Diákhitel Központ Zártkörűen Működő Részvénytársaság

Financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU

31 December 2017

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[Student Loan Centre Private Limited Company by Shares]

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Financial Statements prepared in accordance with the International Financial Reporting Standards

Building a better working world

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of
Diákhitel Központ Zrt.

Opinion

We have audited the accompanying 2017 financial statements of Diákhitel Központ Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2017 - showing a balance sheet total of HUF 228,495 million and a total comprehensive profit for the year of HUF 2,113 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 the Company as at 31 December 2017 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 applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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 37,327 million in the financial statements of the Company as at 31 December 2017. 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 applies 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 the complexity of the 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.

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Calculation of the insurance technical provisions

Under EU IFRSs 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 to insurance technical provisions is HUF 3,984 million in the financial statements of the Company as at 31 December 2017. 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 applies 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 the complexity of the 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.

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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 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 we consider this topic as a key audit matter.

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 adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system. As audit procedures over the IT systems require specific expertise, we also involved IT audit specialists in the audit procedures of the IT general controls.

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.

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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 215,053 million in the statement of financial position of the Company as at 31 December 2017. 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 the annual financial statements as at 31 December 2017 in accordance with the Hungarian Accounting Law, we have issued a separate auditors' report on those annual financial statements to the shareholder of the Company on 12 April 2018.

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 the 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.

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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.

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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.

Budapest, 12 September 2018

(The original Hungarian language version has been signed.)

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Registration No.: 001165

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

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I. Statement of Comprehensive Income

figures in M HUF

	Note	31 Dec 2017	31 Dec 2016
Interest income	7	7 374	10 163
Interest expense	7	-4 793	-6 933
Net interest income		**2 581**	**3 230**
Insurance premium earned	8	712	960
Claims paid	9	-161	-157
Net trading profit	10	-65	-176
Other operating income	11	39	48
Movements in insurance technical reserves	24	-1 666	351
Net operating profit before impairment loss on loans		**1 440**	**4 256**
Impairment loss on loans	4.1.2	4 342	-4 363
Credit loss expense	3.6	-892	-2 011
Operating profit (loss), net		**4 890**	**-2 118**
Other operating expenses	11	-2 557	-2 637
Pre-tax profit (loss)		**2 333**	**-4 755**
Taxes paid/received	12	-220	520
Profit (loss) for the year		**2 113**	**-4 235**
Profit (loss) for the year (attributable to the shareholders)		**2 113**	**-4 235**
Profit (loss) for the year		**2 113**	**-4 235**
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		0	1
Taxes received/paid from other comprehensive income items		0	0
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Other comprehensive income for the period including deferred tax		**2 113**	**-4 234**
Comprehensive profit (loss) for the year		**2 113**	**-4 234**
Comprehensive profit (loss) for the year (attributable to the shareholders)		**2 113**	**-4 234**

Budapest, 12 September 2018

Bugár Csaba
CEO

II. Statement of Financial Position

figures in M HUF

	Note	31 Dec 2017	31 Dec 2016
Assets			
Cash and cash equivalents	14	229	211
Student loans	15	226 080	232 236
Insurance premium receivable	15	1 585	1 951
Available for sale securities		0	0
Current income tax assets		0	0
Other receivables	16	192	199
Other assets	17	3	2
Properties, plant and equipment	18	220	160
Intangible assets	19	186	170
Total assets:		**228 495**	**234 929**
Liabilities			
Amounts payable to banks	21	183 395	174 989
Actual taxes payable		8	0
Other liabilities	22	577	579
Provisions		0	0
Bonds issued	23	31 377	50 211
Insurance technical reserves	24	3 984	2 318
Deferred tax liability	20	620	411
Total liabilities:		**219 961**	**228 508**
Equity			
Issued capital and capital reserve	25	2 500	2 500
Retained losses	25	-3 999	-6 112
Other reserves	25	10 033	10 033
Total equity:		**8 534**	**6 421**
Equity attributable to the shareholders		8 534	6 421
Total equity and liabilities:		**228 495**	**234 929**

Budapest, 12 September 2018

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III. Statement of Changes in Equity

figures in M HUF

Item	Issued Capital	Capital reserve	Retained losses	Other reserves		Total
				Other capital contribution	Valuation reserve	
Opening balance at 31 Dec 2016	300	2 200	-1 877	10 033	-1	10 655
Other capital contribution	0	0	0	0	0	0
Deferred tax for other capital contribution	0	0	0	0	0	0
Fair value recognised in equity	0	0	0	0	1	1
Loss for the year	0	0	-4 235	0	0	-4 235
Closing balance at 31 Dec 2016	300	2 200	-6 112	10 033	0	6 421
Other capital contribution	0	0	0	0	0	0
Deferred tax for other capital contribution	0	0	0	0	0	0
Fair value recognised in equity	0	0	0	0	0	0
Loss for the year	0	0	2 113	0	0	2 113
Closing balance at 31 Dec 2017	300	2 200	-3 999	10 033	0	8 534

Budapest, 12 September 2018

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IV. Cash flow statement

figures in M HUF

	Note	31 Dec 2017	31 Dec 2016
Operating cash flows			
Pre-tax profit (loss)		**2 333**	**-4 755**
Adjustments:			
Amortisation of intangible assets/depreciation of tangible assets	11	158	165
Gains/losses on the disposal of tangible/intangible assets	11	20	0
Impairment loss on non-financial assets		1	0
Impairment loss on financial assets	4.1.2	-4 342	4 383
Damages paid	9,11	1 053	2 168
Interest income, net	7	-2 581	-3 230
Movements in insurance technical reserves	24	1 666	-351
Corporate tax received	12	-220	520
Student loans disbursed		-12 843	-14 084
Student loans repaid		23 887	22 460
Interest received		5 743	7 181
Interest paid		-4 479	-7 049
Net trading result		65	176
Movements in insurance premium receivable		397	383
Movements in other assets		6	-3
Movements in other liabilities		215	-491
Operating cash flows, net		**8 744**	**12 188**
Investing cash-flows			
Tangible assets acquisitions		-143	-22
Tangible assets disposals		1	0
Intangible asset acquisitions		-110	-20
Investing cash flows, net		**-252**	**-42**
Financing cash flows			
Proceeds of bonds issued		0	15 751
Repayment of bonds issued		-18 136	-39 164
Amounts borrowed from banks		29 830	26 480
Repayment of amounts borrowed from banks		-22 501	-10 806
Financing cash flows, net		**-10 807**	**-7 739**
Net changes in cash and cash equivalents		**18**	**-348**
Cash and cash equivalents as of 1 January	14	211	559
Change in fair value of cash equivalents		0	0
Deferred tax on equity contribution		0	0
Cash and cash equivalents at 31 December	**14**	**229**	**211**

Budapest, 12 September 2018

Bugár Csaba

CEO

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, Kacsa utca 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. Further to government decree 1/2012. (I.20.) on the student loan system, the Company, as student loan organisation, may only use subsidised funds to grant student loans, to meet its financial obligations resulting from government guaranteed securities and other subsidised funds, to cover the costs of operations and to settle its liabilities incurred due to bonds issued and borrowed funds.

The State of Hungary is the guarantor of Diákhitel Központ Zrt's payment obligations incurred on account of loans drawn and bonds issued in and outside Hungary in order to finance the student loan programme.

Government guarantee the funds used for extending student loans are governed by the following laws:

Section 52 of act XC of 2016 on Hungary's national budget for 2017

Section 52 of act C of 2017 on Hungary's national budget for 2018

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

According to section 9/A(2)a) of act C of 2000 on accounting, the financial statements should be prepared in accordance with IFRS. However, further to section 177(67) of the act, the first application of IFRS for statutory financial reporting purposes is mandatory for Diákhitel Központ Zrt. for the financial year starting 1 January 2019.

The Company has prepared separate financial statements on 12 April 2018 for the balance sheet date 31 December 2017, 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 accompanying 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 12 September 2018.

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

Diákhitel Központ Zrt's functional and presentation currency is the Hungarian forint (HUF). The figures in the financial statements are expressed in HUF millions.

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, 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

No error was identified by the Company after closing the financial statements for 2016.

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 included, until 30 September 2017, 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 (Diakhitel 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%. Effective as of 1 October 2017, government decree 290/2017 amended government decree 1/2012, further to which government takes over the interest obligation (general interest subsidy) on set purpose loans throughout the term of the loan. The general interest subsidy rate equals the standard interest rate of the set purpose loan facility.

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 contracts

- ***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:

2017

1. Loans being repaid overdue 1-30 days
2. Loans being repaid overdue 31-60 days
3. Loans being repaid overdue 61-90 days
4. Loans being repaid overdue 91-210 days
5. Loans being repaid overdue 211-300 days
6. Loans being repaid overdue 301 + days

2016

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

A change in the categories was necessary as the termination period increased from six months to a year. A longer termination period enabled a more thorough analysis of overdue but performing contracts.

Terminated student loans

- ***Portfolio of terminated student loans:*** *includes the student loans, which were terminated either by the customers or the Company as follows:*
- *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.
- *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.
- *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

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/losses

This reserve comprises the profits and losses for the reporting year and for the 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 2017 or in 2016 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 2017

New and amended standards and interpretations issued by the IASB and adopted by the EU applicable to the current reporting period:

- **IAS 7 Statement of Cash Flows** – Amendment resulting from the disclosure initiative for auxiliary information, as adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **IAS 12 Income taxes –** Amendments regarding the recognition of deferred tax assets for unrealised losses, as adopted by adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **IFRS 12 Disclosure of Interests in Other Entities (2014-2016 cycle) –** As a result of the IFRS Improvement Project, the main purpose of amendments to IFRS 1, IFRS 12 and IAS 28 is to address inconsistencies and clarify the explanations. The amendments to IFRS 12 apply to annual periods starting on or after 1 January 2017.

3.19. Early application of new standards

The Company did not opt for early application of the new standards in the annual financial statements for 2017. The Company plans to adopt these standards as and when they become effective.

3.20. 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 2017, and have not been applied in preparing these financial statements.

Standards and interpretations issued and amended by the IASB and adopted by the EU but not yet effective:

- **IFRS 2 Share-based Payments** – Amendments to clarify the classification and measurement of share-based payment transactions. Effective for annual periods beginning on or after 1 January 2018.

  The amendments are not expected to have an impact on the financial statements.

- **IFRS 4 Insurance contracts** – Amendments regarding the interaction of IFRS 4 and IFRS 9 when both standards apply – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018 or from the first application of IFRS 9).

  The company is currently assessing the impact of IFRS 4 on the financial statements.

- **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 standard will be effective from 1 January 2018.

- **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 amendments are not expected to have a material impact 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.

  The company is currently assessing the impact of IFRS 16 on the financial statements.

- **IFRS 17 Insurance contracts** is comprehensive new accounting standard for insurance contracts that introduces consistent measurement and presentation requirements for all types of insurance contracts and requires that insurance obligations should be measured at current fulfilment value.
  IFRS 17 will replace IFRS 4 Insurance Contracts and is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group as they do not issue insurance contracts.

  The company is currently assessing the impact of IFRS 17 on the financial statements.

- **Amendments to IFRS 1 and IAS 28 – "Annual Improvements to IFRS (2014-2016 cycle)"** – As a result of the IFRS Improvement Project, the main purpose of amendments to IFRS 1, IFRS 12 and IAS 28 is to address inconsistencies and clarify the explanations. The amendments apply to annual periods starting on or after 1 January 2018.

3.21. Implementation of IFRS 9

The Company carried out an impact assessment of IFRS 9 in accordance with IAS 8 30-31.

IFRS 9 Financial Instruments has replaced IAS 39 Financial instruments: recognition and measurement. Effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers the classification, measurement and derecognition of financial instruments, new impairment methodology and a new hedge accounting model.
The Company nearly completed the preparations for the application of IFRS 9 during the course of 2017. The preparation addressed the key challenges the Company will face when applying IFRS 9.

Classification and measurements
IFRS 9 introduced a new approach to the classification of financial instruments in view of the characteristics of cash flows and the business model which enables the asset to be held.
Initial business model and contractual cash flow analyses were done for the Company's most significant portfolio in order to identify the recognition method for financial instruments.
Financial assets and liabilities are presented by the Company at amortised cost, except where required by IFRS 9 otherwise or where the Company exercised the fair value option to present a financial asset or liability at fair value through profit or loss.

Impairment
IFRS 9 introduced an expected credit loss based impairment model versus the actual credit loss model used so far which required a different presentation method. IFRS 9 requires businesses to recognise the expected credit loss from right from the initial recognition of a financial asset.

A new three-level model has been developed to ensure compliance with IFRS 9. The new impairment methodology classified financial instruments in order to determine any material increase in credit risk after initial recognition and to enable the identification of financial asset that qualify as being impaired under IFRS 9. A credit loss is recognised over the entire life of instruments that are impaired or are exposed to an increased credit risk.

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"). In co-operation with the National Bank of Hungary, each year, the Company prepares an annual Financing Plan in text format with figures for each month, based on the basic funding principles set forth in the financing strategy. The Financing Plan is approved by both the Company's shareholder and 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 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

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.
Each model point now runs along a stochastic (randomly determined) curve. 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 the annual risk premium.

The same model is also used to calculate 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.

Percentage of non-performing agreements terminated during the calendar year compared to the number of agreements under repayment

	31 Dec 2017	31 Dec 2016
Diákhitel 1.	1,30%	1,49%
Diákhitel 2.	3,40%	5,48%

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

Credit risk	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	229	211
Student loans	263 100	273 568
Insurance premium receivables	1 894	2 288
Other financial assets	152	147
Maximum value of assets exposed to credit risk on 31 December	**265 375**	**276 214**

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 2017

Credit risk	Neither past due nor impaired	Not overdue, impaired	Overdue and impaired	Total
Cash and cash equivalents	229	0	0	229
Student loans	0	186 258	76 842	263 100
Insurance premium receivables	0	1 304	590	1 894
Other financial assets	152	0	0	152
Maximum value of assets exposed to credit risk on 31 December	**381**	**187 562**	**77 432**	**265 375**

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	1606	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**

Impaired loans

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

- *Impairment loss on effective contracts:*
  a) Contracts that are classified in the following categories at the time of the impairment testing:
     - Loans under disbursement and awaiting repayment
     - Loans being repaid and are not overdue

  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 insurance risk premium.

- *Impairment loss on terminated loans*: Terminated loans are classified in the following categories: 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 and is calculated based on discounting the expected cash flows at the effective interest rates and by calculating the difference between the resulting present value and the outstanding debt. Expected cash flows are determined in view of the time elapsed since termination and the principal owed at the time.

Impairment loss on terminated loans

	Diákhitel 1	Diákhitel 2
2017	66,6%	49,7%
2016	71,5%	48,5%

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 2017

Student loans	Diákhitel 1 Cost	Diákhitel 1 Impairment loss	Diákhitel 1 Net	Diákhitel 2 Cost	Diákhitel 2 Impairment loss	Diákhitel 2 Net	Total Cost	Total Impairment loss	Total Net
Effective student loan contracts	**212 183**	**19 171**	**193 012**	**24 949**	**603**	**24 346**	**237 132**	**19 774**	**217 358**
Loans under disbursement and awaiting repayment	37 430	4 380	33 050	16 993	76	16 917	54 423	4 456	49 967
Loans being repaid and are not overdue	125 686	4 354	121 332	6 149	163	5 986	131 835	4 517	127 318
Loans being repaid overdue 1 30 days	8 263	494	7 769	263	20	243	8 526	514	8 012
Loans being repaid overdue 31 60 days	9 022	802	8 220	555	61	494	9 577	863	8 714
Loans being repaid overdue 61 90 days	5 820	752	5 068	296	52	244	6 116	804	5 312
Loans being repaid overdue 91 120 days	13 135	3 015	10 120	386	111	275	13 521	3 126	10 395
Loans being repaid overdue 121 300 days	7 216	2 827	4 389	209	81	128	7 425	2 908	4 517
Loans being repaid overdue 301+ days	5 611	2 547	3 064	98	39	59	5 709	2 586	3 123
Terminated contracts	**25 793**	**17 159**	**8 634**	**175**	**87**	**88**	**25 968**	**17 246**	**8 722**
Renegotiated loans	8 268	5 467	2 801	36	18	18	8 304	5 485	2 819
Loans assigned to the tax authority for collection	15 435	10 431	5 004	105	52	53	15 540	10 483	5 057
Other terminated student loans	2 090	1 261	829	34	17	17	2 124	1 278	846
Balance at 31 December	**237 976**	**36 330**	**201 646**	**25 124**	**690**	**24 434**	**263 100**	**37 020**	**226 080**

Insurance premium receivable	Diákhitel 1 Cost	Diákhitel 1 Impairment loss	Diákhitel 1 Net	Diákhitel 2 Cost	Diákhitel 2 Impairment loss	Diákhitel 2 Net	Total Cost	Total Impairment loss	Total Net
Effective student loan contracts	**1 656**	**162**	**1 494**	**34**	**0**	**34**	**1 690**	**162**	**1 528**
Loans under disbursement and awaiting repayment	292	37	255	23	0	23	315	37	278
Loans being repaid and are not overdue	981	37	944	8	0	8	989	37	952
Loans being repaid overdue 1 30 days	65	4	61	0	0	0	65	4	61
Loans being repaid overdue 31 60 days	70	7	63	1	0	1	71	7	64
Loans being repaid overdue 61 90 days	45	6	39	1	0	1	46	6	40
Loans being repaid overdue 91 120 days	103	25	78	1	0	1	104	25	79
Loans being repaid overdue 121 300 days	56	24	32	0	0	0	56	24	32
Loans being repaid overdue 301+ days	44	22	22	0	0	0	44	22	22
Terminated contracts	**202**	**145**	**57**	**0**	**0**	**0**	**202**	**145**	**57**
Renegotiated loans	65	46	19	0	0	0	65	46	19
Loans assigned to the tax authority for collection	121	88	33	0	0	0	121	88	33
Other terminated student loans	16	11	5	0	0	0	16	11	5
Balance at 31 December	**1 858**	**307**	**1 551**	**34**	**0**	**34**	**1 892**	**307**	**1 585**

Total student loan receivables at 31 December	239 834	36 637	203 197	25 158	690	24 468	264 992	37 327	227 665

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 1-30 days	18 558	1 860	16 698	377	31	346	18 935	1 891	17 044
Loans being repaid overdue 31-60 days	6 407	908	5 499	315	42	273	6 722	950	5 772
Loans being repaid overdue 61-180 days	13 410	3 900	9 510	323	88	235	13 733	3 988	9 745
Loans being repaid overdue 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	594	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 1-30 days	165	15	150	1	0	1	166	15	151
Loans being repaid overdue 31-60 days	57	8	49	0	0	0	57	8	49
Loans being repaid overdue 61-180 days	120	32	88	0	0	0	120	32	88
Loans being repaid overdue 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**

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 at 1 January 2016	37 030	276	37 306
Reporting year impairment	3 898	465	4 363
Reporting year reversal	0	0	0
Closing at 31 December 2016	**40 928**	**741**	**41 669**
Reporting year impairment	0	0	0
Reporting year reversal	-4 291	-51	-4 342
Closing at 31 December 2017	**36 637**	**690**	**37 327**

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 2017**	**H1 2017**	**H2 2016**	**H1 2016**
Mortality	6,06%	7,84%	7,84%	8,93%
Disability	8,80%	10,33%	10,33%	13,11%
Pension	1,60%	5,20%	5,20%	2,58%
Insurance Risk Total	16,46%	23,37%	23,37%	24,62%
Non-payment	83,54%	76,63%	76,63%	75,38%
Credit Risk Total	83,54%	76,63%	76,63%	75,38%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Diákhitel 2.

Risk distribution	**H2 2017**	**H1 2017**	**H2 2016**	**H1 2016**
Mortality	3,64%	3,56%	3,56%	6,17%
Disability	5,08%	6,26%	6,26%	3,22%
Pension	0,17%	1,76%	1,76%	1,76%
Insurance Risk Total	8,89%	11,58%	11,58%	11,15%
Non-payment	91,11%	88,42%	88,42%	88,85%
Credit Risk Total	91,11%	88,42%	88,42%	88,85%
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 year-ends:

Diákhitel 1.

31 December 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026+
Financing interest	0,81%	0,86%	1,51%	2,11%	2,55%	2,87%	3,16%	3,46%	3,54%
Operating premium	0,97%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%
Payroll cost inflation	4,96%	4,40%	4,38%	3,59%	3,59%	3,59%	3,59%	3,59%	3,59%

Diákhitel 2.

31 December 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026+
Financing interest	0,81%	0,86%	1,51%	2,11%	2,55%	2,87%	3,16%	3,46%	3,54%
Operating premium	1,12%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%	1,20%
Payroll cost inflation	4,96%	4,40%	4,38%	3,59%	3,59%	3,59%	3,59%	3,59%	3,59%

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%

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

- In 2017, the **minimum wage** was considered at HUF 127,500, being the statutory minimum wage prescribed for full-time employees by government decree 430/2016. (XII.15.). 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 454/2015. (XII. 29.), the minimum wage was HUF 111,000. The minimum wage assumption used increased by 14.9% as compared to the assumptions used for making reserves at the end of 2016.

  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. As a result of the changes in legislation in 2011, the general student loan collection period of five years became prolongable for up to an indefinite period as a result of a series of repeatable collection procedures. At the end of 2017, the collection rates of terminated contracts per principal debt category were 62%, 62% and 51%. At the end of 2016, the collection rates of contracts terminated in that year were 58%, 57% and 42%. 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 2015-2016, 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 2017		31 December 2016	
0 - 500 000	17,47%	9,67%	21,72%	4,81%
500 001 - 1 000 000	7,13%	3,20%	5,64%	0,81%
1 000 000 - 1 500 000	3,76%	1,94%	2,96%	0,50%
1 500 001 - 2 000 000	2,28%	1,16%	1,79%	0,19%
2 000 001 - .	1,18%	0,63%	0,96%	0,11%

The assumption used in 2017 increased compared to that used for provisions and reserves in 2016, less the probability of repayment in the smallest debtor group.

- **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 2016 and is the same as the assumption used for risk premium calculations for 2017.

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 repayments

Diákhitel 1. - Diákhitel 2.

Risk	31 Dec 2017			31 Dec 2016		
	Required instalments	Probability of early repayment	Early repayment to total annual instalments	Required instalments	Probability of early repayment	Early repayment to total annual instalments
Low	0 - 100 000	49,62%	55,15%	73 079 - 100 000	50,26%	45,97%
Medium	100 001 - 200 000	49,69%	24,43%	100 001 - 200 000	49,28%	23,48%
High	200 001 -	50,30%	13,98%	200 001 -	50,20%	15,11%

- **Initial earnings**: 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 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. The back testing of empirical income information called for an additional

income category: inactive. In the model, the income of the inactive portfolio equals the prevailing minimum wage throughout the repayment period. The initial income table became indexed.

- **Age dependent increase in earnings**: Initial earnings and pay increases depend on the field of science as well as on the sex and age of the debtor. Initial earning figures are based on official information from the National Pension Insurance Authority. For each contract, the model allocates a random career path which ultimately assumes a pay increase factor every year.

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

Sensitivity analysis of reserve calculations

Diákhitel 1.	31 December 2017				31 December 2016			
	Original assumption	Amended assumption	Reserve	Change	Original assumption	Amended assumption	Reserve	Change
Under basic assumptions			3 965				2 231	
Mortality (relative to mortality of population)	90%	80%	3 815	-3,78%	90%	80%	2 076	-6,95%
		100%	4 125	4,04%		100%	2 390	7,13%
Disability (relative to national data)	70%	60%	3 724	-6,08%	70%	60%	1 993	-10,67%
		80%	4 184	5,52%		80%	2 468	10,62%
Real wage growth		-1%	4 629	16,75%		-1%	3 094	38,68%
		+1%	3 490	-11,98%		+1%	1 634	-26,76%
Collection rate on cancelled contracts	62%/62%/51%	61%/61%50%	3 965	0,00%	58%/57%/42%	57%/56%41%	2 220	-0,49%
		63%/63%/52%	3 965	0,00%		59%/58%/43%	2 203	-1,26%
Risk premium	0,50%	-0,1%	4 053	2,22%	0,97%	-0,1%	2 447	9,68%
		0,1%	3 891	-1,87%		0,1%	2 007	-10,04%
Cost of capital		-1,0%	3 387	-14,58%		-1,0%	1 602	-28,19%
		1,0%	4 862	22,62%		1,0%	3 181	42,58%
Pricing			4 693	18,36%			3 636	62,98%

Diákhitel 2	31 December 2017				31 December 2016			
	Original assumption	Amended assumption	Reserve	Change	Original assumption	Amended assumption	Reserve	Change
Under basic assumptions			19				87	
Mortality (relative to mortality of population)	90%	80%	8	-57,89%	90%	80%	86	-1,15%
		100%	32	68,42%		100%	98	12,64%
Disability (relative to national data)	70%	60%	1	-94,74%	70%	60%	70	-19,54%
		80%	37	94,74%		80%	105	20,69%
Real wage growth		-1%	34	78,95%		-1%	108	24,14%
		+1%	15	-21,05%		+1%	83	-4,60%
Collection rate on cancelled contracts	62%/62%/51%	61%/61%50%	19	0,00%	58%/57%/42%	57%/56%41%	95	9,20%
		63%/63%/52%	19	0,00%		59%/58%/43%	73	-16,09%
Risk premium	1,41%	-0,1%	35	84,21%	1,09%	-0,1%	108	24,14%
		0,1%	5	-73,68%		0,1%	75	-13,79%
Cost of capital		-1,0%	36	89,47%		-1,0%	149	71,26%
		1,0%	15	-21,05%		1,0%	83	-4,60%
Pricing			85	347,37%			76	-12,64%

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 at the year-end. Most of the differences from the assumptions used for calculating reserves 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
2016.01.01-2016.06.30	1,10%	1,16%
2016.07.01-2016.12.31	0,97%	1,09%
2017.01.01-2017.06.30	0,97%	1,08%
2017.07.01-2017.12.31	0,50%	1,51%

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 2017							
Cash and cash equivalents	229	0	0	0	0	0	0
Student loans	226 080	295 372	1 449	3 151	16 429	99 311	175 032
Insurance premium receivables	1 585	1 971	10	22	116	664	1 159
Other financial assets	152	152	0	101	2	48	1
Non-derivative financial liabilities							
Loans and advances from banks	-183 395	-198 127	-1 414	-2 668	-19 032	-137 841	-37 172
Other financial liabilities	-281	-281	-162	-119	0	0	0
Issued bonds	-31 377	-32 142	0	0	-20 372	-11 770	0
	12 993	**66 945**	**-117**	**487**	**-22 857**	**-49 588**	**139 020**

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	**72 257**	**1 508**	**862**	**-11 476**	**-64 640**	**146 003**

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 2017	31 December 2016
Fixed interest	4	6
Floating interest	227 670	234 194
Interest bearing assets	**227 674**	**234 200**
Fixed interest	-95 817	-101 732
Floating interest	-118 955	-123 468
Interest bearing liabilities	**-214 772**	**-225 200**

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 2017			31 December 2016		
	Increase (basis points)	Equity	Profit or loss	Increase (basis points)	Equity	Profit or loss
Floating-interest instruments (HUF)	50	952	952	50	981	981
Floating-interest instruments (EUR)	10	-37	-37	10	-37	-37
Cash flow sensitivity, net		**915**	**915**		**944**	**944**

Fair value sensitivity	31 December 2017			31 December 2016		
	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 2017 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 marge 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 marge on the loan. The fair values of the loans differ from their book values.

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 Company had no assets subject to fair valuation in the reporting period.

The book values of the assets presented in the financial statements approximate their fair values.

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 2017

Item	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents	229	0	0	229	229
Student loans	226 080	0	0	226 080	226 080
Insurance premium receivables	1 585	0	0	1 585	1 585
Other financial assets	152	0	0	152	152
Fair value of financial assets	**228 046**	**0**	**0**	**228 046**	**228 046**
Loans and advances from banks	0	0	183 395	183 395	189 478
Other financial liabilities	0	0	281	281	281
Issued bonds	0	0	31 377	31 377	31 981
Fair value of financial liabilities	**0**	**0**	**215 053**	**215 053**	**221 740**

31 December 2016

Item	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**

Fair value hierarchy

31 December 2017

	Book value	Fair value	Level 1	Level 2	Level 3
Assets					
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	**228 046**	**228 046**	**229**	**0**	**227 817**
Cash and cash equivalents	229	229	229	0	0
Student loans	226 080	226 080	0	0	226 080
Insurance premium receivables	1 585	1 585	0	0	1 585
Other financial assets	152	152	0	0	152
Total	**228 046**	**228 046**	**229**	**0**	**227 817**
Liabilities					
Liabilities measured at fair value	**0**	**0**	**0**	**0**	**0**
Liabilities disclosed at fair value	**215 053**	**221 740**	**0**	**221 459**	**281**
Loans and advances from banks	183 395	189 478	0	189 478	0
Other financial liabilities	281	281	0	0	281
Issued bonds	31 377	31 981	0	31 981	0
Total	**215 053**	**221 740**	**0**	**221 459**	**281**

31 December 2016

	Book value	Fair value	Level 1	Level 2	Level 3
Assets					
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					
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**

7. Interest income and expense

Interest income	2017	2016
Student loan interest income*	7 374	10 150
T-bills	0	13
Total	**7 374**	**10 163**

*Contains interest components of student loans.

Interest expense	2017	2016
Bond interest	**1 100**	**2 673**
Interest on long-term loans	**3 692**	**4 260**
EIB loan interest	1 849	2 371
MFB loan interest	1 782	1 692
Takarékbank loan interest	61	197
Stand-by loan interest	**1**	**0**
MFB loan interest	1	0
Total	**4 793**	**6 933**
Net interest income	**2 581**	**3 230**

Diákhitel interest income details	2017			2016		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Student loan interest income	*4 308*	*111*	*4 419*	*5 668*	*67*	*5 735*
-interest on funding costs	*2 038*	*39*	*2 077*	*3 056*	*27*	*3 083*
-interest on risk premium	*1 097*	*41*	*1 138*	*1 527*	*15*	*1 542*
-interest on operating costs	*1 173*	*31*	*1 204*	*1 085*	*25*	*1 110*
Student loan interest accrued due to capit	1 615	209	1 824	2 879	270	3 149
-interest on funding costs	*795*	*84*	*879*	*1 586*	*110*	*1 696*
-interest on risk premium	*446*	*65*	*511*	*772*	*60*	*832*
-interest on operating costs	*374*	*60*	*434*	*521*	*100*	*621*
Amount reclassified from interest income to insurance premium received	-659	-53	-712	*-938*	-22	-960
Student loan default interest*	1 068	6	1 074	*1 332*	4	1 336
State targeted interest subsidies*	275	494	769	*375*	515	890
Total	6 607	767	7 374	9 316	834	10 150

* 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	2017			2016		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Period risk premium	1 543	106	1 649	2 299	75	2 374
Period operating premium	1 547	91	1 638	1 606	125	1 731
Total premiums	***3 090***	***197***	***3 287***	***3 905***	***200***	***4 105***
of which: premium income	659	53	712	938	22	960

9. Claims paid

Expense caused by insurance events	2017			2016		
	Diákhitel 1	Diákhitel 2	Total	Diákhitel 1	Diákhitel 2	Total
Loan written off due to death	128	7	135	115	2	117
Loan written off due to disability	26	0	26	40	0	40
Total	154	7	161	155	2	157

The estimation of payable claims and the actual claims paid are presented in the table below:

	Diákhitel 1				Diákhitel 2			
year	Loan written off due to death		Loan written off due to disability		Loan written off due to death		Loan written off due to disability	
	estsimated	actual	estimated	actual	estsimated	actual	estimated	actual
2015	200	105	0	22	6	3	0	0
2016	151	115	1	40	7	2	0	0
2017	131	128	197	26	9	7	13	0

10. Net trading profit or loss

Net trading profit or loss	2017	2016
Loss/profit from the sale of financial instruments	-65	-176
Net trading loss/profit	**-65**	**-176**

11.Other operating income and expenses

Other operating income	2017	2016
Income from forgiven receivables	15	5
Government grants received	20	26
Advertising campaign paid by MFB	0	1
Other	4	16
Total	**39**	**48**

Other operating costs, expenses	2017	2016
Material costs	29	28
Services used	920	939
Other services	201	267
Payroll cost	725	725
Other payments to personnel	251	221
Social security contribution	214	247
Depreciation	156	165
Costs of issuing bonds	24	22
Amounts contributed free of charge	15	15
Impairment of other assets, inventory shortage	1	0
Penalties, fines	0	6
Other	1	2
Net value of PPE and intangible assets sold, scrapped	20	0
Total	**2 557**	**2 637**

12. Tax expense, tax income

In 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 was 10%, for any amount in excess of this threshold the rate was 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".

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

Corporate income tax rates per year	2017	2016
Corporate tax rates	9%	10% , 19%
Corporate tax rates	**9%**	**10% , 19%**

Deferred tax rates	2017	2016
Corporate tax rate	9%	9%
Extra tax rate		
Deferred tax rate	**9%**	**9%**

Corporate tax expense in reporting year	2017	2016
Corporate tax expense in reporting year	11	1
Total corporate tax expense in reporting year	**11**	**1**

Deferred tax income	2017	2016
Occurrence and reversal of temporary differences	209	-521
Total deferred tax income	**209**	**-521**
Total corporate tax	**220**	**-520**

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

Breakdown of effective tax rate	2017	2016
Period result	-1 493	-4 235
Corporate tax income / expense	137	520
Profit/loss before tax	-1 630	-4 755
Expected corporate tax based on tax rate	147,0	428,0
Impact of exchange rate changes	0,0	9,0
Non-deductible expenses	-10,0	-1,0
Tax-exempt income	0,0	0,0
Reversal effect of tax differences	0,0	0,0
Corporate income tax payable	11,0	1,0
Unrecognised changes in temporary differences	-13,0	83,0
Other	2,0	0,0
Tax income	**137,0**	**520,0**
Profit or loss for the period	-1 493	-4 235
Profit/loss before tax	137	520
Effective tax rate %	**9%**	**12%**

13.Breakdown of assets and liabilities by maturity

Assets by maturity	2017.12.31			2016.12.31		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Cash and cash equivalents	228	1	229	210	1	211
Student loans	44 598	181 482	226 080	43 646	188 590	232 236
Insurance premium receivables	336	1 249	1 585	390	1 561	1 951
Available for sale securities	0	0	0	0	0	0
Current tax receivables	0	0	0	0	0	0
Other receivables	142	50	192	144	55	199
Other assets	3	0	3	2	0	2
Property, plant and equipment	0	220	220	0	160	160
Intangible assets	0	186	186	0	170	170
Total	45 307	183 188	228 495	44 392	190 537	234 929

Liabilities by maturity	2017.12.31			2016.12.31		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Loans and advances from banks	84 095	99 300	183 395	7 594	167 395	174 989
Actual taxes payable	8	0	8	0	0	0
Other liabilities	577	0	577	579	0	579
Provisions	0	0	0	0	0	0
Bobds issued	19 767	11 610	31 377	18 738	31 473	50 211
Technical reserves	170	3 814	3 984	180	2 138	2 318
Deferred tax liabilities	0	620	620	0	411	411
Total	104 617	115 344	219 961	27 091	201 417	228 508

14. Cash and cash equivalents

Cash and cash equivalents	2017	2016
Cash	1	1
Available-for-sale securities	0	0
Bank deposits	227	209
Restricted-use cash	1	1
Total	229	211

Available for sale securities

31 December 2017

Instrument	Date of purchase	Date of maturity	Face value	Fair value
			0	0
total			**0**	**0**

31 December 2016

Instrument	Date of purchase	Date of maturity	Face value	Fair value
			0	0
total			**0**	**0**

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

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 358,297 people (2016: 354,327) have been granted a student loan since the scheme was launched and a total amount of nearly HUF 301.0 billion has been disbursed. At the end of 2017, the number of repaying debtors reached 123,543 people (2016: 129,361 people) and the number of clients with closed contracts totalled 185,313.

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%
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
2018	138 000	127 500	7 650	10 200	11 475

Diákhitel 2 (Type 2)

Since the start of the student loans scheme in 2012, a total of 29,556 students (in 2016: 24,875) have been granted a student loan and a total amount of nearly HUF 26.3 billion has been disbursed. A total of 5,682 debtors reached their repayment period (2016: 5,682) and 1,718 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

Item	2017	2016
Other financial assets	***152***	***147***
Employee loans	10	13
Advances to creditors	0	0
Safety deposit	42	46
Subsidised interest request	100	88
Other receivables	**40**	**52**
Prepaid expenses, accrued income	33	50
Other tax receivables	2	2
Other receivables	5	0
Total other receivables	**192**	**199**

17. Other assets

Item	2017	2016
Marketing inventories	2	1
Tangible assets reclassified to inventory	1	1
Total	**3**	**2**

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 2016	**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**
Additions	0	52	3	253	308
Reclassifications	-4	0	4	0	0
Disposals	-24	-55	-4	-165	-248
Gross value, 31 December 2017	**58**	**421**	**82**	**88**	**649**
Accumulated depreciation, 1 January 2016	**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**
Depreciation	5	53	7	0	65
Reclassifications	0	0	1	0	1
Disposals	-8	-54	-4	0	-66
Accumulated depreciation, 31 December 2017	**13**	**346**	**70**	**0**	**429**
Net value, 1 January 2016	**73**	**108**	**15**	**0**	**196**
Net value, 31 December 2016	**70**	**77**	**13**	**0**	**160**
Net value, 31 December 2017	**45**	**75**	**12**	**88**	**220**

Cost of fully written off tangibles in use	Property rights	Technical machinery, equipment, vehicles	Other equipment	Capital expenditures	Total
31 December 2016	**0**	**227**	**57**	**0**	**284**
31 December 2017	**0**	**236**	**58**	**0**	**294**

19. Intangible assets

The Company does not have any intangible asset under restricted ownership.

Movements in intangible assets	Property rights	Intellectual products	Total
Gross value, 1 January 2016	**1 251**	**4**	**1 255**
Additions	20	0	94
Reclassifications	0	0	0
Disposals	0	0	-74
Gross value, 31 December 2016	**1 271**	**4**	**1 275**
Additions	109	1	110
Reclassifications	0	0	0
Disposals	-25	0	-25
Gross value, 31 December 2017	**1 355**	**5**	**1 360**
Accumulated depreciation, 1 January 2016	**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**
Depreciation	92	0	92
Reclassifications	0	0	0
Disposals	-23	0	-23
Accumulated depreciation, 31 December 2017	**1 170**	**4**	**1 174**
Net value, 1 January 2016	**256**	**1**	**257**
Net value, 31 December 2016	**170**	**0**	**170**
Net value, 31 December 2017	**185**	**1**	**186**

Cost of fully written off intangibles in use	Unrestricted ownership of property rights	Unrestricted ownership of property rights	Total
31 December 2016	**786**	**3**	**789**
31 December 2017	**1 011**	**4**	**1 015**

20. Deferred tax assets and tax liabilities

Deferred tax	31 December 2017			31 December 2016		
	Tax asset	Tax liability	Net	Tax asset	Tax liability	Net
Intangible assets	0	0	0	0	0	0
Property, plant and equipment	3	0	3	6	0	6
Receivables, loans disbursed	3 188	-143	3 045	3 589	-176	3 413
Prepaid expenses, accrued income	221	0	221	10	0	10
Cash equivalents	0	0	0	0	0	0
Provisions	0	-3 736	-3 736	0	-3 372	-3 372
Technical reserve	359	0	359	209	0	209
Long-term liabilities	79	-162	-83	154	-248	-94
Accrued expenses, deferred income	0	-429	-429	0	-583	-583
Tax receivables (tax liabilities)	**3 850**	**-4 470**	**-620**	**3 968**	**-4 379**	**-411**
Tax assets not considered	**0**	**0**	**0**	**0**	**0**	**0**
Tax assets (tax liabilities), total	**3 850**	**-4 470**	**-620**	**3 968**	**-4 379**	**-411**

The following tables illustrate the tax impacts of temporary differences:

Change in tax impact of temporary differences 31 December 2017	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	-3	0	3
Receivables, loans disbursed	3 413	-368	0	3 045
Prepaid expenses, accrued income	10	211	0	221
Cash equivalents	0	0	0	0
Provisions	-3 372	-364	0	-3 736
Technical reserve	209	150	0	359
Long-term liabilities	-94	11	0	-83
Other liabilities	-583	154	0	-429
Total	**-411**	**-209**	**0**	**-620**

Change in tax impact of temporary differences 31 December 2016	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
Total	**-932**	**521**	**0**	**-411**

21.Amounts payable to banks

Bank	type of interest	interest rate	Borrowing date	Maturity date	Currency	Amount of loan	[illegible]	Book value	Amount of loan	[illegible]	Book value
						2017			2016		
Európai Beruházási Bank	variable	EIB VSFR	2005.10.12	2020.06.15	HUF	450		450	630		630
Európai Beruházási Bank	variable	EIB VSFR	2006.01.12	2020.06.15	HUF	750		750	1 050		1 050
Európai Beruházási Bank	variable	EIB VSFR	2006.04.11	2020.06.15	HUF	575		575	805		805
Európai Beruházási Bank	variable	EIB VSFR	2006.08.10	2021.03.15	HUF	525		525	675		675
Európai Beruházási Bank	variable	EIB VSFR	2006.11.13	2021.03.15	HUF	980		980	1 260		1 260
Európai Beruházási Bank	variable	EIB VSFR	2006.12.12	2021.03.15	HUF	1 015		1 015	1 305		1 305
Európai Beruházási Bank	variable	EIB VSFR	2007.01.12	2021.09.15	HUF	600		600	750		750
Európai Beruházási Bank	variable	EIB VSFR	2007.06.13	2021.12.15	HUF	1 600		1 601	2 000		2 001
Európai Beruházási Bank	variable	EIB VSFR	2007.10.11	2022.03.15	HUF	2 570		2 571	3 142		3 142
Európai Beruházási Bank	variable	EIB VSFR	2008.07.17	2023.03.15	HUF	2 750		2 750	3 250		3 251
Európai Beruházási Bank	variable	EIB VSFR	2008.08.08	2023.03.15	HUF	2 200		2 200	2 600		2 601
Európai Beruházási Bank	variable	3M BUBOR 0,455%	2008.12.11	2023.06.15	HUF	1 045		1 045	1 235		1 235
Európai Beruházási Bank	variable	3M BUBOR 0,390%	2009.03.11	2023.06.15	HUF	3 300		3 300	3 900		3 900
Európai Beruházási Bank	variable	EIB VSFR	2009.08.10	2024.03.15	HUF	2 275		2 275	2 625		2 626
Európai Beruházási Bank	variable	EIB VSFR	2009.12.15	2024.06.15	HUF	1 073		1 073	1 238		1 238
Európai Beruházási Bank	variable	EIB VSFR	2010.03.10	2024.09.15	HUF	1 750		1 751	2 000		2 001
Európai Beruházási Bank	variable	3M BUBOR 1,130%	2010.08.19	2025.03.15	HUF	5 025		5 060	5 695		5 735
Európai Beruházási Bank	variable	3M BUBOR 1,142%	2010.10.13	2025.06.15	HUF	2 625		2 625	2 973		2 976
Európai Beruházási Bank	variable	3M BUBOR 1,032%	2010.12.13	2025.06.15	HUF	2 738		2 738	3 103		3 103
Európai Beruházási Bank	fix	6,296%	2011.03.09	2025.09.15	HUF	2 400		2 407	2 700		2 708
Európai Beruházási Bank	fix	5,803%	2011.04.21	2025.12.15	HUF	4 400		4 411	4 950		4 963
Európai Beruházási Bank	fix	6,157%	2011.10.12	2026.06.15	HUF	3 485		3 495	3 895		3 906
Európai Beruházási Bank	fix	6,471%	2012.03.12	2026.09.15	HUF	2 250		2 256	2 500		2 507
Európai Beruházási Bank	fix	6,333%	2012.06.11	2026.12.15	HUF	4 950		4 964	5 500		5 516
Európai Beruházási Bank	variable	3M BUBOR 0,56%	2012.10.18	2027.06.15	HUF	2 850		2 850	3 000		3 000
Európai Beruházási Bank	fix	4,746%	2013.02.11	2027.12.15	HUF	2 500		2 505	2 500		2 505
Európai Beruházási Bank	variable	3M BUBOR+0,161%	2013.10.11	2028.09.15	HUF	2 000		2 000	2 000		2 001
Európai Beruházási Bank	variable	3M BUBOR+0,161%	2013.10.11	2028.09.15	HUF	1 500		1 500	1 500		1 500
Európai Beruházási Bank	variable	3M BUBOR+0,104%	2014.02.11	2028.12.15	HUF	2 400		2 403	2 400		2 403
Európai Beruházási Bank	fix	2,98%	2014.10.13	2029.09.15	HUF	6 000		6 007	6 000		6 007
Európai Beruházási Bank	fix	2,98%	2014.10.13	2029.09.15	HUF	1 800		1 800	1 800		1 800
Európai Beruházási Bank	fix	2,561%	2015.08.18	2030.06.15	HUF	1 600		1 602	1 600		1 602
Európai Beruházási Bank	variable	3M BUBOR+11,3%	2015.10.13	2030.09.15	HUF	3 900		3 900	3 900		3 901
Európai Beruházási Bank	variable	3M BUBOR+73,6%	2016.12.21	2031.12.15	HUF	2 800		2 801	2 800		2 801
Európai Beruházási Bank	fix	1,330%	2017.10.11	2032.09.15	HUF	2 850		2 852	0		
Magyar Fejlesztési Bank	variable	3M BUBOR+1,98%	2013.08.24	2018.08.21	HUF	7 500		7 503	7 500		7 504
Magyar Fejlesztési Bank	variable	3M BUBOR+1,98%	2014.02.11	2018.08.21	HUF	2 500		2 501	2 500		2 501
Magyar Fejlesztési Bank	variable	3M EURIBOR+1,2%	2014.12.31	2019.12.31	HUF	50 000	4 590	48 203	50 000	4 590	47 247
Magyar Fejlesztési Bank	fix	1,190%	2016.12.21	2019.06.24	HUF	20 000		20 123	20 000		20 007
Magyar Fejlesztési Bank	variable	3M BUBOR+0,51%	2017.07.25	2021.07.25	HUF	10 000		10 010	0		0
Magyar Fejlesztési Bank	fix	1,340%	2017.11.22	2022.10.26	HUF	12 000		12 018	0		0
Magyar Takarékbank	variable	3M BUBOR+0,8%	2013.08.23	2017.08.25	HUF	0		0	1 500		1 501
Magyar Takarékbank	variable	3M BUBOR+0,8%	2013.08.24	2017.07.25	HUF	0		0	8 500		8 505
Magyar Takarékbank	variable	1 M BUBOR + 0,52%	2016.12.21	2017.03.09	HUF	0		0	320		320
MKB Bank	változó	1 M BUBOR + 0,15%	2017.12.14	2018.01.07	HUF	1 400		1 400	0		
total						184 931	4 590	183 395	177 603	4 590	174 989

**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	2017	2016
Other financial liabilities	**281**	**141**
Trade payables	281	141
Other liabilities	***296***	***438***
Unbilled creditors	1	0
Overhead of debt collection	0	0
Accrued operating costs	143	282
Accrued cost of assets received free of charge	0	20
Liabilities to student loan clients	53	31
Liabilities to employees	49	38
Other tax liabilities	50	67
Total other liabilities	**577**	**579**

23. Issued bonds

Issued bonds	Interest	First issue	Maturity	Listed	Face value	NBV	Face value	NBV
					2017		2016	
DK2017/01	6,75%	2014.09.10	2017.11.24	igen (BÉT)	0	0	18 000	18 738
DK2018/01	2,50%	2015.05.20	2018.06.22	igen (BÉT)	19 500	19 767	19 500	19 789
DK2020/01	3,50%	2016.09.14	2020.06.24	igen (BÉT)	11 000	11 610	11 000	11 684
Total					**30 500**	**31 377**	**48 500**	**50 211**

Changes in amount of bond issued (face value)

Date	item	DK2016/01	DK2017/01	DK2018/01	DK2020/01	total
2016.01.01	**Closing balance**	**39 000**	**18 000**	**15 500**	**0**	**72 500**
2016.03.09	issued	0	0	4 000	0	4 000
2016.04.13	redeemed	-3 000	0	0	0	-3 000
2016.05.11	redeemed	-1 729	0	0	0	-1 729
2016.06.15	redeemed	-1 200	0	0	0	-1 200
2016.09.14	issued	0	0	0	6 000	6 000
2016.10.12	issued	0	0	0	5 000	5 000
2016.12.22	matured	-33 071	0	0	0	-33 071
2016.12.31	**Closing balance**	**0**	**18 000**	**19 500**	**11 000**	**48 500**
2017.04.12	redeemed	0	-600	0	0	-600
2017.05.24	redeemed	0	-2 075	0	0	-2 075
2017.08.23	redeemed	0	-2 400	0	0	-2 400
2017.11.23	matured	0	-12 925	0	0	-12 925
2017.12.31	**Closing balance**	**0**	**0**	**19 500**	**11 000**	**30 500**

24. Technical reserves

Changes in technical reserves

	Diákhitel 1	Diákhitel 2	Total
Balance on 1 January 2016	**2 622**	**47**	**2 669**
Reserves used	-155	-2	-157
Loss/gain on remeasurement	-236	42	-194
Balance on 31 December 2016	**2 231**	**87**	**2 318**
Reserves used	-154	-6	-160
Loss/gain on remeasurement	1 888	-62	1 826
Balance on 31 December 2017	**3 965**	**19**	**3 984**

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 the assumption analysis

Amending end-of-2016 assumptions to the end-of-2017 assumptions step by step	Diákhitel 1	Diákhitel 2	Total
Assumptions for 2016 to 31 December 2016	**2 231**	**87**	**2 318**
Assumptions for 2016 to 31 March 2017	2 287	47	2 334
Pricing 2017 changes in parameters and the model	4 147	25	4 172
Change in late payment interest	4 136	30	4 166
Real wage growth	4 124	20	4 144
Change in cost of capital	3 811	23	3 834
Change in operating cost	3 966	24	3 990
Changes in minimum wage	3 493	22	3 515
Changes in collection patterns	3 965	76	4 041
Changes in modelpoints and dates		18	18
Pricing at December 2017		19	19
Assumptions for 2017 to 31 December 2017	**3 965**	**19**	**3 984**

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**

25. Share capital, capital reserve and other reserves

Diákhitel Központ Zrt's share capital at the time of the foreign exchange translation, in 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 amounted to HUF 2,200 million.

Equity	2017	2016
Share capital and capital reserve	2 500	2 500
Retained losses	-3 999	-6 112
Other reserves	10 033	10 033
Other capital grant	10 033	10 033
Valuation reserve	0	0
Total equity:	**8 534**	**6 421**

26. Contingent assets and liabilities

Item	31 December 2017		31 December 2016	
	Amount	Maturity	Amount	Maturity
Diákhitel 1 Student Loan Centre disbursable facility recording account	1 226	2018.01.15	1 402	2017.01.15
Diákhitel 2 Student Loan Centre disbursable facility recording account	60	2018.01.15	61	2017.01.15
EIB III facility to be used as student loan collateral	0	-	0	-
EIB IV facility to be used as student loan collateral	18 098	2018.12.31	21 003	2017.12.31*
Takarékbank stand-by facility to be used as student loan collateral	2 500	2018.03.08	9 680	2017.03.08
BB stand-by facility to be used as student loan collateral	0	-	2 500	2017.03.08
OTP stand-by facility to be used as student loan collateral	0	-	0	-
MKB stand-by facility to be used as student loan collateral	6 100	2018.03.08	0	
Takarékbank stand-by facility to be used as student loan collateral	0		0	
UniCredit Bank facility to be used as student loan collateral	0		0	
Contingent liabilities due to **litigations**	0		0	

* Contract amendment

27. Operating leasing commitments

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

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.

The lease agreement ended in October 2017.

- Kacsa 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.

- DR-Site

This contract ensures 50% of the rack closets installed in the lessor's server room, in which the Company's servers are stored. The lease period is between 1 October 2017 and 30 September 2018. The lease can only be cancelled before maturity in case of breach of contract by the lessor.

Contractual terms	Residence office building	Residence customer service	DR Site
Lease period	2014.05.31.-2019.05.31	2015.03.31-2019.05.31	2014.05.31.-2019.05.31
Leased area	2368,13m2	155,18m2	50% of one rack closet
Lease	10,1 EUR/m2+ÁFA	11,22 EUR/m2+VAT	75000 HUF+VAT
Discount June 2017 - Feb 2018	50%		
Service charge	3,8 EUR/m2+ÁFA	3,8 EUR/m2+VAT	-
Sub-lease	awaiting permission	awaiting permission	
Indexing	HICP-EU27 CPI since 2015		

Future minimum lease payments

2017	Köki Center	Residence Office Building	Total	total
within 1 year	0	157	1	158
1 - 5 years	0	69	0	69
over 5 years	0	0	0	0
Total	0	226		227

2016	Köki Center	Residence Office Building	Total	total
within 1 year	10	133	1	144
1 - 5 years	0	222	0	222
over 5 years	0	0	0	0
Total	10	355	1	366

28. Financing commitments

Changes in financing liabilities	1 Jan 2017	Cash-flow	Amortisation	31 Dec 2017
Loans taken	174 989	7 329	1 077	183 395
Bonds issued	50 211	-18 000	-834	31 377
Total financing liabilities	225 200	-10 671	243	214 772

29.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	2017	2016
Drawn loans	184 931	177 603
Issued bonds	30 500	48 500
Total	**215 431**	**226 103**

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	2017	2016
Short-term employee benefits	78	72
Payments after termination of employment contract	0	0
Other long-term payables	0	0
Sevarance payments	0	0
Services used	0	0
Total	**78**	**72**

Transactions with related parties	2017	2016
Services used	5	6
Advertising campaign	0	1
Long-term loans taken	22 000	20 000
Long-term loans repayment	0	0
Interest paid after long-term loans	683	805
Short-term loans taken	0	0
Short-term loans repayment	0	0
Interest paid on short-term loans	0	0

30. 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.