civil Code.

Interest income also includes targeted interest subsidies related to any-purpose loans (Type 1). The beneficiaries of these interest subsidies are the borrowing students. Further to section 18 of government decree 1/2012. (I. 20.), students can enjoy subsidised interest during their entitlement to infant care benefit, child care benefit and child care support services (collectively: maternity benefits).

Interest income also includes, based on section 29 of government decree 1/2012. (I.20) the standard interest subsidy to which a student debtor who has taken a limited purpose student loan (Diákhitel 2) is entitled during the term of the underlying loan contract. The standard interest subsidy is the amount over the interest payable by the debtor based on the interest rate as defined in subsection 6(7) of the government decree – currently 2%.

The effective interest rate is the interest rate used to discount estimated future payments or revenues over the expected useful life of a financial instrument (or a shorter period where applicable) to the net carrying value of the financial asset or financial liability. The effective interest rate is determined upon the initial recognition of the financial asset and liability, and is not subsequently modified. When calculating the effective interest rate the Company estimates the cash flows based on all of the contractual conditions of the financial instrument, but does not take future credit losses into account.

Under interest expense the Company recognises the amounts of interest payable on issued bonds and on loans and advances from banks using the effective interest method.

3.3. Insurance premium earned, claims paid

Under insurance premium earned the Company recognises the interest income on student loans that pertain to the insurance component. The Company recognises the insurance premium income for the period during which the risk is covered by the premium (i.e. the period for which the premium was charged).

Under claims paid the Company recognises the expense derived from loan write-offs caused by insurance events such as retirement, permanent disability or death of the debtor.

3.4. Net profit or loss from trading

Net profit or loss from trading includes gains and losses on the sale of available-for-sale financial assets, including gains or losses from subsequent measurement previously recognised in equity, and the impairment loss on financial assets other than student loans.

In the case of financial assets and financial liabilities measured at amortised cost, the profit or loss arising upon the derecognition of the given instrument or upon subsequent measurement owing to foreign exchange gains and losses is recognised in the profit or loss for the period as part of the net trading result.

3.5. Movements in insurance technical reserves

The Company allocates insurance technical reserves for the risk that, at present value, the insurance premiums received from the student loan contracts will not cover the amounts forgiven if insurance events occur.

Following the initial recognition of a technical reserve, the Company re-measures it in accordance with the current risk parameters of the portfolio. The Company recognises any gains or losses from the subsequent measurement – which contain the effect of the discount breakdown, the impacts of portfolio changes and the actuarial gains or losses incurred owing to changes in actuarial assumptions, and differences between actuarial assumptions and events in the reporting period – through profit or loss in the changes to insurance technical reserves row. The Company allocates insurance technical reserves (initial recognition and subsequent measurement) based on its actuarial model. Details on how the actuarial model works are contained in note 4.1.3 to the financial statements.

The Company integrates an appropriate risk margin into the measurement of insurance technical reserves. When determining an appropriate level of risk margin the Company always takes into account what realistic chances it has for re-pricing the risk premium (and as part of this the insurance premium as well) in the future. Establishing an appropriate level of risk margin is based on the Company's actuarial model.

As the reserve is re-measured on each reporting date, the Company complies with the minimum conditions for the liability adequacy test under IFRS 4.

3.6. Credit loss expense

The company discloses bad student loans and student loans written off but not rated bad as credit loss.

3.7. Other operating income and expense

Under other operating income the Company recognises, among others, profit and loss from derecognising and selling intangible assets and property, plant and equipment and any subsequently collected lapsed or forgiven student loans.

Other operating expenses contain the costs which arise during the Company's operations, typically the costs of services used. Additionally, on this row the Company recognises the depreciation and amortisation of property, plant and equipment and intangible assets, impairment loss, provisions related to litigation and other provisions, as well as costs associated with employee benefits.

In the course of its normal operations, Diákhitel Központ Zrt. makes regular contributions to voluntary pension funds. These are expensed under "Other operating expenses".

Apart from this, the Company provides no other post-retirement benefits for its employees.

3.8. Tax expense, tax income

Tax expense and tax income contain current and deferred taxes. Tax expense and tax income are recognised in the statement of comprehensive income, unless related to items shown directly in equity or in other comprehensive income, when the tax impact is also recognised there.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet method, which takes into account the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The Company recognises deferred tax assets up to the level of the likely taxable income in the future in respect of which the asset can be used. The Company reviews its deferred tax assets at the end of each reporting period and reduces them to the level where the realisation of the related tax benefit is still probable.

Deferred tax assets and deferred tax liabilities can be offset against each other if there is a legal right to do so in relation to income taxes levied by the same taxation authority and the Company intends to settle them on a net basis.

The deferred tax related to the subsequent measurement at fair value of investments classed as available-for-sale and directly charged or credited to equity is also charged or credited to equity, and later recognised in the statement of comprehensive income, if the profit or loss from the fair value measurement is recognised in the statement of comprehensive income.

3.9. Financial assets and liabilities

For recognising financial assets and liabilities the Company opted to use settlement dates. The settlement date is the date upon which the Company receives or transfers the asset. Accounting on this basis means recognising the asset on the day the Company receives it and recognising any profit or loss from the derecognition or disposal of the asset on the day it is delivered by the Company.

All financial instruments are measured initially at their fair value including transaction costs.

Financial assets are derecognised when the contractual rights to collecting cash flows are no longer valid, or when the financial instrument is transferred along with all the significant risks and benefits.

Financial liabilities are derecognised when the obligations specified in the contract are no longer valid, cancelled or expire.

Financial assets and liabilities can be presented on a net basis in the statement of financial position if the Company is entitled to net accounting and the Company either intends to settle the net amount or intends to collect the receivables and settle the liabilities at the same time.

Financial assets and financial liabilities are currently classified in one of the following categories: "available-for-sale financial assets", "loans and receivables", "other financial liabilities".

3.9.1. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as available-for-sale and which were not classed in any other category.

Following initial recognition, available-for-sale financial assets are measured at fair value and any change in the fair value, except impairment loss, is recognised in equity as part of other comprehensive income under other reserves. When an available-for-sale financial asset is derecognised, any profits or losses previously recognised in other comprehensive income are transferred to statement of comprehensive income.

The Company measures discounted T-bills issued by the Hungarian government and maturing in less than three months as available-for-sale financial assets at fair value. For the purposes of inclusion in the statement of financial position these securities are considered cash equivalents, and are recognised in the cash and cash equivalents row.

3.9.2. Cash and cash equivalents

Under cash and cash equivalents in the statement of financial position and in the cash flow the Company recognises its cash, disposable balances on its bank accounts held with the Hungarian State Treasury, along with investments in all debt instruments that expire within no more than three months from their purchase. Based on its investment practices the Company invests its disposable liquid assets into typically T-bills with residual maturities of less than 3 months. Fair values are determined based on the daily rates published by the Hungarian Treasury.

Cash and cash equivalents – with the exception of T-bills – are recognised in the statement of financial position at the end of the period at amortised cost.

3.9.3. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Initially, such assets are recognised at fair value including direct transaction costs. After initial measurement, financial assets classed in the loans and receivables category are carried at amortised cost using the effective interest method less any allowance for impairment loss.

Loans and receivables comprise the following: student loans, insurance premium receivables, and other financial assets from other receivables.

a) Student loans

Amounts disbursed under the student loan contracts and the interest assigned to the related loan components (see note 3.2) are recognised in the statement of financial position as student loans, net of repayments and allowances for impairment loss. Loans are recognised when such are actually disbursed

to the borrowers (date of performance). They are derecognised when the borrowers repay their debts, or if they are written off based on one of the events set forth in the Government Decree, and essentially all of the risks and benefits of ownership are transferred. Student loans are initially recognised at fair value together with directly attributable transaction costs; subsequently they are recognised at amortised cost using the effective interest method and net of allowances for impairment loss. Detailed information on the impairment of student loans is found in note 3.13.1. Impairment loss of financial assets.

b) Insurance premium receivables

The interest assigned to the insurance component (see note 3.2) based on the student loan contracts is recognised in the statement of financial position under insurance premium receivables, net of repayments and allowances for impairment loss. Insurance premium receivables are initially recognised at fair value together with directly attributable transaction costs; subsequently they are recognised at amortised cost using the effective interest method and net of allowances for impairment loss. Detailed information on the impairment of insurance premium receivables is found in note 3.13.1. Impairment loss of financial assets.

c) Other receivables

Under other receivables the Company mainly recognised trade receivables, advance payments to employees and other receivables.

Other receivables are initially recognised at fair value before being carried in the statement of financial position at amortised cost.

3.9.4. Other financial liabilities

This category comprises financial liabilities that are not measured at fair value through profit or loss. Under other financial liabilities the Company includes loans and advances from banks, issued bonds, and financial liabilities from other liabilities.

The initial recognition of other financial liabilities is at fair value. After initial recognition the Company measures these liabilities at amortised cost using the effective interest method.

Based on this method the discounts and premiums (including premiums, transaction costs and other premiums or discounts) are recognised over the remaining term of the related instrument using the effective interest method valid upon the initial recognition of the instrument.

a) Amounts payable to banks

The Company considers all drawdowns to be separate loan debts. The effective interest rate is determined separately for all drawdowns; subsequently, however, it is not recalculated, not even if the expectations regarding future cash flows change. If the initial fair value of the drawn loan differs from the amount actually disbursed, thought must be given to recognising the difference. In the case of the loan drawn by the Company from the Hungarian Development Bank (MFB, which exercises the shareholder rights over the Company) the initial fair value is lower than the amount of the loan actually disbursed. The Company recognised the difference under "Other reserves" as a capital grant from the owner. Details on the MFB loan can be found in note 21.

b) Issued bonds

The Company issues also bonds to fund the student loans. Each bond issue is considered to be a separate bond debt. The Company establishes the effective interest rate for each bond issue and additional issue at the time of the issue and additional issue. When determining the initial fair value of the bonds the Company also takes the issue discount or premium into consideration as well as any related transaction costs.

c) Other financial liabilities

Under other liabilities the Company primarily recognises amounts owed to suppliers and third parties, apart from taxes payable.

3.10. Other assets

Under other assets the Company mainly recognises purchased packaging, promotional gifts and vouchers purchased for employees, and payments (expert fees) incurred in connection with the replacement of Diákhitel Központ Zrt. accounting keeping system which will be capitalised when the new system is commissioned.

3.11. Property, plant and equipment

Property, plant and equipment, including investments on third-party property, are measured at cost net of depreciation and allowances for impairment loss. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure related to property, plant and equipment is capitalised only if this results in future economic benefits for the Company. All other subsequent costs are accounted as expense in the period when incurred.

Depreciation is charged following the capitalisation of the asset based on its useful life. The useful lives of the assets in the individual categories of property, plant and equipment were the following in the period covered by the financial statements:

Land and buildings

Land	indefinite, not depreciated
Investments on third-party property	~17 years

Machinery, equipment, fittings, vehicles

Technical equipment	~7 years
Office equipment	~7 years
IT equipment	~3 years
Vehicles	5 years

Other equipment

Office furniture and equipment	~7 years
--------------------------------	----------

The depreciation of property, plant and equipment is presented in the "Other operating expenses" row of the statement of comprehensive income.

The Company's property, plant and equipment are subject of impairment testing after any event or change in circumstances which indicate that the carrying value may not be recovered. The carrying amount of an asset is immediately written down to its recoverable amount if the carrying amount of the asset is higher than the estimated recoverable amount. Details on the recording of impairment are presented in note 3.13.2 to the financial statements.

At the end of each reporting period the residual values and useful lives of assets are revised and modified, if necessary.

Net profits or losses from the disposal or retirement of items of property, plant and equipment are recognised accordingly by the Company under "Other operating income" or "Other operating expenses" in the year of the disposal or retirement, depending on the nature of the net balance.

3.12. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance that are designed to facilitate the provision of services or fulfil administrative purposes.

Intangible assets are initially measured at cost, and thereafter net of amortisation and allowances for impairment loss. Intangible assets are written off over their useful lives from the date of first use and using straight-line rates.

The useful lives of intangible assets were as follows during the reporting periods:

Rights and concessions	5 years
Software	5 years

The amortisation of intangible assets is presented in the "Other operating expenses" row of the statement of comprehensive income.

Intangible assets are subject to impairment testing after any event or change in circumstances that indicate their carrying value may not be recovered. The carrying amount of an intangible asset is immediately written down to its recoverable amount if the carrying amount of the asset exceeds the estimated recoverable amount. Details of the recognition of impairment loss are presented in note 3.13.2 to the financial statements.

At the end of each reporting period the residual values and useful lives of intangible assets are revised and modified, if necessary.

Net profits or losses from the disposal or retirement of intangible assets are recognised accordingly by the Company under "Other operating income" or "Other operating expenses" in the year of the disposal or retirement, depending on the nature of the net balance.

3.13. Impairment loss

3.13.1. Impairment loss of financial assets

The Company measures financial assets as of each reporting date to determine if there are any signs of impairment. Financial assets are considered impaired if there is objective evidence to suggest that one or more events after the initial recognition of the financial asset have negatively influenced the estimated future cash flows of the asset. When there is objective evidence of impairment, the Company recognises an impairment loss on each significant asset and on an individual or portfolio basis for the rest of the assets.

The Company determines the impairment loss of student loans and other financial assets as follows:

a) Impairment loss of student loans and insurance premium receivables

For student loans and insurance premium receivables, the Company did not identify any individually significant item, hence student loans were impaired on a portfolio basis. The Company defined the following portfolios:

Effective student loan contacts

- ***Portfolio of not past due student loans*** include amounts receivable from the following:
 1. Loans under disbursement and awaiting repayment
 2. Loans being repaid and are not overdue
- ***Portfolio of overdue student loans:*** The portfolio of overdue loan contracts includes:
 1. Loans being repaid overdue 1-30 days
 2. Loans being repaid overdue 31-60 days
 3. Loans being repaid overdue 61-180 days
 4. Loans being repaid overdue 181-360 days

Terminated student loans

- **Portfolio of terminated student loans:** includes the student loans, which were terminated either by the customers or the Company as follows:
 1. *Portfolio of borrowers paying in instalments:* student loans where the Company has agreed to instalments with the borrower as detailed in section 4.1.2.
 2. *Portfolio of loans assigned to the tax authority for collection:* student loans that have been transferred to the National Tax and Customs Authority (NAV) for collection.
 3. *Other terminated student loans:* Those student loans which are not repaid, request for instalment payment shall not arrived yet and were not transferred to the tax authority.

The individual portfolios are treated separately from one another and the level of impairment loss is also calculated separately. Any impairment loss on the individual portfolios is determined using the actuarial model.

Portfolio-based impairment

Items for which no impairment loss requirement is identified based on individual impairment test are tested for impairment and impaired based on portfolio basis in view of the associated portfolio risk. Portfolio-based impairment loss is recognised at the end of the reporting period for contingent losses the Company may suffer later as a result of yet unknown damage events. For the purposes of portfolio-based impairment, the Company considers historic loss information on portfolios with a similar risk profile.

Portfolio-based impairment loss is calculated based on an impairment approach which considers the standard sub-portfolios, historic loss information and losses anticipated per contract status. Portfolio-based impairment loss is determined in view of contract status and on future related expected cash flows projected based on various aspects of credit risk.

The impairment rates are updated by the Company using the actuarial model (section 4.1.2) at the end of each quarter, as necessary.

b) Impairment loss of available-for-sale securities and other financial assets

These assets are tested individually for impairment. The Company defined the following objective evidences to identify any impairment loss:

- debtor is in default,
- debtor is bankrupt,
- debtor is being wound up.

Any impairment loss on available-for-sale securities classified under cash equivalents is recognised by posting the accumulated loss presented other comprehensive income to other reserves in the profit and loss account. This posted loss is the difference between the cost less amortisation and repayments and the current fair value, net of any previous impairment loss recognised through profit or loss. If, in the future, the fair value of a previously impaired available-for-sale debt instrument should increase, and such increase is attributable to an event that occurred after the impairment loss was recognised through profit or loss, then such recognised impairment loss must be reversed through profit or loss.

The impairment loss of financial assets carried at amortised cost is calculated from the difference between the carrying amount and the present value of future estimated cash flows. Impairment losses are recognised through profit or loss.

3.13.2. Impairment loss of non-financial assets

Where internal or external circumstances suggest that an asset may be impaired, the Company examines the need to record an impairment loss on the given asset. Depreciated or amortised assets are tested for impairment by the Company if there are any signs that the carrying amount of the given asset may not be recovered.

An impairment loss is recognised if the carrying amount of the asset exceeds the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. When determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the market's time value of money and the estimates of asset-specific risks that were not taken into account in the cash flow estimates.

Each year, the Company examines if the conditions that led to the impairment of an asset still prevail. If such conditions no longer prevail or are mitigated, the Company makes an estimate regarding the recoverable amount of the asset. Previously recorded impairment loss can be reversed if changes have occurred in the estimates used to determine the recoverable amount of the asset since asset was last impaired. Impairment loss may only be reversed to the extent that the carrying amount of the asset does not exceed the recoverable amount nor the figure that would have applied if the asset had been depreciated and not impaired. The recognition and reversal of impairment loss are recognised in "Other operating expenses" and "Other operating income" in the statement of comprehensive income.

3.14. Provisions

Provisions must be created if the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If cash flows expected to be used to settle the present obligation are employed to measure the provisions, the carrying amount of the provisions is the present value of these cash-flows.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that the Company will receive the reimbursement and the amount of the receivable can be reliably measured.

Present obligations derived from onerous contracts are recognised as provisions. The Company considers a contract to be onerous if the costs essential to discharging the contractual obligations are higher than the economic benefits expected based on the contract.

Provisions recorded for expected future liabilities are presented under "Other operating expenses".

3.15. Share capital and other reserves

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the consideration received, net of direct issue costs. Capital increases are recognised in equity from the date the value of the shares can be demanded from shareholders.

3.15.1. Capital reserve

The capital reserve comprises contributions made by shareholders that form part of equity but do not qualify as share capital or a premium which is presented among other reserves.

3.15.2. Retained earnings

This reserve comprises the profits and losses of the reporting year and previous periods.

3.15.3. Other reserves

Other reserves comprise the differences derived from the changes in the fair value of T-bills measured in accordance with the available-for-sale category but recognised as cash equivalents (valuation reserve), and the difference between the initial fair value and the actual amount a low-interest loan drawn earlier from the MFB and matured, which is considered a capital grant by the shareholder.

3.16. Government grants

The rules of accounting for and disclosure of government grants and the disclosure for other government assistances are applied by the Company in accordance with the regulations of IAS 20 Standard - Accounting for Government Grants and Disclosure of Government Assistance

When the government grant relates to an incurred expense item or compensating incurred losses, or the Company can withdraw it as immediate financial grant without future related expense, it is recognised as income in that period when the grant becomes to be withdrawn.

In line with the Company's decision when the government grant relates to an asset, it is presented based on gross method, so recognised as deferred income which is amortized over the expected useful life of the related asset.

3.17. Segment information

IFRS 8 "Operating Segments" stipulates how entities should present information in financial statements on their operating segments, the products and services they produce and their geographical breakdown. Since 2012, when limited purpose loans were introduced, Diákhitel Központ Zrt. has been selling two types of student loans: Diákhitel 1 (Type 1) and Diákhitel 2 (Type 2). The proportion of the new product was below 10% in 2014 or in 2015 either in terms of revenues or on the asset side of the balance sheet and its geographical breakdown does not give the Company's management information that can be used for decision-making purposes.

All of the Company's revenues, profits, asset and liabilities fall under the same identified operating segment, and so the Company is released from its obligation to publish segment information.

3.18. New IFRS standards applicable from 1 January 2016

The amendments below are to be applied from the Company's financial year starting on 1 January 2016.

The amendments have no impact on the Company's financial statements.

- **IFRS 14 – Regulatory deferral accounts** is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

As the Company is not a first time adopter of IFRS, this standard has no relevance.

- **Amendments of IFRS 11 – Joint arrangements: Accounting of Interests** require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

- **Amendments of IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation** clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- **Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants** change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply.
- **Amendments to IAS 27: Equity Method in Separate Financial Statements** will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- **Further amendments of IFRS 10 and IAS 28** issued in September 2014 aim to remove inconsistencies in requirements of the two standards, clarifying definitions in relation to sale or contribution of assets between an investor and its associate or joint venture.
- **IFRS 5 Non-current assets held for sale and discontinued operations**
 The amendment adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
- **IFRS 7 Financial Instruments: Disclosures**
 The amendment adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Moreover it clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
- **IFRS 19 Employee Benefits**
 The amendment clarifies that high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- **IAS 34 Interim Financial Reporting**
 Clarifies the meaning of 'elsewhere in the interim report'.
- **Amendments to IAS 1: Disclosure Initiative**

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- **Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation Exception**

The amendments address the following issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements and clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Early application of new standards

The Company did not opt for early application of the new standards in the annual financial statements for 2016. The Company plans to adopt these standards as and when they become effective.

3.19. New IFRS standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these financial statements.

Standards not yet applied by the Company:

- **IFRS 9 – Financial instruments** was issued as part of the wider project to replace IAS 39. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 retains and yet simplifies the mixed measurement model, creating two primary measurement categories for financial assets: measurement at amortised cost or at fair value. The basis of the classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.

The IFRS standard will be effective from 1 January, 2018.

The company is currently assessing the impact of IFRS 9 on the financial statements.

- **IFRS 16 Leases** was issued in January 2016 and requires lessees to recognise assets and liabilities for most leases. The new standard will be effective for annual periods beginning on or after 1

January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

- **IFRS 15 – Revenue from contracts with customers** was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

Application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The company is currently assessing the impact of IFRS 15 however the new standard is not expected to have a material impact on the financial statements.

4. Financial and insurance risk management

4.1. General introduction of financial and insurance risks

In respect of its financial assets and liabilities along with the insurance component of its student loan contracts the Company is exposed to the following risks:

- credit risk
- insurance risk
- liquidity risk
- market risk
- early repayment risk

The information presented below in relation to the risks outlined above details the Company's risk management strategy and processes along with its capital adequacy policy.

4.1.1. Risk management framework

The Company's activities imply a certain degree of risk-taking; assessing, evaluating, limiting, accepting and managing these risks form an integral part of the Company's daily operational activities.

The Company's risk management activities and processes were designed to facilitate the constant tracking of changes in the risk environment.

Organisational framework for risk management related to financing

The financing activity of the Student Loan Centre is facilitated by the Government Debt Management Agency (hereafter: "GDMA"). Together with the GDMA the Company prepares a 3-year Financing Strategy, which is reviewed each year. This strategy defines the framework for risk management. The basic funding principles set forth in the strategy are used to prepare an annual Financing Plan in text format, and monthly plans in figures, equally with the help of the GDMA; besides the Shareholder of the Company this is also approved by the Minister for National Economy in accordance with the prevailing Budget Act. The Company's Financing Committee generally convenes once a month, and based on data regarding current activities and market conditions it makes decisions on all financing

transactions within the bounds of the annual framework approved by the Shareholder and the Minister at the same time as the Financing Plan.

Internal control mechanisms

The Company designs its internal controls in view of relevant legislation and in view of the recommendations of the National Bank of Hungary on the design and operation of internal defence measures.

Part of the Company's internal control function involves a certain degree of risk management aimed at ensuring that the Company can identify, measure and manage its risks appropriately so that the risks which occur do not jeopardise ongoing operations. The Company employs an independent, external actuary for the purposes of modelling credit risk. If the level of risk undertaken by the Company does not conform to the guidelines in the strategy, the CEO takes action to lower the risks.

4.1.2. Credit risk

Credit risk signifies the risk that the borrower does not meet its payment obligations, or not on time, or the value of the receivables falls due to a deterioration of the borrower's credit rating. Credit risk for the Company is derived mainly from student loans, receivable insurance premium and available-for-sale securities.

Management of credit risk

To forecast credit risks relating to student loans and insurance premium receivables, the Company employs a credit risk and actuarial model designed by independent, external actuaries. Based on historic information of the student loan system, other demographics and higher education figures as well as future expectations and forecasts, the model determines the risk premium to be charged in the interest on student loans so that this can cover any loss that may be generated as a result of credit risks in the long term and the loan system can function in a sustainable manner.

Credit risks are partly managed by the Company's collections department, where soft methods are used to reach defaulting borrowers. Subject to meeting relevant legal criteria, the Company is entitled to cancel the contracts with the clients concerned and transfer their debts to the tax authority, when the debts become collectible like taxes. The amounts collected by the Tax Authority are then forwarded to the Student Loan Centre.

The structure and operation of the model

The previously used model has been completely revised. Instead of using deterministic trajectories, each model point now runs along a stochastic (randomly determined) curve. Owing to the resulting significant speed of the process, this approach enables calculations per agreement as well as sensitivity testing - due to the sufficient number of tests run. The model calculates the expected monthly amounts of loans granted, revenues from repayments and from the special purpose interest subsidies, the reimbursement of any overpayments, financing costs and other operating expenses, amounts collected from terminated agreements as well as changes in balance sheet items (total outstanding loans, reserves etc.). The thus projected profits and losses are used to determine the necessary and appropriate level of provision and risk premium.

For the sake of the convergence of random events, the new model does not use grouped model points. Instead, every agreement is assessed a one model point. As a result, the model runs calculations for 166,020 Student Loan 1 model points (i.e. effective agreements) and for 23,784 Student Loan 2 model points.

This model performs the calculation of the insurance technical reserves.

Probability of default and overdue debts

Each month, the models allocate a status point to every model point which, together with other parameters (in the model point table or inputs), identifies the cash flows attributable to a model point in each month. The statuses used by the model are as follows: to be disbursed, waiting for repayment, under repayment – performing/nonperforming (rated based on the number overdue days), terminated (collected or restructured), child-care allowance, disability, repaid, deceased or reached the retirement age. The model assumes that every status change happens in the middle of the month and that all cash movements take place at the end of the month. Depending on its nature, transition among the various statuses can be either deterministic, independent or stochastic. The transition from disbursement phase into waiting period and from waiting period into repayment phase is pre-determined, i.e. takes place when an agreement has been in a status for a pre-determined period. The probability of transition into death, disability or maternity leave status is equal from all non-absorbing states. The probabilities of these transitions are determined based on publicly available statistics for the entire population as adjusted using professional judgment. The probability of transition into a nonperforming status or, from there, into terminated or performing status is based on the probabilities defined by a multivariable analysis. These transition probabilities are based on the following model point parameters: sex, income, age, outstanding principal, area of science and the length of time in the 'under repayment' category.

The percentage of Type 1 student loan agreements terminated because of non-performance during the calendar year compared to the total number of agreements being repaid was 1.49% in 2016 and 1.24% in 2015. The reason for the increase was that the default period before a contract can be terminated increased from 6 months to 12 months. As a result, the Company did not initiate the termination of any agreements for five months in 2015.

With respect to Type 2 loans, the percentage of agreements terminated during the calendar year on the grounds of non-performance, compared to the number of loans being repaid at the beginning of the year, was 5.48% in 2016 and 6.7% in 2015. The reason for the decrease is the fact that the repayment periods of Type 2 loans have just started and the probability of default is the highest at the beginning of the in the first repayment cycle of a loan.

The following table shows the Company's exposure to credit risk at the end of the reporting periods:

Credit risk	31 Dec 2016	31 Dec 2015
Cash and cash equivalents	211	559
Student loans	273 568	281 130
Insurance premium receivables	2 288	2 652
Other financial assets	147	167
Maximum value of assets exposed to credit risk on 31 December	276 214	284 508

The following tables show the split of the company's assets exposed to credit risk at the end of the reporting periods. Impairment was determined on a portfolio basis.

31 December 2016

Credit risk	Neither past due nor impaired	Not overdue, impaired	Overdue and impaired	Total
Cash and cash equivalents	211	0	0	211
Student loans	0	195 539	78 029	273 568
Insurance premium receivables	0	1 606	682	2 288
Other financial assets	147	0	0	147
Maximum value of assets exposed to credit risk on 31 December	358	197 145	78 711	276 214

31 December 2015

Credit risk	Neither past due nor impaired	Not overdue, impaired	Overdue and impaired	Total
Cash and cash equivalents	559	0	0	559
Student loans	0	200 269	80 861	281 130
Insurance premium receivables	0	1 858	794	2 652
Other financial assets	167	0	0	167
Maximum value of assets exposed to credit risk on 31 December	726	202 127	81 655	284 508

Impaired loans

The Company records impairment loss on student loans on a portfolio basis.

- *Impairment loss on effective contracts:*

a) Contracts that are allocated to categories as follows, at the time of the impairment testing:

- Loans under disbursement and awaiting repayment
- Loans being repaid and are not overdue
- Loans being repaid overdue up to two months

The amount of impairment loss equals the amount of the mathematical reserve less the insurance technical reserve. Statutory actuarial reserve calculation method: the difference between present values of expected losses and expected cash flows calculated with effective interest rates.

b) Contracts that are overdue for at least three months at the time of the impairment testing are considered impaired as there is objective evidence for impairment.

The amount of impairment loss is the difference between the outstanding repayable loan and the present value of the expected cash flows calculated with the effective interest rate. The effective interest rate is the loan's interest rate less any risk premium for any insurance risk.

- *Impairment loss on terminated loans include:* borrowers paying in instalments (payment relief), loans transferred to the tax authority, other terminated student loans. The impairment loss on terminated contracts reflects the uncollected recoverable amounts on already ended contracts. The amount of any such impairment loss is based on the expected cash flows, in view of the time elapsed since the contract was terminated, as discounted with the effective interest rate and on calculating the difference between the thus resulting present value and the outstanding debt.

Impairment loss on terminated loans

	Diákhitel 1	Diákhitel 2
2016	71,5%	48,5%
2015	74,8%	50,0%

Restructured loans – borrowers paying in instalments

As a form of payment relief, the Company may permit clients to pay in instalments. Payment relief is only available to clients whose entire debt is due in one sum. If payment relief is granted, the instalments are not collected by the tax authority but are paid directly to the Company based on an underlying agreement.

The duration of any payment relief is a maximum of 10 years. Over the period of the payment relief, the client is obliged to repay the debt together with interest in monthly instalments. The monthly instalment is calculated on an annuity basis in view of a minimum monthly instalment and the longest permitted loan term. Any impairment loss on these contracts is recognised based on the actuarial model relevant for terminated contracts.

The following table shows the impairment recorded by the Company at the end of the reporting periods:

31 December 2016

Student loans	Diákhitel 1			Diákhitel 2			Total		
	Cost	Impairment loss	Net	Cost	Impairment loss	Net	Cost	Impairment loss	Net
Effective student loan contracts	227 301	21 623	205 678	19 663	694	18 969	246 964	22 317	224 647
Loans under disbursement and awaiting repayment	44 183	1 293	42 890	15 171	285	14 886	59 354	1 578	57 776
Loans being repaid and are not overdue	132 993	7 394	125 599	3 192	116	3 076	136 185	7 510	128 675
Loans being repaid overdue over 1-30 days	18 558	1 860	16 698	377	31	346	18 935	1 891	17 044
Loans being repaid overdue over 31-60 days	6 407	908	5 499	315	42	273	6 722	950	5 772
Loans being repaid overdue over 61-180 days	13 410	3 900	9 510	323	88	235	13 733	3 988	9 745
Loans being repaid overdue over 181-360 days	11 750	6 268	5 482	285	132	153	12 035	6 400	5 635
Terminated contracts	26 507	18 968	7 539	97	47	50	26 604	19 015	7 589
Renegotiated loans	7 814	5 332	2 482	14	7	7	7 828	5 339	2 489
Loans assigned to the tax authority for collection	16 866	12 408	4 458	59	30	29	16 925	12 438	4 487
Other terminated student loans	1 827	1 228	599	24	10	14	1 851	1 238	613
Balance at 31 December	253 808	40 591	213 217	19 760	741	19 019	273 568	41 332	232 236

Insurance premium receivable	Diákhitel 1			Diákhitel 2			Total		
	Cost	Impairment loss	Net	Cost	Impairment loss	Net	Cost	Impairment loss	Net
Effective student loan contracts	2 027	180	1 847	27	0	27	2 054	180	1 874
Loans under disbursement and awaiting repayment	394	11	383	22	0	22	416	11	405
Loans being repaid and are not overdue	1 186	62	1 124	4	0	4	1 190	62	1 128
Loans being repaid overdue over 1-30 days	165	15	150	1	0	1	166	15	151
Loans being repaid overdue over 31-60 days	57	8	49	0	0	0	57	8	49
Loans being repaid overdue over 61-180 days	120	32	88	0	0	0	120	32	88
Loans being repaid overdue over 181-360 days	105	52	53	0	0	0	105	52	53
Terminated contracts	234	157	77	0	0	0	234	157	77
Renegotiated loans	70	44	26	0	0	0	70	44	26
Loans assigned to the tax authority for collection	150	103	47	0	0	0	150	103	47
Other terminated student loans	14	10	4	0	0	0	14	10	4
Balance at 31 December	2 261	337	1 924	27	0	27	2 288	337	1 951

Total student loan receivables at 31 December	256 069	40 928	215 141	19 787	741	19 046	275 856	41 669	234 187
-----------------------------------------------	---------	--------	---------	--------	-----	--------	---------	--------	---------

31 December 2015

Student loans	Diákhitel 1			Diákhitel 2			Total		
	Cost	Impairment loss	Net	Cost	Impairment loss	Net	Cost	Impairment loss	Net
Effective student loan contracts	239 498	16 171	223 327	14 181	263	13 918	253 679	16 434	237 245
Loans under disbursement and awaiting repayment	52 879	2 088	50 791	12 500	164	12 336	65 379	2 247	63 132
Loans being repaid and are not overdue	133 954	3 085	130 869	1 136	13	1 123	135 090	3 098	131 992
Loans being repaid overdue over 1-30 days	19 563	936	18 627	162	5	157	19 725	941	18 784
Loans being repaid overdue over 31-60 days	6 590	553	6 037	151	12	139	6 741	565	6 176
Loans being repaid overdue over 61-180 days	15 000	2 384	12 616	137	26	111	15 137	2 410	12 727
Loans being repaid overdue over 181-360 days	11 712	7 130	4 582	95	43	52	11 807	7 173	4 634
Terminated contracts	27 425	20 562	6 863	26	13	13	27 451	20 575	6 876
Renegotiated loans	7 256	5 312	1 944	26	13	13	7 282	5 325	1 957
Loans assigned to the tax authority for collection	16 231	12 488	3 743	0	0	0	16 231	12 488	3 743
Other terminated student loans	3 938	2 762	1 176	0	0	0	3 938	2 762	1 176
Balance at 31 December	266 923	36 733	230 190	14 207	276	13 931	281 130	37 009	244 121

Insurance premium receivable	Diákhitel 1			Diákhitel 2			Total		
	Cost	Impairment loss	Net	Cost	Impairment loss	Net	Cost	Impairment loss	Net
Effective student loan contracts	2 368	131	2 237	13	0	13	2 381	131	2 250
Loans under disbursement and awaiting repayment	521	17	504	11	0	11	532	17	515
Loans being repaid and are not overdue	1 325	25	1 300	1	0	1	1 326	25	1 301
Loans being repaid overdue over 1-30 days	193	8	185	1	0	1	194	8	186
Loans being repaid overdue over 31-60 days	65	4	61	0	0	0	65	4	61
Loans being repaid overdue over 61-180 days	148	19	129	0	0	0	148	19	129
Loans being repaid overdue over 181-360 days	116	58	58	0	0	0	116	58	58
Terminated contracts	271	166	105	0	0	0	271	166	105
Renegotiated loans	72	43	29	0	0	0	72	43	29
Loans assigned to the tax authority for collection	161	101	60	0	0	0	161	101	60
Other terminated student loans	38	22	16	0	0	0	38	22	16
Balance at 31 December	2 639	297	2 342	13	0	13	2 652	297	2 355
Total student loan receivables at 31 December	269 562	37 030	232 532	14 220	276	13 944	283 782	37 306	246 476

In the table above, the impairment loss on valid contracts row contains information on problem free student loans and student loans in default.

Other terminated contracts are likely to be included among borrowers paying in instalments or among receivables transferred to the tax authority.

The following table illustrates changes to recognised impairment loss:

Changes in impairment	Diákhitel 1	Diákhitel 2	Total
As of 1 January 2015	33 381	258	33 639
Reporting year impairment	3 649	18	3 667
Reporting year reversal	0	0	0
Impairment as of 31 December 2015	37 030	276	37 306
Reporting year impairment	3 898	465	4 363
Reporting year reversal	0	0	0
Impairment as of 31 December 2016	40 928	741	41 669

4.1.3. Insurance risk

Management of insurance risk

The risk premium charged in the interest on student loans covers the implicit insurance risks in the student loans. Such insurance elements include writing off the loan if the client passes away, or forgiving the loan upon retirement. The actuarial model designed to estimate the risk premium was developed and is operated by an independent, external actuary, where the insurance risks are considered separately from the credit risks. To calculate the risks, mortality and disability data along with retirement data were monitored and analysed in the model. The model calculates the value of the technical reserve for the insurance element.

Calculation of insurance technical reserves

The loss incurred upon an insurance risk event is considered to be an insurance loss. The reserve is calculated for all of the effective contracts. When calculating the reserve, the portion of the student loan

costs that pertains to insurance risk must be taken into account under expenses too. The portion of the risk premium that pertains to these risks is the net insurance premium. The gross premium is the net premium

including the cost margin. The cost margin is the prorated allocation between insurance and non-insurance risks of the cost margin portion of the interest premium, assuming that the costs and the cost margins are identical. The technical reserve equals the difference between the present value of the expenses calculated based on the funding interest and the present value of the premiums based on the funding interest. The calculation of the insurance reserve is based on numerous assumptions.

Diákhitel 1.

Risk distribution	H2 2016	H1 2016	H2 2015	H1 2015
Mortality	7,84%	8,93%	8,93%	8,05%
Disability	10,33%	13,11%	13,11%	9,61%
Pension	5,20%	2,58%	2,58%	1,58%
<i>Insurance Risk Total</i>	<i>23,37%</i>	<i>24,62%</i>	<i>24,62%</i>	<i>19,24%</i>
Non-payment	76,63%	75,38%	75,38%	80,76%
<i>Credit Risk Total</i>	<i>76,63%</i>	<i>75,38%</i>	<i>75,38%</i>	<i>80,76%</i>
Total	100,00%	100,00%	100,00%	100,00%

Diákhitel 2.

Risk distribution	H2 2016	H1 2016	H2 2015	H1 2015
Mortality	3,56%	6,17%	6,17%	5,07%
Disability	6,26%	3,22%	3,22%	1,54%
Pension	1,76%	1,76%	1,76%	0,15%
<i>Insurance Risk Total</i>	<i>11,58%</i>	<i>11,15%</i>	<i>11,15%</i>	<i>6,76%</i>
Non-payment	88,42%	88,85%	88,85%	93,24%
<i>Credit Risk Total</i>	<i>88,42%</i>	<i>88,85%</i>	<i>88,85%</i>	<i>93,24%</i>
Total	100,00%	100,00%	100,00%	100,00%

In addition to the above risks, insurance risks do not include any additional maturity risk. Insurance risks do not have any known concentration.

The following tables show the assumptions used for the calculation of financing interest, operating premium and payroll cost inflation for the ends of 2016 and 2015, respectively:

Diákhitel 1.

31 December 2016	2017	2018	2019	2020	2021	2022	2023+
Financing interest	1,37%	1,31%	1,67%	2,10%	2,47%	2,76%	2,99%
Operating premium	0,72%	0,97%	0,97%	0,97%	0,97%	0,97%	0,97%
Payroll cost inflation	5,16%	5,34%	3,48%	3,48%	3,48%	3,48%	3,48%

Diákhitel 2.

31 December 2016	2017	2018	2019	2020	2021	2022	2023+
Financing interest	1,37%	1,31%	1,67%	2,10%	2,47%	2,76%	2,99%
Operating premium	1,01%	0,97%	0,97%	0,97%	0,97%	0,97%	0,97%
Payroll cost inflation	5,16%	5,34%	3,48%	3,48%	3,48%	3,48%	3,48%

Diákhitel 1.

31 December 2015	2016	2017	2018	2019	2020	2021	2022	2023+
Financing interest	2,08%	2,29%	2,71%	3,01%	3,22%	3,34%	3,42%	3,49%
Operating premium	0,70%	0,95%	0,95%	0,95%	0,95%	0,95%	0,95%	0,95%
Payroll cost inflation	3,38%	3,80%	3,54%	3,54%	3,54%	3,54%	3,54%	3,54%

Diákhitel 2.

31 December 2015	2016	2017	2018	2019	2020	2021	2022	2023+
Financing interest	2,08%	2,29%	2,71%	3,01%	3,22%	3,34%	3,42%	3,49%
Operating premium	1,89%	1,43%	0,95%	0,95%	0,95%	0,95%	0,95%	0,95%
Payroll cost inflation	3,38%	3,80%	3,54%	3,54%	3,54%	3,54%	3,54%	3,54%

Assumptions used to calculate the technical reserves and actuarial reserves for effective student loans Type 1 and Type 2:

- In 2016, the **minimum wage** was considered at HUF 111,000, being the statutory minimum wage prescribed for full-time employees by government decree 454/2015. (XII.29.). In the calculations, the model used the minimum wage effective on 31 October prior to the first day of the cash flow projection based on governed by government decree 1/2012. (I.20) on the Student loan system. According to previous year's regulations, based government decree 347/2014. (XII. 29.), the minimum wage was HUF 105,000. The minimum wage assumption used increased by 5.7% as compared to the assumptions used for making reserves at the end of 2015.
- The **collection rates** are determined based on collection experience related to cancelled Diákhitel 1 contracts. Cancelled contracts are classified based on the amount of principal owed (low, medium, high). Collection success also depends on the date of cancellation and the time elapsed since. At the end of 2016, the collection rates for contracts cancelled in the year were 58%/57%/42% depending on the amount of principal owed category. At the end of 2015, the collection rates for contracts cancelled during the year per debt category were: 56%/49%/34%. The same rates were applied to Diákhitel 2 contracts.
- Mortality** was estimated based on the national portability statistics for 2013 and on an analysis of differences between expected and actual mortality for Type 1 student loans. Based on the results, the mortality rate was adjusted by 90% for reserve calculation purposes.
- National **disability** figures were adjusted by 70% based on analyses.

- **Probability of bullet payments:** For Type 1 loans, bullet payment probability assumptions are based on past experience in 2014 and 2015, status and remaining repayable loan. Contracts with 'under repayment' or 'default' were identified separately.

The probabilities calculated based on historic experience which reflects the assumptions used for pricing loans are shown in the table below:

The probability of early repayment before disbursement and repayment period is 0.

Probability of bullet payment

Diákhitel 1. - Diákhitel 2.

Loan granted (HUF)	Under repayment		Overdue	Under repayment		Overdue
	31 December 2016			31 December 2015		
0 - 500 000	21,72%	4,81%		26,15%	16,99%	
500 001 - 1 000 000	5,64%	0,81%		4,67%	2,08%	
1 000 000 - 1 500 000	2,96%	0,50%		2,48%	1,21%	
1 500 001 - 2 000 000	1,79%	0,19%		1,40%	0,61%	
2 000 001 -	0,96%	0,11%		0,85%	0,32%	

The assumption used in 2016 changed compared to that used for provisions and reserves in 2015 as the probability of bullet payments dropped in the lower debtor categories but increased in the higher debtor categories. The number of nonperforming contracts fell in each category.

In view of the overall impact of the changes in bullet payments, early repayments and lump-sum loan disbursements, IFRS reserves and impairment loss increased as a result of the new assumption.

- **Probability and expected volume of early repayment:** The expected volume of early repayment is estimated as the percentage of amounts repaid in periodic instalments and assumed that early repayment will take place once a year. The estimate based on Type 1 loan figures for 2015 and is the same as the assumption used for risk premium calculations for 2016.

Any early repaid amount and the probability of early repayment depend on the amount of the required annual instalment. Based on the information available, the model used the following assumptions for our estimates:

Probability of early repayment

Diákhitel 1. - Diákhitel 2.

31 December 2016				31 December 2015			
Amount of monthly instalment (HUF)		Probability of early repayment	Percentage of annual repayment	Amount of monthly instalment (HUF)		Probability of early repayment	Percentage of annual repayment
Low	73 079 - 100 000	50,26%	45,97%	Low	0 - 100 000	49,69%	35,86%
Medium	100 001 - 200 000	49,28%	23,48%	Medium	100 001 - 200 000	50,39%	22,81%
High	200 001 -	50,20%	15,11%	High	200 001 -	51,52%	14,44%

- **Initial earnings:** The treatment method of initial earnings changed in 2016. Initial earning figures are based on an actuarial analysis which was prepared on the basis of earnings data for 2013 held by the Central Administration of National Pension Insurance. Random initial earnings are allocated to each contract in view of the debtor's sex, field of studies and assumed earnings category (pessimistic, average, optimistic). Initial earnings are then increased each year by a salary increase factor pertinent to the age of the debtor.

In 2015, initial earnings were estimated based on the tax authority's official income figures database for Type 1 student loans. Figures from the NYIKA (Pension and Old Age People [OAP] Roundtable) project show that the percentage of partly or fully inactive population is significantly higher among under-30 age group than in the older age groups. As a result, as most of the student loan debtors are under 30, the income figures in the student loan database are underestimated. Consequently, the lowest income category used in the calculation model was estimated based on statistical information prepared by the Central Statistics Office for 2010 relevant to people with finished grammar school education or higher in the 15-60 age group who represent 4.3% of the economically inactive population. Accordingly, the model assumes that 4,3% of the contracted debtors do not have relevant earnings. In case no initial wage data was available the minimum wage was assumed.

- **Age dependent increase in earnings:** The approach used by the model in 2016 is more sophisticated than in the previous years. Initial earnings and pay increases depend on the field of science as well as on the sex and age of the debtor. For each contract, the model allocates a random career path which ultimately assumes a pay increase factor every year.

In 2015, the increase in earnings (wages and salaries) varied by age and by gender in the calculation model. The related estimates were taken from a pension scheme modelling project co-conducted with the Pension and OAP Roundtable.

Sensitivity analysis of reserves:

The analysis of the effects of the changes in the key assumptions that have the highest impact on reserves is presented in the table below.

Sensitivity analysis of reserve calculations

Diákhitel 1.	31 December 2016				31 December 2015			
	Original assumption	Amended assumption	Reserve	Change	Original assumption	Amended assumption	Reserve	Change
Under basic assumptions			2 231				2 622	
Mortality (relative to mortality of population)	90%	80% 100%	2 076 2 390	-6,95% 7,13%	90%	80% 100%	2 395 2 848	-8,66% 8,62%
Disability (relative to national data)	70%	60% 80%	1 993 2 468	-10,67% 10,62%	70%	60% 80%	2 107 3 134	-19,64% 19,53%
Real wage growth		-1% +1%	3 094 1 634	38,68% -26,76%		-1% +1%	3 829 1 823	-46,03% -30,47%
Collection rate on cancelled contracts	56%,57%,42%	55%,56%,41% 57%,58%,43%	2 220 2 203	-0,49% -1,26%		55%,48%,33% 57%,50%,35%	2 622 2 622	0,00% 0,00%
Risk premium	0,97%	-0,1% 0,1%	2 447 2 007	9,68% -10,04%	1,10%	-0,1% 0,1%	2 846 2 403	8,54% -8,35%
Cost of capital		-1,0% 1,0%	1 602 3 181	-28,19% 42,58%		-1,0% 1,0%	1 768 3 953	-32,57% 50,76%
Pricing			3 636	62,98%			3 373	28,64%

Diákhitel 2	31 December 2016				31 December 2015			
	Original assumption	Amended assumption	Reserve	Change	Original assumption	Amended assumption	Reserve	Change
Under basic assumptions			87				47	
Mortality (relative to mortality of population)	90%	80% 100%	86 98	-1,15% 12,64%	90%	80% 100%	30 64	-36,17% 36,17%
Disability (relative to national data)	70%	60% 80%	70 105	-19,54% 20,69%	70%	60% 80%	32 62	-31,91% 31,91%
Real wage growth		-1% +1%	108 83	24,14% -4,60%		-1% 1%	73 25	55,32% -46,81%
Collection rate on cancelled contracts	58%/57%/42%	57%/56%,41% 59%/58%/43%	95 73	9,20% -16,09%	56%,49%,34%	55%,48%,33% 57%,50%,35%	47 47	0,00% 0,00%
Risk premium	1,16%	-0,1% 0,1%	108 75	24,14% -13,79%	1,16%	-0,1% 0,1%	72 22	53,19% -53,19%
Cost of capital		-1,0% 1,0%	149 83	71,26% -4,60%		-1,0% 1,0%	116 -1	146,81% -102,13%
Pricing			76	-12,64%			30	-36,17%

Technical reserves are sensitive to changes in the assumptions regarding increase in real earnings (wages and salaries), mortality and disability, while the assumptions regarding collection rates has less impact on reserve levels. Changes in the risk premium also have a material impact on technical reserves.

The pricing sensitivity analysis was prepared based on the pricing conditions prevailing in 2016. Most of the differences from the assumptions used for calculating reserves as at 31 December 2016 arose in the economic assumptions (real wages and salaries, increases, funding costs, operating expenses, late payment interest).

The level of the risk premium influences the size of the technical reserve; changes to the risk premium are illustrated in the following table:

Interest period	risk premium	
	Diákhitel 1.	Diákhitel 2.
2015.01.01-2015.06.30	1,42%	1,28%
2015.07.01-2015.12.31	1,10%	1,16%
2016.01.01-2016.06.30	1,10%	1,16%
2016.07.01-2016.12.31	0,97%	1,09%

4.1.4. Liquidity risk

Liquidity risk is the risk that the Company cannot meet its payment obligations on time.

In relation to the financing of the student loan system and during the portfolio management of the debt there is also the "renewal risk", which is derived from the availability of funds required to repay maturing loans and bonds. Renewal risk that is not managed appropriately can easily result in liquidity problems, but it also implies an interest risk in cases where the financing becomes exposed to an asset or financial partner.

Management of liquidity risk

For liquidity equalisation purposes the Company has employed stand-by credit line agreements for many years, whereby the amounts are determined to ensure sufficient security for likely situations. Aside from the purposes mentioned, the stand-by credit also enhances the security of financing, since if planned funds are not raised because of some market event, a flexible and suitable size of stand-by credit can offer a temporary solution and lower the liquidity risk.

Liquidity risk is an important consideration when selecting the terms of funding raised; this is why the Company strives to match the terms of its funds to the assets, i.e. to the long expected average term of the student loans, as well as to lower the renewal risk and be the maturity curve of the Student Loan Centre's funds as even as possible.

The following table breaks down the expected cash flows of financial assets and liabilities by maturity:

Liquidity risk	Book value	Expected cash-flows	within 1 month	1-3 months	3 months - 1 year	1-5 years	more than 5 years
31 December 2016							
Cash and cash equivalents	211	0	0	0	0	0	0
Student loans	232 236	315 221	1 832	3 632	16 970	103 896	188 891
Insurance premium receivables	1 951	2 875	18	36	167	970	1 684
Other financial assets	147	148	89	1	3	53	2
Non-derivative financial liabilities							
Loans and advances from banks	-174 989	-193 617	-320	-2 777	-8 529	-137 417	-44 574
Other financial liabilities	-141	141	111	30	0	0	0
Issued bonds	-50 211	-52 229	0	0	-20 087	-32 142	0
	9 204	72 539	1 730	922	-11 476	-64 640	146 003
Liquidity risk	Book value	Expected cash-flows	within 1 month	1-3 months	3 months - 1 year	1-5 years	more than 5 years
31 December 2015							
Cash and cash equivalents	559	300	300	0	0	0	0
Student loans	244 121	365 631	1 601	3 556	15 646	100 475	244 353
Insurance premium receivables	2 355	3 421	16	36	157	969	2 243
Other financial assets	167	167	101	1	6	56	3
Non-derivative financial liabilities							
Loans and advances from banks	-158 464	-183 648	0	-2 907	-8 101	-119 326	-53 314
Other financial liabilities	-149	149	116	33	0	0	0
Issued bonds	-74 417	-78 217	0	0	-42 727	-35 490	0
	14 172	107 803	2 134	719	-35 019	-53 316	193 285

The expected cash flows defined above were determined by the Company taking into account future capital assets and liabilities from the individual financial instrument contracts as valid for the remaining terms, and the cash flows caused by interest and other fees.

The table shows the expected cash flows of the Student Loan Centre as derived from the Company's current contracts. As the Company can generally use shorter-term funds to finance the student loans extended for an average of 15-20 years that are repaid in proportion to incomes and which make up the

majority of the asset side of its balance sheet, the net cash flow calculated from the above turns negative in the short term. However, the Company's market-based financing has been stable in the past few years; this is set up with the professional support of the Government Debt Management Agency and approved by the Minister responsible for the government budget.

4.1.5. Market risk

Market risk is the risk that changes in market prices, such as interest rates (interest risk), prices (price risk) and exchange rates (currency risk) will influence the Company's profits or the value of its financial instruments.

Management of market risks

Due to the special rules on student loans and the Student Loan Centre (such as the method for calculating interest) there is no interest risk to the Company's profit under Hungarian accounting standards, as the interest risks must be passed on to clients by continuously accruing/deferring the difference of funding costs and interest income and releasing such accruals/deferrals against loan interests during the prescribed period. Traditional banking operations and risk management requires the duration matching of maturities on the assets and equity & liabilities side to ensure that both sides of the balance sheet reflect the same movements in yields. Thus the interest margin remains largely unchanged as it is hedged against interest risk by having an impact on the balance sheet structure. In accordance with this principle, the Student Loan Centre would need to reflect short-term (half-year and declining) duration value of student loans (i.e. the loans would be re-priced on a six monthly basis) also on the equity & liabilities side as a combination of a number of weighed funding instruments as the maturities cannot be changed on the asset side of the balance sheet (this would only be possible subject to profound changes in the terms of conditions of student loans as loan products). However, in practice, such a funding scheme would result in the dominance of floating interest financing instruments with truly adverse consequences: although the approach could render accruals/deferrals by the Company unnecessary, it would cause serious volatility in student loan interest rates. Besides, the approach would be difficult to be put into practice as traditional banking practice allows for a number of instruments on both the assets and the equity & liabilities side to enable continuous duration matching, but such instruments are not available or applicable to the Company.

The Company can manage interest and foreign exchange risks by influencing the ratio of fix and floating interest debts and by choosing the duration of the assets used. The Company's funding structure is devised with a view to continuously reducing student loan interest rates as yield also reduce. At the same time, this structure would need to allow little room for reflecting unexpected increases in market yields in student loan interest rates. The Company's financing strategy aims to develop the fix/floating ratio proposed by the Sovereign Debt Management Centre (ÁKK) subject to market conditions and in view of the nature, market availability and interest sensitivity of the various funds with different interest rates and durations.

The following table displays the exposure to interest rate risk under IFRS at the end of the reporting periods:

Interest rate risk	31 December 2016	31 December 2015
Fixed interest	6	307
Floating interest	234 194	246 485
Interest bearing assets	234 200	246 792
Fixed interest	-101 732	-107 590
Floating interest	-123 468	-125 291
Interest bearing liabilities	-225 200	-232 881

A 50 basis-point change in HUF interest and a 10 basis-point change in EUR interest would make the following impact on the Company's profits and equity.

Cash flow sensitivity	31 December 2016			31 December 2015		
	Increase (basis points)	Equity	Profit or loss	Increase (basis points)	Equity	Profit or loss
Floating-interest instruments (HUF)	50	981	981	50	1 013	1 013
Floating-interest instruments (EUR)	10	-37	-37	10	-37	-37
Cash flow sensitivity, net		944	944		976	976

Fair value sensitivity	31 December 2016			31 December 2015		
	Increase (basis points)	Equity	Profit or loss	Increase (basis points)	Equity	Profit or loss
Fixed interest instruments	50	0	0	50	0	0

Foreign exchange risk can arise from the HUF/EUR exchange rate fluctuations and between various foreign currencies. However, when the financial statements were prepared, the Student Loan Centre had no assets or liabilities denominated in foreign exchange.

4.1.6. Early repayment risk

Early repayment risk is the risk that Diákhitel Központ Zrt. incurs losses because clients pay their loans back in part or in full prior to the contractual maturity date.

The large repayment sums owing to the high willingness to repay early seem beneficial from a financing and cash-flow perspective as they promote the goal of becoming self-financing as quickly as possible. Nevertheless, from the perspective of spreading credit losses they are not so beneficial, since the – presumably – highly solvent borrowers willing to pay are removed from the risk pool more quickly, and so the interest element of the risk premium designed to cover the expected credit losses of the entire pool is also paid for a shorter period. The Company currently manages this risk by integrating expected early repayments into the model applied for estimating the risk premium and reserves. There are no other measures – penalty fees, time restrictions – applied for early repayments.

5. Capital management

Diákhitel Központ Zrt. is engaged in 'other lending', which it performs as an economic entity under the applicable government decree; apart from some minor exceptions it does not fall under the Act on Credit Institutions and Financial Enterprises. Despite this, the Company is not governed by the National Bank of Hungary and the capital requirements set for institutions carrying out financial activities do not apply to the Company. For this reason the Company's capital adequacy is relatively low compared to the financial sector. The Company complies with the capital requirements for business organisations, which state that the share capital of companies limited by shares may not be less than HUF 5 million. (section 3:212 of act V of 2013).

6. Fair value of financial instruments

The Company's accounting policies and disclosures require fair values to be determined for financial assets and liabilities. The Company only applies fair value measurements for available-for-sale securities classified under cash and cash equivalents.

The fair value is the amount at which assets are sold or liabilities are settled under normal market conditions between informed parties.

In the case of active markets the Company determines the fair values of assets and liabilities based on quoted prices available on the market (Level 1).

When independent prices are not available, fair values are determined by using valuation techniques which rely on observable market data. These include comparisons with similar instruments where observable market prices exist, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants (Level 2). For financial instruments, fair values 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 (Level 3).

For the individual categories of financial instrument the fair values were determined using the following methods for valuation and/or disclosure purposes.

Available-for-sale financial instruments

The fair value calculations for these instruments are presented in note 3.9.1 in the "Summary of key accounting principles" chapter.

Student loans and insurance premium receivables

Since there is no product on the market that is comparable with student loans, and since the Company passes on the entire cost of the funds sourced on the money and capital markets to clients, including the risk and operation premiums, in this report we assumed in respect of the student loans and insurance premium receivables that their carrying amounts are a suitable approximate estimate for their fair values. This assumption is backed up by the fact that the contracts are re-priced on a six-monthly basis.

Other receivables and other liabilities

As other receivables and other liabilities are current items, their carrying amounts well reflect the fair values of the assets and liabilities.

Loans and advances from banks

A significant part of loans taken by Diákhitel Központ Zrt. are floating-interest rate loans, all of these were re-priced in December 2016.

The fair value of the loans was discounted based on the HUF market rates on 31 December 2016 and the average spread on bonds issued by the company compared to reference government bonds yields. The cash-flow elements to be discounted in case of HUF based floating-interest instruments were calculated based on the forward rates of 3 month HUF swap yield curves available on Reuters and the margin of the loans. The cash-flow elements to be discounted in case of EURIBOR based MFB loans were calculated based on the forward returns of 3 months euro swap yield curves available on Reuters and the margin on the loan. The fair value of the loans differs from their book value.

Issued bonds

The bonds issued by the Company are publicly issued bonds bearing fixed interest and are traded on the Budapest Stock Exchange. All of the bond series possess the same conditions as a benchmark government bond series (interest, maturity) for easier comparisons and to facilitate pricing, yet their market is still significantly less liquid relative to the market for government securities. For this reason the Company calculates the fair value of bonds by comparing the yield of the last transaction prior to the given date with the yield for the benchmark government security at the same time, and then after adding the yield premium calculated in this way to the yield valid when the fair value of the benchmark government security was calculated, this yield is used to discount the expected cash flows of the given bond series.

The following table shows the fair values of the Company's financial assets and financial liabilities calculated as determined above, compared with their carrying amounts at the end of the individual reporting periods:

Fair value of financial instruments
31 December 2016

Fair value of financial instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents	211	0	0	211	211
Student loans	232 236	0	0	232 236	232 236
Insurance premium receivables	1 951	0	0	1 951	1 951
Other financial assets	147	0	0	147	147
Fair value of financial assets	234 545	0	0	234 545	234 545
Loans and advances from banks	0	0	174 989	174 989	178 844
Other financial liabilities	0	0	141	141	141
Issued bonds	0	0	50 211	50 211	52 230
Fair value of financial liabilities	0	0	225 341	225 341	231 215

31 December 2015

Fair value of financial instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents	260	299	0	559	559
Student loans	244 121	0	0	244 121	244 121
Insurance premium receivables	2 355	0	0	2 355	2 355
Other financial assets	167	0	0	167	167
Fair value of financial assets	246 903	299	0	247 202	247 202
Loans and advances from banks	0	0	158 464	158 464	158 699
Other financial liabilities	0	0	149	149	149
Issued bonds	0	0	74 417	74 417	76 393
Fair value of financial liabilities	0	0	233 030	233 030	235 241

Fair value hierarchy
31 December 2016

Assets	Book value	Fair value	Level 1	Level 2	Level 3
Assets measured at fair value	0	0	0	0	0
Available-for-sale financial assets	0	0	0	0	0
Assets disclosed at fair value	234 545	234 545	211	0	234 334
Cash and cash equivalents	211	211	211	0	0
Student loans	232 236	232 236	0	0	232 236
Insurance premium receivables	1 951	1 951	0	0	1 951
Other financial assets	147	147	0	0	147
Total	234 545	234 545	211	0	234 334

Liabilities	Book value	Fair value	Level 1	Level 2	Level 3
Liabilities measured at fair value	0	0	0	0	0
Liabilities disclosed at fair value	225 341	231 215	0	231 074	141
Loans and advances from banks	174 989	178 844	0	178 844	0
Other financial liabilities	141	141	0	0	141
Issued bonds	50 211	52 230	0	52 230	0
Total	225 341	231 215	0	231 074	141

31 December 2015

Assets	Book value	Fair value	Level 1	Level 2	Level 3
Assets measured at fair value	299	299	299	0	0
Available-for-sale financial assets	299	299	299	0	0
Assets disclosed at fair value	246 903	246 903	260	0	246 643
Cash and cash equivalents	260	260	260	0	0
Student loans	244 121	244 121	0	0	244 121
Insurance premium receivables	2 355	2 355	0	0	2 355
Other financial assets	167	167	0	0	167
Total	247 202	247 202	559	0	246 643

Liabilities	Book value	Fair value	Level 1	Level 2	Level 3
Liabilities measured at fair value	0	0	0	0	0
Liabilities disclosed at fair value	233 030	235 241	0	235 092	149
Loans and advances from banks	158 464	158 699	0	158 699	0
Other financial liabilities	149	149	0	0	149
Issued bonds	74 417	76 393	0	76 393	0
Total	233 030	235 241	0	235 092	149

7. Interest income and expense

Interest income	2016	2015
Student loan interest income*	10 150	14 270
T-bills	13	84
Interest paid by employees	0	0
Total	10 163	14 354

Interest expense	2016	2015
Bond interest	2 673	4 032
Interest on long-term loans	4 260	4 691
EIB loan interest	2 371	2 494
MFB loan interest	1 692	1 936
Takarékbank loan interest	197	261
Stand-by loan interest	0	0
Budapest Bank loan interest	0	0
MFB loan interest	0	0
Total	6 933	8 723

Diákhitel interest income details	2016			2015		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Student loan interest income*	5 668	67	5 735	7 253	22	7 275
-interest on funding costs	3 056	27	3 083	4 222	10	4 232
-interest on risk premium	1 527	15	1 542	1 696	4	1 700
-Interest on operating costs	1 085	25	1 110	1 335	8	1 343
Student loan interest accrued due to capital	2 879	270	3 149	5 063	201	5 264
-interest on funding costs	1 586	110	1 696	3 267	95	3 362
-interest on risk premium	772	60	832	1 036	37	1 073
-Interest on operating costs	521	100	621	760	69	829
Amount reclassified from interest income to insurance premium received	-938	-22	-960	-1 036	-11	-1 047
Student loan default interest*	1 332	4	1 336	1 749	1	1 750
State targeted interest subsidies*	375	515	890	522	506	1 028
Total	9 316	834	10 150	13 551	719	14 270

* Late payment interest received includes the actually received interest on impaired student loans.

8. Insurance premium earned

Based on the actuarial model calculation, the Company calculates the income from insurance premium based on the risk premium spread, i.e. the risk and operating premium attributable to the period is multiplied by the insurance risk percentage. The risk spread is presented in section 4.1.3. Based on section 3.3 of the accounting policies, interest subsidies received are presented as part of interest income.

Insurance premium income	2016			2015		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Period risk premium	2 299	75	2 374	2 732	41	2 773
Period operating premium	1 606	125	1 731	2 095	77	2 172
Total premiums	3 905	200	4 105	4 827	118	4 945
Thereof: premium income	938	22	960	1 036	11	1 047

9. Damages paid

Expense caused by insurance events

	2016			2015		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Loan written off due to death	115	2	117	105	3	108
Loan written off due to disability	40	0	40	22	0	22
Total	155	2	157	127	3	130

The estimation of damages payable and the actual damage events are presented in the table below:

Year	Diákhitel 1				Diákhitel 2			
	Loan written off due to death		Loan written off due to disability		Loan written off due to death		Loan written off due to disability	
	estimated	actual	estimated	actual	estimated	actual	estimated	actual
2015	200	105	0	22	6	3	0	0
2016	151	115	1	40	7	2	0	0

10. Net trading profit or loss

Net trading profit or loss	2016	2015
Loss/profit from the sale of financial instruments	-176	-119
Net trading loss/profit	-176	-119

11. Other operating income and expenses

Other operating income	2016	2015
Income from forgiven receivables	5	7
Income from forgiven liabilities	0	18
Government grants received	26	26
Advertising campaign paid by MFB	1	32
Other	16	6
Total	48	89

Other operating costs, expenses	2016	2015
Material costs	28	30
Services used	939	824
Other services	267	302
Wage cost	725	676
Other staff benefits	221	234
Social security contribution	247	245
Depreciation	165	179
Costs of issuing bonds	22	-198
Amounts contributed free of charge	15	60
Other	2	3
Net value of PPE and intangible assets sold, scrapped	0	0
Total	2 637	2 355

* The cost of bonds held in trading include a negative amount of HUF 219 million which is the total of issuance costs incurred in relation to bonds issued until 31 December 2014. These costs were expensed when incurred and did not reduce the initial cost of the bonds. As a result of the changes in 2015, the initial cost and the amortisation of these bonds were remeasured.

12. Tax expense, tax income

In both 2015 and 2016, further to section 19 of act LXXXI of 1996, for a positive taxable base of no more than HUF 500 million, the tax rate is 10%, for any amount in excess of this threshold the rate is 19%.

According to the companies act effective as of 1 January 2017 (section 19 of act LXXXI of 1996 as amended) „the corporate income tax payable is 9 percent of the entity’s positive tax base” which was considered by the Company in its deferred tax calculations.

The following table summarises the tax rates valid in the periods presented:

Corporate income tax rates of the Company	2016	2015
Corporate tax	10% , 19%	10% , 19%
Corporate tax rate	10% , 19%	10% , 19%

Tax rates used by Company	2016	2015
Corporate tax	9%	10%
Deferred tax rate	9%	10%

Corporate tax expense in reporting year	2016	2015
Corporate tax expense in reporting year	1	3
Total corporate tax expense in reporting year	1	3

Deferred tax income	2016	2015
Occurrence and reversal of temporary differences	-521	24
Total deferred tax income	-521	24

Total corporate tax	-520	27
----------------------------	-------------	-----------

The following table reconciles the tax expected based on the accounting profit and the tax actually paid:

Breakdown of effective tax rate	2016	2015
Period result	-4 235	201
Corporate tax income / expense	520	-27
Profit/loss before tax	-4 755	228
Expected corporate tax based on tax rate	428	-23
Impact of exchange rate changes	9	0
Non-deductible expenses	-1	-6
Tax-exempt income	0	3
Reversal effect of tax differences	0	2
Corporate income tax payable	1	3
Negative corporate tax base in reporting year, for which deferred tax assets were not allocated	0	0
Unrecognised changes in temporary differences	83	-4
Other	0	-2
Tax income	520	-27
Profit or loss for the period	-4 235	201
Corporate tax income / expense	520	-27
Effective tax rate %	12%	13%

13. Breakdown of assets and liabilities by maturity

Assets by maturity	31 December 2016	31 December 2015
Cash and cash equivalents		Restated
Short-term	210	558
Long-term	1	1
Total:	211	559
Student loans		
Short-term	43 646	43 180
Long-term	188 590	200 941
Total:	232 236	244 121
Insurance premium receivables		
Short-term	390	437
Long-term	1 561	1 918
Total:	1 951	2 355
Current tax receivables		
Short-term	0	0
Long-term	0	0
Total:	0	0
Other receivables		
Short-term	143	131
Long-term	56	64
Total:	199	195
Other assets		
Short-term	2	3
Long-term	0	0
Total:	2	3
Property, plant and equipment		
Short-term	0	0
Long-term	160	196
Total:	160	196
Intangible assets		
Short-term	0	0
Long-term	170	257
Total:	170	257
Total:	234 929	247 686
Liabilities by maturity	2016.12.31	2015.12.31
Loans and advances from banks		Restated
Short-term	7 594	7 625
Long-term	167 395	150 839
Total:	174 989	158 464
Other liabilities		
Short-term	579	529
Long-term	0	20
Total:	579	549
Issued bonds		
Short-term	18 738	39 311
Long-term	31 473	35 106
Total:	50 211	74 417
Technical reserves		
Short-term	180	155
Long-term	2 138	2 514
Total:	2 318	2 669
Deferred tax liabilities		
Short-term	0	0
Long-term	411	932
Total:	411	932
Total:	228 508	237 031

14. Cash and cash equivalents

Cash and cash equivalents	2016	2015
Cash	1	1
Available-for-sale securities	0	299
Bank deposits	209	258
Restricted-use cash	1	1
Total	211	559

Restricted-use cash includes the necessary coverage for the use of bank cards.

Available-for-sale securities

31 December 2016

Instrument	Date of purchase	Date of maturity	Face value	Fair value
			0	0
Total			0	0

31 December 2015

Instrument	Date of purchase	Date of maturity	Face value	Fair value
D160309	2015.12.29	2016.03.09	300	299
Total			300	299

15. Student loans and insurance premium receivables

The student loan contracts provided by the Company comprise a loan component and an insurance component, which are presented on separate rows in the statement of financial position.

The disbursement of student loans (Type 1) began in October 2001. The repayments of student loans commenced on 1 January 2003, while the income-based repayments started in 2005.

Type 2 was launched on 15 August 2012 and the first disbursement was made on 15 October 2012.

Diákhitel 1 (Type 1)

A total of 354,327 people (2015: 350,136) have been granted a student loan since the scheme was launched and a total amount of nearly HUF 294.3 billion has been disbursed. At the end of 2016, the number of repaying debtors reached 129,361 people (2015: 134,021 people) and the number of clients with closed contracts totalled 169,420.

In the first and second year of repayment, the instalment payable by debtors paying in instalments are based on twelve times the minimum wage valid on 31 October of the year prior to the first and second year of repayment.

From the second year of repayment, the monthly instalment of student loans equals 1/12 of 6% of income earned in the second year prior to the relevant year or, for fee-paying tuition from the 2006/2007 academic year, 1/12 of 8%, 9% of income for the students borrowing the largest amounts. The Decree allows for a reduction of the monthly instalment for up to 36 calendar months if certain conditions are met. However, the reduced instalments may not be below the minimum instalment.

The mandatory monthly instalments changed as follows:

Year	Minimum wage	Minimum wage defining instalment	Repayment rate 6%	Repayment rate 8%	Repayment rate 9%
2014	101 500	98 000	5 880	7 840	8 820
2015	105 000	101 500	6 090	8 120	9 135
2016	111 000	105 000	6 300	8 400	9 450
2017	127 500	111 000	6 660	8 880	9 990

Diákhitel 2 (Type 2)

Since the start of the student loans scheme in 2012, a total of 24,875 students (in 2015: 20,378) have been granted a student loan and a total amount of nearly HUF 20.2 billion has been disbursed. A total of 5,682 debtors reached their repayment period (2015: 2,728) and 931 contracts have already been concluded.

The repayment amount in the first year of repayment and the year after is determined based on the minimum wage effective on 31 October of the year preceding the first year of repayment and the subsequent year. From the second year after the commencement of the loan repayment is based on the salary of the person who repays the loan in the second year prior to the current year.

The amount of instalment depends on the initial amount of loan and is at least 4% of this amount. The instalment rates applicable to the debts owed per contract are disclosed by Diákhitel Központ in line with relevant legislation as shown in the table below:

Loan amount defining instalment	Repayment rate
0 - 1 000 000 Ft	4%
1.000.001- 2.000.000 Ft	5%
2.000.001- 3.000.000 Ft	7%
3.000.001- 4.000.000 Ft	9%
4.000.001-30.000.000 Ft	11%

Information on student loans and insurance premium receivables along with related impairment loss is detailed in the tables contained in sections 4.1.2 and 4.1.3.

16. Other receivables

Other receivables	2016	2015
Other financial assets	147	167
Trade receivables	0	0
Employee loans	13	17
Advances to creditors	0	2
Safety deposit	46	47
Subsidised interest request	88	101
Other receivables	52	28
Prepaid expenses, accrued income	50	25
Other tax receivables	2	2
Other receivables	0	1
Total other receivables	199	195

17. Other assets

Other assets	2016	2015
Marketing inventories	1	1
Tangible assets reclassified to inventory	1	2
Total	2	3

18. Tangible assets

The Company has restricted ownership with regard to property rights.

Changes in property, plant and equipment	Property rights	Technical machinery, equipment, vehicles	Other equipment	Capital expenditures	Total
Gross value, 1 January 2015	59	424	70	11	620
Additions	24	69	10	98	201
Reclassifications	1	0	0	0	1
Disposals	0	-82	-2	-109	-193
Gross value, 31 December 2015	84	411	78	0	573
Additions	2	19	1	42	64
Reclassifications	0	0	0	0	0
Disposals	0	-6	0	-42	-48
Gross value, 31 December 2016	86	424	79	0	589
Accumulated depreciation, 1 January 2015	7	322	58	0	387
Depreciation	4	62	7	0	73
Reclassifications	0	0	0	0	0
Disposals	0	-81	-2	0	-83
Accumulated depreciation, 31 December 2015	11	303	63	0	377
Depreciation	5	50	3	0	58
Reclassifications	0	0	0	0	0
Disposals	0	-6	0	0	-6
Accumulated depreciation, 31 December 2016	16	347	66	0	429
Net value, 1 January 2015	52	102	12	11	177
Net value, 31 December 2015	73	108	15	0	196
Net value, 31 December 2016	70	77	13	0	160
Cost of fully written off tangibles in use	Property rights	Technical machinery, equipment, vehicles	Other equipment	Capital expenditures	Total
31 December 2015	0	224	57	0	281
31 December 2016	0	227	57	0	284

19. Intangible assets

The Company does not have any assets under restricted ownership.

Movements in intangible assets	Property rights	Intellectual products	Total
Gross value, 1 January 2015	1 231	4	1 235
Additions	94	0	94
Reclassifications	0	0	0
Disposals	-74	0	-74
Gross value, 31 December 2015	1 251	4	1 255
Additions	20	0	20
Reclassifications	0	0	0
Disposals	0	0	0
Gross value, 31 December 2016	1 271	4	1 275

Accumulated depreciation, 1 January 2015	964	2	966
Depreciation	105	1	106
Reclassifications	0	0	0
Disposals	-74	0	-74
Accumulated depreciation, 31 December 2015	995	3	998
Depreciation	106	1	107
Reclassifications	0	0	0
Disposals	0	0	0
Accumulated depreciation, 31 December 2016	1 101	4	1 105

Net value, 1 January 2015	267	2	269
Net value, 31 December 2015	256	1	257
Net value, 31 December 2016	170	0	170

Cost of fully written off intangibles in use	Unrestricted ownership of property rights	Unrestricted ownership of property rights	Total
31 December 2015	712	0	712
31 December 2016	786	3	789

20. Deferred tax assets and tax liabilities

Deferred tax	31 December 2016			31 December 2015		
	Tax asset	Tax liability	Net	Tax asset	Tax liability	Net
Intangible assets	0	0	0	0	0	0
Property, plant and equipment	6	0	6	6	-1	5
Receivables, loans disbursed	3 589	-176	3 413	3 556	-243	3 313
Prepaid expenses, accrued income	10	0	10	25	0	25
Cash equivalents	0	0	0	0	0	0
Provisions	0	-3 372	-3 372	0	-3 582	-3 582
Technical reserve	209	0	209	267	0	267
Long-term liabilities	154	-248	-94	192	-365	-173
Accrued expenses, deferred income	0	-583	-583	0	-787	-787
Tax receivables (tax liabilities)	3 968	-4 379	-411	4 046	-4 978	-932
Tax assets not considered	0	0	0	0	0	0
Tax assets (tax liabilities), total	3 968	-4 379	-411	4 046	-4 978	-932

The following tables illustrate the tax impacts of temporary differences:

Change in tax impact of temporary differences 2016.12.31

	Opening as at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Closing as at 31 December
Intangible assets	0	0	0	0
Property, plant and equipment	5	1	0	6
Receivables, loans disbursed	3 313	100	0	3 413
Prepaid expenses, accrued income	25	-15	0	10
Cash equivalents	0	0	0	0
Provisions	-3 582	210	0	-3 372
Technical reserve	267	-58	0	209
Long-term liabilities	-173	79	0	-94
Other liabilities	-787	204	0	-583
Temporary difference not considered	0	0	0	0
Total	-932	521	0	-411

Change in tax impact of temporary differences 2015.12.31

	Opening as at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Closing as at 31 December
Intangible assets	0	0	0	0
Property, plant and equipment	6	-1	0	5
Receivables, loans disbursed	2 922	391	0	3 313
Prepaid expenses, accrued income	53	-28	0	25
Cash equivalents	-1	0	1	0
Provisions	-3 207	-375	0	-3 582
Technical reserve	241	26	0	267
Long-term liabilities	-47	-126	0	-173
Other liabilities	-876	89	0	-787
Temporary difference not considered	0	0	0	0
Total	-909	-24	1	-932

21. Amounts payable to banks

Loans and advances from banks	Interest type	Interest rate	Maturity date	Deadline	Currency	2016			2015		
						Amount of loan	Capital contribution	Book value	Amount of loan	Capital contribution	Book value
European Investment Bank	variable	EIB VSFR	2005.10.12	2020.06.15	HUF	630		630	810		810
European Investment Bank	variable	EIB VSFR	2006.01.12	2020.06.15	HUF	1 050		1 050	1 350		1 350
European Investment Bank	variable	EIB VSFR	2006.04.11	2020.06.15	HUF	805		805	1 035		1 035
European Investment Bank	variable	EIB VSFR	2006.08.10	2021.03.15	HUF	675		675	825		825
European Investment Bank	variable	EIB VSFR	2006.11.13	2021.03.15	HUF	1 260		1 260	1 540		1 540
European Investment Bank	variable	EIB VSFR	2006.12.12	2021.03.15	HUF	1 305		1 305	1 595		1 595
European Investment Bank	variable	EIB VSFR	2007.03.12	2021.09.15	HUF	750		750	900		900
European Investment Bank	variable	EIB VSFR	2007.06.13	2021.12.15	HUF	2 000		2 000	2 400		2 400
European Investment Bank	variable	EIB VSFR	2007.10.11	2021.03.15	HUF	3 142		3 142	3 715		3 715
European Investment Bank	variable	EIB VSFR	2008.07.17	2023.03.15	HUF	3 250		3 250	3 750		3 750
European Investment Bank	variable	EIB VSFR	2008.08.08	2023.03.15	HUF	2 600		2 600	3 000		3 000
European Investment Bank	variable	3M BUBOR+0,455%	2008.12.11	2023.06.15	HUF	1 235		1 235	1 425		1 425
European Investment Bank	variable	3M BUBOR+0,390%	2009.03.11	2023.06.15	HUF	3 900		3 900	4 500		4 500
European Investment Bank	variable	EIB VSFR	2009.08.10	2024.03.15	HUF	2 625		2 625	2 975		2 975
European Investment Bank	variable	EIB VSFR	2009.12.15	2024.06.15	HUF	1 238		1 238	1 403		1 403
European Investment Bank	variable	EIB VSFR	2010.03.10	2024.09.15	HUF	2 000		2 000	2 250		2 250
European Investment Bank	variable	3M BUBOR-1,150%	2010.08.19	2025.03.15	HUF	5 695		5 695	6 365		6 365
European Investment Bank	variable	3M BUBOR-1,142%	2010.10.13	2025.06.15	HUF	2 975		2 975	3 325		3 325
European Investment Bank	variable	3M BUBOR-1,032%	2010.12.13	2025.06.15	HUF	3 103		3 103	3 468		3 468
European Investment Bank	fix	6,296%	2011.03.09	2025.09.15	HUF	2 700		2 700	3 000		3 000
European Investment Bank	fix	5,803%	2011.04.21	2025.12.15	HUF	4 950		4 950	5 500		5 500
European Investment Bank	fix	6,157%	2011.10.12	2026.06.15	HUF	3 895		3 895	4 100		4 100
European Investment Bank	fix	6,471%	2012.03.12	2026.09.15	HUF	2 500		2 500	2 500		2 500
European Investment Bank	fix	6,355%	2012.06.11	2026.12.15	HUF	5 500		5 500	5 500		5 500
European Investment Bank	variable	3M BUBOR-0,56%	2012.10.18	2027.06.15	HUF	3 000		3 000	3 000		3 000
European Investment Bank	fix	4,746%	2013.02.11	2027.12.15	HUF	2 500		2 500	2 500		2 500
European Investment Bank	variable	3M BUBOR+0,161%	2013.10.11	2028.09.15	HUF	2 000		2 000	2 000		2 000
European Investment Bank	variable	3M BUBOR+0,161%	2013.10.11	2028.09.15	HUF	1 500		1 500	1 800		1 800
European Investment Bank	variable	3M BUBOR+0,104%	2014.02.11	2028.12.15	HUF	2 400		2 400	1 500		1 500
European Investment Bank	fix	2,98%	2014.10.13	2029.09.15	HUF	6 000		6 000	2 400		2 400
European Investment Bank	fix	2,98%	2014.10.13	2029.09.15	HUF	1 800		1 800	1 600		1 600
European Investment Bank	fix	2,561%	2015.08.18	2030.06.15	HUF	1 600		1 600	6 000		6 000
European Investment Bank	variable	3M BUBOR+11,3%	2015.10.13	2030.09.15	HUF	3 900		3 900	3 900		3 900
European Investment Bank	variable	3M BUBOR+73,6%	2016.12.21	2031.12.15	HUF	2 800		2 800	0		0
Hungarian Development Bank	variable	3M BUBOR+1,98%	2013.09.24	2018.08.21	HUF	7 500		7 500	7 500		7 500
Hungarian Development Bank	variable	3M BUBOR+1,98%	2014.02.11	2018.08.21	HUF	2 500		2 500	2 500		2 500
Hungarian Development Bank	variable	3M EURIBOR+1,2%	2014.12.31	2019.12.31	HUF	50 000	-4 590	47 247	50 000	-4 590	46 357
Hungarian Development Bank	fix	1,190%	2016.12.21	2019.06.24	HUF	20 000		20 000	0		0
Magyar Takarékbank	variable	3M BUBOR+0,8%	2013.08.23	2018.08.21	HUF	1 500		1 500	1 500		1 500
Magyar Takarékbank	variable	3M BUBOR+0,8%	2013.08.24	2018.08.21	HUF	8 500		8 500	8 500		8 500
Magyar Takarékbank	variable	3M BUBOR+0,52%	2016.12.21	2017.03.09	HUF	320		320	0		0
Total						177 603	-4 590	174 989	161 929	-4 590	158 464

*VSFR: variable spread floating rate = 3MBUBOR + variable spread

The Company consistently paid the due repayment instalments in time and complied with the conditions specified in the loan contracts throughout the periods presented.

22. Other liabilities

Other liabilities	2016	2015
Other financial liabilities	141	149
Trade payables	141	149
Other liabilities	438	400
Unbilled creditors	0	18
Overhead for debt collection	0	2
Accrued operating costs	282	235
Accrued cost of assets received free of charge	20	46
Liabilities to student loan clients	31	27
Liabilities to employees	38	2
Other tax liabilities	67	70
Total other liabilities	579	549

23. Issued bonds

Issued bonds	Interest	First issue	Maturity	Listed	Face value	NBV	Face value	NBV
					2016		2015	
DK2016/01	5,50%	2013.03.12	2016.12.22	yes (BÉT)	0	0	39 000	39 311
DK2017/01	6,75%	2014.09.10	2017.11.24	yes (BÉT)	18 000	18 738	18 000	19 406
DK2018/01	2,50%	2015.05.20	2018.06.22	yes (BÉT)	19 500	19 789	15 500	15 700
DK2020/01	3,50%	2016.09.14	2020.06.24	yes (BÉT)	11 000	11 684	0	0
Total					48 500	50 211	72 500	74 417

Movements in issued bonds (at face value)

Dátum	megnevezés	DK2015/01	DK2015/02	DK2016/01	DK2017/01	DK2018/01	DK2020/01	összesen
2015.01.01	Closing balance	19 246	25 500	39 000	13 000	0	0	96 746
2015.02.12	maturity	-19 246	0	0	0	0	0	-19 246
2015.03.11	issuing	0	0	0	5 000	0	0	5 000
2015.03.11	repurchase	0	-2 073	0	0	0	0	-2 073
2015.04.15	repurchase	0	-600	0	0	0	0	-600
2015.05.20	repurchase	0	-1 585	0	0	0	0	-1 585
2015.05.20	issuing	0	0	0	0	4 000	0	4 000
2015.06.17	issuing	0	0	0	0	3 000	0	3 000
2015.07.15	issuing	0	0	0	0	3 000	0	3 000
2015.08.19	issuing	0	0	0	0	2 500	0	2 500
2015.08.24	maturity	0	-21 242	0	0	0	0	-21 242
2015.12.09	issuing	0	0	0	0	3 000	0	3 000
2015.12.31	Closing balance	0	0	39 000	18 000	15 500	0	72 500
2016.03.09	kibocsátás	0	0	0	0	4 000	0	4 000
2016.04.13	repurchase	0	0	-3 000	0	0	0	-3 000
2016.05.11	repurchase	0	0	-1 729	0	0	0	-1 729
2016.06.15	repurchase	0	0	-1 200	0	0	0	-1 200
2016.09.14	issuing	0	0	0	0	0	6 000	6 000
2016.10.12	issuing	0	0	0	0	0	5 000	5 000
2016.12.22	maturity	0	0	-33 071	0	0	0	-33 071
2016.12.31	Closing balance	0	0	0	18 000	19 500	11 000	48 500

24. Technical reserves

Changes in technical reserves

	Diákhitel 1	Diákhitel 2	Total
Balance at 1 Jan 2015	2 367	47	2 414
Use of reserve	-127	-3	-130
Re-measurement loss	382	3	385
Balance on 31 December 2015	2 622	47	2 669
Use of reserve	-155	-2	-157
Re-measurement loss	-236	42	-194
Balance on 31 December 2016	2 231	87	2 318

The change in the technical reserves row in the statement of comprehensive income contains the utilisation of the reserve, release due to change of assumptions presented in the table above together with any profit derived from re-measurement.

Changes in assumptions analysis

Amending end-of-2015 assumptions to the end-of-2016 assumptions step by step

	Diákhitel 1	Diákhitel 2	Total
Assumptions for 2015 to 31 December 2015	2 622	47	2 669
Pricing 2016 changes in parameters and the model	2 702	31	2 733
Change in late payment interest	3 393	35	3 428
Real wage growth	3 084	36	3 120
Change in cost of capital	2 296	50	2 346
Change in operating cost	2 283	52	2 335
Changes in minimum wage	2 097	52	2 149
Changes in collection patterns	2 097	52	2 149
Changes in modelpoints and dates	2 409	130	2 539
Correction of the model	2 231	87	2 318
Assumptions for 2016 to 31 December 2016	2 231	87	2 318

Amending end-of-2014 assumptions to the end-of-2015 assumptions step by step

	Diákhitel 1	Diákhitel 2	Total
Assumptions for 2014 to 31 December 2014	2 367	47	2 414
Assumptions for 2015 to 31 December 2015	2 867	21	2 888
Change in morbidity and mortality probabilities	2 310	11	2 321
Change in temporary probabilities	2 567	16	2 583
Change in loan disbursement and repayment probabilities	5 084	18	5 102
Change in risk premium	4 031	-15	4 016
Change in late payment interest	4 031	-15	4 016
Real wage growth	3 782	-16	3 766
Change in cost of capital	3 113	-12	3 101
Change in operating cost	3 199	-13	3 186
Changes in minimum wage	2 947	-14	2 933
Change in the maximum number of semesters for which	2 999	8	3 007
Change in collection rate	2 999	8	3 007
Changes in modelpoints and collection sample	2 622	47	2 669
Assumptions for 2015 to 31 December 2015	2 622	47	2 669

25. Share capital, capital reserve and other reserves

The share capital of Diákhitel Központ Zrt. at the time of the FX translation, during the comparative period and at the end of the reporting period totalled 300 registered and paid ordinary shares with a nominal value of HUF 1,000,000 each. The capital reserve did not change over the periods presented, and amounts to HUF 2,200 million.

Equity	2016	2015
Share capital and capital reserve	2 500	2 500
Retained losses	-6 112	-1 877
Other reserves	10 033	10 032
Other capital grant	10 033	10 033
Valuation reserve	0	-1
Total equity:	6 421	10 655

26. Contingent assets and liabilities

Item	31 December 2016		31 December 2015	
	Amount	Maturity	Amount	Maturity
Diákhitel 1 Student Loan Centre disbursable facility recording account	1 402	2017.01.15	1 617	2016.01.15
Diákhitel 2 Student Loan Centre disbursable facility recording account	61	2017.01.15	54	2016.01.15
EIB III facility to be used as student loan collateral	0	-	0	-
EIB IV facility to be used as student loan collateral	21 003	2017.12.31	23 923	2017.12.31
MFB (HDB) stand by facility to be used as student loan collateral	9 680	2017.03.08	10 000	2016.03.08
BB stand by facility to be used as student loan collateral	2 500	2017.03.08	0	-

27. Operating leasing commitments

The Company has uncancellable leasing agreements for the leasing of its office buildings.

The main conditions of these leasing agreements are:

- KÖKI Business Center: Customer Service

The term of the lease is five years and can be prolonged at the end of the term at market rates. The leasing fee is expressed in EUR which is a generally accepted pricing method on the local market. All the benefits and losses from the associated FX risks are borne by the Company. The agreement prohibits sublease. Termination by the lessee before the end of the fix lease period carries a penalty payable by the Company for the period until the lessor signs an agreement with another lessee.

- Kacsá utca Residence Office Building

The term of the lease is five years but can be terminated after three years. The Company may prolong the lease at discounted rates. At the end of the lease term, the agreement can be prolonged at market rates. The leasing fee is expressed in EUR which is a generally accepted pricing method on the local

market. All the benefits and losses from the associated FX risks are borne by the Company. Sublease is subject to prior consent of the lessor.

Contractual terms	Köki Shopping Center	Residence Office Building		
	Customer Service	Floor 3	Warehouse	customer Service
lease period	15/08/2012-15/08/2017	31/05/2014-31/05/2019	31/05/2014-31/05/2019	31/03/2015-31/05/2019
leased area	303 m2	2368,13m2	57,59m2	155,18m2
leasing fee	20,4 EUR/m2+VAT	9,9 EUR/m2+VAT	5,5EUR/m2+VAT	11 EUR/m2+VAT
discounted first 14 months	-	7,16 EUR/m2+VAT	-	-
service fee	13 EUR /m2+VAT	3,8 EUR/m2+VAT	-	3,8 EUR/m2+VAT
cancellable	-	31/05/2017	31/05/2017	31/05/2017

Operativ leasing

Minimum lease payment

2016	Köki Center	Office Building of Residence	Total
within 1 year	3	130	133
over 1 but within 5 years	0	153	153
over 5 years	0	0	0
Total	3	283	286

2015	Köki Center	Office Building of Residence	Total
within 1 year	16	166	182
over 1 but within 5 years	10	68	78
over 5 years	0	0	0
Total	26	234	260

28. Transactions with related parties

Shareholder rights over the Company are exercised by the Hungarian Development Bank (MFB), and the Company's ultimate parent entity is the Hungarian government.

Transactions with the Hungarian government and with the bank exercising shareholder rights

The Company's transactions with the government of Hungary include the purchases of T-bills issued by the government, and the interest income reported thereon. The T-bills held by the Company at the end of the period were presented in note 14 to the financial statements. The income accounted in connection with the T-bills is detailed under note 7 of the financial statements.

Transactions between the Company and related parties were executed under normal market conditions. The only exception to this rule is the EURIBOR interest bearing MFB loans (for more details see note 21), where the favourable interest conditions meant that the initial fair value of the disbursed loan was lower than the amount actually disbursed. The difference was accounted as a capital grant under other reserves, as presented in note 25. The year-end portfolio of MFB loans along with the borrowing conditions are detailed in note 21.

Further to the government decree on the on the student loan system (1/2012 Government Decree), student debtor who has taken an any-purpose student loan – during the contract period – can enjoy subsidised interest during their entitlement to infant care benefit, child raising benefit and child care support services (collectively: maternity benefits).

The funds for the targeted interest subsidy should be made available in the budget of the ministry responsible for family policies. Amounts of targeted interest subsidy are transferred by the ministry to the Student Loan entity's account along with an indication of the relevant student loan debtor.

Based on section 29 of Government Decree 1/2012 (I.20), a student debtor who has taken a limited purpose student loan is entitled to a standard subsidised interest during the term of the underlying loan contract. The standard interest subsidy is the amount over the interest payable by the debtor based on the interest rate as defined in subsection 6(7) of the government decree.

Funding for the standard subsidised interest should be budgeted in the budget of the ministry responsible for whole-of-government. The monthly amount of standard subsidised interest is transferred by the ministry to the student loan entity in the month following loan disbursement and based on a monthly interest payment schedule per debtor.

The Hungarian government guarantees the value of credits drawn and bonds issued by the Company to finance student loans (see note 1).

Government guarantees are shown in the following table:

Liabilities at the end of the period	2016	2015
Drawn loans	177 603	161 929
Issued bonds	48 500	72 500
Total	226 103	234 429

The figures in the table reflect the amount of principal payable to banks (note 21) and bonds issued (note 23).

Transactions with executives in key positions	2016	2015
Short-term employee benefits	72	52
Payments after termination of employment contract	0	0
Other long-term payables	0	0
Sevarance payments	0	0
Services used	0	0
Total	72	52

Transactions with related parties	2016	2015
Services used	6	4
Advertising campaign	1	32
Long-term loans taken	20 000	0
Long-term loans repayment	0	0
Interest paid after long-term loans	805	992
Short-term loans taken	0	0
Short-term loans repayment	0	0
Interest paid after short-term loans	0	0

29. Subsequent events

There were no post-balance sheet events before the date of approval as referred to in note 2.1 to the financial statements which would have called for adjustment of the financial statements.